

NEW ISSUE: BOOK-ENTRY-ONLY

RATINGS: MOODY'S UNENHANCED: "Baa2"
 MOODY'S PSF GUARANTEED: "Aaa"
 (See "RATINGS" and "APPENDIX I – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM")

In the opinion of Bond Counsel, under current law and subject to conditions described in the section "TAX MATTERS FOR THE BONDS" herein, interest on the Bonds (as defined below) (1) is not included in gross income for federal income tax purposes and (2) is not an item of tax preference for purposes of the federal alternative minimum income tax; however, such interest is taken into account in determining adjusted financial statement income of applicable corporations (as defined in Section 59(k) of the Code) for the alternative minimum tax imposed on such corporations. A holder may be subject to other federal tax consequences as described in the section "TAX MATTERS FOR THE BONDS."



\$83,220,000
CLIFTON HIGHER EDUCATION FINANCE CORPORATION
EDUCATION REVENUE BONDS
(YES PREP PUBLIC SCHOOLS INC.)
SERIES 2023



Dated: August 1, 2023 – Interest accrues from date of delivery

Due: as shown on inside cover

The Clifton Higher Education Finance Corporation (the "Issuer"), a nonprofit corporation created and existing under Chapters 53 and 53A of the Texas Education Code, as amended from time to time (the "Issuer Act"), is issuing its \$83,220,000 Education Revenue Bonds (YES Prep Public Schools Inc.) Series 2023 (the "Bonds"). The Bonds will be dated August 1, 2023, will be in authorized principal denominations of \$5,000 and integral multiples thereof, and will mature on April 1 of the years as shown on the inside cover page. The Bonds will accrue interest from their date of delivery payable semi-annually on April 1 and October 1 of each year, commencing October 1, 2023, until maturity or earlier redemption.

The Bonds are being issued pursuant to a Trust Indenture and Security Agreement dated as of August 1, 2023 (the "Bond Indenture") between the Issuer and Hancock Whitney Bank, as trustee (the "Bond Trustee"). The proceeds of the Bonds will be loaned by the Issuer to YES Prep Public Schools Inc., a Texas nonprofit corporation ("YES Prep") pursuant to the terms of a Loan Agreement dated as of August 1, 2023 (the "Loan Agreement").

The Bonds are special, limited obligations of the Issuer payable solely from (i) payments to be made by YES Prep pursuant to the Loan Agreement, (ii) a tax-exempt promissory note (the "Series 2023 Master Note") in an aggregate amount equal to the principal amount of the Bonds delivered to the Issuer pursuant to the Loan Agreement and the Amended and Restated Master Trust Indenture and Security Agreement, dated as of June 1, 2015, as supplemented by Supplemental Master Trust Indenture No. 19 dated as of August 1, 2023 (as supplemented, the "Master Indenture"), between YES Prep and Hancock Whitney Bank, as master trustee (the "Master Trustee"), which Series 2023 Master Note 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 2023 Master Note constitutes additional indebtedness under the Master Indenture and is issued on parity with certain other promissory notes issued by YES Prep (the "Prior Master Notes" and, together with the Series 2023 Master Note and any additional promissory notes entitled to the benefit of the Master Indenture, the "Master Notes"). YES Prep previously executed a Deed of Trust and Security Agreement (with Assignment of Rents and Leases), dated as of December 22, 2010 (the "Deed of Trust"), and will execute a Fifteenth Supplement to the Deed of Trust, dated August 9, 2023, encumbering certain of YES Prep's campuses in favor of the Master Trustee for the benefit of the holders of the Master Notes, except as further described herein. See "YES PREP" and "PLAN OF FINANCE" herein. See "SECURITY FOR THE BONDS" and "APPENDIX B — YES PREP PUBLIC SCHOOLS INC. AND THE CHARTER SCHOOLS."

An application has been filed and YES Prep has received conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas. (See "APPENDIX I – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"). 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."

YES Prep will issue the Bonds for the purpose of: (i) financing and refinancing the costs of acquiring, constructing, equipping and renovating certain "educational facilities" (as that term is defined in the Issuer Act) and facilities incidental, subordinate or related thereto or appropriate in connection therewith, and (ii) paying the costs of issuing the Bonds. See "PLAN OF FINANCE." For the 2022-23 school year, YES Prep operated twenty-four charter schools (including three partnership schools) and one additional alternative education school (known as Thrive) (collectively, the "Charter Schools"), all pursuant to an open-enrollment charter contract with the Texas State Board of Education. YES Prep plans to begin operation of three additional elementary schools by August of 2024. See "PLAN OF FINANCE" and "APPENDIX B — YES PREP PUBLIC SCHOOLS INC. AND THE CHARTER SCHOOLS." YES Prep may not charge tuition and has no taxing authority for the Charter Schools.

THE BONDS ARE NOT OBLIGATIONS OF THE CITY OF CLIFTON, TEXAS (THE "CITY"), THE STATE OF TEXAS (THE "STATE") OR ANY ENTITY OTHER THAN THE ISSUER. NONE OF THE STATE, THE CITY, NOR ANY OTHER 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, THE CITY, OR ANY OTHER POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. THE ISSUER HAS NO TAXING POWER.

The Bonds will be issued as registered bonds in book-entry only form in the name of Cede & Co., as nominee of The Depository Trust Company, 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 "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 Official Statement to obtain information essential to the making of an informed investment decision and should pay particular attention to the material under the caption "RISK FACTORS."

The Bonds are offered when, as and if issued by the Issuer and received and accepted by the underwriters listed below (the "Underwriters") and subject to the approval of certain matters by the Attorney General of the State and an opinion as to legality by Hunton Andrews Kurth LLP, Houston, Texas, Bond Counsel and counsel to YES Prep. Certain legal matters will be passed upon by Naman, Howell, Smith & Lee, Waco, Texas, as counsel to the Issuer; and by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, as counsel to the Underwriters. It is expected that the Bonds will be available for delivery through the facilities of DTC on or about August 9, 2023.

MATURITY SCHEDULE
\$83,220,000
CLIFTON HIGHER EDUCATION FINANCE CORPORATION
EDUCATION REVENUE BONDS
(YES PREP PUBLIC SCHOOLS INC.)
SERIES 2023

Serial Bonds

| <u>April 1</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Yield (%)⁽²⁾</u> | <u>CUSIP⁽³⁾</u> |
|----------------|-------------------------|----------------------|--------------------------------|----------------------------|
| 2025 | \$1,395,000 | 5.000% | 3.270% | 187145RH2 |
| 2026 | 1,465,000 | 5.000% | 3.190% | 187145RJ8 |
| 2027 | 1,540,000 | 5.000% | 3.170% | 187145RK5 |
| 2028 | 1,615,000 | 5.000% | 3.170% | 187145RL3 |
| 2029 | 1,700,000 | 5.000% | 3.200% | 187145RM1 |
| 2030 | 1,785,000 | 5.000% | 3.180% | 187145RN9 |
| 2031 | 1,870,000 | 5.000% | 3.150% | 187145RP4 |
| 2032 | 1,965,000 | 5.000% | 3.160% | 187145RQ2 |
| 2033 | 2,065,000 | 5.000% | 3.200% | 187145RR0 |
| 2034 | 2,165,000 | 5.000% | 3.260% | 187145RS8 |
| 2035 | 2,275,000 | 5.000% | 3.290% | 187145RT6 |
| 2036 | 2,390,000 | 5.000% | 3.410% | 187145RU3 |
| 2037 | 2,510,000 | 5.000% | 3.570% | 187145RV1 |
| 2038 | 2,635,000 | 5.000% | 3.660% | 187145RW9 |
| 2039 | 2,765,000 | 4.000% | 4.020% | 187145RX7 |
| 2040 | 2,875,000 | 4.000% | 4.060% | 187145RY5 |

Term Bonds

\$9,335,000 Term Bond Due April 1, 2043⁽¹⁾ Interest Rate 4.000% Yield 4.100%⁽²⁾ CUSIP⁽³⁾ 187145RZ2
\$18,315,000 Term Bond Due April 1, 2048⁽¹⁾ Interest Rate 4.250% Yield 4.330%⁽²⁾ CUSIP⁽³⁾ 187145SA6
\$22,555,000 Term Bond Due April 1, 2053⁽¹⁾ Interest Rate 4.250% Yield 4.360%⁽²⁾ CUSIP⁽³⁾ 187145SB4

⁽¹⁾ The Bonds maturing on or after April 1, 2032, are subject to optional redemption prior to scheduled maturity, in whole or in part, on April 1, 2031, and on any date thereafter, at the option of YES Prep at a redemption price of par, plus accrued interest to the date of redemption. See “**THE BONDS – Redemption Provisions - Optional Redemption**,” herein. The Bonds maturing on April 1 in the years 2043, 2048 and 2058 are additionally subject to mandatory sinking fund redemption prior to maturity. See “**THE BONDS – Redemption Provisions – Mandatory Sinking Fund Redemption**,” herein.

⁽²⁾ The initial yields at which the Bonds are priced are established by and are the sole responsibility of the Underwriters and may be changed at any time at the discretion of the Underwriters.

⁽³⁾ CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed on behalf of the American Bankers Association by FactSet Research Systems Inc. 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, YES Prep or the Underwriter and are included solely for the convenience of the holders of the Bonds. None of the Issuer, YES Prep or the Underwriters is responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of the Bonds.

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

References to or descriptions of financing documents, resolutions, contracts, and other related documents made in this Official Statement are subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the Issuer or from PNC Capital Markets LLC, 200 Crescent Court, Ste 400, Dallas, Texas.

The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement.

In connection with the offering of the Bonds, the Underwriters may over-allot 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.

No dealer, broker, salesperson or other person has been authorized by the Issuer, YES Prep, the Master Trustee, the Bond Trustee or the Underwriters to give any information or to make any representation with respect to the Bonds other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy and there shall not be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

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

Except for any information provided by Hancock Whitney Bank, concerning the Master Trustee and Bond Trustee, Hancock Whitney Bank, has no responsibility for any information in this Official Statement. Hancock Whitney Bank in its capacity as Master Trustee and Bond Trustee, assumes no responsibility for the accuracy or completeness of the information concerning the Issuer or YES Prep or their respective affiliates or any other party contained in this document or the related documents or for any failure by the Issuer or YES Prep or any other party to disclose events that may have occurred and may affect the significance or accuracy of such information.

Neither the Issuer nor the Underwriters make any representation as to the accuracy, completeness, or adequacy of the information supplied by The Depository Trust Company for use in this Official Statement.

THE INFORMATION SET FORTH HEREIN HAS BEEN OBTAINED FROM SOURCES WHICH ARE BELIEVED TO BE RELIABLE; HOWEVER, SUCH INFORMATION IS NOT GUARANTEED AS TO ACCURACY OR COMPLETENESS BY, AND IS NOT TO BE RELIED UPON AS, OR CONSTRUED AS A PROMISE OR REPRESENTATION BY, THE ISSUER OR THE UNDERWRITERS. ALL SUMMARIES HEREIN OF DOCUMENTS AND AGREEMENTS ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO SUCH DOCUMENTS AND AGREEMENTS, AND ALL SUMMARIES HEREIN OF THE BONDS ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE FORMS THEREOF INCLUDED IN THE BOND INDENTURE AND THE PROVISIONS WITH RESPECT THERETO INCLUDED IN THE AFORESAID DOCUMENTS AND AGREEMENTS.

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

THIS OFFICIAL STATEMENT, 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. YES PREP 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 YES PREP CONTAINED IN APPENDIX A ATTACHED TO THIS OFFICIAL STATEMENT ARE NOT HISTORICAL STATEMENTS OF FINANCIAL PERFORMANCE OF YES PREP, BUT ARE FORWARD-LOOKING PROJECTIONS OF FUTURE, PROJECTED FINANCIAL PERFORMANCE OF YES PREP.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader’s convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this final Official Statement.

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APPENDIX I – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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CLIFTON HIGHER EDUCATION FINANCE CORPORATION

**\$83,220,000 Education Revenue Bonds
(YES Prep Public Schools Inc.)
Series 2023**

INTRODUCTION

The purpose of this Official Statement (which includes the cover hereof and the appendices hereto) of the Clifton Higher Education Finance Corporation (the “*Issuer*”) is to furnish information concerning YES Prep Public Schools Inc. (“YES Prep”), and the Issuer’s \$83,220,000 Education Revenue Bonds (YES Prep Public Schools Inc.) Series 2023 (the “*Bonds*”).

The following introductory material is only a brief description of and is qualified by, the more complete information contained throughout this Official Statement. A full review should be made of the entire Official Statement and the documents summarized or described herein.

Purpose of the Issue..... The proceeds from the sale of the Bonds will be loaned by the Issuer to YES Prep for the purposes of (i) financing and refinancing the costs of acquiring, constructing, equipping and renovating certain “educational facilities” (as that term is defined in the Issuer Act) and facilities incidental, subordinate or related thereto or appropriate in connection therewith, and (ii) paying the costs of issuing the Bonds.

The Issuer..... The Issuer was established by the City of Clifton, Texas for the specific and limited purpose of issuing revenue bonds to finance or refinance “educational facilities” and “housing facilities” (as such terms are defined in Chapters 53 and 53A, Texas Education Code, as amended (collectively, the “*Issuer Act*”) and facilities which are incidental, subordinate or related thereto or appropriate in connection therewith. The Issuer has no material assets. Other than legal counsel and a financial advisor, the Issuer has not engaged any consultant or other professional. The Issuer has no taxing power.

YES Prep Public Schools Inc. YES Prep Public Schools Inc. (“*YES Prep*”) is a nonprofit corporation incorporated in the State of Texas (the “*State*”) in 1998. YES Prep is an organization described under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “*Code*”). For the 2022-23 school year, YES Prep operated twenty-four charter schools (including three partnership schools) and one additional alternative education campus (known as Thrive) (collectively, the “*Charter Schools*”) pursuant to a Contract for Charter (the “*Charter*”), effective as of June 21, 2000. The Charter was extended on November 27, 2007 (effective as of July 31, 2008) for a period of seven years extending to July 31, 2015, and again on February 2, 2015 (effective as of July 31, 2015) for a period of ten years extending to July 31, 2025. YES Prep operates three schools, YES Prep Eisenhower, YES Prep Northbrook Middle School and YES Prep Northbrook High School (collectively the “*Partnership Schools*”), outside its Charter in co-location partnerships with Aldine Independent School District and Spring Branch Independent School District and the

Partnership Schools do not count against YES Prep’s Charter capacity. All of the Charter Schools and Partnership Schools are located in Houston, Texas (“*Houston*”). YES Prep operates schools in Houston’s most underserved communities, including Hiram Clarke, Brays Oaks, North Forest, the greater Hobby Airport area, the East End, Fifth Ward, Aldine, Gulfton, Sunnyside, the greater Kashmere community, Denver Harbor, and more. YES Prep’s fiscal year runs from July 1 through June 30 (a “*Fiscal Year*”). Prior to the 2020-12 school year, YES Prep only served students in grades 6-12. Beginning in the 2020-21 school year, YES Prep began operating elementary schools. As of October of 2022, YES Prep had a total enrollment of 16,810 students for the 2022-23 school year (this number excludes the Partnership Schools).

Security.....

The Bonds and the interest thereon are special, limited obligations of the Issuer payable solely from (i) payments to be made by YES Prep pursuant to the Loan Agreement, (ii) a tax-exempt promissory note (the “*Series 2023 Master Note*”) in an aggregate amount equal to the principal amount of the Bonds delivered to the Issuer pursuant to the Loan Agreement and the Amended and Restated Master Trust Indenture and Security Agreement, dated as of June 1, 2015, as supplemented by Supplemental Master Trust Indenture No. 19 dated as of August 1, 2023 (as supplemented, the “*Master Indenture*”), between YES Prep and Hancock Whitney Bank, as master trustee (the “*Master Trustee*”), which Series 2023 Master Note 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 2023 Master Note constitutes additional indebtedness under the Master Indenture and is issued on parity with certain other promissory notes issued by YES Prep (the “*Prior Master Notes*”) and, together with the Series 2023 Master Note and any additional promissory notes entitled to the benefit of the Master Indenture, the “*Master Notes*”). YES Prep previously executed a Deed of Trust and Security Agreement (with Assignment of Rents and Leases), dated as of December 22, 2010 (the “*Deed of Trust*”), and will execute a Fifteenth Supplement to the Deed of Trust, dated August 9, 2023, encumbering certain of YES Prep’s campuses in favor of the Master Trustee for the benefit of the holders of the Master Notes, except as further described herein. See “**YES PREP**” and “**PLAN OF FINANCE**” herein. Lastly, YES Prep has executed a Deposit Account Control Agreement, providing a perfected security interest in its deposit account. See “**SECURITY FOR THE BONDS**” herein.

Financial Covenants.....

Debt Service Coverage. YES Prep has covenanted to maintain at least 1.20x of the Annual Debt Service Requirements of YES Prep for each Fiscal Year as calculated as of the end of each Fiscal Year as evidenced by YES Prep’s audited financial statements for each such Fiscal Year.

Liquidity Requirement. YES Prep covenants to maintain a Liquidity Ratio of at least 0.20 to 1.00, tested semiannually as of the end of the second and fourth fiscal quarters for the immediately preceding consecutive twelve (12) months. “*Liquidity Ratio*” means the ratio of (i)

the sum of Operating Cash plus Bond Sinking Funds plus Investments to (ii) Funded Debt.

| | |
|--|--|
| Limited Obligations of the Issuer | The Bonds do not constitute the debt or indebtedness of the Issuer within the meaning of any provision or limitation of the constitution or statutes of the State of Texas (the “ <i>State</i> ”) and shall never constitute or give rise to a pecuniary liability of the Issuer or the State or a charge against the general credit or taxing power of the Issuer or the State. The Issuer has no taxing power. |
| The Bond Trustee | Hancock Whitney Bank, in each of its capacities, including but not limited to Bond Trustee, Master Trustee, registrar, paying agent and transfer agent, has not participated in the preparation of this Official Statement and assumes no responsibility for its contents. |
| Risk Factors | Prospective purchasers are advised to read this entire Official Statement and the Appendices attached hereto in their entirety, particularly the section “ RISK FACTORS ” herein, for a discussion of certain risk factors, which should be considered in connection with an investment in the Bonds. |
| Payment Provisions | The Bonds mature and bear interest (computed on the basis of a 360-day year of twelve 30-day months) at the rates set forth on the cover page hereof. Interest on the Bonds is payable semiannually on April 1 and October 1 commencing on October 1, 2023. |
| Registration and Denominations | The Bonds will be dated August 1, 2023, will be in authorized principal denominations of \$5,000 and integral multiples thereof (“ <i>Authorized Denominations</i> ”). |
| Permanent School Fund Guarantee. | An application has been filed and YES Prep has received conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas. See “ APPENDIX I – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM ” herein. |
| Ratings..... | Moody's Investors Service, Inc. (“Moody’s”) has assigned the rating of “AAA” to the Bonds based on the Permanent School Fund Guarantee. The underlying unenhanced rating of the Bonds is “Baa2.” See “ RATINGS ” herein. |
| Exchange and Transfer | While the Bonds remain in book-entry-only form, transfer of ownership by Beneficial Owners (as defined by the rules of The Depository Trust Company, New York, New York (“ <i>DTC</i> ”), as further described herein) may be made as described in “ BOOK-ENTRY ONLY SYSTEM. ” |
| Tax Status..... | The delivery of the Bonds is subject to the opinion of Hunton Andrews Kurth LLP, Bond Counsel, to the effect that, assuming continuing compliance with certain covenants and based on certain representations, interest on the Bonds (a) is not included in gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum income tax; however, such interest is taken into account in determining adjusted financial statement income of |

applicable corporations (as defined in Section 59(k) of the Code) for the alternative minimum tax imposed on such corporations. See “**TAX MATTERS FOR THE BONDS**” for a discussion of Bond Counsel’s opinion.

Delivery Information..... The Bonds are offered when, as, and if issued by the Issuer and accepted by PNC Capital Markets, LLC and RBC Capital Markets LLC, as underwriters for the Bonds (the “*Underwriters*”), subject to prior sale and the approving legal opinion of the Attorney General of the State of Texas and Bond Counsel and certain other conditions. It is expected that the Bonds will be available for delivery through the facilities of DTC on or about August 9, 2023.

Financial Statements YES Prep’s audited financial statements for the 2020, 2021 and 2022 Fiscal Years are attached as APPENDIX C hereto. YES Prep’s financial statements in 2020 were consolidated with the financial statements of YES Prep Facilities, LLC which was a limited liability company organized to work with YES Prep to obtain a new market tax credit financing. YES Prep Facilities, LLC was terminated in December of 2020.

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CLIFTON HIGHER EDUCATION FINANCE CORPORATION

\$83,220,000 Education Revenue Bonds (YES Prep Public Schools Inc.) Series 2023

INTRODUCTION

General

The purpose of this Official Statement is to provide certain information concerning the issuance and sale by the Clifton Higher Education Finance Corporation (the “*Issuer*”) of its \$83,220,000 Education Revenue Bonds (YES Prep Public Schools Inc.), Series 2023 (the “*Bonds*”).

The Bonds are being issued pursuant to a Trust Indenture and Security Agreement dated as of August 1, 2023 (the “*Bond Indenture*”) between the Issuer and Hancock Whitney Bank, as trustee (the “*Bond Trustee*”). The proceeds of the Bonds will be loaned by the Issuer to YES Prep Public Schools Inc., a Texas nonprofit corporation (“*YES Prep*”), pursuant to the terms of a Loan Agreement dated as of August 1, 2023 (the “*Loan Agreement*”) between the Issuer and YES Prep.

The Bonds are special, limited obligations of the Issuer payable solely from (i) payments to be made by YES Prep pursuant to the Loan Agreement, (ii) a tax-exempt promissory note (the “*Series 2023 Master Note*”) in an aggregate amount equal to the principal amount of the Bonds delivered to the Issuer pursuant to the Loan Agreement and the Amended and Restated Master Trust Indenture and Security Agreement, dated as of June 1, 2015, as supplemented by Supplemental Master Trust Indenture No. 19 dated as of August 1, 2023 (as supplemented, the “*Master Indenture*”), between YES Prep and Hancock Whitney Bank, as master trustee (the “*Master Trustee*”), which Series 2023 Master Note 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 2023 Master Note constitutes additional indebtedness under the Master Indenture and is issued on parity with certain other promissory notes issued by YES Prep (the “*Prior Master Notes*” and, together with the Series 2023 Master Note and any additional promissory notes entitled to the benefit of the Master Indenture, the “*Master Notes*”). YES Prep previously executed a Deed of Trust and Security Agreement (with Assignment of Rents and Leases), dated as of December 22, 2010 (the “*Deed of Trust*”), and will execute a Fifteenth Supplement to the Deed of Trust, dated August 9, 2023, encumbering certain of YES Prep’s campuses in favor of the Master Trustee for the benefit of the holders of the Master Notes, except as further described herein. See “**YES PREP,” “PLAN OF FINANCE,” “SECURITY FOR THE BONDS”** and “**APPENDIX B — YES PREP PUBLIC SCHOOLS INC. AND THE CHARTER SCHOOLS.**” The Bonds will be guaranteed under the Bond Guarantee Program of the Permanent School Fund of the State of Texas. See “**APPENDIX I – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.**”

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

Forward-Looking Statements

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

events and circumstances may occur. Therefore, investors should be aware that there are likely to be differences between forward-looking statements and actual results, and that those differences could be material.

THE ISSUER

The Issuer was established by the City of Clifton, Texas for the specific and limited purpose of issuing revenue bonds to finance or refinance “educational facilities” and “housing facilities” (as such terms are defined in Chapters 53 and 53A, Texas Education Code, as amended (collectively, the “*Issuer Act*”)) and facilities which are incidental, subordinate or related thereto or appropriate in connection therewith, all in accordance with and pursuant to Sections 53.35(b) and 53A.35(b) of the Issuer Act. The Issuer has no material assets. Other than legal counsel and a financial advisor, the Issuer has not engaged any consultant or other professional. THE ISSUER HAS NO TAXING POWER. The Issuer is receiving a fee of approximately \$15,000 in connection with the issuance of the Bonds, after provisions have been made for expenses of the Issuer.

Except for the issuance of the Bonds, the Issuer is not in any manner related to or affiliated with YES Prep. The Issuer has issued the Bonds and loaned the proceeds to YES Prep pursuant to the Loan Agreement solely to carry out the Issuer’s statutory purposes. YES Prep has agreed to indemnify the Issuer for certain matters under the Loan Agreement.

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

NEITHER THE ISSUER NOR THE CITY HAS ASSUMED ANY RESPONSIBILITY FOR THE MATTERS CONTAINED HEREIN EXCEPT, IN THE CASE OF THE ISSUER, SOLELY AS TO THE MATTERS SET FORTH IN THIS SECTION, AND IN THE SECTION “NO-LITIGATION CERTIFICATES”. ALL FINDINGS AND DETERMINATIONS BY THE ISSUER AND THE CITY, RESPECTIVELY, ARE AND HAVE BEEN MADE BY EACH FOR ITS OWN INTERNAL USES AND PURPOSES. NOTWITHSTANDING ITS APPROVAL OF THE BONDS FOR PURPOSES OF SECTION 147(F) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “CODE”), THE CITY DOES NOT ENDORSE IN ANY MANNER, DIRECTLY OR INDIRECTLY, GUARANTEE OR PROMISE TO PAY THE BONDS FROM ANY SOURCE OF FUNDS OF THE CITY OR GUARANTEE, WARRANT OR ENDORSE THE CREDITWORTHINESS OR CREDIT STANDING OF YES PREP, OR IN ANY MANNER GUARANTEE, WARRANT, OR ENDORSE THE INVESTMENT QUALITY OR VALUE OF THE BONDS. THE BONDS ARE PAYABLE SOLELY AS DESCRIBED IN THIS OFFICIAL STATEMENT, THE BOND INDENTURE AND ARE NOT IN ANY MANNER PAYABLE WHOLLY OR PARTIALLY FROM ANY FUNDS OR PROPERTIES OTHERWISE BELONGING TO THE ISSUER. BY ITS ISSUANCE OF THE BONDS, THE ISSUER DOES NOT IN ANY MANNER, DIRECTLY OR INDIRECTLY, GUARANTEE, WARRANT OR ENDORSE THE CREDITWORTHINESS OR CREDIT STANDING OF YES PREP OR THE INVESTMENT QUALITY OR VALUE OF THE BONDS.

The Issuer has limited recourse liability on the Bonds, and all payments to be made on the Bonds shall be provided for entirely from funds of YES Prep or other assets pledged as part of the Trust Estate.

Limited Involvement of the Issuer

The Issuer has no obligation to review, control or oversee the activities of the Bond Trustee or YES Prep or the compliance by either of them with any covenants or provisions of any related documents, including (without limitation) any covenants that relate to the excludability from gross income of interest on the Bonds.

Neither the Issuer nor the City has assumed any responsibility for the matters contained herein except, in the case of the Issuer, solely as to matters relating to the Issuer. All findings and determinations by the Issuer and the City, respectively, are and have been made by each for its own internal uses and purposes. Notwithstanding its approval of the Bonds for purposes of section 147(f) of the Internal Revenue Code of 1986, as amended (the “Code”), the City does not endorse in any manner, directly or indirectly, guarantee or promise to pay the Bonds from any source of funds of the City or guarantee, warrant or endorse the creditworthiness or credit standing of YES Prep, or in any

manner guarantee, warrant, or endorse the investment quality or value of the Bonds. The Bonds are payable solely as described in this Official Statement and are not in any manner payable wholly or partially from any funds or properties otherwise belonging to the Issuer. By its issuance of the Bonds, the Issuer does not in any manner, directly or indirectly, guarantee, warrant or endorse the creditworthiness or credit standing of YES Prep or the investment quality or value of the Bonds. The Issuer has no taxing power.

NONE OF THE CITY OF CLIFTON, THE ISSUER, THE STATE OF TEXAS (THE “STATE”), OR ANY STATE AGENCY, 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 CITY OF CLIFTON, 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.

YES PREP

YES Prep Public Schools Inc. (“YES Prep”) is a nonprofit corporation incorporated in the State of Texas (the “State”) in 1998. YES Prep is an organization described under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”). For the 2022-23 school year, YES Prep operated twenty-four charter schools (including three partnership schools) and one additional alternative education campus (known as Thrive) (collectively, the “Charter Schools”) pursuant to a Contract for Charter (the “Charter”), effective as of June 21, 2000. The Charter was extended on November 27, 2007 (effective as of July 31, 2008) for a period of seven years extending to July 31, 2015, and again on February 2, 2015 (effective as of July 31, 2015) for a period of ten years extending to July 31, 2025. YES Prep operates three schools, YES Prep Eisenhower, YES Prep Northbrook Middle School and YES Prep Northbrook High School (collectively the “Partnership Schools”), outside its Charter in co-location partnerships with Aldine Independent School District and Spring Branch Independent School District and the Partnership Schools do not count against YES Prep’s Charter capacity. All of the Charter Schools and Partnership Schools are located in Houston, Texas (“Houston”). YES Prep operates schools in Houston’s most underserved communities, including Hiram Clarke, Brays Oaks, North Forest, the greater Hobby Airport area, the East End, Fifth Ward, Aldine, Gulfton, Sunnyside, the greater Kashmere community, Denver Harbor, and more. YES Prep’s fiscal year runs from July 1 through June 30 (a “Fiscal Year”). Prior to the 2020-12 school year, YES Prep only served students in grades 6-12. Beginning in the 2020-21 school year, Yes Prep began operating elementary schools. As of October of 2022, YES Prep had a total enrollment of 16,810 students for the 2022-23 school year (this number excludes the Partnership Schools).

For the 2022-23 school year, YES Prep operated the following charter schools and related facilities (the “Charter Schools”). The enrollment data listed below is as of April 27, 2023. The table includes future Charter Schools included in the Project.

| Campus Name | Location | Grades | Enrollment | Opened | Ownership | Pledged to Trust Estate |
|---------------------------|---|-----------------------|------------|--------|-----------|-------------------------|
| Brays Oaks | 9000 West Bellfort, Houston, Texas 77031 | 6-12 | 1,012 | 2009 | Owned | YES |
| East End | 8401 Lawndale Street, Houston, Texas 77012 | 6-12 | 971 | 2006 | Owned | YES |
| East End ES | 8329 Lawndale Street, Houston, Texas 77012 | PreK-2 ⁽⁴⁾ | 213 | 2022 | Owned | YES |
| Eisenhower ⁽⁵⁾ | 7922 Antoine Drive, Houston, Texas 77008 ⁽¹⁾ | 9-12 | 431 | 2016 | N/A | N/A |
| Fifth Ward | 1305 Benson Street, Houston, Texas 77020 ⁽²⁾ | 6-12 | 916 | 2011 | Owned | NO |
| Gulfton | 6565 De Moss Drive, Houston, Texas 77074 | 6-12 | 1,051 | 2007 | Owned | YES |
| Hobby | 8787 Tallyho Street, Houston, | 6-9 ⁽³⁾ | 462 | 2019 | Owned | YES |

| | | | | | | |
|------------------|---|-----------------------|-------|------|-------|-----|
| Hobby ES | Texas 77061 | PreK-2 ⁽⁴⁾ | N/A | 2024 | | |
| Northbrook HS | Raider Circle N#1, Houston, Texas 77080 ⁽¹⁾ | 9-12 | 712 | 2015 | N/A | N/A |
| Northbrook MS | 3030 Rosefield Drive, Houston, Texas 77080 ⁽¹⁾ | 6-8 | 415 | 2012 | N/A | N/A |
| North Central | 13703 Aldine Westfield Road, Houston Texas 77039 | 6-12 | 970 | 2003 | Owned | YES |
| North Central ES | 1900 Strawn Rd., Houston Texas 77039 | PreK-4 ⁽⁴⁾ | 700 | 2020 | Owned | YES |
| North Forest | 6602 Winfield Road, Houston, Texas 77056 | 6-12 | 991 | 2010 | Owned | YES |
| North Forest ES | | PreK-3 ⁽⁴⁾ | 477 | 2021 | | |
| North Rankin ES | 12537 Kuykendahl Rd, Houston, Texas 77090 | PreK-2 ⁽⁴⁾ | N/A | 2024 | Owned | YES |
| Northline | 441 Little York, Houston, Texas 77076 | 6-11 ⁽³⁾ | 838 | 2017 | Owned | YES |
| Airline ES | 5815 Airline Drive, Houston, Texas 77076 | PreK-2 ⁽⁴⁾ | 251 | 2022 | Owned | YES |
| Northside | 5215 Jensen Drive, Houston, Texas 77026 | 6-12 | 927 | 2011 | Owned | NO |
| Northwest | 14741 Yorktown Plaza Drive, Houston, Texas 77040 | 6-10 ⁽³⁾ | 503 | 2018 | Owned | YES |
| Southeast | 353 Crenshaw Road, Houston, Texas 77034 | 6-12 | 949 | 1998 | Owned | YES |
| Southeast ES | 507 Crenshaw Road, Houston, Texas 77034 | Prek-4 ⁽⁴⁾ | 621 | 2020 | Owned | YES |
| Southside | 5515 South Loop E Freeway, Suite A, Houston, Texas 77033 | 6-12 | 893 | 2015 | Owned | YES |
| Southside ES | 5515 South Loop E Freeway, Suite B, Houston, Texas 77033 | PreK-3 ⁽⁴⁾ | 428 | 2021 | Owned | YES |
| Southwest | 4411 Anderson Road, Houston, Texas 77053 | 6-12 | 1,018 | 2004 | Owned | YES |
| Southwest ES | 5212 Anderson Rd, Houston, Texas 77053 | PreK-2 ⁽⁴⁾ | N/A | 2024 | Owned | YES |
| Thrive | 8222 Manchester, Houston, Texas 77012 | Remedial | N/A | 2018 | Owned | YES |
| West | 10535 Harwin Drive, Houston, Texas 77036 | 6-12 | 978 | 2009 | Owned | YES |
| White Oak | 5620 Tidwell Road, Houston, Texas 77091 | 6-12 | 863 | 2013 | Owned | YES |
| Admin Facility | 5515 South Loop E Freeway, Suite B, Houston, Texas 77033 | Admin | N/A | N/A | Owned | YES |

⁽¹⁾ Partnership School.

⁽²⁾ Financed through a NMTC. See “**PLAN OF FINANCE – Prior Financings**” herein.

⁽³⁾ Additional grade being added each year thereafter until the campus reaches 12th grade.

⁽⁴⁾ Additional grade to be added each year thereafter until the campus reaches 5th grade.

⁽⁵⁾ The partnership with Aldine ISD at Eisenhower High School ended in June 2023.

YES Prep Thrive

Thrive is the first charter-run Disciplinary Alternative Education Program (“*DAEP*”) in Texas for grades 6-12. Thrive allows YES Prep to run its own *DAEP* without having to expel students to traditional independent school

districts. The opening of Thrive reduced YES Prep’s expulsion rate by nearly 90% in one year. Students are placed at Thrive in accordance with YES Prep’s code of conduct for predetermined behaviors after a disciplinary hearing. The average student spends 20-35 days at Thrive. Less than 1% of YES Prep’s students are placed at Thrive. Students placed at Thrive are still counted in the attendance of their home campus and any testing or other information about the student is reported under the student’s home campus. Thrive is located near the East End campuses.

Partnership Schools

YES Prep operates three schools through co-location partnerships with Aldine Independent School District (YES Prep Eisenhower) and Spring Branch Independent School District (YES Prep Northbrook Middle School and YES Prep Northbrook High School). The three schools are not included in YES Prep’s Charter and enrollment in these schools does not count against YES Prep’s Charter enrollment. The revenue from the contracts with Aldine Independent School District and Spring Branch Independent School District are pledged as security for the Bonds. The partnership with Aldine ISD at Eisenhower High School ended in June 2023. The partnership contract with Spring Branch Independent School District runs through 2025. YES Prep previously operated a fourth partnership school with Aldine ISD, but at the agreement of YES Prep and Aldine ISD, that partnership was dissolved.

YES Prep’s Board of Directors is the governing body for all of the Charter Schools. For more information regarding YES Prep and the Charter Schools, see generally “**APPENDIX B — YES PREP PUBLIC SCHOOLS INC. AND THE CHARTER SCHOOLS.**”

PLAN OF FINANCE

The Project

YES Prep will issue the Bonds for the purpose of: (i) financing and refinancing the costs of acquiring, constructing, equipping and renovating certain “educational facilities” (as that term is defined in the Issuer Act) and facilities incidental, subordinate or related thereto or appropriate in connection therewith, and (ii) paying the costs of issuing the Bonds.

| Campus Name | Location | Bond Proceeds Use | Grades to be Served | Expected Completion | Pledged to Trust Estate | Estimated Amount of Bond Proceeds Used |
|-------------------------|---|---------------------------------------|---------------------|---------------------|-------------------------|--|
| Airline Elementary | 5815 Airline Drive, Houston, Texas 77076 | Construction of New Elementary School | PreK-5th | Completed July 2022 | YES | \$2,552,249 |
| Southwest Elementary | 5212 Anderson Rd, Houston, Texas 77053 | Construction of New Elementary School | PreK-5th | July 2024 | YES | \$18,690,320 |
| Northline Secondary | 441 Little York, Houston, Texas 77076 | Construction of New Secondary School | 6-12 | Completed Oct 2022 | YES | \$17,471,778 |
| Hobby Elementary | 8787 Tallyho Street, Houston, Texas 77061 | Construction of New Elementary School | PreK-5th | July 2024 | YES | \$17,164,186 |
| North Rankin Elementary | 12537 Kuykendahl Rd, Houston, Texas 77090 | Construction of New Elementary School | PreK-5th | July 2024 | YES | \$15,600,000 |
| East End Elementary | 8329 Lawndale Street, Houston, Texas | Construction of New Elementary School | PreK-5th | Completed July 2022 | YES | \$10,330,974 |
| Total | | | | | | \$81,809,507 |

Source: YES Prep.

Regions Bank Line of Credit

A portion of the Bond proceeds will be used to pay off the existing balance of the Regions Bank Line of Credit. The Regions Bank Line of Credit has been utilized by YES Prep to construct the Airline Elementary, Northline

Secondary and East End Elementary Schools and for design and engineering associated with the Southwest, Hobby, and North Rankin Elementary Schools in the approximate amount of \$30 million dollars.

North Rankin Elementary, Southwest Elementary & Hobby Elementary Schools Construction

Proceeds from the Bonds will be used to finance the construction of the new North Rankin, Southwest and Hobby Elementary Schools which are expected to be open for the 2024 school year. The North Rankin Elementary School will be built at 12537 Kuykendahl Rd. Houston, Texas 77090. Southwest Elementary School will be built at 5212 Anderson Rd., Houston, Texas 77053. Hobby Elementary School will be built on the existing Hobby campus located at 8787 Tallyho Street, Houston, Texas 77061. YES Prep has developed a model elementary school floorplan to use in every school.

In order to mitigate the risks inherent in the construction process, including the risk of a failure to complete the project on time, YES Prep Public Schools utilizes the Construction Manager at Risk (CM-At Risk) methodology for new construction. Using a Competitive Sealed Proposal (CSP) process, YES Prep issues a Request for Proposal (RFP) from General Contractors for the purpose of selecting a CM-At Risk. Once RFP responses are received, YES Prep selects a CM-At Risk for each site (the same contractor may be selected for more than one site), based on which contractor provides the best value. Once selection is made, YES Prep negotiates construction contracts and project elements with the CM-At Risk. The CM-At Risk methodology provides YES Prep with the capability of contracting with the contractor at an earlier stage of the design and the contractor providing a Guaranteed Maximum Price (“GMP”) as a cost plus fee contract arrangement. YES Prep has historically completed its projects in a timely fashion.

Linbeck Group LLC (“*Linbeck*”) will be serving as construction manager for the North Rankin Elementary School after a successful RFP process. Linbeck is a Texas-based, technology-driven building construction firm offering construction management, design/build, and integrated project delivery services. Using a suite of commercial and proprietary digital technologies and its unique Lean Operating System, Linbeck helps institutional and private clients mitigate risk and minimize waste to achieve optimal outcomes. Over the past decade, Linbeck has been recognized as a national leader in both applied technologies and lean construction. Engineering News Record (ENR) and Building Design & Construction, rank Linbeck among the top construction managers and building contractors in the U.S. The Associated General Contractors of America (AGC) has also presented Linbeck with an unprecedented 15 Build America Awards and two consecutive national safety awards. Linbeck previously constructed the North Central, Southeast, East End Elementary School, the Northline Secondary and Elementary School. More information about Linbeck can be found at <https://www.linbeck.com/>.

Durotech, Inc. (“*Durotech*”) will be serving as construction manager for the Southwest Elementary and Hobby Elementary Schools and an RFP will be issued for construction of the Southwest Elementary and Hobby Elementary Schools. Durotech, Inc. was founded in 1988 and has been serving the Houston Region for thirty-five plus years. Durotech specializes in delivering quality Construction Manager at Risk projects (95% of their work is CM-at-Risk). Durotech’s primary market sectors include educational K-12, college, police, courts, fire and EMS, governmental, service organizations, office buildings, theaters and performance centers. Durotech builds single projects in the \$10 to \$250 million dollar range with the ability to bond up to \$750 million in construction. In 2021, Durotech received the AGC NASA award for safety and was a nominee for the American Subcontractor Association General Contractor of the year award. Durotech won two AGC APEX Bronze awards for project excellence in 2022 and an APEX Gold award in 2020.

Campus Maintenance

A portion of the Bond proceeds will be used to fund maintenance at YES Prep’s existing pledged facilities for the Fiscal Years ending June 30, 2024 and June 30, 2025.

Prior Financings

YES Prep has traditionally received facilities financing through direct purchase transactions. Below is a table of such financings, followed by a description of the financing.

DEBT SUMMARY⁽¹⁾⁽²⁾

| Debt | Secured by Trust Estate | Effective Rate | Original Amount | Outstanding Amount | Sinking Fund Balance | Maturity Date |
|----------------------|-------------------------|----------------|----------------------|----------------------|----------------------|---------------|
| Series 2010Z Bonds | YES | 2.00% | \$16,000,000 | \$16,000,000 | \$13,240,143 | 4/1/25 |
| Series 2010Q Bonds | YES | 2.00% | \$6,100,000 | \$6,100,000 | \$5,047,804 | 4/1/25 |
| Series 2011Z Bonds | YES | 1.50% | \$8,751,000 | \$8,751,000 | \$6,603,565 | 4/1/26 |
| Series 2012Z Bonds | YES | 1.00% | \$3,400,000 | \$3,400,000 | \$2,382,942 | 4/1/27 |
| Series 2013 Note | YES | 3.25% | \$9,740,000 | \$3,892,314 | - | 4/1/28 |
| Series 2015 Note | YES | 2.93% | \$7,000,000 | \$3,644,363 | - | 4/1/30 |
| Series 2015Z Bonds | YES | 1.00% | \$15,000,000 | \$15,000,000 | \$7,314,526 | 4/1/30 |
| Series 2017Z Bonds | YES | 0.00% | \$9,030,000 | \$4,816,000 | - | 4/1/31 |
| Series 2017Z-1 Bonds | YES | 0.00% | \$14,170,000 | \$8,502,000 | - | 4/1/32 |
| Series 2017A Loan | YES | 2.77% | \$10,000,000 | \$6,395,000 | - | 4/1/32 |
| Series 2018 Note | YES | 3.92% | \$13,440,000 | \$10,590,000 | - | 4/1/34 |
| Regions Bank Note | YES | BSBY + 1.35% | \$40,000,000 | - ⁽³⁾ | - | 4/1/25 |
| Series 2020 Bonds | YES | Varies | \$71,585,000 | \$70,195,000 | - | 4/01/50 |
| The Bonds | YES | Varies | \$83,220,000 | \$83,220,000 | - | 4/01/53 |
| TOTAL | | | \$307,436,000 | \$240,505,677 | \$34,588,980 | |

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

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

⁽³⁾ Based on a payoff of the existing balance with a portion of the proceeds of the Bonds.

Taxable Education Revenue Bonds (Qualified School Construction Bonds) Series 2010Q. YES Prep has previously issued its \$6,100,000 City of Houston Higher Education Finance Corporation Taxable Education Revenue Bonds (Qualified School Construction Bonds) Series 2010Q (the “*Series 2010Q Bonds*”). The aggregate principal amount of \$6,100,000 remains outstanding on the Series 2010Q Bonds. Capital One, N.A. is the sole holder of the Series 2010Q Bonds. **The Series 2010Q Bonds are parity debt under the Master Indenture.**

Taxable Education Revenue Bonds (Qualified Zone Academy Bonds) Series 2010Z. YES Prep has previously issued its \$16,000,000 City of Houston Higher Education Finance Corporation Taxable Education Revenue Bonds (Qualified Zone Academy Bonds) Series 2010Z (the “*Series 2010Z Bonds*”). The aggregate principal amount of \$16,000,000 remains outstanding on the Series 2010Z Bonds. Capital One, N.A. is the sole holder of the Series 2010Z Bonds. **The Series 2010Z Bonds are parity debt under the Master Indenture.**

Taxable Education Revenue Bonds (Qualified Zone Academy Bonds) Series 2011Z. YES Prep has previously issued its \$8,751,000 City of Houston Higher Education Finance Corporation Taxable Education Revenue Bonds (Qualified Zone Academy Bonds) Series 2011Z (the “*Series 2011Z Bonds*”). The aggregate principal amount of \$8,751,000 remains outstanding on the Series 2011Z Bonds. Capital One, N.A. is the sole holder of the Series 2011Z Bonds. **The Series 2011Z Bonds are parity debt under the Master Indenture.**

Taxable Education Revenue Bonds (Qualified Zone Academy Bonds) Series 2012Z. YES Prep has previously issued its \$3,400,000 City of Houston Higher Education Finance Corporation Taxable Education Revenue Bonds (Qualified Zone Academy Bonds) Series 2012Z (the “*Series 2012Z Bonds*”). The aggregate principal amount of \$3,400,000 remains outstanding on the Series 2012Z Bonds. Capital One, N.A. is the sole holder of the Series 2012Z Bonds. **The Series 2012Z Bonds are parity debt under the Master Indenture.**

Tax-Exempt Education Revenue Note Series 2013. YES Prep has previously issued its \$9,740,000 Dickinson Higher Education Finance Corporation Tax-Exempt Education Revenue Note (YES Prep Public Schools) Series 2013 (the “*Series 2013 Note*”). The aggregate principal amount of \$4,118,700 remains outstanding on the Series 2013 Note. Capital One, N.A. is the sole holder of the Series 2013 Note. **The Series 2013 Note is parity debt under the Master Indenture.**

Tax-Exempt Education Revenue Note Series 2015. YES Prep has previously issued its \$7,000,000 Dickinson Higher Education Finance Corporation Tax-Exempt Education Revenue Note (YES Prep Public Schools) Series 2015 (the “*Series 2015 Note*”). The aggregate principal amount of \$3,157,280 remains outstanding on the Series 2015 Note. Trustmark National Bank is the sole holder of the Series 2015 Note. **The Series 2015 Note is parity debt under the Master Indenture.**

Taxable Education Revenue Bonds (Qualified Zone Academy Bonds) Series 2015Z. YES Prep has previously issued its \$15,000,000 City of Houston Higher Education Finance Corporation Taxable Education Revenue Bonds (Qualified Zone Academy Bonds) Series 2015Z (the “*Series 2015Z Bonds*”). The aggregate principal amount of \$15,000,000 remains outstanding on the Series 2015Z Bonds. Capital One, N.A. is the sole holder of the Series 2015Z Bonds. The Series 2015Z Bonds are parity debt under the Master Indenture.

Taxable Education Revenue Bonds (Qualified Zone Academy Bonds) Series 2017Z. YES Prep has previously issued its \$9,030,000 City of Houston Higher Education Finance Corporation Taxable Education Revenue Bonds (Qualified Zone Academy Bonds) Series 2017Z (the “*Series 2017Z Bonds*”). The aggregate principal amount of \$4,815,700 remains outstanding on the Series 2017Z Bonds. BOKF, NA is the sole holder of the Series 2017Z Bonds. **The Series 2017Z Bonds are parity debt under the Master Indenture.**

Taxable Education Revenue Bonds (Qualified Zone Academy Bonds) Series 2017Z-1. YES Prep has previously issued its \$14,170,000 City of Houston Higher Education Finance Corporation Taxable Education Revenue Bonds (Qualified Zone Academy Bonds) Series 2017Z-1 (the “*Series 2017Z-1 Bonds*”). The aggregate principal amount of \$8,501,700 remains outstanding on the Series 2017Z-1 Bonds. BOKF, NA is the sole holder of the Series 2017Z-1 Bonds. **The Series 2017Z-1 Bonds are parity debt under the Master Indenture.**

Tax-Exempt Education Revenue Note Series 2017A. YES Prep has previously issued its \$10,000,000 Pottsboro Higher Education Finance Corporation Tax-Exempt Education Revenue Note (YES Prep Public Schools) Series 2017A (the “*Series 2017A Note*”). The aggregate principal amount of \$6,360,000 remains outstanding on the Series 2017A Note. Regions Equipment Finance Corporation is the sole holder of the Series 2017A Note. **The Series 2017A Note is parity debt under the Master Indenture.**

Tax-Exempt Education Revenue Note Series 2018. YES Prep has previously issued its \$13,440,000 Clifton Higher Education Finance Corporation Tax-Exempt Education Revenue Note (YES Prep Public Schools) Series 2018 (the “*Series 2018 Note*”). The aggregate principal amount of **\$9,363,673** remains outstanding on the Series 2018 Note. Regions Capital Advantage, Inc. is the sole holder of the Series 2018 Note. **The Series 2018 Note is parity debt under the Master Indenture.**

New Market Tax Credit. The Fifth Ward campus and the Northside campus were financed by utilizing a leverage loan structure with an investment of federal new markets tax credits in 2013 (generally, the “*NMTC Financing*”). The Fifth Ward Campus and the Northside Campus were owned by YES Prep Facilities, LLC (99%) and YES Prep Holdings, Inc. (1%) and leased to YES Prep. YES Prep Holdings, Inc. is a Texas non-profit corporation that is not under the control of YES Prep. In 2019, the NMTC Financing was unwound and YES Prep became the owner of the Fifth Ward Campus and the Northside Campus. There is no longer any debt outstanding related to these properties.

Regions Bank Line of Credit. YES Prep has a revolving line of credit with Regions Bank in the amount of \$40,000,000 (the “*Regions Bank Note*”) which is used for the acquisition, construction and equipping of campus facilities. **The Regions Bank Note is parity debt under the Master Indenture.**

Charter School Growth Fund Loans. YES Prep has several loans with the Charter School Growth Fund which will be paid in full on June 30, 2023 (the “*Charter School Growth Fund Loans*”) which were used for the acquisition, construction and equipping of campus facilities. **The Charter School Growth Fund Loans are unsecured and are NOT parity debt under the Master Indenture.**

Tax-Exempt Education Revenue Bonds Series 2020. YES Prep has previously issued its \$71,585,000 Clifton Higher Education Finance Corporation Education Revenue Bonds (YES Prep Public Schools) Series 2020 (the “*Series 2020 Bonds*”). The aggregate principal amount of \$71,585,000 remains outstanding on the Series 2020 Bonds. **The Series 2020 Bonds is parity debt under the Master Indenture.**

All prior Debt, except the Series 2020 Bonds, contain a covenant that for any real estate to be added as Collateral (as defined in the Deed of Trust), YES Prep shall provide an Officer’s Certificate with supporting documentation including Appraisals that the Collateral Value will be greater than or equal to the aggregate principal amount of all outstanding Debt, including the additional Debt proposed to be issued. The final maturity of the last of the Prior Master Notes is April 1, 2034, at such time (or sooner due to early defeasance or redemption), such covenant will no longer be applicable to YES Prep and any real estate to be added as Collateral.

For the current debt service requirements see “**DEBT SERVICE REQUIREMENTS**” herein.

Future Financings

YES Prep intends to issue additional debt on parity with the Master Notes over the next three years. See “**APPENDIX B — FINANCINGS – Future Financings.**”

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:

| Sources of Funds | Total |
|---|------------------------|
| Par Amount | \$83,220,000.00 |
| Original Issue Premium | <u>1,857,865.55</u> |
| Total Sources of Funds | <u>\$85,077,865.55</u> |
| | |
| Uses of Funds | |
| Project Fund Deposits | \$81,809,507.00 |
| Deposit to pay debt service | 4,549.61 |
| Deposit to Charter Bond Guaranty Reserve Fund | <u>1,959,277.60</u> |
| | \$83,773,334.21 |
| | |
| Delivery Date Expenses | |
| Costs of Issuance ⁽¹⁾ | <u>\$1,304,531.34</u> |
| | \$1,304,531.34 |
| | |
| Total Uses of Funds | <u>\$85,077,865.55</u> |

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

DEBT SERVICE REQUIREMENTS

Set forth in the following table are the aggregate debt service requirements relating to the Bonds and the Outstanding Prior Master Notes.

| Period Ending June 30 | Prior Master Notes Debt Service ⁽¹⁾ | | | | Series 2023 Bond Debt Service | | | Total Debt Service on Master Notes |
|-----------------------------|---|---------------------|----------------------------|----------------------|-------------------------------|---------------------|----------------------|--|
| | Principal | Interest | Sinking Fund Deposit | Total | Principal | Interest | Total | |
| 2024 | \$5,626,471 | \$4,093,837 | \$2,558,699 | \$12,279,008 | - | \$2,387,489 | \$2,387,489 | \$14,666,497 |
| 2025 | 27,884,948 | 3,931,933 | (19,541,301) | 12,275,579 | \$1,395,000 | 3,704,725 | 5,099,725 | 17,375,304 |
| 2026 | 14,705,928 | 3,323,405 | (7,271,901) | 10,757,432 | 1,465,000 | 3,634,975 | 5,099,975 | 15,857,407 |
| 2027 | 9,529,961 | 3,018,649 | (2,368,088) | 10,180,522 | 1,540,000 | 3,561,725 | 5,101,725 | 15,282,247 |
| 2028 | 6,311,848 | 2,805,038 | 838,012 | 9,954,899 | 1,615,000 | 3,484,725 | 5,099,725 | 15,054,624 |
| 2029 | 5,642,326 | 2,622,650 | 838,012 | 9,102,989 | 1,700,000 | 3,403,975 | 5,103,975 | 14,206,964 |
| 2030 | 20,813,461 | 2,455,058 | (14,161,988) | 9,106,531 | 1,785,000 | 3,318,975 | 5,103,975 | 14,210,506 |
| 2031 | 5,401,667 | 2,130,092 | - | 7,531,758 | 1,870,000 | 3,229,725 | 5,099,725 | 12,631,483 |
| 2032 | 4,939,667 | 1,985,756 | - | 6,925,423 | 1,965,000 | 3,136,225 | 5,101,225 | 12,026,648 |
| 2033 | 3,335,000 | 1,835,219 | - | 5,170,219 | 2,065,000 | 3,037,975 | 5,102,975 | 10,273,194 |
| 2034 | 3,465,000 | 1,702,104 | - | 5,167,104 | 2,165,000 | 2,934,725 | 5,099,725 | 10,266,829 |
| 2035 | 2,400,000 | 1,563,800 | - | 3,963,800 | 2,275,000 | 2,826,475 | 5,101,475 | 9,065,275 |
| 2036 | 2,495,000 | 1,467,800 | - | 3,962,800 | 2,390,000 | 2,712,725 | 5,102,725 | 9,065,525 |
| 2037 | 2,595,000 | 1,368,000 | - | 3,963,000 | 2,510,000 | 2,593,225 | 5,103,225 | 9,066,225 |
| 2038 | 2,700,000 | 1,264,200 | - | 3,964,200 | 2,635,000 | 2,467,725 | 5,102,725 | 9,066,925 |
| 2039 | 2,780,000 | 1,183,200 | - | 3,963,200 | 2,765,000 | 2,335,975 | 5,100,975 | 9,064,175 |
| 2040 | 2,860,000 | 1,099,800 | - | 3,959,800 | 2,875,000 | 2,225,375 | 5,100,375 | 9,060,175 |
| 2041 | 2,950,000 | 1,014,000 | - | 3,964,000 | 2,990,000 | 2,110,375 | 5,100,375 | 9,064,375 |
| 2042 | 3,035,000 | 925,500 | - | 3,960,500 | 3,110,000 | 1,990,775 | 5,100,775 | 9,061,275 |
| 2043 | 3,130,000 | 834,450 | - | 3,964,450 | 3,235,000 | 1,866,375 | 5,101,375 | 9,065,825 |
| 2044 | 3,220,000 | 740,550 | - | 3,960,550 | 3,365,000 | 1,736,975 | 5,101,975 | 9,062,525 |
| 2045 | 3,320,000 | 643,950 | - | 3,963,950 | 3,510,000 | 1,593,963 | 5,103,963 | 9,067,913 |
| 2046 | 3,420,000 | 544,350 | - | 3,964,350 | 3,655,000 | 1,444,788 | 5,099,788 | 9,064,138 |
| 2047 | 3,520,000 | 441,750 | - | 3,961,750 | 3,810,000 | 1,289,450 | 5,099,450 | 9,061,200 |
| 2048 | 3,625,000 | 336,150 | - | 3,961,150 | 3,975,000 | 1,127,525 | 5,102,525 | 9,063,675 |
| 2049 | 3,735,000 | 227,400 | - | 3,962,400 | 4,145,000 | 958,588 | 5,103,588 | 9,065,988 |
| 2050 | 3,845,000 | 115,350 | - | 3,960,350 | 4,320,000 | 782,425 | 5,102,425 | 9,062,775 |
| 2051 | - | - | - | - | 4,500,000 | 598,825 | 5,098,825 | 5,098,825 |
| 2052 | - | - | - | - | 4,695,000 | 407,575 | 5,102,575 | 5,102,575 |
| 2053 | - | - | - | - | 4,895,000 | 208,038 | 5,103,038 | 5,103,038 |
| Total | \$157,286,277 | \$43,673,990 | \$(39,108,555) | \$161,851,712 | \$83,220,000 | \$67,112,414 | \$150,332,414 | \$312,184,128 |

⁽¹⁾ Based on internal management schedules. Net interest shown for outstanding QSCB and QZABs.

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RISK FACTORS

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

Enforceability and Constitutionality of the Permanent School Fund Guarantee

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

Sufficiency of Revenues

The Bonds are payable solely from certain payments, revenues and other amounts derived by the Issuer pursuant to the Loan Agreement and the Series 2023 Master Note and are secured only by such revenues and a pledge of certain funds and accounts created under the Bond Indenture. Based on present circumstances, and based on its projections regarding enrollment, YES Prep believes it will generate sufficient revenues for payment of debt service on the Bonds. However, YES Prep’s charter contract may be revoked, or the basis of the assumptions used by YES Prep to formulate its beliefs may otherwise change. No representation or assurance can be made that YES Prep will continue to generate sufficient revenues to make payments under the Master Notes and thus debt service on the Bonds and other bonds issued for the benefit of YES Prep.

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

State charter schools such as the Charter Schools operated by YES Prep may not charge tuition and have no taxing authority. Payments from the State that YES Prep receives for educating students comprise the primary source of revenue generated by YES Prep (more than 91% for YES Prep’s fiscal year ending June 30, 2022). The amount of such State payments YES Prep receives is based on a variety of factors, including enrollment at the Charter Schools. The overall amount of education aid provided by the State in any year is also subject to appropriation by the State Legislature. The Legislature may base its decisions about appropriations on many factors, including the State’s economic performance. Further, because some public officials, their constituents, commentators and others have viewed charter schools as controversial, political factors may also come to bear on charter school funding, and such factors are subject to change. As a result, the Legislature may not appropriate funds, or may not appropriate funds in a sufficient amount, for YES Prep to generate sufficient revenue to meet its operating expenses and to make payments under the Master Notes sufficient to pay debt service on the Bonds and other bonds that could be issued for the benefit of YES Prep. No liability would accrue to the State in such event, and the State would not be obligated or liable for any future payments or any damages. If the State were to withhold such State payments for any reason, even for a reason that is ultimately determined to be invalid or unlawful, YES Prep could be forced to cease operations.

Operating History; Projections

YES Prep’s ability to make payments under the Master Notes representing debt service payments on the Bonds and other bonds issued for the benefit of YES Prep depends on its receipt of payments from the State. See “APPENDIX B — YES PREP PUBLIC SCHOOLS INC. AND THE CHARTER SCHOOLS — History,

Growth Strategy and Other Information Relating to YES PREP PUBLIC SCHOOLS INC. AND THE CHARTER SCHOOLS.” The projections of revenues and expenses contained in **APPENDIX B** herein were prepared by YES Prep with assistance from Masterson Advisors LLC. No feasibility studies have been conducted with respect to operations of YES Prep pertinent to the Bonds. The projections prepared by YES Prep are “forward-looking statements” and are subject to the general qualifications and limitations described under **“INTRODUCTION — Forward-Looking Statements”** with respect to such statements. The Underwriters have not independently verified such projections, and 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 YES Prep and from assumptions made by YES Prep about its future student enrollment and expenses. The projections assume increases in enrollment to 21,041 by the fiscal year ending June 30, 2026. Any increase at the Charter Schools beyond 20,375 will require additional amendments to YES Prep’s charter.] The basis for such projections are the applications for admission for YES Prep’s grades currently in operation, the addition of additional grades and the physical capacity of schools under renovation to be expanded with proceeds of the Bonds. There can be no assurance that the actual enrollment, revenues and expenses for YES Prep will be consistent with the assumptions underlying the projections contained herein. Actual operating results may be affected by many factors, including, but not limited to, increased costs, lower than anticipated revenues (as a result of difficulty with or failure of YES Prep’s growth strategy, insufficient enrollment, reduced payments from the State, or otherwise), employee relations, changes in taxes, changes in applicable government regulations, changes in demographic trends, factors associated with education, competition for students and changes in local or general economic conditions. See **“APPENDIX B — YES PREP PUBLIC SCHOOLS INC. AND THE CHARTER SCHOOLS”** to review certain of the projections and to consider the various factors that could cause actual results to differ significantly from projected results. Refer to **“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 YES PREP. ACTUAL OPERATING RESULTS MAY BE AFFECTED BY MANY FACTORS, INCLUDING, BUT NOT LIMITED TO, DIFFICULTY WITH OR FAILURE OF YES PREP’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 YES PREP, AND NEITHER THE ISSUER, THE FINANCIAL ADVISOR NOR THE UNDERWRITERS HAVE COMMISSIONED AN INDEPENDENT FEASIBILITY ANALYSIS OF ANY OF THE PROJECTED STUDENT ATTENDANCE FIGURES UPON WHICH YES PREP’S PROJECTIONS ARE BASED. NO INDEPENDENT CONFIRMATION OF YES PREP’S PROJECTIONS HAS BEEN MADE, AND WHILE YES PREP BELIEVES ITS PROJECTIONS ARE REASONABLE, SUCH GROWTH MAY OR MAY NOT OCCUR AND MAY BE AFFECTED BY A VARIETY OF FACTORS. SEE **“APPENDIX B — YES PREP PUBLIC SCHOOLS INC. AND THE CHARTER SCHOOLS — Projected Revenues and Expenditures.”**

Competition for Students

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

Nonrenewal or Revocation of Charter

YES Prep initially entered into its Charter in 2000. The Charter has been renewed for a period through July 31, 2025. Pursuant to the Charter, For the 2022-23 school year, YES Prep operated twenty-four charter schools (including three partnership schools) and one additional alternative education campus. The Charter has been amended several times to add grade offerings, school sites and to increase YES Prep's maximum enrollment. See **"APPENDIX B — YES PREP PUBLIC SCHOOLS INC. AND THE CHARTER SCHOOLS — Charter Contract."**

Under Texas law, the Commissioner of Education (the "*Commissioner*") may revoke the charter of, or modify the governance of the holder of a charter, of an open-enrollment charter school, or reconstitute the governing body of the charter holder, if the Commissioner determines that the charter holder: (i) committed a material violation of the charter, including failure to satisfy accountability provisions prescribed by the charter; (ii) failed to satisfy generally accepted accounting standards of fiscal management; (iii) failed to protect the health, safety, or welfare of the students enrolled at the school; (iv) failed to comply with any applicable law or rule, (v) failed to satisfy the performance framework standards adopted under Section 12.1181 of the Texas Education Code, or (vi) is imminently insolvent as determined by the Commissioner in accordance with Commissioner Rule.

The 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 ("*Accountability Rating*") under Subchapter C, Chapter 39 of the Texas Education Code; (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; or (iii) the charter holder has been assigned any combination of the ratings described in (i) or (ii).

Under State law, the Commissioner is required to deny renewal of the charter of an open-enrollment charter school at the end of the term of a 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 as its Accountability Rating for the three preceding school years and such campus has not been closed.

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

Related procedures provide an opportunity for a hearing for the charter holder and parents, which must be held at the charter school's facility. See **"APPENDIX A — SUMMARY OF CERTAIN PROVISIONS OF TEXAS CHARTER SCHOOL LAW — GENERAL — CHARTER REVISION, REVOCATION AND NON-RENEWAL"** and **"APPENDIX B — YES PREP AND THE CHARTER SCHOOLS — Charter Contract — Revocation, Nonrenewal and Modification of Governance."** If YES Prep's charter contracts are revoked or if the charter contracts are not renewed in the future, YES Prep could be forced to cease operations.

Construction Risks

YES Prep will use a portion of the proceeds of the Bonds to finance construction of the Project. YES Prep 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 YES Prep to obtain such approvals, consents, certificates and permits could result in a delay with respect to completion of construction, and any such delay could adversely affect YES Prep'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 YES Prep. The risks associated with any such delay are heightened by the fact that YES Prep is relying on the new facilities and the expanded classroom space to accommodate its

projected increased enrollment in the near term. See “**APPENDIX B — “YES PREP PUBLIC SCHOOLS INC. AND THE CHARTER SCHOOLS.”**”

If plans regarding the new construction component of the Project result in construction costs that exceed the amount available to pay such costs, YES Prep’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.

Reliance on Phase I Reports

As of the date of this Official Statement, Phase I environmental assessments within the last six months have not been obtained for the properties financed with the proceeds of the Bonds. YES Prep has previously received Phase I environmental assessments on the existing properties. There can be no assurances that YES Prep will have made an “all appropriate inquiry” sufficient enough to establish or preserve the innocent landowner defense to the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA). Notwithstanding the foregoing, provided certain conditions are satisfied, the Issuer, Master Trustee and bond holders may still be able to establish and preserve the secured creditor exemption/defense to CERCLA.

Factors Associated with Education in General

There are a number of factors affecting schools in general, including the Charter Schools, which could have an adverse effect on YES Prep’s financial position and the ability of YES Prep to generate sufficient revenues to pay the Master Notes and thus debt service on the Bonds and other bonds issued for the benefit of YES Prep. These factors include, but are not limited to, YES Prep’s ability to successfully execute its growth strategy; YES Prep’s ability to attract and retain a sufficient number of students; changes to YES Prep’s reputation, the faculty or student body, either generally or with respect to certain academic or extracurricular areas; 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 YES Prep; changes in existing statutes pertaining to the powers of YES Prep and legislation or regulations which may affect funding; and disruption of any operations by real or perceived threats against YES Prep, its employees or the students. YES Prep cannot assess or predict the ultimate effect of these factors on its operations or financial results of operations.

Failure to Provide Ongoing Disclosure

In connection with the issuance of the Bonds, YES Prep will enter into a Continuing Disclosure Agreement, pursuant to Rule 15c2-12. Failure to comply with the Continuing Disclosure Agreements or Rule 15c2-12 may adversely affect the liquidity for the Bonds and their market price in the secondary market. See “**CONTINUING DISCLOSURE AGREEMENT**” and “**APPENDIX E — FORM OF CONTINUING DISCLOSURE AGREEMENT**.”

State Financial Difficulties

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

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

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

Infectious Disease Outbreak – COVID-19

On April 10, 2023, the President of the United States signed into law a bill that ended the national emergency declaration resulting from COVID-19, a respiratory disease caused by a strain of the coronavirus and on May 5, 2023, the World Health Organization declared the outbreak of COVID-19 over as a global health emergency. The outbreak of COVID-19 was characterized as a pandemic by the World Health Organization for over three years (the “*Pandemic*”).

For the 2019-2020 school year, the TEA informed Texas school districts that COVID-19 related school closings and/or absenteeism would not impact “Average Daily Attendance” (being generally calculated as the sum of student attendance for each State-mandated day of instruction divided by the number of State-mandated days of instruction, defined herein as “ADA”) calculations and school funding so long as a charter school district committed to support students instructionally while they were at home. In addition to providing educational resources online when classes were suspended, Trinity Basin delivered online instruction through the end of the school year. As such, after taking into account the allocation by the State of certain CARES Act funding, Trinity Basin did not experience a reduction in State funding for the 2019-2020 school year as a result of the school closures. See “**CURRENT PUBLIC SCHOOL FINANCE SYSTEM.**”

For the 2020-2021 school year, the TEA advised districts that charter district funding was to return to being based on ADA calculations requiring attendance to be taken. However, the TEA crafted an approach for determining ADA that provided districts with several options for determining daily attendance. These included remote synchronous instruction, remote asynchronous instruction, on campus instruction, and the Texas Virtual Schools Network. To stabilize funding expectations, charter districts that met certain criteria established by the TEA were provided with various hold harmless protections throughout the 2020-2021 school year that applied if a district’s ADA was less than certain ADA projections made by the TEA. The TEA provided the highest level of funding that resulted from either the hold harmless attendance counts (as a group, inclusive of all settings) or the district’s actual attendance counts (as a group, inclusive of all settings) for the entire 2020-2021 school year, encompassing all portions of the school year for which a district would have been eligible for a hold harmless adjustment.

The Pandemic was a major disruption in key education operations of YES Prep, but the staff at YES Prep adapted to the virtual office experience. YES Prep saw no reduction in their per pupil funding which mitigated the financial impacts of the Pandemic. For the end of the 2019-20 school year and the full 2020-21 school year, YES Prep offered remote learning for students in accordance with TEA guidelines. YES Prep has resumed full in person instruction for the 2021-2022 school year. Financially, YES Prep reported the Pandemic did not cause any unexpected strain, with extra costs offset by savings in areas such as building operations.

For the 2021-22 school year, the Governor announced that virtual learning would not be allowed for public schools in Texas. The Governor has also prohibited mandating masks on public school campuses. After the start of the 2021-22 school year, public schools were reporting high enrollment but lower overall attendance due to COVID-19 and the Delta Variant resurgence. In response, the Texas Legislature passed SB 15 which grants districts and charter schools the ability to establish and/or continue full-time virtual learning programs for up to 10% of a district’s students. The legislation requires school districts which offered remote learning to have at least a “C” Accountability Rating from the TEA. Districts also unable to require a teacher who is teaching in-class to also teach students online at the same time.

For a discussion of the impact of the Pandemic on the PSF, see “**APPENDIX I – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM– Infectious Disease Outbreak**”.

Risk of Catastrophic Loss

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

While the Bonds are outstanding, YES Prep has agreed to insure or cause insurance to be carried for its buildings and contents, including the schools (during both the period of construction and the period subsequent to completion of the Project), against such losses and in such amounts as is customary for persons engaged in the same business as YES Prep and operating facilities similar to its buildings and other facilities, including the Project. YES Prep has additionally covenanted in the Loan Agreement and the Master Trust Indenture to provide builder's all risk extended coverage insurance (during construction, reconstruction, remodeling or repair), coverage for buildings and contents, and general liability, comprehensive professional liability, workers' compensation and business interruption insurance. In the event that insurance proceeds from damage or destruction, or condemnation awards, with respect to the Project, the Loan Agreement requires transfer of such amounts to the Related Trustee to be held in trust and applied solely to the Related Trustee in accordance with the Bond Indenture to which such insurance or condemnation proceeds relate for use pursuant to such Bond Indenture and the Loan Documents for the Project. Nevertheless, there can be no assurance that a casualty loss will be covered by insurance (certain casualties are excepted), that the insurance company will fulfill its obligation to provide insurance proceeds, that insurance proceeds to rebuild the affected school will be sufficient, or that a sufficient number of students would wish to attend the school following reconstruction. Even if insurance proceeds are available and YES Prep has rebuilt the Project, there could be a lengthy period of time during which there would be little or no revenues produced by operation of the affected school.

Value of Land and Improvements

Under the Deed of Trust, YES Prep has granted to the Master Trustee a first lien on and security interest certain properties of YES Prep and will grant to the Master Trustee a first lien on certain properties purchased with the proceeds of the Bonds. See "YES PREP" and "PLAN OF FINANCE" herein.

There is no guarantee that the foreclosure value of the Land and/or Improvements will be adequate in the event of any foreclosure to pay defaulted and accelerated debt service on the Bonds. Additionally, the value of the land and improvements may be less than comparable commercial properties in the area, especially in light of the special nature of the Land and Improvements and their limited use.

Value of Facilities May Fluctuate

The value of YES Prep's educational facilities at any given time will be directly affected by market and financial conditions which are not in the control of the parties involved in this transaction. At any time there may be a difference between the actual market value of YES Prep'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 YES Prep'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.

Foreclosure Deficiency and Delays; No Assurance Regarding Subsequent Tenant

If revenues produced by YES Prep are insufficient to make payments on the Master Notes representing debt service on the Bonds and to make payments on Master Notes, the Master Trustee may exercise its right to foreclose pursuant to the Deed of Trust. There can be no assurance that the value of YES Prep'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.

Inability to Liquidate or Delay in Liquidating the Project

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

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

Damage, Destruction or Condemnation

Although YES Prep will be required to obtain certain insurance against damage or destruction as set forth in the Master Indenture, there can be no assurance that any portion of the properties pledged to the Deed of Trust will not suffer losses for which insurance cannot be or has not been obtained or that the amount of any such loss, or the period during which YES Prep, as a result of damage or destruction to properties pledged to the Deed of Trust, cannot generate revenues, will not exceed the coverage of such insurance policies.

If the properties pledged to the Deed of Trust, or any portion thereof, is damaged or destroyed, or is taken in a condemnation proceeding, the proceeds of insurance or any such condemnation award for the properties pledged to the Deed of Trust, or any portion thereof, must be applied restore or rebuild the applicable property or to redeem the Bonds. There can be no assurance that the amount of revenues available to restore or rebuild the property, or any portion thereof, or to redeem Bonds will be sufficient for that purpose, or that any remaining portion of the property will generate revenues sufficient to pay the to pay debt service on the Bonds remaining outstanding.

Value of Property May Fluctuate; Limitations of Appraisals

In order to issue the Series 2023 Master Note and add real estate as Collateral, YES Prep shall provide an Officer’s Certificate to the Master Trustee and the Texas Attorney General with supporting documentation including appraisals that the Collateral Value will be greater than or equal to the aggregate principal amount of all outstanding Debt, including the additional Debt proposed to be issued. To calculate the Collateral Value, YES Prep has used the appraisal services of appraisers that are certified general real estate appraisers in the State of Texas and Members of the Appraisal Institute (MIA). Such appraisals are not available for review and are only used by YES Prep for the purpose of calculating Collateral Value in compliance with the Master Indenture.

An appraisal represents only the opinion of the appraiser and only as of its date. There may be a difference between the actual value of such property and the amount of the outstanding Debt under the Master Trust Indenture, and that difference may be material and adverse to holders of the Bonds. In particular, it cannot presently be determined with certainty what the value of YES Prep’s facilities would be in the event of foreclosure under the Deeds of Trust. Further, the value of YES Prep’s facilities at any given time will be directly affected by market and financial conditions which are not in the control of the parties involved in the Bonds. Real property values can fluctuate

substantially depending on a variety of factors. There is nothing associated with YES Prep’s facilities to suggest that their value would remain stable or would not decrease if the general values of property in any school’s service area were to decline.

Future Changes to Charter School Laws

The law applicable to charter schools in the State has frequently changed, including changes to the school funding system and relating to revocation and non-renewal and the respective rights of the parties. See “**STATE FUNDING FOR TRADITIONAL SCHOOL DISTRICTS**” and “**STATE OPEN-ENROLLMENT CHARTER SCHOOL FUNDING**” below. The law affecting charter schools is subject to additional changes. Changes to applicable law by the State Legislature could be adverse to the financial interests of YES Prep and could adversely affect the ability of YES Prep to generate sufficient revenues to pay the Master Notes and to pay debt service on the Bonds and other bonds issued for the benefit of YES Prep. There can be no assurance that the Legislature will not change such laws in the future in a manner which is adverse to the interests of the registered owners of the Bonds. Adverse State budget considerations could increase the likelihood that the State Legislature would change the laws governing charter schools, and in particular charter school funding provisions. Further, State budget considerations may adversely affect appropriations for charter school funding. See “**STATE OPEN-ENROLLMENT CHARTER SCHOOL FUNDING**” and “**CURRENT PUBLIC SCHOOL FINANCE LITIGATION**” herein.

Changes in the School Finance System

Because Texas charter schools are ultimately funded from the same sources as Texas public school districts, changes in the system of school finance could significantly affect how charter schools are funded. Neither the Issuer nor YES Prep can make any representation or prediction concerning how or if the State Legislature may change the current public school finance system, and how those changes may affect the funding or operations of charter schools. See “**STATE OPEN-ENROLLMENT CHARTER SCHOOL FUNDING**” and “**CURRENT PUBLIC SCHOOL FINANCE LITIGATION**” herein.

Since 1989, State funding of education has been challenged on constitutional grounds requiring the Texas 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, YES Prep and the parties cannot predict and provide no assurance regarding: (i) whether the Texas 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 Texas 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.

Acceleration

Pursuant to the rules of the TEA governing the Permanent School Fund Guarantee Program, the Bonds may not be accelerated as a remedy upon an event of default under the Bond Indenture. However, the Master Notes are subject to acceleration upon an event of default under the Master Indenture.

Key Personnel

YES Prep’s curriculum, educational philosophy and operations depend on the vision and commitment of a few, key personnel who comprise the senior leadership of YES Prep. See “**APPENDIX B — YES PREP PUBLIC SCHOOLS INC. AND THE CHARTER SCHOOLS — Senior Leadership.**” Loss of any such key personnel could adversely affect YES Prep’s growth plans, operations, ability to attract and retain students and ultimately its financial results. Of particular importance to YES Prep is Mark DiBella, whose contributions to YES Prep’s development and whose ongoing responsibilities are significant. For more information regarding these individuals and other of YES Prep’s key personnel, see “**APPENDIX B — YES PREP PUBLIC SCHOOLS INC. AND THE CHARTER SCHOOLS — 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 2023 Master Note, all money and investments held for the credit of the funds and accounts established by or under the Bond Indenture (except the Rebate Fund), and in certain events out of amounts secured through the exercise of the remedies provided in the Bond Indenture, the Loan Agreement 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. NONE OF THE STATE OF TEXAS, ANY STATE AGENCY OR ANY POLITICAL SUBDIVISION OF THE STATE, INCLUDING THE CITY OF CLIFTON, IS OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE BONDS AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR ANY STATE AGENCY OR POLITICAL SUBDIVISION OF THE STATE, INCLUDING THE CITY OF CLIFTON, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. HOWEVER, THE BONDS WILL BE GUARANTEED BY THE CORPUS OF THE PERMANENT SCHOOL FUND OF THE STATE OF TEXAS PURSUANT TO THE BOND GUARANTEE PROGRAM ADMINISTERED BY THE TEXAS EDUCATION AGENCY. SUCH GUARANTEE IS SUBJECT TO THE RULES AND REGULATION OF THE TEXAS EDUCATION AGENCY AND SHALL BE REMOVED IN ITS ENTIRETY UPON DEFEASANCE OF THE BONDS. THE ISSUER HAS NO TAXING POWER.

Pledge of State Revenues

The Master Indenture provides that all of YES Prep’s Adjusted Revenues will be deposited into one or more deposit accounts pledged to the Master Trustee pursuant to Deposit Account Control Agreements (unless such Adjusted Revenues or portion thereof are required to be deposited to the Revenue Fund). Upon the occurrence of an Event of Default under the Master Indenture, the Master Trustee is entitled, at the direction of the holders of not less than 25% in principal amount of the Master Notes Outstanding to (i) issue a Notice of Exclusive Control under the Deposit Account Control Agreements and (ii) collect and receive all of the YES Prep’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 2023 Master Note.

If an Event of Default has occurred under the Master Indenture, YES Prep covenants and agrees in the Master Indenture that, without demand by the Master Trustee, it will deliver or cause to be delivered to the Master Trustee all of its Adjusted Revenues, including amounts subject to the Deposit Account Control Agreement for which a Notice of Exclusive Control has been delivered, for credit to the Revenue Fund. If YES Prep were to fail to deliver such Adjusted Revenues, either before or after an Event of Default, the only remedy available to the Master Trustee and/or Bondholders would be a suit against YES Prep to enforce the provisions of the Master Indenture.

Damage or Destruction of the Facilities

The Master Indenture requires that YES Prep’s educational facilities be insured against certain risks. See “**APPENDIX F — FINAL FORM OF THE MASTER INDENTURE AND SUBSTANTIALLY FINAL FORM OF THE SUPPLEMENTAL MASTER INDENTURE**” and “**APPENDIX B — YES PREP PUBLIC SCHOOLS INC. AND THE CHARTER SCHOOLS — Insurance Coverage.**” There can be no assurance that the amount of such insurance required to be obtained or actually obtained will be adequate, or that the cause of any damage or destruction to YES Prep’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 YES Prep obtains insurance policies.

Federal Accountability Measures

Title I of the Elementary and Secondary Education Act of 1965, as reauthorized by the Every Student Succeeds Act (“*ESSA*”) of 2015, requires each state to submit a plan outlining its statewide accountability system to the U.S. Department of Education (the “*USDOE*”). The plan submitted by the State was approved by USDOE in March 2018 (the “*Texas Plan*”).

Under the Texas Plan, the TEA will maintain rigorous, yet achievable goals for all student groups; create stronger alignment between all State and federal program areas; shift the proficiency level for students from the “Approaches” label on STAAR to the “Meets” label; and better align federal funding with priorities within TEA’s strategic plan. Certain information regarding State assessments, including accountability and transparency metrics, is set forth in **APPENDIX B — “YES PREP PUBLIC SCHOOLS INC. AND THE CHARTER SCHOOLS — Student Performance and Accountability Ratings.”**

Any failure of YES Prep to meet the applicable requirements of ESSA or the Texas Plan may have a material adverse effect on the ability of YES Prep to generate revenues sufficient to make payments under the Master Notes representing debt service on the Bonds and other bonds issued for the benefit of YES Prep. Various other sections of this Official Statement discuss YES Prep’s performance under the State’s current accountability system. See “**APPENDIX B — YES PREP PUBLIC SCHOOLS INC. AND THE CHARTER SCHOOLS Charter Contract,**” “**— Student Performance and Accountability Ratings**”; see also “**RISK FACTORS — Nonrenewal or Revocation of Charter.**”

On March 27, 2020 the U.S. Department of Education waived the following requirements under the ESSA for Texas schools:

- Assessment requirements in section 1111(b)(2) for the school year 2019-2020.
- Accountability and school identification requirements in sections 1111(c)(4) and 1111(d)(2)(C)-(D) that are based on data from the 2019-2020 school year.
- Report card provisions related to assessments and accountability in section 1111(h) based on data from the 2019-2020 school year. These include:
 - Section 1111(h)(1)(C)(i) (accountability system description);
 - Section 1111(h)(1)(C)(ii) (assessment results);
 - Section 1111(h)(1)(C)(iii)(I) (other academic indicator results);
 - Section 1111(h)(1)(C)(iv) (English language proficiency results);
 - Section 1111(h)(1)(C)(v) (school quality or student success indicator results);
 - Section 1111(h)(1)(C)(vi) (progress toward meeting long-term goals and measurements of interim progress);
 - Section 1111(h)(1)(C)(vii) (percentage of students assessed and not assessed);
 - Section 1111(h)(1)(C)(xi) (number and percentage of students with the most significant cognitive disabilities taking an alternate assessment); and
 - Section 1111(h)(2)(C) with respect to all waived requirements in section 1111(h)(1)(C) as well as 1111(h)(2)(C)(i)-(ii) (information showing how students in a school district and each school, respectively, achieved on the academic assessments compared to students in the State and school district).

On April 6, 2021 the U.S. Department of Education waived the following requirements under the ESSA for Texas schools:

- Accountability and school identification requirements in sections 1111(c)(4) and 1111(d)(2)(C)-(D) for the 2020-2021 school year.
- Report card provisions related to accountability in section 1111(h) based on data from the 2020-2021 school year. These include:
 - Section 1111(h)(1)(C)(i)(I)-(IV) and (VI) (Accountability system description, other than the list of comprehensive, targeted, and additional targeted support and improvement schools).
 - Section 1111(h)(1)(C)(iii)(I) (Other Academic indicator results for schools that are not high schools).
 - Section 1111(h)(1)(C)(v) (School Quality or Student Success indicator results).
 - Section 1111(h)(1)(C)(vi) (Progress toward meeting long-terms goals and measurements of interim progress).
 - Section 1111(h)(2)(C) with respect, at the local educational agency (LEA) and school levels, to all waived requirements in section 1111(h)(1)(C).

On April 22, 2022 the U.S. Department of Education waived the following requirements under the ESSA for Texas schools:

- Alternate Academic Achievement Assessments under 1111(d)(2)(D)(i)(I) for the 2020-2021 school year.

No waivers were made for the 2021-22 or 2022-23 school years.

Environmental Regulation

YES Prep's properties 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 properties, 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 properties. Costs incurred with respect to environmental remediation or liability could adversely affect YES Prep's financial condition and its ability to generate revenues sufficient to pay debt service on the Master Notes and thus debt service on the Bonds and other bonds issued for the benefit of YES Prep. Excessive costs in connection with any such environmental remediation or any such liability to third parties could also make it difficult to successfully re-let such facilities.

As of the date of this Official Statement, Phase I environmental assessments dated in the last six months have not been obtained for the properties financed with the proceeds of the Bonds.

Potential Effects of Bankruptcy

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

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

Certain Matters Relating to Enforceability of the Master Indenture

The obligations of YES Prep 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 YES Prep 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 YES Prep (including liabilities in respect of the Bonds then outstanding) from the sale or lease of the property, whether pursuant to a judgment against YES Prep or otherwise.

The effectiveness of the security interest in YES Prep'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 YES Prep 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.

Weather Events

YES Prep is located in the Texas Gulf Coast. Land located in this area is susceptible to high winds, heavy rain and flooding caused by rain events, hurricanes, tropical storms, and other tropical disturbances. Due in part to its relatively flat topography and moist coastal climate, and partly due to the effects of subsidence, certain areas of Texas Gulf Coast are subject to periodic flooding and associated severe property damage as a result of rain events, tropical storms and hurricanes. See "**Hurricane Harvey**" below. Most of the municipalities located within the Texas Gulf Coast participate in the National Flood Insurance Program administered by the Federal Emergency Management Agency ("*FEMA*"). Communities participating in the National Flood Insurance Program are required by FEMA to adopt restrictions on development in designated flood-prone areas. In exchange, the National Flood Insurance Program makes federally subsidized flood insurance available to property owners located in the participating communities. Given the ongoing effects of subsidence as well as increased development and urbanization within the Texas Gulf Coast, FEMA periodically updates and revises its maps designating the areas of the Texas Gulf Coast that are subject to special flood hazards. Properties that are currently located outside of a designated flood-prone area may suffer a reduction in value if they are placed within the boundaries of a special flood hazard area the next time FEMA updates and revises its flood maps. All of the Charter Schools designated in a FEMA flood zone maintain flood insurance.

Not all flood hazards are mapped on the FEMA flood maps, nor is every bayou or creek in the Texas Gulf Coast studied. Flooding can occur from ponding or overland sheet flow when intense rainfall overwhelms the local street drainage system. The mapped floodplain is only an estimate of where flooding is predicted to occur from a bayou or creek, given a set of parameters including a hypothetical rainfall occurring over a watershed for an assumed amount of time. During an actual rain event, natural conditions can result in greater amounts of rainfall or runoff, resulting in flood levels deeper and wider than shown on the FEMA maps.

From February 12-19, 2021, the State experienced a severe winter storm ("*Winter Storm Uri*") which included prolonged freezing temperatures, heavy snow and freezing rain statewide. Winter Storm Uri led to power outages and potable and non-potable water shortages in many areas of the State, including the Texas Gulf Coast. The federal government issued a Major Disaster Declaration for the State of Texas and has included federal funding for emergency protective measures. The Texas Gulf Coast did not sustain material damage to its infrastructure during Winter Storm Uri, but Yes Prep cannot predict the impact of future winter weather events.

If flooding or another weather-related event, including a winter storm, were to significantly damage YES Prep facilities, the ability of Yes Prep to generate revenues from those faculties may be limited. Further, there can be no assurance that a casualty loss to YES Prep facilities will be covered by insurance (or property owners will choose to carry

flood insurance), any insurance company will fulfill its obligations to provide insurance proceeds or that insurance proceeds will be used to rebuild or repair damaged improvements within the County. Even if insurance proceeds are available and improvements are rebuilt, there could be a period of time in which YES Prep would be adversely affected.

Hurricane Harvey

On August 26, 2017, Hurricane Harvey (“*Hurricane Harvey*”) made landfall on the Texas Gulf Coast, severely impacting the entire region. Hurricane Harvey created a significant amount of rainfall over several days, well in excess of the 100-year threshold across most of the Houston metropolitan area. A few of YES Prep’s schools did sustain minor damage as a result of Hurricane Harvey but such damage has been remediated through insurance and FEMA reimbursement. YES Prep’s Houston area schools were closed for eight (8) school days due to Hurricane Harvey.

Campus Security

Schools are generally subject to risks related to campus security, including, but not limited to bullying, abuse, and, in extreme cases, physical violence. While YES Prep’s management believes that the Charter Schools are secure, instances of breaches of campus security in the future may have a material adverse effect on YES Prep’s operations and reputation, and may result in litigation, any of which could adversely affect YES Prep’s financial condition and its ability to pay debt service on the Bonds. YES Prep had a prior incident where someone tried to enter into one of its campuses with a gun, but existing security measures prevented the attacker from gaining access to school facilities.

Cybersecurity

YES Prep relies on a technological environment to conduct its operations and potentially faces multiple cybersecurity threats including, but not limited to, hacking, phishing, viruses, malware and other attacks on its computing and other digital networks and systems (collectively, “*Systems Technology*”). YES Prep has previously been the victim of a cybersecurity attack, which did not result in any significant issues or loss for YES Prep. While YES Prep mitigates this Systems Technology risk by using the digital data storage services of third party providers that maintain cybersecurity protection policies and maintaining its own cybersecurity protection policies from Beazley Insurance Company, Inc., as a recipient and provider of personal, private, or sensitive information, YES Prep may be the target of cybersecurity incidents that could result in adverse consequences to YES Prep and its Systems Technology, requiring a response action to mitigate the consequences. Cybersecurity incidents could result from unintentional events, or from deliberate attacks by unauthorized entities or individuals attempting to gain access to YES Prep’s Systems Technology for the purposes of misappropriating assets or information or causing operational disruption and damage. Cybersecurity breaches could cause material disruption to YES Prep’s finances or operations. The costs of remedying any such damage (subject to its current insurance coverage), or protecting against future attacks could be substantial, and insurance (if any can be obtained) may not be adequate to cover such losses or other resultant costs and expenses. Further, cybersecurity breaches could expose YES Prep to material litigation and other legal risks, which could cause YES Prep to incur material costs related to such legal claims or proceedings.

Additional Debt

The Master Indenture permits the issuance of additional Debt on a parity with the Master Notes if certain conditions are met, which could reduce the amount of revenues available to pay debt service on the Bonds. See “**SECURITY FOR THE BONDS — Master Notes and the Master Indenture — Additional Debt**” and “**APPENDIX F — FINAL FORM OF THE MASTER INDENTURE, AND SUBSTANTIALLY FINAL FORMS OF THE SUPPLEMENTAL MASTER INDENTURE, THE BOND INDENTURE AND THE LOAN AGREEMENT — MASTER INDENTURE.**” After the issuance of the Bonds, YES Prep will have fourteen (14) Master Notes outstanding under the Master Indenture. See “**PLAN OF FINANCE – Prior Financings**” herein. YES Prep intends to issue additional debt on a parity with the Master Notes over the next three years. See “**APPENDIX B — FINANCINGS – Future Financings.**” The issuance of additional Debt and bonds 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, may be limited, 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 YES Prep pledged to payment of the Master Notes to secure such payment. See “ – **Special, Limited Obligations**” above. 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 sovereign powers of the State and the constitutional powers of the United States of America, bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

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.

TEA’s Rights Under the Financing Documents

As a condition for guarantee of the Bonds under the Charter School Bond Guarantee Program of the Permanent School Fund of the State of Texas, the TEA requires certain provisions in the financing documents granting TEA certain rights to consents, notices and to control certain procedures, including, without limitation, the right to control proceedings, without the consent of bondholders, following an event of default under the financing documents. Reference is made to the provisions of the financing documents for a more complete description of TEA’s rights thereunder. See “**APPENDIX G - SUBSTANTIALLY FINAL FORM OF THE BOND INDENTURE.**”

Charter Schools in General

Nationally, charter schools in general have come under some criticism as having failed to meet certain objectives in educating students to a success level above students in traditional public school systems. Proponents of charter schools have indicated that comparisons used in such critiques often fail to measure performances between similarly situated schools, or fail to acknowledge the time that will be required for a charter school system to develop historically significant data. The politically sensitive issues surrounding the development of charter schools will continue to garner public attention, and any development of a national sense that charter schools do not present a fiscally responsible alternative could adversely affect the willingness of states, including Texas, to fund charter school operations, to take legislative or regulatory action adverse to charter schools, or to approve or renew charter contracts.

Litigation

Schools are often the subject of litigation. Actions alleging wrongful conduct that seek punitive damages often are filed against education providers such as YES Prep. Litigation may also arise from the corporate and business activities of YES Prep, such as employee-related matters. As with educator’s professional liability, many of these risks are covered by insurance, but some are not. For example, some business disputes and worker’s compensation claims are not covered by insurance or other sources and, in whole or in part, may be a liability of YES Prep if determined or settled adversely. Although YES Prep maintains insurance policies covering educator’s professional and general liability, management of YES Prep is unable to predict the availability, cost or adequacy of such insurance in the future. There is no known litigation pending or threatened against YES Prep as of the date of this Official Statement. Additionally, management of YES Prep has no knowledge of any litigation threatened against YES Prep, (i) which in any way questions or affects the validity of the Bonds, or any proceedings or transactions relating to their issuance, sale and delivery, or (ii) which would, if adversely determined, cause any material adverse change in the financial conditions of YES Prep.

Tax-Exempt Status of the Bonds

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

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

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

Proposed Tax Legislation

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

Tax-Exempt Status of YES Prep

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

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

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

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

Risk of Failure to Comply with Certain Covenants

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

State and Local Tax Exemption

The State has not been as active as the IRS in scrutinizing the tax-exempt status of nonprofit organizations. It is possible that legislation may be proposed to strengthen the role of the Attorney General of the State in supervising nonprofit organizations. It is likely that the loss by YES Prep of federal tax exemption also would trigger a challenge to the State or local tax exemption of YES Prep. 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 nonprofit 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 YES Prep by requiring YES Prep 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*”). YES Prep 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 YES Prep as well as the exclusion from gross income for federal income tax purposes of the interest payable on the Bonds.

Secondary Market

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

Risk of Loss from Nonpresentment upon Redemption

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

Risk of Amendment

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

THE BONDS

Description

The Bonds will be issued in the aggregate principal amounts, will mature on the dates and in the amounts, and will bear interest at the rates per annum set forth on the inside cover page of this Official Statement. Interest on the Bonds will accrue from the date of delivery and will be calculated on the basis of a 360-day year of twelve 30-day months payable on October 1, 2023, and on each April 1 and October 1 thereafter until the earlier of maturity or redemption.

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

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

Permanent School Fund Guarantee

An application has been filed and YES Prep has received conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas. As discussed under the heading “**APPENDIX I – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM**” herein, the Bonds will be guaranteed under the Bond Guarantee Program of the Permanent School Fund of the State of Texas. In the event of default, registered owners will receive all payments due from the corpus of the Permanent School Fund; provided, however, that the Bonds are not subject to acceleration. In the event YES Prep causes the Issuer to defease any of the Bonds, the payment of such defeased Bonds will cease to be guaranteed by the Permanent School Fund Guarantee.

As a condition for guarantee of the Bonds under the Charter School Bond Guarantee Program, the TEA requires certain provisions in the financing documents granting TEA certain rights to consents, notices and to control certain procedures, including, without limitation, the right to control proceedings, without the consent of bondholders, following an event of default under the financing documents. Reference is made to the provisions of the financing documents for a more complete description of TEA’s rights thereunder. See “**APPENDIX G– SUBSTANTIALLY FINAL FORM OF THE BOND INDENTURE**.”

Redemption Provisions

The Bonds. The Bonds are subject to redemption as described below:

Optional Redemption. The Bonds maturing on or after April 1, 2032, are subject to optional redemption prior to scheduled maturity, in whole or in part, on April 1, 2031, and on any date thereafter, at the option of YES Prep at a redemption price of par, plus accrued interest to the date of redemption.

Mandatory Sinking Fund Redemption. The Bonds maturing on April 1 in the years 2043, 2048 and 2053 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:

Bonds Maturing April 1, 2043

| <u>Principal Amount</u> | <u>Redemption Date</u> |
|-------------------------|------------------------|
| \$2,990,000 | April 1, 2041 |
| 3,110,000 | April 1, 2042 |
| 3,235,000 | April 1, 2043* |

Bonds Maturing April 1, 2048

| <u>Principal Amount</u> | <u>Redemption Date</u> |
|-------------------------|------------------------|
| \$3,365,000 | April 1, 2044 |
| 3,510,000 | April 1, 2045 |
| 3,655,000 | April 1, 2046 |
| 3,810,000 | April 1, 2047 |
| 3,975,000 | April 1, 2048* |

Bonds Maturing April 1, 2053

| <u>Principal Amount</u> | <u>Redemption Date</u> |
|-------------------------|------------------------|
| \$4,145,000 | April 1, 2049 |
| 4,320,000 | April 1, 2050 |
| 4,500,000 | April 1, 2051 |
| 4,695,000 | April 1, 2052 |
| 4,895,000 | April 1, 2053* |

*Final maturity

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

Mandatory Redemption Upon Determination of Taxability. The Bonds will be redeemed in whole prior to maturity on a date selected by YES Prep which is not more than 120 days following 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 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: (i) the date on which the Bond Trustee is notified by or on behalf of the Issuer that a change in law or regulation has become effective or that the Internal Revenue Service has issued any public or private ruling, or technical advice memorandum or that there has occurred a ruling or decision of a court of competent jurisdiction with or to the effect that the interest income on any of the Bonds does not qualify as such exempt interest; or (ii) the date on which YES Prep 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, YES Prep or any owner or former owner of a Bond that the Internal Revenue Service has issued a final determination (after the Issuer has exhausted all administrative appeal remedies and has determined not to pursue any remedies in a court of competent jurisdiction) which asserts that the interest on any of the Bonds does not qualify as such exempt interest.

Extraordinary Optional Redemption. The Bonds are subject to extraordinary redemption, at the option of the Issuer upon the request of YES Prep, at a redemption price of par plus interest accrued thereon to the redemption date, without premium, on any date, in the event the Project is damaged, destroyed, or condemned or threatened to be condemned, (i) in whole, if, in accordance with the terms of the Loan Agreement, the Project is not reconstructed, repaired or replaced upon the change or destruction thereof, from insurance or condemnation proceeds transferred from the Construction Fund 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 YES Prep pursuant to the Loan Agreement, will be sufficient to pay the Bonds in full, or (ii) in part, after reconstruction, repair, or replacement of the Project in accordance with the terms of the Loan Agreement, from excess insurance or condemnation proceeds transferred from the Construction Fund established pursuant to the Bond Indenture to the Debt Service Fund established pursuant to the Bond Indenture for such purpose.

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

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

Notice of Redemption. At least 30 days prior to the date fixed for any redemption of the Bonds, but not more than 60 days prior to any redemption date, the Bond Trustee will cause a written notice of such redemption to be mailed by first class mail, postage prepaid, to the holders of the Bonds to be redeemed, at such holder’s address appearing on the bond registration books on the date such notice is mailed by the Bond Trustee. Any redemption may be conditioned upon the occurrence of events occurring after the mailing of the notice of redemption. Any notice mailed as provided herein will be conclusively presumed to have been given, irrespective of whether or not received. By the date fixed for any such redemption, due provision is required to be made with the Bond Trustee 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. Upon any discharge, defeasance or refunding of all or a portion of the Bonds, such Bonds shall no longer be regarded to be outstanding or unpaid; *provided, however*, the Issuer will remain obligated for all payments, including the contribution of additional money or securities to any defeasance escrow or trust account, if necessary to provide sufficient amounts to satisfy the payment obligations (but only from the sources described herein). The Permanent School Fund Guarantee will terminate with respect to the Bonds defeased in the manner provided above.

SECURITY FOR THE BONDS

General

The Bonds are special, limited obligations of the Issuer payable solely from revenues to be derived from the Loan Agreement, the Series 2023 Master Note, the money and investments held for the credit of the funds and accounts established by or under the Bond Indenture (except the Rebate Fund); and in certain events out of amounts secured through the exercise of the remedies provided in the Bond Indenture, the Loan Agreement and the Master Indenture.

NONE OF THE STATE OF TEXAS, ANY STATE AGENCY OR ANY POLITICAL SUBDIVISION OF THE STATE, INCLUDING THE CITY OF CLIFTON, 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 CITY OF CLIFTON, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. HOWEVER, THE BONDS WILL BE GUARANTEED BY THE CORPUS OF THE PERMANENT SCHOOL FUND OF THE STATE OF TEXAS PURSUANT TO THE BOND GUARANTEE PROGRAM ADMINISTERED BY THE TEXAS EDUCATION AGENCY. SUCH GUARANTEE IS SUBJECT TO THE RULES AND REGULATION OF THE TEXAS EDUCATION AGENCY AND SHALL BE REMOVED IN ITS ENTIRETY UPON DEFEASANCE OF THE BONDS. THE ISSUER HAS NO TAXING POWER.

Master Notes and the Master Indenture

General

To evidence its obligations under the Loan Agreement, YES Prep will execute and deliver to the Bond Trustee, as the assignee of the Issuer, the Series 2023 Master Note in principal amount equal to the principal amount of the Bonds. Payments under the Series 2023 Master Note are scheduled to be made at the times and in the amounts required to pay debt service on the Bonds and will be credited against the Loan Payments required to be made by YES Prep under the Loan Agreement.

The Series 2023 Master Note is a duly authorized promissory note of YES Prep issued pursuant to and secured by the Master Indenture. 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 — FINAL FORM OF THE MASTER INDENTURE AND SUBSTANTIALLY FINAL FORM OF THE SUPPLEMENTAL MASTER INDENTURE.**”

Under the Master Indenture the Trust Estate consists of:

- (i) all Adjusted Revenues (defined below) of YES Prep except and excluding all such items, whether now owned or hereafter acquired by YES Prep, which by their terms or by reason of applicable law would become void or voidable if granted, assigned, or pledged hereunder by YES Prep, 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 YES Prep, provided that YES Prep may subject to the lien hereof any such excepted property, whereupon the same shall cease to be excepted property;

- (ii) all moneys and securities, if any, at any time held by the Master Trustee in the Revenue Fund or any Reserve Fund established pursuant to and subject to any restrictions provided within any supplement hereto 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 Notes including the depository account specified in a 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;
- (iii) all accounts, chattel paper, bank accounts, general intangibles, instruments, deposits accounts, securities accounts, investments property, supporting obligation and related rights of YES Prep (each as defined in the UCC) or other rights, and the proceeds of the same, 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 YES Prep or by anyone on its behalf to the Master Trustee, subject to the terms thereof, including, without limitation, funds of YES Prep held by the Master Trustee as security for the Master Notes;
- (v) the lien of any Deed of Trust;
- (vi) supporting evidence and documents relating to any of the above-described property, including without limitation, all books of accounts, ledgers, and electronic data in which the same are reflected or maintained; and
- (vii) all additions to, and substitutions and replacements of, any and all of the foregoing and all 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, general tangibles (including payment intangibles and software), money and other items of personal property, including proceeds (as each such term is defined in the UCC) which constitute any of the property described in the paragraphs above.

“*Adjusted Revenues*” means, for any period of calculation, all moneys, fees, grants, donations, rates, receipts, rentals, revenues, licensing fees, charges, issues and income received by YES Prep on or after March 1, 2010 including from the operation of YES Prep or its facilities or any other source whatsoever, and including without limitation gifts, bequests, grants, devises, contributions, moneys received from the operation of YES Prep’s business, the possession of its properties, or the fundraising campaigns, insurance proceeds or condemnation awards, and all rights to receive the same, whenever arising, whether in the form of accounts, chattel paper, general intangibles, instruments, deposit accounts, investment property, supporting obligations, (each as defined in the UCC) or other rights, and the proceeds of the same, whether now owned or held or hereafter coming into being, including but not limited to, the total of all operating and non-operating revenues of YES Prep, including but not limited to State Revenues, federal and local funds for school lunches and other food programs, special education, and transportation, including accounts receivable and rights to receive the same plus investment and other income or loss of YES Prep for such period, plus the portions of multi-year gifts, grants and donations previously recognized and actually received in the then current Fiscal Year; 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 (as defined in the Master Indenture) 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 Master Notes (i.e., unrelated to the purposes for which such obligations were issued), (d) net unrealized gain (losses) on investments and Financial Products Agreements and (e) proceeds of borrowings. Notwithstanding any provision herein to the

contrary, State Revenues received by each of YES Prep's campuses will be used in accordance with Section 12.107(a) of the Texas Education Code, as amended.

Revenue Fund

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

- FIRST: to the Master Trustee any fees or expenses which are then due and payable;
- SECOND: equally and ratably to the Holder of each instrument evidencing a Master Note on which there has been a default in the payment of principal of, premium, if any, or interest on the Master Notes, an amount equal to all defaulted principal of, premium, if any, and interest on such Master Note;
- THIRD: to the Interest Account an amount necessary to accumulate in equal amounts the interest on the Master Notes due and payable on the next Interest Payment Date; *provided, however*, that to the extent available, each transfer made on the 5th Business Day before the end of the month immediately preceding each Interest Payment Date shall be in an amount to provide, together with amounts then on deposit in the Interest Account, the balance of the interest due on the Master Notes on the next succeeding Interest Payment Date. There shall be paid from the Interest Account equally and ratably to the Holder of each instrument evidencing a Master Note the amount of interest on each Master Note as such interest becomes due;
- FOURTH: to the Principal Account the amount necessary to accumulate in equal monthly installments the principal of the Master Notes maturing or subject to mandatory sinking fund redemption on the next Principal Payment Date taking into account with respect to each such payment (i) any other money actually available in the Principal Account for such purpose and (ii) any credit against amounts due on each Principal Payment Date granted pursuant to other provisions of the Master Indenture; *provided, however*, that to the extent available, the transfer made on the 5th Business Day before the end of each month immediately preceding such Principal Payment Date shall be in an amount to provide, together with amounts then on deposit in the Principal Account, the balance of the principal maturing or subject to mandatory sinking fund redemption on such Principal Payment Date. There shall be paid from the Principal Account equally and ratably to the Holder of each instrument evidencing a Master Note the amount of principal payments due on each Master Note, whether at maturity or earlier mandatory redemption (other than by reason of acceleration of maturity or other demand for payment), as such principal becomes due;
- FIFTH: to the Holder of any Master Note entitled to maintain a reserve fund for the payment of such Master Note, an amount sufficient to cause the balance on deposit in such reserve fund to equal the required balance in 12 equal monthly installments or as otherwise required by the applicable bond documents; and
- SIXTH: to YES Prep, the amount specified in a request of YES Prep as the amount of ordinary and necessary expenses of YES Prep 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 YES Prep at its depository bank upon request for deposit in a deposit account of YES Prep that is subject to a Deposit Account Control Agreement to be used for any lawful purpose.

Additional Debt

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

- (i) an Officer's Certificate is delivered stating that the Master Indenture is in effect and no Event of Default exists under the Master Indenture or any Debt Outstanding or any agreement entered into in conjunction with such Debt;
- (ii) the additional Debt is secured on a parity with respect to the Trust Estate with interest payable on each April 1 and October 1 and principal payments on each April (and, if approved by the Holders of a majority in principal amount of the Notes Outstanding, each October 1), and shall be payable by the issuer solely from the Adjusted Revenues and other amounts derived from the loan agreement relating to such debt (except to the extent paid out of moneys attributed to the proceed derived from the sale of the additional Debt or to income from the temporary investment thereof);
- (iii) (A) an Officer's Certificate is delivered stating that, for either YES Prep'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 Cash Available for Debt Service equal at least 1.20 times Maximum Annual Debt Service on all Debt then Outstanding prior to the issuance of the additional Debt; and (B) an Independent Management Consultant provides a written report to the Master Trustee setting forth projections which indicate that the estimated Cash Available for Debt Service 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 report of the Independent Management Consultant shall take into account (i) the audited results of operations and verified enrollment of the Project for the most recently completed Fiscal Year and (ii) the projected enrollment for the Fiscal Year immediately following the completion of the new Project, and shall assume that the proposed additional Debt shall have been outstanding for the entire year; and
- (iv) Instead of the requirements described in clause (iii) above, YES Prep may deliver an Officer's Certificate stating that, based on the audited results of the operations for the most recently completed Fiscal Year, the Cash Available for Debt Service equal at least 1.10 times Maximum Annual Debt Service on all Debt then Outstanding and the proposed additional Debt.

Bond Counsel shall render a Favorable Opinion of Bond Counsel to the Master Trustee to the effect that the issuance of the proposed additional Debt will not adversely affect the tax status of the Related Bonds (including causing the interest on the Related Bonds Outstanding issued as tax-exempt bonds to be includable in the gross income of the Owners thereof for purposes of federal income taxation or adversely affect the qualification of any qualified tax credit bonds as "qualified school construction bonds" or "qualified zone academy bonds");

So long as the Trust Estate contains the lien of the Deed of Trust upon any real property of YES Prep, to the extent permitted by law, YES Prep shall obtain and provide to the Master Trustee (a) an endorsement of the title insurance policy issued in connection with the Debt increasing the coverage thereunder by an amount equal to the aggregate principal amount of the additional Debt and conforming to the requirements of Section 409 of the Master Indenture or (b) a new ALTA title insurance policy issued in connection with the additional Debt in the amount equal to the aggregate principal amount of the additional Debt and conforming to the requirements of Section 409.

So long as the Prior Master Notes, other than the Prior Master Notes related to the Series 2022 Bonds, are Outstanding, the Master Indenture requires delivery of complete, narrative appraisal and property condition report, prepared by an MAI certified appraiser as to real estate to be added to the Collateral (as defined in the Deed of Trust)

and an Officer's Certificate with supporting documentation including Appraisals that the Collateral Value will be greater than or equal to the aggregate principal amount of all outstanding Debt, including the additional Debt proposed to be issued. Additionally, YES Prep shall within 60 days of upon completion of construction and renovation of any Collateral (as defined in the Deed of Trust) subject to the Deed of Trust, YES Prep shall provide the Master Trustee evidence that an independent, licensed, certified inspector or appraiser certifies as to either (1) the "as completed" value or (2) that the work was substantially completed in accordance with the original Appraisal. "Collateral Value" means an amount equal to the sum of (a) Cash Collateral and (b) 75% of the Appraised Value of all Collateral (as defined in the Deed of Trust) then securing payment of the Master Notes Outstanding and any additional Master Notes issued pursuant to the Master Indenture.

In order to issue the Series 2023 Master Note and add real estate as Collateral, YES Prep shall provide an Officer's Certificate to the Master Trustee and the Texas Attorney General with supporting documentation including appraisals that the Collateral Value will be greater than or equal to the aggregate principal amount of all outstanding Debt, including the additional Debt proposed to be issued. To calculate the Collateral Value, YES Prep has used the appraisal services of appraisers that are certified general real estate appraisers in the State of Texas and Members of the Appraisal Institute (MIA). Such appraisals are not available for review and are only used by YES Prep for the purpose of calculating Collateral Value in compliance with the Master Indenture.

In connection with additional Debt, the Master Indenture requires delivery of amendments to the Deeds of Trust to provide that all Deeds of Trust secure the additional Debt and all outstanding Notes under the Master Indenture, and delivery of opinion of local real estate counsel to the effect that all the Deeds of Trust are sufficient to create a lien on the real estate and related fixtures and validly secure the permitted additional Debt and all outstanding Notes under the Master Indenture, in form and content satisfactory to the Master Trustee.

For the real estate subject to the Deed of Trust YES Prep must obtain, if applicable for the particular property, flood hazard certification and/or flood hazard insurance.

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

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

YES Prep 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 assets financed therewith.

In addition, YES Prep may incur subordinate Debt as set forth in the Master Trust Indenture.

Debt Service Coverage Ratio Covenant

Pursuant to the Loan Agreement, while any of the Bonds remain Outstanding, YES Prep shall maintain a Debt Service Coverage Ratio for each fiscal year equal to at least 1.20x the Annual Debt Service Requirements (as defined in the Master Indenture) of YES Prep, tested annually as of the end of YES Prep's Fiscal Year based upon the audited financial statements of YES Prep, commencing with the Fiscal Year ending June 30, 2024. Failure to maintain the Debt Service Coverage Ratio as required by this Section will not constitute an Event of Default if YES Prep timely engages (within thirty (30) days of submittal of the certificate describing such failure 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 (as defined in the Master Indenture) to review and analyze the operations and administration of YES Prep, and such Independent Management Consultant prepares and delivers within forty-

five (45) days a report to YES Prep and the Trustee with recommendations for meeting the required Debt Service Coverage Ratio. YES Prep agrees to consider any recommendations by the Management Consultant and, to the fullest extent legally permissible and practicable, to adopt and carry out such recommendations. Notwithstanding the foregoing, if at any time the Debt Service Coverage Ratio falls below 1.0x the Annual Debt Service Requirements of YES Prep it shall constitute an Event of Default.

Liquidity Covenant

Pursuant to the Loan Agreement, so long as the Bonds remain Outstanding, YES Prep shall maintain a Liquidity Ratio of at least 0.20 to 1.00 for each Fiscal Year, tested annually as of the end of YES Prep's Fiscal Year based upon the audited financial statements of YES Prep, commencing with the Fiscal Year ending June 30, 2024. If YES Prep fails to meet the required Liquidity Ratio for any year, YES Prep will retain, at its sole expense, within thirty (30) days of submittal of the certificate describing such failure 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 (as defined in the Master Indenture) to review and analyze the operations and administration of YES Prep. The Independent Management Consultant shall deliver its report within forty-five (45) days of its retention to YES Prep and the Trustee, with recommendations for meeting the required Liquidity Ratio. YES Prep agrees to consider any recommendations by the Independent Management Consultant and, to the fullest extent legally permissible and practicable, to adopt and carry out such recommendations. "*Liquidity Ratio*" means the ratio of (i) the sum of Operating Cash plus Bond Sinking Funds plus Investments to (ii) Funded Debt (each as defined in the Master Indenture).

The Bond Indenture

General

Under the Bond Indenture, the Issuer will grant to the Bond Trustee for the equal and ratable benefit of the holders of the Bonds, all of the Issuer's right, title, and interest in and to, among other things, the following: (i) the Loan Agreement, including all amounts payable thereunder, including but not limited to the Loan Payments thereunder, the Series 2023 Master Note, any and all security granted or held for the payment thereof, and the present and continuing right to bring actions and proceedings under the Loan Agreement or for the enforcement thereof and to do any and all things which the Issuer is or may become entitled to do thereunder, but excluding certain amounts agreed to be paid by YES Prep 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 G – SUBSTANTIALLY FINAL FORM OF THE BOND INDENTURE.**"

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. On the date of issuance of the Bonds, the Bond Trustee is required to deposit into the Debt Service Fund any accrued interest and additional proceeds on such Bonds as may be set forth in an order of the Issuer, for the purpose of paying a portion of the interest coming due on such Bonds on the interest payment date therefor. The Bond Trustee is required to deposit to the credit of the Debt Service Fund immediately upon receipt: (i) amounts due and payable by YES Prep pursuant to the terms of the Loan Agreement and the Series 2023 Master Note, (ii) any other amounts required by the Bond Indenture, including transfers from the Debt Service Reserve Fund, and (iii) any other amounts delivered to the Bond Trustee for deposit thereto. On each Interest Payment Date, the Bond Trustee will withdraw money first from the Debt Service Fund to pay the principal and interest due on the Bonds.

The Loan Agreement

General

The Bonds are payable from and secured in part by a pledge and assignment to the Bond Trustee of the Issuer's rights under the Loan Agreement and the rights of the Issuer to receive loan payments thereunder (excluding certain fees and expenses and certain indemnity payments payable to the Issuer). Pursuant to the Loan Agreement, YES Prep 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 H — SUBSTANTIALLY FINAL FORM OF THE LOAN AGREEMENT.**"

Deed of Trust

YES Prep previously executed the Deed of Trust, and will execute a Fifteenth Supplement to the Deed of Trust, encumbering certain of YES Prep's campuses in favor of the Master Trustee for the benefit of the holders of the Master Notes. See "**YES PREP**" and "**PLAN OF FINANCE**" herein for the list of pledge properties.

STATE FUNDING FOR TRADITIONAL SCHOOL DISTRICTS

Overview

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 43 through 49, as amended. Laws enacted by the Texas Legislature may materially change school district finance, appropriations and the statutory authority related thereto, including many provisions discussed in this Limited Offering Memorandum. See "**– 2023 Legislative Session**" and "**– 2021 Regular and Special Legislative Session**" below and "**APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF TEXAS CHARTER SCHOOL LAW**" herein.

Local funding is derived from collections of ad valorem taxes levied on property located within each school district's boundaries. School districts are authorized to levy two types of property taxes: a maintenance and operations ("*M&O*") tax to pay current expenses and an interest and sinking fund ("*I&S*") tax to pay debt service on bonds. Prior to 2006, school districts were authorized to levy their M&O tax at a voter-approved rate, generally up to \$1.50 per \$100 of taxable value. Since 2006, the State Legislature has enacted various legislation that has compressed the voter-approved M&O tax rate, as described below. Current law also requires school districts to demonstrate their ability to pay debt service on outstanding bonded indebtedness through the levy of an I&S tax at a rate not to exceed \$0.50 per \$100 of taxable value at the time bonds are issued. Once bonds are issued, however, school districts generally may levy an I&S tax sufficient to pay debt service on such bonds unlimited as to rate or amount. Because property values vary widely among school districts, the amount of local funding generated by school districts with the same I&S tax rate and M&O tax rate is also subject to wide variation; however, the public school finance funding formulas are designed to generally equalize local funding generated by a school district's M&O tax rate.

Prior to the legislative session that took place in 2019 ("*86th Legislative Session*"), a school district's maximum M&O tax rate for a given tax year was determined by multiplying that school district's 2005 M&O tax rate levy by an amount equal to a compression percentage set by legislative appropriation or, in the absence of legislative appropriation, by the Commissioner. This compression percentage was historically 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, since most school districts in the State had a voted maximum M&O tax rate of \$1.50 per \$100 of taxable value. School districts were permitted, however, to generate additional local funds by raising their M&O tax rate up to \$0.04 above the compressed tax rate or, with voter-approval at a valid election in the school district, up to \$0.17 above the compressed tax rate (for most school districts, this equated to an M&O tax rate between \$1.04 and \$1.17 per \$100 of taxable value). School districts received additional State funds in proportion to such taxing effort.

2021 Regular and Special Legislative Session

The State Legislature meets in regular session in odd-numbered years, for 140 days. The 87th Texas Legislature convened on January 12, 2021 and concluded on May 31, 2021 (“87th Regular Session”). When the Legislature is not in regular session, the Governor may call one or more special sessions, at the Governor’s discretion, each lasting no more than thirty (30) days, and for which the Governor sets the agenda. The Governor called three special sessions following the 87th Regular Session.

During the 87th Regular Session, the State Legislature approved a general appropriations act and legislation affecting the Finance System and ad valorem taxation procedures, among other legislation affecting school districts and the administrative agencies that oversee school districts. Of note, House Bill 1525 contained a number of technical modifications to the Finance System as established under House Bill 3 (“HB 3”) during the 86th Legislative Session. During the second called special session, the Legislature approved bills addressing virtual learning, taxation of the elderly and disabled and residence homesteads and related hold harmless provisions for school districts, and other matters that may impact the District. During the third called special session, the Legislature passed Senate Joint Resolution No. 2 (“SJR 2”), which proposed a constitutional amendment to increase the residential homestead exemption from ad valorem taxation for public schools from \$25,000 to \$40,000, and its enabling legislation Senate Bill 1. The constitutional amendment proposed by SJR 2 was approved by the voters on May 7, 2022 and is effective for the 2022 tax year.

2023 Legislative Session

The 88th Texas Legislature convened on January 10, 2023 and concluded on May 29, 2023 (the “88th Regular Session”). When the Legislature is not in regular session, the Governor may call one or more special sessions, at the Governor’s discretion, each lasting no more than thirty (30) days, and for which the Governor sets the agenda. So far, the Governor has called one special session following the 88th Regular Session.

During the 88th Regular Session, the Legislature approved a general appropriations act and additional legislation affecting public education, the Finance System, and charter schools. The Borrower can make no representations or predictions concerning the substance or the effect of any legislation that may pass during this session or future sessions of the Legislature.

Local Funding for School Districts

A school district’s M&O tax rate is composed of two distinct parts: the “Tier One Tax Rate”, which is the local M&O tax rate required for a school district to receive any part of the basic level of State funding (referred to herein as “Tier One”) under the Foundation School Program (as further described below), and the “Enrichment Tax Rate”, which is any local M&O tax effort in excess of its Tier One Tax Rate. Formulas for the State Compression Percentage and Maximum Compressed Tax Rate (each as described below) are designed to compress M&O tax rates in response to year-over-year increases in property values across the State and within a school district, respectively. The discussion in this subcaption “Local Funding for School Districts” is generally intended to describe funding provisions applicable to all school districts; however, there are distinctions in the funding formulas for school districts that generate local M&O tax revenues in excess of the school districts’ funding entitlements, as further discussed under the subcaption “STATE FUNDING FOR TRADITIONAL SCHOOL DISTRICTS – Local Revenue Level in Excess of Entitlement” herein.

State Compression Percentage. The State Compression Percentage (the “SCP”) is a statutorily-defined percentage of the rate of \$1.00 per \$100 that is used to determine a school district’s Maximum Compressed Tax Rate (described below). The SCP is the lesser of three alternative calculations: (1) 93% or a lower percentage set by appropriation for a school year; (2) a percentage determined by formula if the estimated total taxable property value of the State (as submitted annually to the State Legislature by the State Comptroller) has increased by at least 2.5% over the prior year; and (3) the prior year SCP. For any year, the maximum SCP is 93%. For the State fiscal year ending in 2023, the State Compression Percentage is set at 89.41%.

Maximum Compressed Tax Rate. The Maximum Compressed Tax Rate (the “MCR”) is the tax rate per \$100 of valuation of taxable property at which a school district must levy its Tier One Tax Rate to receive the full amount

of the Tier One funding to which the school district is entitled. The MCR is equal to the lesser of three alternative calculations: (1) the school district's prior year MCR; (2) a percentage determined by formula if the school district experienced a year-over-year increase in property value of at least 2.5%; or (3) the product of the State Compression Percentage for the current year multiplied by \$1.00. However, each year the TEA shall evaluate the MCR for each school district in the State, and for any given year, if a school district's MCR is calculated to be less than 90% of any other school district's MCR for the current year, then the school district's MCR is instead equal to the school district's prior year MCR, until TEA determines that the difference between the school district's MCR and any other school district's MCR is not more than 10%. These compression formulas are intended to more closely equalize local generation of Tier One funding among districts with disparate tax bases and generally reduce the Tier One Tax Rates of school districts as property values increase.

Tier One Tax Rate. A school district's Tier One Tax Rate is defined as a school district's M&O tax rate levied that does not exceed the school district's MCR.

Enrichment Tax Rate. The Enrichment Tax Rate is the number of cents a school district levies for M&O in excess of the Tier One Tax Rate, up to an additional \$0.17. The Enrichment Tax Rate is divided into two components: (i) "*Golden Pennies*" which are the first \$0.08 of tax effort in excess of a school district's Tier One Tax Rate; and (ii) "*Copper Pennies*" which are the next \$0.09 in excess of a school district's Tier One Tax Rate plus Golden Pennies.

School districts may levy an Enrichment Tax Rate at a level of their choice, subject to certain limitations; however to levy any of the Enrichment Tax Rate in a given year, a school district must levy a Tier One Tax Rate equal to the school district's MCR for the given year. Additionally, a school district's levy of Copper Pennies is subject to compression if the guaranteed yield (i.e., the guaranteed level of local tax revenue and State aid generated for each cent of tax effort) of Copper Pennies is increased from one year to the next (see "**STATE FUNDING FOR TRADITIONAL SCHOOL DISTRICTS – State Funding for School Districts – Tier Two**").

State Funding for School Districts

State funding for school districts is provided through the two-tiered Foundation School Program, which guarantees certain levels of funding for school districts in the State. School districts are entitled to a legislatively appropriated guaranteed yield on their Tier One Tax Rate and Enrichment Tax Rate. When a school district's Tier One Tax Rate and Enrichment Tax Rate generate tax revenues at a level below the respective entitlement, the State will provide "*Tier One*" funding or "*Tier Two*" funding, respectively, to fund the difference between the school district's entitlements and the actual M&O revenues generated by the school district's respective M&O tax rates.

The first level of funding, Tier One, is the basic level of funding guaranteed to all school districts based on a school district's Tier One Tax Rate. Tier One funding may then be "enriched" with Tier Two funding. Tier Two provides a guaranteed entitlement for each cent of a school district's Enrichment Tax Rate, allowing a school district increase or decrease its Enrichment Tax Rate to supplement Tier One funding at a level of the school district's own choice. While Tier One funding may be used for the payment of debt service (except for school districts subject to the recapture provisions of Chapter 49 of the Texas Education Code, as discussed herein), and in some instances is required to be used for that purpose, Tier Two funding may not be used for the payment of debt service or capital outlay.

The current public school finance system also provides an Existing Debt Allotment ("*EDA*") to subsidize debt service on eligible outstanding school district bonds, an Instructional Facilities Allotment ("*IFA*") to subsidize debt service on newly issued bonds, and a New Instructional Facilities Allotment ("*NIFA*") to subsidize operational expenses associated with the opening of a new instructional facility. IFA primarily addresses the debt service needs of property-poor school districts. For the 2022-2023 State fiscal biennium, the State Legislature appropriated funds in the amount of \$1,007,300,000 for the EDA, IFA, and NIFA.

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 school 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, provided that a school district qualifies for such funding and that the State Legislature makes sufficient appropriations to fund the allotments for a State fiscal biennium. Tier One and Tier Two allotments and existing EDA and IFA allotments are generally required to be funded each year by the State Legislature.

Tier One. Tier One funding is the basic level of funding guaranteed to a school district, consisting of a State-appropriated baseline level of funding (the “*Basic Allotment*”) for each student in “*Average Daily Attendance*” (being generally calculated as the sum of student attendance for each State-mandated day of instruction divided by the number of State-mandated days of instruction, defined herein as “*ADA*”). The Basic Allotment is revised downward if a school district’s Tier One Tax Rate is less than the State-determined threshold. The Basic Allotment is supplemented by additional State funds, allotted based upon the unique school district characteristics and demographics of students in ADA, to make up most of a school district’s Tier One entitlement under the Foundation School Program.

The Basic Allotment for a school district with a Tier One Tax Rate equal to the school district’s MCR, is \$6,160 (or a greater amount as may be provided by appropriation) for each student in ADA and is revised downward for a school district with a Tier One Tax Rate lower than the school district’s MCR. The Basic Allotment is then supplemented for all school districts by various weights to account for differences among school districts and their student populations. Such additional allotments include, but are not limited to, increased funds for students in ADA who: (i) attend a qualified special education program, (ii) are diagnosed with dyslexia or a related disorder, (iii) are economically disadvantaged, or (iv) have limited English language proficiency. Additional allotments to mitigate differences among school districts include, but are not limited to: (i) a transportation allotment for mileage associated with transporting students who reside two miles or more from their home campus, (ii) a fast growth allotment (for school districts in the top 25% of enrollment growth relative to other school districts), (iii) a college, career and military readiness allotment to further Texas’ goal of increasing the number of students who attain a post-secondary education or workforce credential, and (iv) a teacher compensation incentive allotment to increase teacher compensation retention in disadvantaged or rural school districts. A school district’s total Tier One funding, divided by \$6,160, is a school district’s measure of students in “*Weighted Average Daily Attendance*” (“*WADA*”), which serves to calculate Tier Two funding.

Tier Two. Tier Two supplements Tier One funding and provides two levels of enrichment with different guaranteed yields (i.e., Golden Pennies and Copper Pennies) depending on the school district’s Enrichment Tax Rate. Golden Pennies generate a guaranteed yield equal to the greater of (i) the local revenue per student in WADA per cent of tax effort available to a school district at the ninety-sixth (96th) percentile of wealth per student in WADA, or (ii) the Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.016. For the 2022-2023 State fiscal biennium, school districts are guaranteed a yield of \$98.56 per student in WADA for each Golden Penny levied. Copper Pennies generate a guaranteed yield per student in WADA equal to the school district’s Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.008. For the 2022-2023 State fiscal biennium, school districts are guaranteed a yield of \$49.28 per student in WADA for each Copper Penny levied. For any school year in which the guaranteed yield of Copper Pennies per student in WADA exceeds the guaranteed yield of Copper Pennies per student in WADA for the preceding school year, a school district is required to reduce its Copper Pennies levied so as to generate no more revenue per student in WADA than was available to the school district for the preceding year.

Existing Debt Allotment, Instruction Facilities Allotment, and New Instructional Facilities Allotment. The Foundation School Program also includes facilities funding components consisting of the IFA and the EDA, subject to legislative appropriation each State fiscal biennium. To the extent funded for a biennium, these programs assist school districts in funding facilities by, generally, equalizing a school district’s I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the “*IFA Yield*”) in State and local funds for each cent of I&S tax levied to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The IFA Yield has been \$35 since this program first began in 1997. New awards of IFA are only available if appropriated funds are allocated for such purpose by the State Legislature. To receive an IFA award, in years where new IFA awards are available, a school district must apply to the Commissioner in accordance with rules adopted by the TEA before issuing the bonds to be paid with IFA State assistance. The total amount of debt service assistance over a biennium for which a school district may be awarded is limited to the lesser of (1) the actual debt service payments made by the school 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 school 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 2022-2023 State fiscal

biennium, the State Legislature did not appropriate any funds for new IFA awards; however, awards previously granted in years the State Legislature did appropriate funds for new IFA awards will continue to be funded.

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 lesser of (i) \$40 per student in ADA or a greater amount for any year provided by appropriation; or (ii) the amount that would result in a total additional EDA of \$60 million more than the EDA to which school districts would have been entitled to if the EDA Yield were \$35. The portion of a school district’s local debt service rate that qualifies for EDA assistance is limited to the first \$0.29 of its I&S tax rate (or a greater amount for any year provided by appropriation by the State Legislature). In general, a school district’s bonds are eligible for EDA assistance if (i) the school district made payments on the bonds during the final fiscal year of the preceding State fiscal biennium, or (ii) the school 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 school district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the school district receives IFA funding.

Since future-year IFA awards were not funded by the State Legislature for the 2022-2023 State fiscal biennium and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service payments during the 2022-2023 State fiscal biennium on new bonds issued by school districts in the 2022-2023 State fiscal biennium to construct, acquire and improve facilities must be funded solely from local I&S taxes.

A school district may also qualify for a NIFA allotment, which provides assistance to school districts for operational expenses associated with opening new instructional facilities. The 87th State Legislature appropriated funds in the amount of \$70,000,000 for each fiscal year of the 2022-2023 State fiscal biennium for NIFA allotments.

Tax Rate and Funding Equity. The Commissioner may proportionally reduce the amount of funding a school district receives under the Foundation School Program and the ADA calculation if the school district operates on a calendar that provides less than the State-mandated minimum instruction time in a school year. The Commissioner may also adjust a school district’s ADA as it relates to State funding where disaster, flood, extreme weather or other calamity has a significant effect on a school district’s attendance.

Furthermore, “property-wealthy” school districts that received additional State funds under the public school finance system prior to the enactment of legislation during the 86th Legislative Session are entitled to an equalized wealth transition grant on an annual basis through the 2023-2024 school year in an amount equal to the amount of additional revenue such school district would have received under former Texas Education Code Sections 41.002(e) through (g), as those sections existed on January 1, 2019. This grant is phased out through the 2023-2024 school year as follows: (1) 20% reduction for the 2020-2021 school year, (2) 40% reduction for the 2021-2022 school year, (3) 60% reduction for the 2022-2023 school year, and (4) 80% reduction for the 2023-2024 school year.

Additionally, school districts (through the fiscal year ending in 2025) and open-enrollment charter schools (through the fiscal year ending in 2024) are entitled to receive an allotment in the form of a formula transition grant meant to ensure a smooth transition into the funding formulas enacted by the 86th State Legislature. Furthermore, beginning with the 2021-2022 school year, if the total amount of allotments to which school districts and open enrollment charter schools are entitled for a year school under the formula transition grant exceeds \$400 million, the Commissioner shall proportionately reduce each district’s or school’s allotment. The reduction in the amount to which a district or school is entitled may not result in an amount that is less than zero.

Local Revenue Level in Excess of Entitlement

A school district that has sufficient property wealth per student in ADA to generate local revenues on the school district’s Tier One Tax Rate and Copper Pennies in excess of the school district’s respective funding entitlements (a “*Chapter 49 school district*”), is subject to the local revenue reduction provisions contained in Chapter 49 of Texas Education Code, as amended (“*Chapter 49*”). Additionally, in years in which the amount of State funds appropriated specifically excludes the amount necessary to provide the guaranteed yield for Golden Pennies, local revenues generated on a school district’s Golden Pennies in excess of the school district’s respective funding entitlement are subject to the local revenue reduction provisions of Chapter 49. To reduce local revenue, Chapter 49 school districts are generally subject to a process known as “recapture”, which requires a Chapter 49 school district to

exercise certain options to remit local M&O tax revenues collected in excess of the Chapter 49 school district's funding entitlements to the State (for redistribution to other school districts) or otherwise expending the respective M&O tax revenues for the benefit of students in school districts that are not Chapter 49 school districts, as described in the subcaption "***Options for Local Revenue Levels in Excess of Entitlement***". Chapter 49 school districts receive their allocable share of funds distributed from the constitutionally-prescribed Available School Fund, but are generally not eligible to receive State aid under the Foundation School Program, although they may continue to receive State funds for certain competitive grants and certain programs that remain outside the Foundation School Program.

Recapture is measured by the "*local revenue level*" (being the M&O tax revenues generated in a school district) in excess of the entitlements appropriated by the State Legislature each fiscal biennium. Therefore, school districts are guaranteed that recapture will not reduce revenue below their statutory entitlement.

Options for Local Revenue Levels in Excess of Entitlement. Under Chapter 49, a school district has six (6) options to reduce local revenues to a level that does not exceed the school district's respective entitlements: (1) a school district may consolidate by agreement with one or more school districts to form a consolidated school district; all property and debt of the consolidating school districts vest in the consolidated school district; (2) a school district may detach property from its territory for annexation by a property-poor school district; (3) a school district may purchase attendance credits from the State; (4) a school district may contract to educate nonresident students from a property-poor school district by sending money directly to one or more property-poor school districts; (5) a school district may execute an agreement to provide students of one or more other school districts with career and technology education through a program designated as an area program for career and technology education; or (6) a school district may consolidate by agreement with one or more school districts to form a consolidated taxing school district solely to levy and distribute either M&O taxes or both M&O taxes and I&S taxes. A Chapter 49 school district may also exercise any combination of these remedies. Options (3), (4) and (6) require prior approval by the Chapter 49 school district's voters.

Furthermore, a school district may not adopt a tax rate until its effective local revenue level is at or below the level that would produce its guaranteed entitlement under the Foundation School Program. If a school district fails to exercise a permitted option, the Commissioner must reduce the school district's local revenue level to the level that would produce the school district's guaranteed entitlement, by detaching certain types of property from the school district and annexing the property to a property-poor school district or, if necessary, consolidate the school district with a property-poor school district. Provisions governing detachment and annexation of taxable property by the Commissioner do not provide for assumption of any of the transferring school district's existing debt.

STATE OPEN-ENROLLMENT CHARTER SCHOOL FUNDING

Open-enrollment charter schools are entitled to funding from both Tier One and Tier Two of the Foundation School Program in accordance with the funding formulas for school districts generally described above under "**STATE FUNDING FOR TRADITIONAL SCHOOL DISTRICTS**". The following description of State funding for open-enrollment charter schools constitutes only a summary of the finance system as it is currently structured. For a more complete description of school finance and fiscal management in the State, reference is made to Chapters 43 through 49 of the Texas Education Code, as amended.

Tier One Funding for Open-Enrollment Charter Schools

A charter holder is entitled to receive for an open-enrollment charter school Tier One funding equal to the amount of Tier One funding per student in WADA, excluding (i) the adjustment under Section 48.052 of the Texas Education Code, as amended, (ii) the funding under Sections 48.101, 48.110, 48.111, and 48.112 of the Texas Education Code, as amended, and (iii) enrichment funding under Section 48.202(a) of the Texas Education Code, as amended, to which the charter holder would be entitled if the open-enrollment charter were a school district without a Tier One local share for purposes of calculating the distribution of the Foundation School Fund. For open-enrollment charter schools, the Tier One program allocations are determined by substituting the statewide average adjusted allotment in place of a school district's calculated adjusted allotment. The state average adjusted allotment is computed by averaging the adjusted allotment for each school district in the state for the relevant school year.

Student-Based Allotments

A charter holder of an open-enrollment charter school is entitled to receive an allotment per student in average daily attendance in an amount equal to the difference between (1) the product of (A) the quotient of (i) the total amount of funding provided to eligible school districts under Section 48.101(b) or (c) of the Texas Education Code, as amended, and (ii) the total number of students in average daily attendance in school districts that receive an allotment under Section 48.101(b) or (c) of the Texas Education Code, as amended, and (B) the sum of one and the quotient of (i) the total number of students in average daily attendance in school districts that receive an allotment under 48.101(b) or (c) of the Texas Education Code, as amended, and (ii) the total number of students in average daily attendance in school districts statewide, and (2) \$125. In addition, a charter holder of an open-enrollment charter school is entitled to receive funding related to the (i) College Career, or Military Readiness Outcomes Bonus (Section 48.110 of the Texas Education Code, as amended), and (ii) Teacher Incentive Allotment (Section 48.112 of the Texas Education Code, as amended), if the charter holder would be entitled to such funding if the open-enrollment charter school were a school district.

Tier Two Funding for Open-Enrollment Charter Schools

A charter holder of an open-enrollment charter school is entitled to receive an amount of Tier Two funding based on the statewide “average tax effort” of school districts. An allocation for the guaranteed yield allotment for Tier Two of the Foundation School Program is determined by substituting a statewide average enrichment tax rate in place of a school district’s calculated enrichment tax rate. The state average tax rate is computed by averaging the enrichment tax rate for each component of Tier Two for each school district in the state for the relevant school year. Open-enrollment charter schools are also entitled to funds that are available to school districts from the TEA or the Commissioner in the form of grants or other discretionary funding unless the authorizing statute specifically provides that open-enrollment charter schools are not entitled to such funding.

State Facilities Funding for Open-Enrollment Charter Schools

A charter holder of an open-enrollment charter school is entitled to receive additional facilities funding if the most recent overall performance rating assigned to an open-enrollment charter school reflects at least acceptable performance. Such additional facilities funding may be used for: (1) to lease an instructional facility; (2) to pay property taxes imposed on an instructional facility; (3) to pay debt service on bonds issued to finance an instructional facility; or (4) for any other purpose related to the purchase, lease, sale, acquisition, or maintenance of an instructional facility.

Additional Funding for Open-Enrollment Charter Schools

A charter holder of an open-enrollment charter school is entitled to receive additional funding allotments, if the charter holder would be entitled to such funding allotments if the open-enrollment charter school were a school district, including the: (i) Transportation Allotment (Section 48.151 of the Texas Education Code, as amended); (ii) New Instructional Facilities Allotment (Section 48.152 of the Texas Education Code, as amended); Dropout Recovery School and Residential Placement Facility Allotment (Section 48.153 of the Texas Education Code, as amended); and (iv) Tuition Allotment for Districts Not Offering All Grade Levels (Section 48.154 of the Texas Education Code, as amended).

Timing of State Funding

Open-enrollment charter schools that have experienced a 10% or greater increase in enrollment year-over-year have the option to petition for an accelerated payment of Foundation School Program funding. Eligible charter schools that choose the accelerated payment schedule will receive accelerated payments for three (3) school years and then must reestablish eligibility. YES Prep is not eligible for accelerated payments, and receives Foundation School Program funding payments monthly in approximately even amounts. The amount of any installment can be modified to provide the proper amount to which YES Prep may be entitled and to correct errors in the allocation or distribution of funds.

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 YES PREP 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 YES PREP’S FINANCIAL CONDITION, REVENUES OR OPERATIONS.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

Subject to satisfying certain conditions, the payment of the Bonds will be guaranteed by the corpus of the Permanent School Fund of the State of Texas. In the event of default, registered owners will receive all payments due on the Bonds from the Permanent School Fund, and the Charter District Bond Guarantee Reserve would be the first source to pay debt service if a charter school was unable to make such payment. See “**APPENDIX I – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM**” for pertinent information regarding the

Permanent School Fund Guarantee Program. The disclosure regarding the Permanent School Fund Guarantee Program in Appendix I is incorporated herein and made a part hereof for all purposes.

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book entry-only system has been obtained from DTC. The Issuer, YES Prep, the Bond Trustee, the Master Trustee, and Underwriters take no responsibility for the accuracy thereof.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("*Direct Participants*") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("*DTCC*"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("*Indirect Participants*"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("*Beneficial Owner*") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed

to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the Bond Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond 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 Bond 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 Bond 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, YES PREP, THE BOND TRUSTEE, THE MASTER TRUSTEE AND THE UNDERWRITERS BELIEVE SUCH INFORMATION TO BE RELIABLE, BUT TAKE NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NO REPRESENTATION IS MADE BY ANY SUCH PARTY AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

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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 Hunton Andrews Kurth 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.

Bond Counsel was not requested to participate and did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information appearing in the Official Statement under the captions “**THE BONDS,**” “**SECURITY FOR THE BONDS,**” “**CONTINUING DISCLOSURE AGREEMENT**” (except for the subsection “*Compliance with Prior Undertakings*”), “**APPENDIX E – FORM OF CONTINUING DISCLOSURE AGREEMENT,**” and “**APPENDIX F – FINAL FORM OF THE MASTER INDENTURE AND SUBSTANTIALLY FINAL FORM OF THE SUPPLEMENTAL MASTER INDENTURE,**” “**APPENDIX G – SUBSTANTIALLY FINAL FORM OF THE BOND INDENTURE,**” “**APPENDIX H – SUBSTANTIALLY FINAL FORM OF THE LOAN AGREEMENT,**” and Bond Counsel is of the opinion that the statements and information contained therein fairly and accurately reflect the provisions of the Bond Documents (as defined in the Bond Indenture). Further, Bond Counsel has reviewed the statements and information contained in the Official Statement under the captions and sub-captions “**STATE FUNDING FOR TRADITIONAL SCHOOL DISTRICTS,**” “**STATE OPEN-ENROLLMENT CHARTER SCHOOL FUNDING,**” “**CURRENT LITIGATION RELATED TO THE TEXAS PUBLIC SCHOOL FINANCE SYSTEM,**” “**LEGAL MATTERS,**” “**TAX MATTERS FOR THE BONDS,**” and “**APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF TEXAS CHARTER SCHOOL LAW**” and Bond Counsel is of the opinion that the statements and information contained therein are correct as to matters of law. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Houston, Texas, whose legal fee for services rendered is contingent upon the sale and delivery of the Bonds.

Certain legal matters will be passed upon by Naman, Howell, Smith & Lee, Waco, Texas, as counsel to the Issuer; by Hunton Andrews Kurth LLP, Houston, Texas, counsel to YES Prep; and by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, as counsel to the Underwriters.

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

Pending and Threatened Litigation

No Proceedings Against YES Prep

In connection with the issuance of the Bonds, YES Prep 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 YES Prep, wherein an unfavorable decision, ruling or finding would adversely affect the transactions contemplated by the Bond Indenture, the Master Indenture, the Loan Agreement, the bond purchase agreement (referred to in “**MISCELLANEOUS — Underwriting**”) or this Official Statement, or the validity and enforceability of the Bond Indenture, the Loan Agreement, the Master Indenture, the bond purchase agreement, the Bonds, the Series 2023 Master Note or the operations (financial, operational or otherwise) of YES Prep.

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 the Issuer, threatened litigation seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, questioning or affecting the validity of the Bonds or any proceedings of the Issuer taken with respect to the issuance or sale thereof, questioning or affecting the validity of the pledge or application of any money, revenues or security provided for the payment of the Bonds, questioning or affecting the right of the Issuer to enter into the Bond Indenture, the Loan Agreement or the bond purchase agreement, or questioning or affecting the existence or powers of the Issuer.

TAX MATTERS FOR THE BONDS

Tax Exemption

In the opinion of Bond Counsel, under current law, interest on the Bonds (a) is not included in gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal alternative minimum income tax; however, such interest is taken into account in determining adjusted financial statement income of applicable corporations (as defined in Section 59(k) of the Code) for the alternative minimum tax imposed on such corporations. No other opinion is expressed by Bond Counsel regarding the tax consequences of the ownership of or the receipt or accrual of interest on the Bonds.

Bond Counsel’s opinion is given in reliance upon certifications by representatives of the Issuer and YES Prep as to certain facts relevant to both the opinion and requirements of the Internal Revenue Code of 1986, as amended (the “Code”), and is subject to the condition that there is compliance subsequent to the issuance of the Bonds with all requirements of the Code that must be satisfied in order for interest thereon to remain excludable from gross income for federal income tax purposes. The Issuer and YES Prep have covenanted to comply with the current provisions of the Code regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds and the timely payment to the United States of any arbitrage rebate amounts with respect to the Bonds. Failure by the Issuer or YES Prep to comply with such covenants, among other things, could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to their date of issue. The Issuer and YES Prep may in their discretion, but have not covenanted to, take any and all such actions as may be required by future changes in the Code and applicable regulations in order that interest on the Bonds remain excludable from gross income for federal income tax purposes.

Customary practice in the giving of legal opinions includes not detailing in the opinion all the assumptions, limitations and exclusions that are a part of the conclusions therein. See “Statement on the Role of Customary Practice in the Preparation and Understanding of Third-Party Legal Opinions”, 63 Bus. Law. 1277 (2008)” and “Legal Opinion Principles”, 53 Bus. Law. 831 (May 1998). Purchasers of the Bonds should seek advice or counsel concerning such matters as they deem prudent in connection with their purchase of Bonds.

Bond Counsel’s opinion represents its legal judgment based in part upon the representations and covenants referenced therein and its review of current law, but is not a guarantee of result or binding on the Internal Revenue Service (the “Service”) or the courts. Bond Counsel assumes no duty to update or supplement its opinion to reflect any facts or circumstances that may come to Bond Counsel’s attention after the date of its opinion or to reflect any changes in law or the interpretation thereof that may occur or become effective after such date.

Alternative Minimum Tax

Individuals – Bond Counsel’s opinion states that under current law interest on the Bonds is not an item of preference and is not subject to the alternative minimum tax on individuals.

Applicable Corporations – Bond Counsel’s opinion also states that under current law interest on the Bonds is taken into account in determining adjusted financial statement income for applicable corporations (as defined in Section 59(k) of the Code) for the alternative minimum tax imposed on such corporations. Under current law, an “applicable corporation” generally is a corporation with average annual adjusted financial statement income for a 3-taxable-year period ending after December 31, 2021, that exceeds \$1 billion.

Other Tax Matters

The Bonds will not be designated as qualified tax-exempt obligations under Section 265(b) of the Code.

In addition to the matters addressed above, prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including without limitation financial institutions, property and casualty insurance companies, S corporations, foreign corporations subject to the branch profits tax, recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to the applicability and impact of such consequences.

Prospective purchasers of the Bonds should consult their own tax advisors as to the status of interest on the Bonds under the tax laws of any state, local, or foreign jurisdiction.

The Service has a program to audit state and local government obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the Service does audit the Bonds, under current Service procedures, the Service will treat the Issuer as the taxpayer and the owners of the Bonds will have only limited rights, if any, to participate.

There are many events that could affect the value and liquidity or marketability of the Bonds after their issuance, including but not limited to public knowledge of an audit of the Bonds by the Service, a general change in interest rates for comparable securities, a change in federal or state income tax rates, federal or state legislative or regulatory proposals affecting state and local government securities and changes in judicial interpretation of existing law. In addition, certain tax considerations relevant to owners of Bonds who purchase Bonds after their issuance may be different from those relevant to purchasers upon issuance. Neither the opinion of Bond Counsel nor this Limited Offering Memorandum purports to address the likelihood or effect of any such potential events or such other tax considerations and purchasers of the Bonds should seek advice concerning such matters as they deem prudent in connection with their purchase of Bonds.

Original Issue Discount

Some of the Bonds may be sold at initial sale prices that are less than their respective stated redemption prices payable at maturity (collectively, the “*Discount Bonds*”). The excess of (i) the stated redemption price at maturity of each maturity of the Discount Bonds, over (ii) the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of each maturity of the Discount Bonds is sold will constitute original issue discount. Original issue discount will accrue for federal income tax purposes on a constant-yield-to-maturity method based on regular compounding; and a holder’s basis in such a Bond will be increased by the amount of original issue discount treated for federal income tax purposes as having accrued on the Bond while the holder holds the Bond.

Under the Code, for purposes of determining a holder's adjusted basis in a Discount Bond, original issue discount treated as having accrued while the holder holds the Bond will be added to the holder's basis. Original issue discount will accrue on a constant-yield-to-maturity method based on semiannual compounding. The adjusted basis will be used to determine taxable gain or loss upon the sale or other disposition (including redemption or payment at maturity) of a Discount Bond.

Prospective purchasers of Discount Bonds should consult their own tax advisors as to the calculation of accrued original issue discount and the state and local tax consequences of owning or disposing of such Bonds.

Bond Premium

Bonds purchased, whether upon issuance or otherwise, for an amount (excluding any amount attributable to accrued interest) in excess of their principal amount will be treated for federal income tax purposes as having amortizable bond premium. A holder's basis in such a Bond must be reduced by the amount of premium which accrues while such Bond is held by the holder. No deduction for such amount will be allowed, but it generally will offset interest on the Bonds while so held. Purchasers of such Bonds should consult their own tax advisors as to the calculation, accrual and treatment of amortizable bond premium and the state and local tax consequences of holding such Bonds.

CONTINUING DISCLOSURE AGREEMENT

YES Prep will enter into and deliver a Continuing Disclosure Agreement (the "*Continuing YES Prep will enter into and deliver a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement")*") with respect to the Bonds. See "**APPENDIX E — FORM OF CONTINUING DISCLOSURE AGREEMENT.**" Unless indicated in "**APPENDIX E — FORM OF CONTINUING DISCLOSURE AGREEMENT,**" tables provided in the Official Statement will not be included in the ongoing continuing disclosure of YES Prep. YES Prep previously entered into in continuing disclosure undertakings subject to the Rule. In addition, please see "**APPENDIX I – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM**" for a description of the continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State of Texas as the case may be, and to provide timely notice of certain specified events related to the guarantee.

In order to provide certain continuing disclosure with respect to the Bonds in accordance with the Rule, YES Prep has entered into a Disclosure Dissemination Agent Agreement ("*Disclosure Dissemination Agreement*") for the benefit of the holders of the Bonds with Masterson Advisors, LLC ("*Masterson Advisors*"), under which the Company has designated Masterson Advisors as Disclosure Dissemination Agent.

The Disclosure Dissemination Agent has only the duties specifically set forth in the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described in the Disclosure Dissemination Agreement is limited to the extent the Company has provided such information to the Disclosure Dissemination Agent as required by the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent has no duty with respect to the content of any disclosures or notice made pursuant to the terms of the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent has no duty or obligation to review or verify any information in the annual report, audited financial statements, notice of event or voluntary report, or any other information, disclosures or notices provided to it by the Company and shall not be deemed to be acting in any fiduciary capacity for the Company, the holders of the Bonds or any other party. The Disclosure Dissemination Agent has no responsibility for the Company'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 Company has complied with the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent may conclusively rely upon certifications of the Company at all times.

FINANCIAL STATEMENTS

The annual financial reports of YES Prep, for the fiscal years ending June 30, 2020, 2021, and 2022, included in this Official Statement in “**APPENDIX C — FINANCIAL STATEMENTS**,” has been audited by Blazek & Vetterling, to the extent and for the periods indicated in their report thereon. YES Prep is not aware of any facts that would make such financial statements misleading. YES Prep’s financial statements in 2020 were consolidated with the financial statements of YES Prep Facilities, LLC which was a limited liability company organized to work with YES Prep to obtain a new market tax credit financing. YES Prep Facilities, LLC was terminated in December of 2020.

RATINGS

Moody's Investors Service, Inc. (“*Moody's*”) has assigned the rating of “Aaa” to the Bonds based on the Permanent School Fund Guarantee. Moody’s generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas “Aaa.” Such rating reflects only the views of Moody’s and any desired explanation of the significance of any such rating should be obtained from Moody’s at 7 World Trade Center at 250 Greenwich Street, New York, New York 10007. The underlying unenhanced rating of the Bonds is “Baa2.” Generally, rating agencies base their ratings on the information and materials furnished to them and on investigations, studies and assumptions of their own. There is no assurance that any such rating, once issued, will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by the rating agency, if, in the judgment of such agency, circumstances so warrant. Any such downward revision or withdrawal may have an adverse effect on the market price of the Bonds.

MISCELLANEOUS

Underwriting

Subject to the terms and conditions of a bond purchase agreement (the “*Bond Purchase Agreement*”) entered into by and among the Issuer, YES Prep, and PNC Capital Markets, LLC and RBC Capital Markets LLC (the “*Underwriters*”), the Bonds are being sold by the Issuer to the Underwriters at a price of \$84,625,671.04 (representing the par amount of the Bonds, plus a net original issue premium of \$1,857,865.55 and less an Underwriters’ discount of \$452,194.51). The Underwriters’ obligation to purchase the Bonds is subject to certain conditions precedent and the Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. Expenses associated with the issuance of the Bonds are being paid from proceeds of the Bonds. The right of the Underwriters to receive compensation in connection with the Bonds is contingent upon the actual sale and delivery of the Bonds. The Underwriters have initially offered the Bonds to the public at the prices set forth on the inside front cover page of this Official Statement. Such prices may subsequently change without any requirement of prior notice. The Underwriters reserve the right to join with dealers and other investment banking firms in offering the Bonds to the public.

RBC Capital Markets, LLC (“*RBCCM*”) has provided the following information for inclusion in this Official Statement. 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 securities and instruments made the subject of this securities offering or other offerings of Trinity Basin. 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 Trinity Basin. RBCCM may make a market in credit default swaps in respect to municipal securities in the future.

PNC Capital Markets LLC and PNC Bank, National Association are both wholly-owned subsidiaries of the PNC Financial Services Group, Inc. PNC Capital Markets LLC is not a bank, and is a distinct legal entity from PNC Bank, National Association. PNC Bank, National Association may presently or in the future have other banking and financial relationships with the Issuer or YES Prep.

Financial Advisor

Masterson Advisors LLC, Houston, Texas (“*Financial Advisor*”) is serving as financial advisor to YES Prep in connection with the offering of the Bonds. Financial Advisor is not obligated and has not undertaken to make an independent verification or assumed any responsibility for the accuracy or completeness of the information contained in this Official Statement. Certain of the fees for services rendered paid to Financial Advisor are contingent upon the issuance and delivery of the Bonds.

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 Official Statement do not purport to be complete statements of the provisions of the items summarized or referred to and are qualified in their entirety by the actual provisions of such items, copies of which are either publicly available or available upon request and the payment of a reasonable copying, mailing and handling charge from the PNC Capital Markets LLC, 200 Crescent Court, Ste 400, Dallas, Texas.

Certification

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

YES Prep Public Schools Inc.

By: /s/ Luis Mena
Chief Financial Officer

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APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF TEXAS CHARTER SCHOOL LAW

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GENERAL

BACKGROUND

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

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

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

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

The remaining sections that follow provide additional information applicable to open-enrollment charter schools, such as Trinity Basin, 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.

(b-10) The commissioner by rule shall allow a charter holder to provide written notice of the establishment of a new open-enrollment charter school under Subsection (b-4)(2) up to 18 months before the date on which the campus is anticipated to open. Notice provided to the commissioner under this section does not obligate the charter holder to open a new campus.

(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 Section 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, Rules, and Ordinances to Open-Enrollment Charter School (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.

(a-1) The governing body of an open-enrollment charter school may:

(1) employ security personnel and commission peace officers in the same manner as a board of trustees of a school district under Section 37.081; and

(2) enter into a memorandum of understanding with a local law enforcement agency to assign a school resource officer, as that term is defined by Section 1701.601, Occupations Code, to the school.

(a-2) A reference in law to a peace officer commissioned under Section 37.081 includes a peace officer commissioned by an open-enrollment charter school in accordance with Subsection (a-1), and a charter school peace officer has the same powers, duties, and immunities as a peace officer commissioned under that section.

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

- (1) a provision of this title establishing a criminal offense;
- (2) the provisions in Chapter 554, Government Code; and
- (3) 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, except class size limits for prekindergarten classes imposed under Section 25.112, which do not apply;
 - (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) the provisions of Subchapter A, Chapter 38;
 - (M) public school accountability and special investigations under Subchapters A, B, C, D, F, G, and J, Chapter 39, and Chapter 39A;
 - (N) the requirement under Section 21.006 to report an educator's misconduct;
 - (O) intensive programs of instruction under Section 28.0213;
 - (P) the right of a school employee to report a crime, as provided by Section 37.148;
 - (Q) bullying prevention policies and procedures under Section 37.0832;
 - (R) the right of a school under Section 37.0052 to place a student who has engaged in certain bullying behavior in a disciplinary alternative education program or to expel the student;
 - (S) the right under Section 37.0151 to report to local law enforcement certain conduct constituting assault or harassment;

(T) a parent's right to information regarding the provision of assistance for learning difficulties to the parent's child as provided by Sections 26.004(b)(11) and 26.0081(c) and (d);

(U) establishment of residency under Section 25.001

(V) school safety requirements under Sections 37.108, 37.1081, 37.1082, 37.109, 37.113, 37.114, 37.1141, 37.115, 37.207, and 37.2071

(W) the early childhood literacy and mathematics proficiency plans under Section 11.185;

(X) the college, career, and military readiness plans under Section 11.186; and

(X) parental options to retain a student under Section 28.02124.

(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).

(b-2) An open-enrollment charter school is subject to the requirement to establish an individual graduation committee under Section 28.0258. This subsection expires September 1, 2023.

(b-3) An open-enrollment charter school is subject to the graduation qualification procedure established by the commissioner under Section 28.02541. This subsection expires September 1, 2023.

(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)

(a) 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.

(b) 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.

Applicability of Nepotism Laws (Texas Education Code § 12.1055)

(a) An open-enrollment charter school is subject to a prohibition, restriction, or requirement, as applicable, imposed by state law or by a rule adopted under state law, relating to nepotism under Chapter 573, Government Code.

(b) Repealed.

(c) Section 11.1513(f) applies to an open-enrollment charter school as though the governing body of the school were the board of trustees of a school district and to the superintendent or, as applicable, the administrator serving as educational leader and chief executive officer of the school as though that person were the superintendent of a school district.

(d) Notwithstanding any other provision of this section, a person who was not restricted or prohibited under this section as this section existed before September 1, 2013, from being employed by an open-enrollment charter school and who was employed by an open-enrollment charter school before September 1, 2013, is considered to have been in continuous employment as provided by Section 573.062(a), Government Code, and is not prohibited from continuing employment with the school.

Immunity from Liability and Suit (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 (Texas Education Code § 12.1058)

(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;

(3) a political subdivision for purposes of Chapter 172, Local Government Code;

(4) a local governmental entity for purposes of Subchapter I, Chapter 271, Local Government Code;

(5) a political subdivision for purposes of Section 180.008, Local Government Code.

(5) a political subdivision for purposes of Section 16.061, Civil Practice and Remedies Code, with respect to any property purchased, leased, constructed, renovated, or improved with state funds under Section 12.128 of this code; and

(6) a political subdivision for purposes of Section 11.11, Tax 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:

(1) the applicable statute specifically states that the statute applies to an open-enrollment charter school; or

(2) a provision in this chapter states that a specific 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)

An open-enrollment charter school shall 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.

(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 AND 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.

(d) A charter holder may submit a request for approval for an expansion amendment up to 18 months before the date on which the expansion will be effective. A request for approval of an expansion amendment does not obligate the charter holder to complete the proposed expansion.

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 an unacceptable 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 60 percent of the students are 16 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 an unacceptable 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 an unacceptable 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 by a failure to:

(A) satisfy accountability provisions prescribed by the charter; or

(B) comply with the duty to discharge or refuse to hire certain employees or applicants for employment, as provided by Section 12.1151;

(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.

(g) The commissioner shall adopt rules necessary to administer this section.

Failure to Discharge or Refusal to Hire Certain Employees or Applicants (Texas Education Code §12.1151)

An open-enrollment charter school commits a material violation of the school's charter if the school fails to comply with the duty to discharge or refuse to hire certain employees or applicants for employment under Section 12.1059, 22.085, or 22.092.

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 under this subchapter.

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 39.004(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.

(d) If the aggregate amount of all transactions between a charter holder and a related party, as defined by commissioner rule adopted under Section 12.1166, exceeds \$5,000, an audit under Subsection (a) may include the review of any real property transactions between the charter holder and the related party. If the commissioner determines that a transaction with a related party using funds received under Section 12.106 was structured in a manner that did not benefit the open-enrollment charter school or that the transaction was in excess of fair market value, the commissioner may order that the transaction be reclassified or that other action be taken as necessary to protect the school's interests. Failure to comply with the commissioner's order is a material violation of the charter.

Related Party Transactions (Texas Education Code § 12.1166)

(a) The commissioner shall adopt a rule defining "related party" for purposes of this subchapter. The definition of "related party" must include:

(1) a party with a current or former board member, administrator, or officer who is:

(A) a board member, administrator, or officer of an open-enrollment charter school; or

(B) related within the third degree of consanguinity or affinity, as determined under Chapter 573, Government Code, to a board member, administrator, or officer of an open-enrollment charter school;

(2) a charter holder's related organizations, joint ventures, and jointly governed organizations;

(3) an open-enrollment charter school's board members, administrators, or officers or a person related to a board member, administrator, or officer within the third degree of consanguinity or affinity, as determined under Chapter 573, Government Code; and

(4) any other disqualified person, as that term is defined by 26 U.S.C. Section 4958(f).

(b) For purposes of Subsection (a)(1), a person is a former board member, administrator, or officer if the person served in that capacity within one year of the date on which a financial transaction between the charter holder and a related party occurred.

(c) In a charter holder's annual audit filed under Section 44.008, the charter holder must include a list of all transactions with a related party.

Appraisal of Certain Property (Texas Education Code § 12.1167)

The commissioner may adopt rules to require an open-enrollment charter school to:

(1) notify the commissioner that the school intends to enter into a transaction with a related party, as defined by commissioner rule adopted under Section 12.1166; and

(2) provide an appraisal from a certified appraiser to the agency.

Financial Report of Certain Schools (Texas Education Code § 12.1168)

(a) In this section, "related party" has the meaning adopted by commissioner rule under Section 12.1166.

(b) A financial report filed under Section 44.008 by an open-enrollment charter school must separately disclose:

(1) all financial transactions between the open-enrollment charter school and any related party, separately stating the principal, interest, and lease payments; and

(2) the total compensation and benefits provided by the school and any related party for each member of the governing body and each officer and administrator of the school and the related party.

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

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 the common admission application form described by Section 12.1173 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.

(d) Notwithstanding Section 12.111(a)(13), an open-enrollment charter school may admit a child of an employee of the school as provided by this section regardless of whether the child resides in the geographic area served by the school.

Admission to Open-Enrollment Charter Schools Specializing in Performing Arts (Texas Education Code § 12.1171)

Notwithstanding Section 12.117, the governing body of an open-enrollment charter school that specializes in one or more performing arts may require an applicant to audition for admission to the school in addition to completing and submitting the common admission application form under Section 12.1173.

Common Admission Application Form and Waiting Lists (Texas Education Code § 12.1173)

(a) The commissioner by rule shall adopt a common admission application form for use by an applicant for admission to an open-enrollment charter school that provides for the submission of information that the commissioner considers appropriate.

(b) The form adopted under this section may not:

(1) advertise or otherwise promote any person or open-enrollment charter school; or

(2) solicit money, goods, or services from an applicant.

(c) The commissioner shall publicize the availability of the form adopted under this section, including by posting the form on the agency's Internet website.

(d) The commissioner by rule shall adopt guidelines for an open-enrollment charter school that receives more acceptable applications for admission than available positions at the school to create and manage a waiting list each school year for applicants who are not admitted.

(e) The commissioner shall adopt any other rules as necessary to implement this section, including rules to ensure this section complies with federal law regarding confidentiality of student medical or educational information, including the Health Insurance Portability and Accountability Act of 1996 (42 U.S.C. Section 1320d et seq.) and the Family Educational Rights and Privacy Act of 1974 (20 U.S.C. Section 1232g), and any state law relating to the privacy of student information.

Enrollment and Waiting List Report (Texas Education Code § 12.1174)

(a) Not later than the last Friday in October of each school year, in the form prescribed by commissioner rule, the governing body of a charter holder shall report to the agency for that school year:

(1) the following information for each campus operating under the charter holder's charter:

(A) the number of students enrolled;

(B) the enrollment capacity; and

(C) if a charter holder uses a waiting list for admission to a campus:

(i) the total number of students on the waiting list; and

(ii) the number of students on the waiting list disaggregated by grade level;

(2) the information described by Subdivision (1) aggregated for all campuses operating under the charter holder's charter; and

(3) any information required by the commissioner as necessary to identify each student admitted to or on a waiting list for admission to a campus operating under the charter holder's charter who is or was previously enrolled in a public school in this state.

(b) From information provided to the commissioner by each charter holder under this subchapter, the commissioner shall identify each group of charter holders considered by the commissioner to be corporate affiliates or substantially related charter holders. Using the information reported under Subsections (a)(1) and (2), the agency shall aggregate the information for each group of charter holders identified by the commissioner under this subsection.

(c) Not later than March 15 of each year, the commissioner shall post on the agency's Internet website:

(1) the information reported by charter holders under Subsections (a)(1) and (2); and

(2) the information aggregated by the agency under Subsection (b).

(d) The commissioner shall adopt rules as necessary to implement this section, including rules to ensure this section complies with federal law regarding confidentiality of student educational information, including the Family Educational Rights and Privacy Act of 1974 (20 U.S.C. Section 1232g), and any state law relating to the privacy of student information.

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:

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

(a-1) Property leased with funds received by a charter holder under Section 12.106 after September 1, 2001:

- (1) is considered to be public property for all purposes under state law;
- (2) is property of this state held in trust by the charter holder for the benefit of the students of the open-enrollment charter school; and
- (3) 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.

(b-1) Subject to Subsection (b-2), while an open-enrollment charter school is in operation, the charter holder holds title to any property described by Subsection (a) or (b) and may exercise complete control over the property as permitted under the law.

(b-2) A charter holder may not transfer, sell, or otherwise dispose of any property described by this section without the prior written consent of the agency if:

- (1) the charter holder has received notice of:
 - (A) the expiration of the charter holder's charter under Section 12.1141 and the charter has not been renewed; or
 - (B) the charter's revocation under Section 12.115(c);
- (2) the charter holder has received notice that the open-enrollment charter school is under discretionary review by the commissioner, which may result in the revocation of the charter or a reconstitution of the governing body of the charter holder under Section 12.115; or
- (3) the open-enrollment charter school for which the charter is held has otherwise ceased to operate.

(c) The commissioner shall:

- (1) take possession and assume control of the property described by Subsection (a) of an open-enrollment charter school that ceases to operate; and

(2) supervise the disposition of the property in accordance with this subchapter.

(c-1) Notwithstanding Subsection (c), if an open-enrollment charter school ceases to operate, the agency:

(1) for property purchased with state funds, shall direct the charter holder to dispose of the property through one of the following methods:

(A) retain or liquidate the property and provide reimbursement to the state as provided by Section 12.1281;

(B) transfer the property to:

(i) the agency under Section 12.1281(h); or

(ii) a school district or open-enrollment charter school under Section 12.1282;

(C) close the operations of the open-enrollment charter school under Section 12.1284; or

(D) take any combination of the actions described by Paragraphs (A), (B), and (C); and

(2) for property leased with state funds, may direct the charter holder to assign the charter holder's interest in the lease to the agency.

(c-2) The agency may approve an expenditure of remaining funds by a former charter holder for insurance or utilities for or maintenance, repairs, or improvements to property described by this section if the agency determines that the expenditure is reasonably necessary to dispose of the property or preserve the property's value.

(d) The commissioner may adopt rules necessary to administer this section.

(e) 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.

(f) A decision by the agency under this section is final and may not be appealed.

Disposition of Property Purchased with State Funds (Texas Education Code § 12.1281)

(a) A former charter holder of an open-enrollment charter school that has ceased to operate may retain property described by Section 12.128 if the former charter holder reimburses the state with non-state funds and the former charter holder:

(1) provides written assurance that the requirements of Section 12.1284 will be met; and

(2) receives approval from the agency.

(b) On receiving consent from the agency under Section 12.128(b-2) and a written agreement from any creditor with a security interest described by Section 12.128(e), the former charter holder may:

(1) sell property for fair market value; or

(2) transfer property to an open-enrollment charter school or a school district as provided under Section 12.1282.

(c) The amount of funds the state is entitled to as reimbursement for property of a former charter holder is:

(1) for property retained by the former charter holder, the current fair market value less the amount of any debt subject to a security interest or lien described by Section 12.128(e), multiplied by the percentage of state funds used to purchase the property; or

(2) for property sold by the former charter holder, the net sales proceeds of the property multiplied by the percentage of state funds used to purchase the property.

(d) To determine the amount of state funds a former charter holder used to purchase property, the agency shall calculate:

(1) an estimated state reimbursement amount based on the last annual financial report filed under Section 44.008 available at the time the former charter holder retains or sells the property; and

(2) a final state reimbursement amount using the former charter holder's final financial audit filed under Section 44.008.

(e) A former charter holder retaining property under Subsection (a) or selling the property under Subsection (b)(1) shall:

(1) file an affidavit in the real property records of the county in which the property is located disclosing the state interest in the property;

(2) place in escrow with the state comptroller an amount of non-state funds equal to 110 percent of the estimated state reimbursement amount not later than:

(A) the closing date of the sale of the property if the charter holder is selling the property; or

(B) the 90th day after the charter school's last day of instruction if the charter holder is retaining the property; and

(3) not later than two weeks after the date the charter holder's final financial audit is filed under Section 44.008, submit to the state the final state reimbursement amount using the funds in escrow in addition to any other funds necessary to pay the full amount of state reimbursement.

(f) A former charter holder may retain any funds remaining after complying with this section.

(g) As soon as the agency is satisfied that the former charter holder complied with Subsection (e), the agency shall file written notice of the release of the state interest in property the former charter holder retains under this section and authorize the return of any funds not used for state reimbursement to the former charter holder.

(h) Subject to the satisfaction of any security interest or lien described by Section 12.128(e), if a former charter holder does not dispose of property under Subsection (a) or (b), the former charter holder shall transfer the property, including a conveyance of title, to the agency in accordance with the procedures and time requirements established by the agency.

(i) Subject to the satisfaction of any security interest or lien described by Section 12.128(e), if the agency determines a former charter holder failed to comply with this section or Section 12.1282, on request of the agency, the attorney general shall take any appropriate legal action to compel the former charter holder to convey title to the agency or other governmental entity authorized by the agency to maintain or dispose of property.

(j) A decision by the agency under this section is final and may not be appealed.

(k) The commissioner may adopt rules necessary to administer this section.

Transfer of Property Purchased with State Funds (Texas Education Code § 12.1282)

(a) The agency may approve the transfer of property described by Section 12.128 from an open-enrollment charter school that has ceased to operate, or may transfer property conveyed to the agency by the former charter holder under Section 12.1281, to a school district or an open-enrollment charter school if:

(1) the open-enrollment charter school or school district receiving the property:

(A) agrees to the transfer; and

(B) agrees to identify the property as purchased wholly or partly using state funds on the school's annual financial report filed under Section 44.008;

(2) any creditor with a security interest in or lien on the property described by Section 12.128(e) agrees to the transfer; and

(3) the transfer of the property does not make the open-enrollment charter school or school district receiving the property insolvent.

(b) Property received by an open-enrollment charter school or school district under this section is considered to be state property under Section 12.128(a).

(c) The commissioner may adopt rules necessary to administer this section, including rules establishing qualifications and priority for a school district or open-enrollment charter school to receive a transfer of property under this section.

(d) If the agency determines that the cost of disposing of personal property described by Section 12.128 transferred to the agency by an open-enrollment charter school that ceases to operate exceeds the return of value from the sale of the property, the agency may distribute the personal property to open-enrollment charter schools and school districts in a manner determined by the commissioner.

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

Sale of Property Purchased with State Funds (Texas Education Code § 12.1283)

(a) After the agency receives title to property described by Section 12.128, the agency may sell the property at any price acceptable to the agency.

(b) On request of the agency, the following state agencies shall enter into a memorandum of understanding to sell property for the agency:

(1) for real property, the General Land Office; and

(2) for personal property, the Texas Facilities Commission.

(c) A memorandum of understanding entered into as provided by Subsection (b) may allow the General Land Office or Texas Facilities Commission to recover from the sale proceeds any cost incurred by the office or commission in the sale of the property.

(d) Subject to the satisfaction of any security interest or lien described by Section 12.128(e), proceeds from the sale of property under this section shall be deposited in the charter school liquidation fund.

(e) The commissioner may adopt rules as necessary to administer this section.

Closure of Charter Operations (Texas Education Code § 12.1284)

(a) After extinguishing all payable obligations owed by an open-enrollment charter school that ceases to operate, including a debt described by Section 12.128(e), a former charter holder shall:

(1) remit to the agency:

(A) any remaining funds described by Section 12.106(h); and

(B) any state reimbursement amounts from the sale of property described by Section 12.128; or

(2) transfer the remaining funds to another charter holder under Section 12.106(i).

(b) The agency shall deposit any funds received under Subsection (a)(1) in the charter school liquidation fund.

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

PRINCIPAL AND TEACHER QUALIFICATIONS

Minimum Qualifications for Principal and Teacher (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 48 equal to the amount of funding per student in weighted average daily attendance, excluding the adjustment under Section 48.052, the funding under Sections 48.101, 48.110, 48.111, and 48.112, and enrichment funding under Section 48.202(a), to which the charter holder would be entitled for the school under Chapter 48 if the school were a school district without a tier one local share for purposes of Section 48.266.

(a-1) In determining funding for an open-enrollment charter school under Subsection (a), the amount of the allotment under Section 48.102 is based solely on the basic allotment to which the charter holder is entitled and does not include any amount based on the allotment under Section 48.101.

(a-2) In addition to the funding provided by Subsection (a), a charter holder is entitled to receive for the open-enrollment charter school an allotment per student in average daily attendance in an amount equal to the difference between:

(1) the product of:

(A) the quotient of:

(i) the total amount of funding provided to eligible school districts under Section 48.101(b) or (c); and

(ii) the total number of students in average daily attendance in school districts that receive an allotment under Section 48.101(b) or (c); and

(B) the sum of one and the quotient of:

(i) the total number of students in average daily attendance in school districts that receive an allotment under Section 48.101(b) or (c); and

(ii) the total number of students in average daily attendance in school districts statewide; and

(2) \$125.

(a-3) In addition to the funding provided by Subsections (a) and (a-2), a charter holder is entitled to receive for the open-enrollment charter school enrichment funding under Section 48.202 based on the state average tax effort.

(a-4) In addition to the funding provided by Subsections (a), (a-2), and (a-3), a charter holder is entitled to receive funding for the open-enrollment charter school under Sections 48.110 and 48.112 and Subchapter D, Chapter 48, if the charter holder would be entitled to the funding if the school were a school district.

(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.

(d) Subject to Subsection (e), in addition to other amounts provided by this section, a charter holder is entitled to receive, for the open-enrollment charter school, funding per student in average daily attendance in an amount equal to the guaranteed level of state and local funds per student per cent of tax effort under Section 46.032(a) multiplied by the lesser of:

(1) the state average interest and sinking fund tax rate imposed by school districts for the current year; or

(2) a rate that would result in a total amount to which charter schools are entitled under this subsection for the current year equal to \$60 million.

(e) A charter holder is entitled to receive funding under Subsection (d) only if the most recent overall performance rating assigned to the open-enrollment charter school under Subchapter C, Chapter 39, reflects at least acceptable performance. This subsection does not apply to a charter holder that operates a school program located at a day treatment facility, residential treatment facility, psychiatric hospital, or medical hospital.

(f) Funds received by a charter holder under Subsection (d) may only be used:

- (1) to lease an instructional facility;
- (2) to pay property taxes imposed on an instructional facility;
- (3) to pay debt service on bonds issued to finance an instructional facility; or
- (4) for any other purpose related to the purchase, lease, sale, acquisition, or maintenance of an instructional facility.

(g) In this section, "instructional facility" has the meaning assigned by Section 46.001.

(h) Except as provided by Subsection (i), all remaining funds of a charter holder for an open-enrollment charter school that ceases to operate must be returned to the agency and deposited in the charter school liquidation fund.

(i) The agency may approve a transfer of a charter holder's remaining funds to another charter holder if the charter holder receiving the funds has not received notice of the expiration or revocation of the charter holder's charter for an open-enrollment charter school or notice of a reconstitution of the governing body of the charter holder under Section 12.1141 or 12.115.

(j) The commissioner may adopt rules specifying:

- (1) the time during which a former charter holder must return remaining funds under Subsection (h); and
- (2) the qualifications required for a charter holder to receive a transfer of remaining funds under Subsection (i).

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 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)

(a) 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);

(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; and

(5) may not:

(A) be pledged or used to secure loans or bonds for any other organization, including a non-charter operation or out-of-state operation conducted by the charter holder or a related party, as defined by commissioner rule adopted under Section 12.1166; or

(B) be used to support an operation or activity not related to the educational activities of the charter holder.

(b) 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

Average Daily Attendance (Texas Education Code § 48.005)

(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 or a full-day program under Section 29.153(c), one-half of the average daily attendance calculated under Subdivision (1).

(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.

(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.

(h) Subject to rules adopted by the commissioner under Section 48.007(b), time that a student participates in an off-campus instructional program approved under Section 48.007(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.

(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, the commissioner may waive a requirement of this section or adopt rules to implement this section.

Incentive for Additional Instructional Days (Texas Education Code § 48.0051)

(a) Subject to Subsection (a-1), the commissioner shall adjust the average daily attendance of a school district or open-enrollment charter school under Section 48.005 in the manner provided by Subsection (b) if the district or school:

(1) provides the minimum number of minutes of operational and instructional time required under Section 25.081 and commissioner rules adopted under that section over at least 180 days of instruction; and

(2) offers an additional 30 days of half-day instruction for students enrolled in prekindergarten through fifth grade.

(a-1) Repealed by Acts 2021, 87th Leg., R.S., Ch. 806 (H.B. 1525), Sec. 48(a)(4), eff. September 1, 2021.

(b) For a school district or open-enrollment charter school described by Subsection (a), the commissioner shall increase the average daily attendance of the district or school under Section 48.005 by the amount that results from the quotient of the sum of attendance by students described by Subsection (a)(2) for each of the 30 additional instructional days of half-day instruction that are provided divided by 180.

(c) The commissioner may provide the incentive under this section to a school district or open-enrollment charter school that intended, but due to circumstances beyond the district's or school's control, including the occurrence of a natural disaster affecting the district or school, was unable to meet the requirement for instruction under Section 25.081 plus an additional 30 days of half-day instruction. The commissioner may proportionately reduce the incentive provided to a district or school described by this subsection.

(d) This section does not prohibit a school district from providing the minimum number of minutes of operational and instructional time required under Section 25.081 and commissioner rules adopted under that section over fewer than 180 days of instruction.

(e) The agency shall assist school districts and open-enrollment charter schools in qualifying for the incentive under this section.

(f) A school district or open-enrollment charter school may use funding attributable to the incentive provided under this section to pay costs associated with providing academic instruction in a voluntary summer program for students enrolled in the district or school.

(g) The commissioner shall adopt rules necessary for the implementation of this section.

Required PEIMS Reporting (Texas Education Code § 48.009)

(a) In this section, "full-time equivalent school counselor" means 40 hours of counseling services a week.

(b) 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:

(1) the number of students enrolled in the district or school who are identified as having dyslexia;

(2) the availability of school counselors, including the number of full-time equivalent school counselors, at each campus;

(3) the availability of expanded learning opportunities as described by Section 33.252 at each campus;

(4) the total number of students, other than students described by Subdivision (5), enrolled in the district or school with whom the district or school, as applicable, used intervention strategies, as that term is defined by Section 26.004, at any time during the year for which the report is made; and

(5) the total number of students enrolled in the district or school to whom the district or school provided aids, accommodations, or services under Section 504, Rehabilitation Act of 1973 (29 U.S.C. Section 794), at any time during the year for which the report is made.

(c) The agency shall maintain the information provided in accordance with this section.

(d) Not later than January 1, 2020, the commissioner shall adopt rules requiring the Public Education Information Management System (PEIMS) to include pregnancy as a reason a student withdraws from or otherwise no longer attends public school.

Determination of Funding Levels (Texas Education Code § 48.010)

(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 reduce its local revenue under Section 48.257, 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 49; and

(3) determine a district's weighted average daily attendance in accordance with this chapter as it existed on January 1, 2011.

Commissioner Authority to Resolve Unintended Consequences from School Finance Formula (Texas Education Code § 48.011)

(a) Subject to Subsections (b) and (d), the commissioner may adjust a school district's funding entitlement under this chapter if the funding formulas used to determine the district's entitlement result in an unanticipated loss or gain for a district.

(a-1) The commissioner may modify dates relating to the adoption of a school district's maintenance and operations tax rate and, if applicable, an election required for the district to adopt that rate as necessary to implement the changes made by H.B. 3, 86th Legislature, Regular Session, 2019.

(b) Before making an adjustment under Subsection (a) or (a-1), the commissioner shall notify and must receive approval from the Legislative Budget Board and the office of the governor.

(c) If the commissioner makes an adjustment under Subsection (a), the commissioner must provide to the legislature an explanation regarding the changes necessary to resolve the unintended consequences.

(d) Beginning with the 2021-2022 school year, the commissioner may not make an adjustment under Subsection (a) or (a-1).

(e) This section expires September 1, 2023.

BASIC AND REGULAR PROGRAM ALLOTMENT

General (Texas Education Code § 48.051)

(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 \$6,160 or the amount that results from the following formula:

$$A = \$6,160 \times (TR/MCR)$$

where:

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

"TR" is the district's tier one maintenance and operations tax rate, as provided by Section 45.0032; and

"MCR" is the district's maximum compressed tax rate, as determined under Section 48.2551.

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

(c) During any school year for which the maximum amount of the basic allotment provided under Subsection (a) or (b) is greater than the maximum amount provided for the preceding school year, a school district must use at least 30 percent of the amount, if the amount is greater than zero, that equals the product of the average daily attendance of the district multiplied by the amount of the difference between the district's funding under this chapter per student in average daily attendance for the current school year and the preceding school year to provide compensation increases to full-time district employees other than administrators as follows:

(1) 75 percent must be used to increase the compensation paid to classroom teachers, full-time librarians, full-time school counselors certified under Subchapter B, Chapter 21, and full-time school nurses, prioritizing differentiated compensation for classroom teachers with more than five years of experience; and

(2) 25 percent may be used as determined by the district to increase compensation paid to full-time district employees.

(d) In this section, "compensation" includes benefits such as insurance premiums.

SPECIAL ALLOTMENTS

Special Education (Texas Education Code § 48.102)

(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 basic allotment, or, if applicable, the sum of the basic allotment and the allotment under Section 48.101 to which the district is entitled, multiplied by 1.15. 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 basic allotment, or, if applicable, the sum of the basic allotment and the allotment under Section 48.101 to which the district is entitled, 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 by commissioner rule. 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 by commissioner rule 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 commissioner 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 commissioner 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 commissioner 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) At least 55 percent of the funds allocated under this section 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) 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 basic allotment, or, if applicable, the sum of the basic allotment and the allotment under Section 48.101 to which the district is entitled 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.

(k) 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 an allotment for students with dyslexia or related disorder (Texas Education Code Section 48.103), a compensatory education allotment (Texas Education Code Section

48.104), bilingual education allotments (Texas Education Code Section 48.105), career and technology education allotments (Texas Education Code Section 48.106), transportation allotments (Texas Education Code Section 48.151), public education grant allotments (Texas Education Code Section 48.107), early education allotment (Texas Education Code Section 48.108), college, career, or military readiness outcomes bonus (Texas Education Section 48.110), fast growth allotment (Texas Education Code Section 48.111), new instructional facility allotments (Texas Education Code Section 48.152), dropout recovery school and residential placement facility allotment (Texas Education Code Section 48.153), tuition allotments for districts not offering all grade levels (Texas Education Code Section 48.154), allotments for small and mid-sized districts (Texas Education Code Section 48.101), allotments for certain special-purpose school districts (Texas Education Code Section 48.053), and school safety allotment (Texas Education Code Section 42.168).

FINANCING THE PROGRAM

General (Texas Education Code § 48.251)

(a) The cost of the Foundation School Program for a school district is the total sum:

(1) the sum of the tier one allotments and other funding as follows:

(A) the basic allotment under Subchapter B;

(B) the student-based allotments under Subchapter C; and

(C) the additional funding under Subchapter D; and

(2) the tier two allotment under Subchapter E.

(b) The sum of the Foundation School Program maintenance and operations costs for all accredited school districts in this state constitutes the total maintenance and operations cost of the Foundation School Program.

(c) The program shall be financed by:

(1) state available school funds distributed in accordance with the law;

(2) ad valorem tax revenue generated by local school district effort; and

(3) 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 tax increment financing payments (Texas Education Code Section 48.253) and additional State aid for ad valorem tax credits under the Texas Economic Development Act (Texas Education Code Section 48.254).

State Compression Percentage (Texas Education Code § 48.255)

(a) In this title, "state compression percentage" means the percentage of the rate of \$1.00 per \$100 valuation of taxable property that is used to determine a school district's maximum compressed tax rate under Section 48.2551.

(b) The state compression percentage is the lower of:

(1) 93 percent, or a lower percentage set by appropriation for a school year;

(2) the percentage determined by the following formula:

$$\text{SCP} = \text{PYCP} \times 1.025 / (1 + \text{ECPV}); \text{ or}$$

(3) the percentage determined under this section for the preceding school year.

(c) For purposes of Subsection (b)(2):

(1) "SCP" is the state compression percentage;

(2) "PYCP" is the state compression percentage for the preceding school year; and

(3) "ECPV" is the estimated percentage change in total taxable property value for the applicable tax year as determined based on the estimate submitted to the legislature under Section 48.269.

Maximum Compressed Tax Rate (Texas Education Code Section 48.2551)

(a) In this section:

(1) "DPV" has the meaning assigned by Section 48.256;

(2) "E" is the expiration of the exclusion of appraised property value for the preceding tax year that is recognized as taxable property value for the current tax year, which is the sum of the following:

(A) property value that is no longer subject to a limitation on appraised value under Chapter 313, Tax Code; and

(B) property value under Section 311.013(n), Tax Code, that is no longer excluded from the calculation of "DPV" from the preceding year because of refinancing or renewal after September 1, 2019;

(3) "MCR" is the district's maximum compressed rate, which is the tax rate for the current tax year per \$100 of valuation of taxable property at which the district must levy a maintenance and operations tax to receive the full amount of the tier one allotment to which the district is entitled under this chapter;

(4) "PYDPV" is the district's value of "DPV" for the preceding tax year; and

(5) "PYMCR" is the district's value of "MCR" for the preceding tax year.

(b) Except as provided by Subsection (c), a district's maximum compressed rate ("MCR") is the lesser of:

(1) the rate determined by the following applicable formula:

(A) if "DPV" exceeds "PYDPV" by an amount equal to or greater than 2.5 percent:
$$\text{MCR} = (1.025((\text{PYDPV} + \text{E}) \times \text{PYMCR})) / \text{DPV}; \text{ or}$$

(B) if Paragraph (A) does not apply: $\text{MCR} = \text{PYMCR}$; or

(2) the product of the state compression percentage, as determined under Section 48.255, for the current tax year, multiplied by \$1.00.

(c) Notwithstanding Subsection (b), for a district to which Section 48.2552(b) applies, the district's maximum compressed rate is the value calculated for "MCR" under Subsection (b)(1)(B).

Text of subsection effective on approval by the voters of S.J.R. 2, 87th Leg., 2nd C.S.

(d) The agency shall calculate and make available school districts' maximum compressed rates, as determined under this section.

Text of subsection effective on approval by the voters of S.J.R. 2, 87th Leg., 2nd C.S.

(d) The agency shall:

(1) calculate and make available school districts' maximum compressed rates, as determined under this section; and

(2) post the information described by Section 48.2556 on the agency's Internet website as required by that section.

(d-1) Local appraisal districts, school districts, and the comptroller shall provide any information necessary to the agency to implement this section.

(d-2) A school district may appeal to the commissioner the district's taxable property value as determined by the agency under this section. A decision by the commissioner is final and may not be appealed.

(e) It is the intent of the legislature that the state continue to fund public schools at the same or similar level as the state would have if this section had not taken effect.

Limitation on Maximum Compressed Rate (Texas Education Code Section 48.2552)

(a) Each year, the agency shall evaluate the difference between school districts' maximum compressed rates, as determined under Section 48.2551.

(b) If a school district has a maximum compressed rate that is less than 90 percent of another school district's maximum compressed rate, the district's maximum compressed rate is calculated under Section 48.2551(c) until the agency determines that the difference between the district's and another district's maximum compressed rates is not more than 10 percent.

(c) The amount of revenue available to the state as a result of the differences in the amount of state aid and reduction in local revenue between calculating a district's maximum compressed rate in accordance with Subsection (b) and calculating the district's maximum compressed rate under Section 48.2551 shall be used to lower the state compression percentage under Section 48.255. The agency shall provide estimates to the legislature of the reduction of the state compression percentage based on this subsection.

Permitted Tax Rate for Maintenance of 2020-2021 Basic Allotment (Texas Education Code Section 48.2553)

(a) Notwithstanding any other provision of this title or Chapter 26, Tax Code, if the maximum amount of the basic allotment provided under Section 48.051(a) or (b) for a school year is less than the maximum amount provided for the 2020-2021 school year, subject to Subsection (b), a school district may adopt a maintenance and operations tax rate that exceeds the maximum compressed tax rate permitted under Section 48.2551, provided that:

(1) the rate adopted by the district was previously approved by voters for a tax year subsequent to the 2005 tax year; and

(2) the rate may not exceed the lesser of:

(A) \$1.17; or

(B) the district's maximum compressed tax rate and the additional tax rate necessary to generate the amount of revenue equal to the difference in per student funding.

(b) Before adopting a maintenance and operations tax rate under Subsection (a), a school district must receive approval from the agency. To receive approval from the agency under this subsection the district must submit the following information:

(1) a statement detailing the loss of funding to the district that resulted from the decline in the maximum amount of the basic allotment provided under Section 48.051(a) or (b);

(2) the proposed additional tax effort and the amount of funding the proposed additional tax effort will generate;

(3) evidence that the proposed additional tax effort described by Subdivision (2) had been previously authorized by voters subsequent to the 2005 tax year; and

(4) any other information required by the commissioner.

(c) The agency's approval of a district's tax rate under Subsection (b) expires at the end of each tax year.

(d) Any additional tax effort by a school district authorized under this section is not:

(1) eligible for funding under Subchapter B, C, or D;

(2) eligible for the guaranteed yield amount of state funds under Section 48.202; or

(3) subject to the limit on local revenue under Section 48.257.

(e) The commissioner shall reduce state aid or adjust the limit on local revenue under Section 48.257 in an amount equal to the amount of revenue generated by a school district's tax effort that is not in compliance with this section or Section 48.2551.

(f) This section does not apply to a school district to which Section 45.003(f) applies.

Local Share of Program Cost (Tier One) (Texas Education Code § 48.256)

(a) 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 the school district's adopted tier one maintenance and operations tax rate, as described by Section 45.0032(a) for each hundred dollars of valuation; and

"DPV" is the taxable value of property in the school district for the current tax year determined under Subchapter M, Chapter 403, Government Code.

(b) The commissioner shall adjust the values reported by the comptroller to reflect reductions in taxable value of property resulting from natural or economic disaster 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) This subsection applies to a school district in which the board of trustees entered into a written agreement with a property owner under Section 313.027, Tax Code, for the implementation of a limitation on appraised value under Subchapter B or C, Chapter 313, Tax Code. For purposes of determining "DPV" under Subsection (a) for a school district to which this subsection applies, the commissioner shall exclude a portion of the market value of property not otherwise fully taxable by the district under Subchapter B or C, Chapter 313, Tax Code, before the expiration of the subchapter. The comptroller shall provide information to the agency necessary for this subsection. A revenue protection payment required as part of an agreement for a limitation on appraised value shall be based on the district's taxable value of property for the preceding tax year.

(e) Subsection (d) does not apply to property that was the subject of an application under Subchapter B or C, Chapter 313, Tax Code, made after May 1, 2009, that the comptroller recommended should be disapproved.

Local Revenue Level in Excess of Entitlement (Texas Education Code Section 48.257)

(a) Subject to Subsection (b), if a school district's tier one local share under Section 48.256 exceeds the district's entitlement under Section 48.266(a)(1) less the district's distribution from the state available school fund, the district must reduce the district's tier one revenue level in accordance with Chapter 49 to a level not to exceed the district's entitlement under Section 48.266(a)(1) less the district's distribution from the state available school fund.

(b) This subsection applies only to a school district to which Subsection (a) applies. If a district's maintenance and operations tax collections from the tax rate described by Section 45.0032(a) for the current tax year minus the required reduction in a district's tier one revenue level under Subsection (a) results in an amount that is less than the amount of the district's entitlement under Section 48.266(a)(1) less the district's distribution from the state available school fund, the agency shall adjust the amount of the reduction required in the district's tier one revenue level under Subsection (a) up to the amount of local funds necessary for the district's entitlement under Section 48.266(a)(1) less the district's distribution from the state available school fund.

(c) For purposes of Subsection (a), state aid to which a district is entitled under this chapter that is not described by Section 48.266(a)(3) may offset the amount by which a district must reduce the district's revenue level under this section. Any amount of state aid used as an offset under this subsection shall reduce the amount of state aid to which the district is entitled.

(d) Except as provided by Subsection (e), a school district is entitled to retain the total amount of the district's tier two local share described by Section 48.266(a)(5)(A).

(e) In any school year for which the amount of state funds appropriated specifically excludes the amount necessary to provide the dollar amount guaranteed level of state and local funds per weighted student per cent of tax effort under Section 48.202(a-1)(1), a district may only retain the amount of the district's tier two local share described by Section 48.266(a)(5)(A) equal to the amount of revenue that would be generated based on the amount appropriated for the dollar amount guaranteed level of state and local funds.

(f) If the amount of a school district's tier two local share described by Section 48.266(a)(5)(B) to which a district is entitled exceeds the amount described by Section 48.202(a-1)(2), the district must reduce the district's revenue in accordance with Chapter 49 to a level not to exceed the amount described by Section 48.202 (a-1)(2).

(g) For a district to which Section 45.003(f) applies, revenue generated from any cents of maintenance and operations tax effort that exceeds the maximum rate permitted under Section 45.003(d) is subject to the revenue limit established under Subsection (f).

Adjustments for Certain Districts Receiving Federal Impact Aid (Texas Education Code § 48.262)

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 § 48.266)

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

- (1) the amount of money to which a school district is entitled under Subchapters B, C, and D;
- (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 48.256; and
- (5) the amount of each district's tier two local share under Section 48.202 for:

(A) the district's maintenance and operations tax effort described by Section 48.202(a-1)(1); and

(B) the district's maintenance and operations tax effort described by Section 48.202(a-1)(2).

(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 48.269, 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 48.269 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) 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.

(f) 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 (h), 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 49 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 49 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 49 is reduced by an amount necessary to ensure a district's full recovery of the adjustment made under this subsection.

(g) 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.

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

(i) 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 (g) and shall certify that amount to the district.

Recovery of Overallocated Funds (Texas Education Code § 48.272)

(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.

(b) 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 46 or 49 or this chapter and related reporting requirements.

(c) 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.

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

(e) Subject to Subsection (f), the agency may review a school district as necessary to determine if the district qualifies for each allotment received by the district under this chapter. If the agency determines that a school district received an allotment to which the district was not entitled, the agency may establish a corrective action plan or withhold the applicable amount of funding from the district.

(f) The agency may not review school district expenditures that occurred seven or more years before the review.

Foundation School Fund Transfers (Texas Education Code § 48.273)

(a) In this section:

- (1) "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.
- (2) "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.
- (3) "Category 3 school district" means a school district having a wealth per student of more than the statewide average wealth per student.
- (4) "Wealth per student" means the taxable property values reported by the comptroller to the commissioner under Section 48.256 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.

(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.

Foundation School Fund Transfers to Certain Charter Schools (Texas Education Code § 48.274)

(a) On the request of an open-enrollment charter school, the commissioner shall compare the student enrollment of the open-enrollment charter school for the current school year to the student enrollment of the school during the preceding school year. If the number of students enrolled at the open-enrollment charter school for the current school year has increased by 10 percent or more from the number of students enrolled during the preceding school year, the open-enrollment charter school may request that payments from the foundation school fund to the school for the following school year and each subsequent school year, subject to Subsection (b), be made according to the schedule provided under Subsection (c).

(b) An open-enrollment charter school that qualifies to receive funding as provided by this section is entitled to receive funding in that manner for three school years. On the expiration of that period, the commissioner shall determine the eligibility of the open-enrollment charter school to continue receiving payments from the foundation school fund under this section for an additional three school years. Subsequently, the open-enrollment charter school must reestablish eligibility in the manner provided by this subsection every three school years.

(c) Payments from the foundation school fund to an open-enrollment charter school under this section shall be made as follows:

- (1) 22 percent of the yearly entitlement of the school 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 school 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 school shall be paid in an installment to be made on or before the 25th day of November;

(4) four percent of the yearly entitlement of the school shall be paid in an installment to be made on or before the 25th day of December;

(5) four percent of the yearly entitlement of the school shall be paid in an installment to be made on or before the 25th day of January;

(6) four percent of the yearly entitlement of the school shall be paid in an installment to be made on or before the 25th day of February;

(7) four percent of the yearly entitlement of the school shall be paid in an installment to be made on or before the 25th day of March;

(8) 7.5 percent of the yearly entitlement of the school shall be paid in an installment to be made on or before the 25th day of April;

(9) five percent of the yearly entitlement of the school shall be paid in an installment to be made on or before the 25th day of May;

(10) seven percent of the yearly entitlement of the school shall be paid in an installment to be made on or before the 25th day of June;

(11) seven percent of the yearly entitlement of the school shall be paid in an installment to be made on or before the 25th day of July; and

(12) eight percent of the yearly entitlement of the school shall be paid in an installment to be made on or before the 25th day of August.

(d) The amount of any installment required by this section may be modified to provide an open-enrollment charter school with the proper amount to which the school may be entitled by law and to correct errors in the allocation or distribution of funds.

(e) Previously unpaid additional funds from prior fiscal years owed to an open-enrollment charter school shall be paid to the school together with the September payment of the current fiscal year entitlement.

Use of Certain Funds (Texas Education Code § 48.275)

(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 49 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.

Formula Transition Grant (Texas Education Code Section 48.277)

(a) A school district or open-enrollment charter school is entitled to receive an annual allotment for each student in average daily attendance in the amount equal to the difference, if the difference is greater than zero, that results from subtracting the total maintenance and operations revenue per student in average daily attendance for the current school year from the lesser of:

(1) 103 percent of the district's or school's total maintenance and operations revenue per student in average daily attendance for the 2019-2020 school year that the district or school would have received under former Chapters 41 and 42, as those chapters existed on January 1, 2019; or

(2) 128 percent of the statewide average amount of maintenance and operations revenue per student in average daily attendance that would have been provided for the 2019-2020 school year under former Chapters 41 and 42, as those chapters existed on January 1, 2019.

(b) For purposes of calculating maintenance and operations revenue under Subsection (a), the commissioner shall:

(1) for purposes of Subsections (a)(1) and (2), use the following applicable school year:

(A) in a school year ending in an even-numbered year, the 2019-2020 school year; and

(B) in a school year ending in an odd-numbered year, the 2019-2020 or 2020-2021 school year, whichever is greater;

(2) include all state and local funding, except for any funding resulting from:

(A) reimbursement for disaster remediation costs under former Sections 41.0931 and 42.2524;

(B) an adjustment for rapid decline in taxable value of property under former Section 42.2521; and

(C) an adjustment for property value affected by a state of disaster under former Section 42.2523;

(3) adjust the calculation to reflect a reduction in tax effort by a school district; and

(4) if a school district or open-enrollment charter school receives a waiver relating to eligibility requirements for the national free or reduced-price lunch program under 42 U.S.C. Section 1751 et seq., use the numbers of educationally disadvantaged students on which the district's or school's entitlement to compensatory education funds was based for the school year before the school year in which the district or school received the waiver, adjusted for estimated enrollment growth.

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

(d) A school district or open-enrollment charter school is not entitled to an allotment under Subsection (a) beginning with the 2024-2025 school year.

(d-1) Subject to Subsection (d-2), a school district or open-enrollment charter school is entitled to receive an annual allotment for each student in average daily attendance in the amount equal to the difference, if the difference is greater than zero, that results from subtracting the total maintenance and operations revenue per student in average daily attendance for the current school year from the total maintenance and operations revenue per student in average

daily attendance that would have been available to the district or school under former Chapters 41 and 42, as those chapters existed on January 1, 2019. For purposes of calculating a district's maintenance and operations revenue under this subsection, the commissioner shall:

(1) apply Subsection (b); and

(2) in calculating a district's maintenance and operations revenue under former Chapters 41 and 42, as those chapters existed on January 1, 2019, exclude any additional revenue the district would have received under former Sections 41.002(e) through (g), as those sections existed on January 1, 2019.

(d-2) A school district or open-enrollment charter school may only receive an allotment under Subsection (a) or (d-1), whichever is greater, but not both.

(d-3) Subsections (d-1) and (d-2) and this subsection expire September 1, 2021.

(e) This section expires September 1, 2025.

Equalized Wealth Transition Grant (Texas Education Code Section 48.278)

(a) Subject to Subsection (b), a school district is entitled to receive an annual allotment in an amount equal to the amount of additional revenue a school district received for the 2018-2019 school year under former Sections 41.002(e) through (g), as those sections existed on January 1, 2019.

(b) For purposes of calculating a district's allotment under Subsection (a), the commissioner shall reduce the amount to which a district is entitled under Subsection (a) by:

(1) for the 2020-2021 school year, 20 percent;

(2) for the 2021-2022 school year, 40 percent;

(3) for the 2022-2023 school year, 60 percent; and

(4) for the 2023-2024 school year, 80 percent.

(c) This section expires September 1, 2024.

Maintenance of State Financial Support for Special Education (Texas Education Code Section 48.279)

(a) Funds appropriated for purposes of this section or transferred in accordance with this section are state funds for purposes of compliance with the requirements regarding maintenance of state financial support for special education under 20 U.S.C. Section 1412(a)(18). The commissioner shall identify the amount of funding described by this subsection and separate that amount from other funding provided under this chapter.

(b) If the commissioner determines that the total amount of funding for special education for a school year that ends during the first state fiscal year of a state fiscal biennium is less than the amount required to comply with requirements regarding maintenance of state financial support under 20 U.S.C. Section 1412(a)(18), the commissioner shall use funds appropriated for the Foundation School Program for the second state fiscal year of that biennium to increase funding for special education for the first state fiscal year of that biennium in an amount necessary to ensure compliance with that provision.

(c) If the commissioner determines that the total amount of funding for special education for a school year that ends during the second state fiscal year of a state fiscal biennium is less than the amount required to comply with requirements regarding maintenance of state financial support under 20 U.S.C. Section 1412(a)(18), the commissioner shall submit to the legislature an estimate of the amount of funding needed to comply with that provision for that state fiscal year.

(d) If federal funds are withheld for a school year due to noncompliance with requirements regarding maintenance of state financial support under 20 U.S.C. Section 1412(a)(18), the commissioner shall use for that school year an amount of funds described by Subsection (a) equal to the amount of withheld funds in the same manner and for the same purposes as the withheld funds would have been provided.

(e) After the commissioner has replaced any withheld federal funds as provided by Subsection (d), the commissioner shall distribute the remaining amount, if any, of funds described by Subsection (a) to proportionately increase funding for the special education allotment under Section 48.102.

(f) In complying with Subsection (d), the commissioner may implement any program necessary to ensure the use of funds in accordance with that subsection.

GUARANTEED YIELD PROGRAM

Purpose (Texas Education Code § 48.201)

The purpose of the tier two 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.

Tier Two Allotment (Texas Education Code § 48.202)

(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 48.203, is determined by the formula:

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

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 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 48.258 or by the quotient of the value of "DPV" as determined under Section 48.256(d) if that subsection applies to the district, 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 48.258 or by the quotient of the value of "DPV" as determined under Section 48.256(d) if that subsection applies to the district, divided by 100.

(a-1) 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 available to a school district at the 96th percentile of wealth per weighted student or the amount that results from multiplying 6,160, or the greater amount provided under Section 48.051(b), if applicable, by 0.016, for the first eight cents by which the district's maintenance and operations tax rate exceeds the district's tier one tax rate; and

(2) subject to Subsection (f), the amount that results from multiplying \$6,160, or the greater amount provided under Section 48.051(b), if applicable, by 0.008, 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 48.203 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 48.256; 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.

(e-1) For purposes of this section, the total amount of maintenance and operations taxes collected by a school district includes the amount of taxes refunded under Section 26.1115(c), Tax Code.

(f) For a school year in which the dollar amount guaranteed level of state and local funds per weighted student per cent of tax effort ("GL") under Subsection (a-1)(2) exceeds the dollar amount guaranteed level of state and local funds per weighted student per cent of tax effort ("GL") under Subsection (a-1)(2) for the preceding school year, a school district shall reduce the district's tax rate under Section 45.0032(b)(2) for the tax year that corresponds to that school year to a rate that results in the amount of state and local funds per weighted student per cent of tax effort available to the district at the dollar amount guaranteed level for the preceding school year. A school district is not entitled to the amount equal to the increase of revenue described by this subsection for the school year for which the district must reduce the district's tax rate. Unless Section 26.042(e), Tax Code, applies to the district, for a tax year in which a district must reduce the district's tax rate under this subsection, the district may not increase the district's maintenance and operations tax rate to a rate that exceeds the maximum maintenance and operations tax rate permitted under Section 45.003(d) or (f), as applicable, minus the reduction of tax effort required under this subsection. This subsection does not apply if the amount of state funds appropriated for a school year specifically excludes the amount necessary to provide the dollar amount guaranteed level of state and local funds per weighted student per cent of tax effort under Subsection (a-1)(2).

Limitation on Enrichment Tax Rate (Texas Education Code § 48.203)

The district enrichment tax rate ("DTR") under Section 48.202 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 48.256 of the Texas Education Code, or a greater amount for any year provided by appropriation.

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APPENDIX B

YES PREP PUBLIC SCHOOLS INC. AND THE CHARTER SCHOOLS

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APPENDIX B

YES PREP PUBLIC SCHOOLS INC. AND THE CHARTER SCHOOLS

General and Historical Information

YES Prep Public Schools Inc. (“*YES Prep*”) is a nonprofit corporation incorporated in the State of Texas (the “*State*”) in 1998. YES Prep is an organization described under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “*Code*”). For the 2022-23 school year, YES Prep operated twenty-four charter schools (including three partnership schools) and one additional alternative education campus (known as Thrive) (collectively, the “*Charter Schools*”) pursuant to a Contract for Charter (the “*Charter*”), effective as of June 21, 2000. The Charter was extended on November 27, 2007 (effective as of July 31, 2008) for a period of seven years extending to July 31, 2015, and again on February 2, 2015 (effective as of July 31, 2015) for a period of ten years extending to July 31, 2025. YES Prep operated three schools, YES Prep Eisenhower, YES Prep Northbrook Middle School and YES Prep Northbrook High School (collectively the “*Partnership Schools*”), outside its Charter in co-location partnerships with Aldine Independent School District and Spring Branch Independent School District and the Partnership Schools do not count against YES Prep’s Charter capacity. All of the Charter Schools and Partnership Schools are located in Houston, Texas (“*Houston*”). See “**CHARTER CONTRACT**” herein.

Mission and Vision

YES Prep was founded with the *mission to empower all Houston students to succeed in college and pursue lives of opportunity*. YES Prep is dedicated to leading Houston forward so that college is an expectation, not an exception, for students from underserved communities

YES Prep’s *vision is that every child in Houston receives equitable access to a public school that delivers an excellent, college-ready education*. YES Prep collaborates with organizations that share a commitment to increasing equity of student outcomes, including public school districts, other charter schools, and nonprofit organizations.

Growth

YES Prep was founded to serve only grades 6-12, but expanded to offer elementary grades for the 2020-21 school year. YES Prep has grown significantly and for the year 2023, operates twenty-four charter schools (including six elementary schools, three partnership schools) and one alternative education program, throughout Houston. YES Prep plans to open two new YES Prep elementary schools in communities it already serves in 2024 and one elementary school in a new area in Houston. This change towards elementary schools addresses a trend that fewer and fewer students have been entering YES Prep on grade level. Adding new Pre-K-Grade 5 seats in the Charter Schools will raise YES Prep’s total enrollment capacity to 23,000 students. Today’s YES Prep has a growing number of students from the most vulnerable populations: children impacted by both generational and immigrant poverty, families experiencing homelessness, children needing special education services, and those who have experienced significant trauma.

Achievements

YES Prep delivers some of the best and most consistent results of any school district working with its demographics:

- **YES Prep remains one of the highest performing public school systems in Houston**, earning a district rating of 87, with 90% of our students attending an A or B school, according to 2021-2022 Texas Education Agency data.
- **YES Prep leads the nation in six-year college graduation rates**. Roughly 34% of YES Prep alumni earn a degree or credential within six years of high school graduation, compared with only 11% for students from similar communities nationally. YES Prep’s ultimate goal is to achieve a 75% graduation rate, equivalent to the completion rate for students in the top economic quartile.

- Year after year, nearly 100% of our graduating seniors are accepted to at least one college or university, including the nation’s most prestigious higher education institutions.
- **YES Prep’s 10 qualifying secondary schools are ranked top 12% in U.S. News & World Report’s Best High Schools in America in 2022.** Accolades include five of the top 500 schools in the nation, seven of the top 100 schools in Texas, seven of the top 25 schools in Greater Houston, and seven of the top 10 charter schools in Greater Houston.
- **Three YES Prep schools were among the 13 Houston-area schools included in the 2022 Jay Mathews Challenge Index High School Rankings Top 300 list,** which represents approximately the top 1 percent of America’s 22,000 high schools.
- **In May 2022, the latest class of 1,620 YES Prep seniors walked across the stage at Senior Signing Day,** bringing YES Prep’s alumni base above 8,500. The Class of 2022 applied to 600+ colleges and universities, submitting 16,785 applications and receiving 9,300+ offers.
- YES Prep was the winner of the inaugural Broad Prize for best National Charter Management Organization in 2012 and a finalist in 2016.
- From the Fiscal Year ended June 30, 2017 through the Fiscal Year ended June 30, 2022, YES Prep raised over \$80,556,496 in philanthropy through individual, corporate, and foundational giving. Additionally, YES Prep’s events have raised over \$12,870,000 in the last five years with its flagship event, YES Prep’s Oil & Gas Texas Hold ‘Em Tournament, raising over \$20,000,000 since its inception in 2006. See “**Philanthropy**” herein.

Educational Philosophy

YES Prep is the highest performing public school district in Houston and one of the highest performing in the nation and serves an educationally disadvantaged student population. YES Prep’s educational model has been intentionally designed and continually honed to support student success and is committed to ensure that all students, regardless of zip code, have access to a college-ready education.

- *Partnership with families.* YES Prep’s partnership with students and families begins the moment YES Prep meets new students through a three-part initiative called “The New Family Experience”.
 - Welcome to YES: Welcome meetings and traditions, like welcome parades, for new families prior to the start of the summer.
 - Succeed at YES: Designated days at the start of the school year to share the history, vision, and opportunities offered at YES Prep.
 - Commit to YES: Home visits or small meetings on campus so families have an opportunity to engage with staff and establish a true partnership. The goal is to be true partners in the work through shared responsibility and a fierce commitment to promote, encourage, and support the success of every YES Prep student.
- *Small and integrated schools.* YES Prep’s schools are small (less than 1,000 students each) and intentionally structured so that its teachers and school leaders can build transformative relationships with students and so that students receive personalized support.
- *Rigorous curriculum and assessments.* YES Prep’s curriculum is Advanced Placement (“AP”)-aligned at all grade levels, and YES Prep uses Texas standards as a floor rather than a ceiling. Internally developed formative assessments are used to identify learning gaps and guide individualized interventions. All students take the SAT and at least one AP course. YES Prep’s rigorous academic programming begins in Pre-kindergarten to build a strong readiness for kindergarten. The K-2 academic program places a significant emphasis on high quality reading and math instruction ensuring students are able to read on grade level by the third grade and ultimately the PK-5 model is designed to create sixth-grade ready students for our secondary school model.

- *Academic interventions.* Because most students enter YES Prep performing below grade-level, YES Prep devotes extra time to interventions, especially in reading and math, to help students catch up. YES Prep also provides tutorial support outside of school hours.
- *Enrichment opportunities.* YES Prep provides a variety of extracurricular activities that enhance students' school experiences and help them apply for internships and summer programs, such as study abroad. Annual spring trips give most students their first opportunity to travel out-of-state and visit colleges. By graduation, YES Prep's students have visited multiple campuses. Students have access to after-school clubs and athletics that allow them to identify areas of interest for college study as well as build leadership skills and resumes for increased college competitiveness. Additionally, all elementary students in the fully grown out school model engage in art, music, physical education, STEM lab, and school library programming.
- *College initiatives and alumni support.* YES Prep maintains a low college counselor-to-student ratio so that it can provide extensive personalized support for students as they research and apply to colleges, apply for scholarships, and choose the college that is the best fit. Seminar classes in high school help students hone college readiness skills. YES Prep also continues to support alumni through college to help them persist through a degree.
- *Teacher training and development.* All teachers who are new to the profession or new to YES Prep complete YES Prep's Teaching Excellence ("TE") teacher development and certification program, which provides rigorous training and individualized support to accelerate the development of new teachers and ensure that all students have equitable access to a high-quality education. All of YES Prep's teachers participate in content teams that meet throughout the school year, so that every teacher deeply internalizes their curriculum, understands how to support students in reaching goals and expectations, and feels supported and grown which is directly correlated to persistence in the profession.
- *Transportation.* Since transportation is often a barrier for low-income families, YES Prep offers free transportation to all K-12 grade students who live two or more miles from campus.
- *Counseling and Social and Emotional Learning.* All YES Prep students have access to the 1-2 licensed non-academic counselors on each campus in addition to having access to counseling and psychiatry with a partnership through Legacy Community Health. All students, PK-12, learn emotional awareness and character skills through social and emotional learning courses given the direct link to college matriculation and success post-graduation.

Social Impact

YES Prep was founded to give children in Houston's underserved communities educational opportunities that are as good as those found in Houston's finest schools, making college an expectation. YES Prep is committed to employing a diverse group of teachers and staff to help student embrace the diverse communities, cultures, identities, and abilities of all students, empowering them to succeed in college and beyond.

Below is a table of demographic information about the composition of YES Prep's teachers for the 2019-20, 2020-21 and 2021-22 school years.

| TEACHER DEMOGRAPHIC INFORMATION | | | |
|--|----------------|----------------|----------------|
| Demographic Identifier | 2019-20 | 2020-21 | 2021-22 |
| African American | 35.1% | 39.5% | 43.2% |
| Hispanic | 28.2% | 28.4% | 31.1% |
| White | 31.2% | 26.9% | 22.1% |
| American Indian | 0.1% | 0.1% | 0.2% |
| Asian | 4.2% | 4.0% | 2.9% |
| Pacific Islander | 0.5% | 0.1% | 0.3% |
| Two or More Races | 0.7% | 0.9% | 0.4% |
| Males | 28.9% | 28.5% | 29.2% |
| Females | 71.1% | 71.5% | 70.8% |

SOURCE: Texas Academic Performance Reports.

YES Prep maintains a low college counselor-to-student ratio so that it can provide extensive personalized support for students as they research and apply to colleges, apply for scholarships, and choose the college that is the best fit. Seminar classes in high school help students hone college readiness skills. YES Prep also continues to support alumni through college to help them persist through a degree. YES Prep uses National Student Clearinghouse for continuing collegiate enrollment and degree information on their alumni. More information about National Student Clearinghouse can be found at <https://www.studentclearinghouse.org/>.

Based on data from National Student Clearinghouse, below is a count of former YES Prep students enrolled in college in the fall immediately after graduation from YES Prep for the classes of 2015-2022.

| COUNT OF STUDENTS ENROLLED IN COLLEGE IN THE FALL IMMEDIATELY AFTER HIGH SCHOOL | | | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Class of | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| Total in the Class | 502 | 719 | 801 | 1029 | 1284 | 1417 | 1422 | 1600 |
| Total Enrolled | 400 | 594 | 689 | 854 | 988 | 955 | 925 | 1153 |
| Total in Public | 306 | 476 | 544 | 726 | 818 | 797 | 780 | 1011 |
| Total in Private | 94 | 118 | 144 | 128 | 170 | 157 | 145 | 142 |
| Total in 4-Year | 340 | 469 | 511 | 589 | 709 | 681 | 606 | 714 |
| Total in 2-Year | 60 | 125 | 177 | 265 | 279 | 274 | 319 | 439 |
| Total In-State | 331 | 507 | 558 | 710 | 864 | 849 | 827 | 1070 |
| Total Out-of-State | 69 | 87 | 131 | 144 | 124 | 106 | 98 | 83 |

SOURCE: National Student Clearinghouse.

Based on data from National Student Clearinghouse, below is a count of former YES Prep students who graduated with a college degree for the classes of 2012-2016.

| COUNT OF STUDENTS WHO GRADUATED WITH A COLLEGE DEGREE | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|
| Class of | 2012 | 2013 | 2014 | 2015 | 2016 |
| Total in the Class | 194 | 297 | 456 | 503 | 711 |
| Total Enrolled | 168 | 257 | 395 | 400 | 594 |
| Total in Public | 60 | 84 | 131 | 117 | 230 |
| Total in Private | 36 | 45 | 47 | 55 | 71 |
| Total in 4-Year | 86 | 109 | 152 | 152 | 258 |
| Total in 2-Year | 10 | 20 | 26 | 20 | 43 |
| Total In-State | 68 | 98 | 134 | 123 | 233 |
| Total Out-of-State | 28 | 31 | 44 | 49 | 68 |

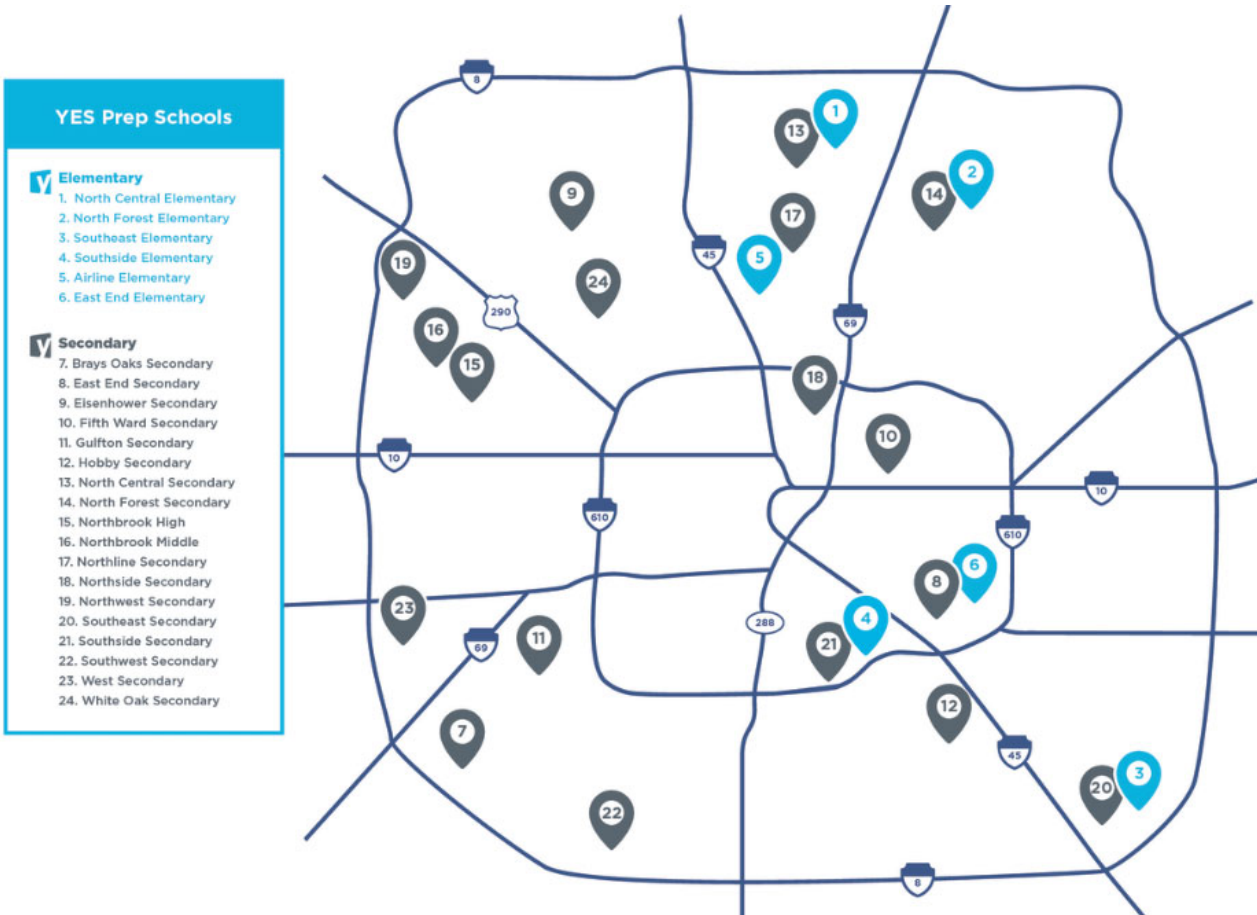
SOURCE: National Student Clearinghouse.

Additional demographic, academic performance and graduation information is available online through TEA’s Texas Academic Performance Reports. Reports are available by campus or by district are available from the Underwriter upon request and at <https://tea.texas.gov/texas-schools/accountability/academic-accountability/performance-reporting/texas-academic-performance-reports>.

YES Prep has also created a new suspension and expulsion system through Thrive to further help student succeed. See “**SCHOOLS AND FACILITIES – YES Prep Thrive**” herein.

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SCHOOLS AND FACILITIES



For the 2022-23 school year, YES Prep operated the following charter schools and related facilities (the “Charter Schools”). The enrollment data listed below is as of April 27, 2023. The table includes future Charter Schools included in the Project.

| Campus Name | Location | Grades | Enrollment | Opened | Ownership | Pledged to Trust Estate |
|---------------------------|---|-----------------------|------------|--------|-----------|-------------------------|
| Brays Oaks | 9000 West Bellfort, Houston, Texas 77031 | 6-12 | 1,012 | 2009 | Owned | YES |
| East End | 8401 Lawndale Street, Houston, Texas 77012 | 6-12 | 971 | 2006 | Owned | YES |
| East End ES | 8329 Lawndale Street, Houston, Texas 77012 | PreK-2 ⁽⁴⁾ | 213 | 2022 | Owned | YES |
| Eisenhower ⁽⁵⁾ | 7922 Antoine Drive, Houston, Texas 77008 ⁽¹⁾ | 9-12 | 431 | 2016 | N/A | N/A |
| Fifth Ward | 1305 Benson Street, Houston, Texas 77020 ⁽²⁾ | 6-12 | 916 | 2011 | Owned | NO |
| Gulfton | 6565 De Moss Drive, Houston, Texas 77074 | 6-12 | 1,051 | 2007 | Owned | YES |
| Hobby | 8787 Tallyho Street, Houston, Texas 77061 | 6-9 ⁽³⁾ | 462 | 2019 | Owned | YES |
| Hobby ES | | PreK-2 ⁽⁴⁾ | N/A | 2024 | | |

| | | | | | | |
|------------------|---|-----------------------|-------|------|-------|-----|
| Northbrook HS | Raider Circle N#1, Houston, Texas 77080 ⁽¹⁾ | 9-12 | 712 | 2015 | N/A | N/A |
| Northbrook MS | 3030 Rosefield Drive, Houston, Texas 77080 ⁽¹⁾ | 6-8 | 415 | 2012 | N/A | N/A |
| North Central | 13703 Aldine Westfield Road, Houston Texas 77039 | 6-12 | 970 | 2003 | Owned | YES |
| North Central ES | 1900 Strawn Rd., Houston Texas 77039 | PreK-4 ⁽⁴⁾ | 700 | 2020 | Owned | YES |
| North Forest | 6602 Winfield Road, Houston, Texas 77056 | 6-12 | 991 | 2010 | Owned | YES |
| North Forest ES | | PreK-3 ⁽⁴⁾ | 477 | 2021 | | |
| North Rankin ES | 12537 Kuykendahl Rd, Houston, Texas 77090 | PreK-2 ⁽⁴⁾ | N/A | 2024 | Owned | YES |
| Northline | 441 Little York, Houston, Texas 77076 | 6-11 ⁽³⁾ | 838 | 2017 | Owned | YES |
| Airline ES | 5815 Airline Drive, Houston, Texas 77076 | PreK-2 ⁽⁴⁾ | 251 | 2022 | Owned | YES |
| Northside | 5215 Jensen Drive, Houston, Texas 77026 | 6-12 | 927 | 2011 | Owned | NO |
| Northwest | 14741 Yorktown Plaza Drive, Houston, Texas 77040 | 6-10 ⁽³⁾ | 503 | 2018 | Owned | YES |
| Southeast | 353 Crenshaw Road, Houston, Texas 77034 | 6-12 | 949 | 1998 | Owned | YES |
| Southeast ES | 507 Crenshaw Road, Houston, Texas 77034 | Prek-4 ⁽⁴⁾ | 621 | 2020 | Owned | YES |
| Southside | 5515 South Loop E Freeway, Suite A, Houston, Texas 77033 | 6-12 | 893 | 2015 | Owned | YES |
| Southside ES | 5515 South Loop E Freeway, Suite B, Houston, Texas 77033 | PreK-3 ⁽⁴⁾ | 428 | 2021 | Owned | YES |
| Southwest | 4411 Anderson Road, Houston, Texas 77053 | 6-12 | 1,018 | 2004 | Owned | YES |
| Southwest ES | 5212 Anderson Rd, Houston, Texas 77053 | PreK-2 ⁽⁴⁾ | N/A | 2024 | Owned | YES |
| Thrive | 8222 Manchester, Houston, Texas 77012 | Remedial | N/A | 2018 | Owned | YES |
| West | 10535 Harwin Drive, Houston, Texas 77036 | 6-12 | 978 | 2009 | Owned | YES |
| White Oak | 5620 Tidwell Road, Houston, Texas 77091 | 6-12 | 863 | 2013 | Owned | YES |
| Admin Facility | 5515 South Loop E Freeway, Suite B, Houston, Texas 77033 | Admin | N/A | N/A | Owned | YES |

⁽¹⁾ Partnership School.

⁽²⁾ Financed through a NMTC. See “**PLAN OF FINANCE – Prior Financings**” herein.

⁽³⁾ Additional grade being added each year thereafter until the campus reaches 12th grade.

⁽⁴⁾ Additional grade to be added each year thereafter until the campus reaches 5th grade.

⁽⁵⁾ The partnership with Aldine ISD at Eisenhower High School ended in June 2023.

YES Prep Thrive

Thrive is the first charter-run Disciplinary Alternative Education Program (“*DAEP*”) in Texas for grades 6-12. Thrive allows YES Prep to run its own DAEP without having to expel students to traditional independent school districts. The opening of Thrive reduced YES Prep’s expulsion rate by nearly 90% in one year. Students are placed at

Thrive in accordance with YES Prep’s code of conduct for predetermined behaviors after a disciplinary hearing. The average student spends 20-35 days at Thrive. Less than 1% of YES Prep’s students are placed at Thrive. Students placed at Thrive are still counted in the attendance of their home campus and any testing or other information about the student is reported under the student’s home campus. Thrive is located near the East End campuses.

Partnership Schools

YES Prep operates three schools through co-location partnerships with Aldine Independent School District (YES Prep Eisenhower) and Spring Branch Independent School District (YES Prep Northbrook Middle School and YES Prep Northbrook High School). The three schools are not included in YES Prep’s Charter and enrollment in these schools does not count against YES Prep’s Charter enrollment. The revenue from the contracts with Aldine Independent School District and Spring Branch Independent School District are pledged as security for the Bonds. The partnership with Aldine ISD at Eisenhower High School ended in June 2023. The partnership contract with Spring Branch Independent School District runs through 2025. YES Prep previously operated a fourth partnership school with Aldine ISD, but at the agreement of YES Prep and Aldine ISD, that partnership was dissolved.

THE PROJECT

YES Prep will issue the Bonds for the purpose of: (i) financing and refinancing the costs of acquiring, constructing, equipping and renovating certain “educational facilities” (as that term is defined in the Issuer Act) and facilities incidental, subordinate or related thereto or appropriate in connection therewith, and (ii) paying the costs of issuing the Bonds.

| Campus Name | Location | Bond Proceeds Use | Grades to be Served | Expected Completion | Pledged to Trust Estate | Estimated Amount of Bond Proceeds Used |
|-------------------------|---|---------------------------------------|---------------------|---------------------|-------------------------|--|
| Airline Elementary | 5815 Airline Drive, Houston, Texas 77076 | Construction of New Elementary School | PreK-5th | Completed July 2022 | YES | \$2,552,249 |
| Southwest Elementary | 5212 Anderson Rd, Houston, Texas 77053 | Construction of New Elementary School | PreK-5th | July 2024 | YES | \$18,690,320 |
| Northline Secondary | 441 Little York, Houston, Texas 77076 | Construction of New Secondary School | 6-12 | Completed Oct 2022 | YES | \$17,471,778 |
| Hobby Elementary | 8787 Tallyho Street, Houston, Texas 77061 | Construction of New Elementary School | PreK-5th | July 2024 | YES | \$17,164,186 |
| North Rankin Elementary | 12537 Kuykendahl Rd, Houston, Texas 77090 | Construction of New Elementary School | PreK-5th | July 2024 | YES | \$15,600,000 |
| East End Elementary | 8329 Lawndale Street, Houston, Texas | Construction of New Elementary School | PreK-5th | Completed July 2022 | YES | \$10,330,974 |
| Total | | | | | | \$81,809,507 |

Source: YES Prep.

Regions Bank Line of Credit

A portion of the Bond proceeds will be used to pay off the existing balance of the Regions Bank Line of Credit. The Regions Bank Line of Credit has been utilized by YES Prep to construct the Airline Elementary, Northline Secondary and East End Elementary Schools and for design and engineering associated with the Southwest, Hobby, and North Rankin Elementary Schools in the approximate amount of \$30 million dollars.

North Rankin Elementary, Southwest Elementary & Hobby Elementary Schools Construction

Proceeds from the Bonds will be used to finance the construction of the new North Rankin, Southwest and Hobby Elementary Schools which are expected to be open for the 2024 school year. The North Rankin Elementary School will be built at 12537 Kuykendahl Rd. Houston, Texas 77090. Southwest Elementary School will be built at 5212 Anderson Rd., Houston, Texas 77053. Hobby Elementary School will be built on the existing Hobby campus

located at 8787 Tallyho Street, Houston, Texas 77061. YES Prep has developed a model elementary school floorplan to use in every school.

In order to mitigate the risks inherent in the construction process, including the risk of a failure to complete the project on time, YES Prep Public Schools utilizes the Construction Manager at Risk (CM-At Risk) methodology for new construction. Using a Competitive Sealed Proposal (CSP) process, YES Prep issues a Request for Proposal (RFP) from General Contractors for the purpose of selecting a CM-At Risk. Once RFP responses are received, YES Prep selects a CM-At Risk for each site (the same contractor may be selected for more than one site), based on which contractor provides the best value. Once selection is made, YES Prep negotiates construction contracts and project elements with the CM-At Risk. The CM-At Risk methodology provides YES Prep with the capability of contracting with the contractor at an earlier stage of the design and the contractor providing a Guaranteed Maximum Price (“GMP”) as a cost plus fee contract arrangement. YES Prep has historically completed its projects in a timely fashion.

Linbeck Group LLC (“*Linbeck*”) will be serving as construction manager for the North Rankin Elementary School after a successful RFP process. Linbeck is a Texas-based, technology-driven building construction firm offering construction management, design/build, and integrated project delivery services. Using a suite of commercial and proprietary digital technologies and its unique Lean Operating System, Linbeck helps institutional and private clients mitigate risk and minimize waste to achieve optimal outcomes. Over the past decade, Linbeck has been recognized as a national leader in both applied technologies and lean construction. *Engineering News Record* (ENR) and *Building Design & Construction*, rank Linbeck among the top construction managers and building contractors in the U.S. The Associated General Contractors of America (AGC) has also presented Linbeck with an unprecedented 15 Build America Awards and two consecutive national safety awards. Linbeck previously constructed the North Central, Southeast, East End Elementary School, the Northline Secondary and Elementary School. More information about Linbeck can be found at <https://www.linbeck.com/>.

Durotech, Inc. (“*Durotech*”) will be serving as construction manager for the Southwest Elementary and Hobby Elementary Schools and an RFP will be issued for construction of the Southwest Elementary and Hobby Elementary Schools. Durotech, Inc. was founded in 1988 and has been serving the Houston Region for thirty-five plus years. Durotech specializes in delivering quality Construction Manager at Risk projects (95% of their work is CM-at-Risk). Durotech’s primary market sectors include educational K-12, college, police, courts, fire and EMS, governmental, service organizations, office buildings, theaters and performance centers. Durotech builds single projects in the \$10 to \$250 million dollar range with the ability to bond up to \$750 million in construction. In 2021, Durotech received the AGC NASA award for safety and was a nominee for the American Subcontractor Association General Contractor of the year award. Durotech won two AGC APEX Bronze awards for project excellence in 2022 and an APEX Gold award in 2020.

Campus Maintenance

A portion of the Bond proceeds will be used to fund maintenance at YES Prep’s existing pledged facilities for the Fiscal Years ending June 30, 2024 and June 30, 2025.

Environmental Assessments

As of the date of this Official Statement, Phase I environmental assessments have been obtained for the properties financed with the proceeds of the Bonds. YES Prep has previously received Phase I environmental assessments on the properties. See “**RISK FACTORS - Reliance on Phase I Reports,**” and “**–Environmental Regulations**” in the Official Statement.

Appraisals

In order to issue the Series 2023 Master Note and add real estate as Collateral, YES Prep shall provide an Officer’s Certificate to the Master Trustee with supporting documentation including appraisals that the Collateral Value will be greater than or equal to the aggregate principal amount of all outstanding Debt, including the additional Debt proposed to be issued. To calculate the Collateral Value, YES Prep has used the appraisal services of appraisers that are certified general real estate appraisers in the State of Texas and Members of the Appraisal Institute (MIA). Such appraisals are not available for review and are only used by YES Prep for the purpose of calculating Collateral

Value in compliance with the Master Indenture. See “**BONDHOLDER’S RISKS – Value of Property May Fluctuate; Limitations of Appraisals**” in the Official Statement.

FINANCINGS

Prior Financings

Taxable Education Revenue Bonds (Qualified School Construction Bonds) Series 2010Q. YES Prep has previously issued its \$6,100,000 City of Houston Higher Education Finance Corporation Taxable Education Revenue Bonds (Qualified School Construction Bonds) Series 2010Q (the “*Series 2010Q Bonds*”). The aggregate principal amount of \$6,100,000 remains outstanding on the Series 2010Q Bonds. Capital One, N.A. is the sole holder of the Series 2010Q Bonds. **The Series 2010Q Bonds are parity debt under the Master Indenture.**

Taxable Education Revenue Bonds (Qualified Zone Academy Bonds) Series 2010Z. YES Prep has previously issued its \$16,000,000 City of Houston Higher Education Finance Corporation Taxable Education Revenue Bonds (Qualified Zone Academy Bonds) Series 2010Z (the “*Series 2010Z Bonds*”). The aggregate principal amount of \$16,000,000 remains outstanding on the Series 2010Z Bonds. Capital One, N.A. is the sole holder of the Series 2010Z Bonds. **The Series 2010Z Bonds are parity debt under the Master Indenture.**

Taxable Education Revenue Bonds (Qualified Zone Academy Bonds) Series 2011Z. YES Prep has previously issued its \$8,751,000 City of Houston Higher Education Finance Corporation Taxable Education Revenue Bonds (Qualified Zone Academy Bonds) Series 2011Z (the “*Series 2011Z Bonds*”). The aggregate principal amount of \$8,751,000 remains outstanding on the Series 2011Z Bonds. Capital One, N.A. is the sole holder of the Series 2011Z Bonds. **The Series 2011Z Bonds are parity debt under the Master Indenture.**

Taxable Education Revenue Bonds (Qualified Zone Academy Bonds) Series 2012Z. YES Prep has previously issued its \$3,400,000 City of Houston Higher Education Finance Corporation Taxable Education Revenue Bonds (Qualified Zone Academy Bonds) Series 2012Z (the “*Series 2012Z Bonds*”). The aggregate principal amount of \$3,400,000 remains outstanding on the Series 2012Z Bonds. Capital One, N.A. is the sole holder of the Series 2012Z Bonds. **The Series 2012Z Bonds are parity debt under the Master Indenture.**

Tax-Exempt Education Revenue Note Series 2013. YES Prep has previously issued its \$9,740,000 Dickinson Higher Education Finance Corporation Tax-Exempt Education Revenue Note (YES Prep Public Schools) Series 2013 (the “*Series 2013 Note*”). The aggregate principal amount of \$4,118,700 remains outstanding on the Series 2013 Note. Capital One, N.A. is the sole holder of the Series 2013 Note. **The Series 2013 Note is parity debt under the Master Indenture.**

Tax-Exempt Education Revenue Note Series 2015. YES Prep has previously issued its \$7,000,000 Dickinson Higher Education Finance Corporation Tax-Exempt Education Revenue Note (YES Prep Public Schools) Series 2015 (the “*Series 2015 Note*”). The aggregate principal amount of \$3,157,280 remains outstanding on the Series 2015 Note. Trustmark National Bank is the sole holder of the Series 2015 Note. **The Series 2015 Note is parity debt under the Master Indenture.**

Taxable Education Revenue Bonds (Qualified Zone Academy Bonds) Series 2015Z. YES Prep has previously issued its \$15,000,000 City of Houston Higher Education Finance Corporation Taxable Education Revenue Bonds (Qualified Zone Academy Bonds) Series 2015Z (the “*Series 2015Z Bonds*”). The aggregate principal amount of \$15,000,000 remains outstanding on the Series 2015Z Bonds. Capital One, N.A. is the sole holder of the Series 2015Z Bonds. **The Series 2015Z Bonds are parity debt under the Master Indenture.**

Taxable Education Revenue Bonds (Qualified Zone Academy Bonds) Series 2017Z. YES Prep has previously issued its \$9,030,000 City of Houston Higher Education Finance Corporation Taxable Education Revenue Bonds (Qualified Zone Academy Bonds) Series 2017Z (the “*Series 2017Z Bonds*”). The aggregate principal amount of \$4,815,700 remains outstanding on the Series 2017Z Bonds. BOKF, NA is the sole holder of the Series 2017Z Bonds. **The Series 2017Z Bonds are parity debt under the Master Indenture.**

Taxable Education Revenue Bonds (Qualified Zone Academy Bonds) Series 2017Z-1. YES Prep has previously issued its \$14,170,000 City of Houston Higher Education Finance Corporation Taxable Education Revenue Bonds (Qualified Zone Academy Bonds) Series 2017Z-1 (the “*Series 2017Z-1 Bonds*”). The aggregate principal amount of \$8,501,700 remains outstanding on the Series 2017Z-1 Bonds. BOKF, NA is the sole holder of the Series 2017Z-1 Bonds. **The Series 2017Z-1 Bonds are parity debt under the Master Indenture.**

Tax-Exempt Education Revenue Note Series 2017A. YES Prep has previously issued its \$10,000,000 Pottsboro Higher Education Finance Corporation Tax-Exempt Education Revenue Note (YES Prep Public Schools) Series 2017A (the “*Series 2017A Note*”). The aggregate principal amount of \$6,360,000 remains outstanding on the Series 2017A Note. Regions Equipment Finance Corporation is the sole holder of the Series 2017A Note. **The Series 2017A Note is parity debt under the Master Indenture.**

Tax-Exempt Education Revenue Note Series 2018. YES Prep has previously issued its \$13,440,000 Clifton Higher Education Finance Corporation Tax-Exempt Education Revenue Note (YES Prep Public Schools) Series 2018 (the “*Series 2018 Note*”). The aggregate principal amount of \$9,363,673 remains outstanding on the Series 2018 Note. Regions Capital Advantage, Inc. is the sole holder of the Series 2018 Note. **The Series 2018 Note is parity debt under the Master Indenture.**

New Market Tax Credit. The Fifth Ward campus and the Northside campus were financed by utilizing a leverage loan structure with an investment of federal new markets tax credits in 2013 (generally, the “*NMTC Financing*”). The Fifth Ward Campus and the Northside Campus were owned by YES Prep Facilities, LLC (99%) and YES Prep Holdings, Inc. (1%) and leased to YES Prep. YES Prep Holdings, Inc. is a Texas non-profit corporation that is not under the control of YES Prep. In 2019, the NMTC Financing was unwound and YES Prep became the owner of the Fifth Ward Campus and the Northside Campus. There is no longer any debt outstanding related to these properties.

Regions Bank Line of Credit. YES Prep has a revolving line of credit with Regions Bank in the amount of \$40,000,000 (the “*Regions Bank Note*”) which is used for the acquisition, construction and equipping of campus facilities. **The Regions Bank Note is parity debt under the Master Indenture.**

Charter School Growth Fund Loans. YES Prep has several loans with the Charter School Growth Fund which will be paid in full on June 30, 2023 (the “*Charter School Growth Fund Loans*”) which were used for the acquisition, construction and equipping of campus facilities. **The Charter School Growth Fund Loans are unsecured and are NOT parity debt under the Master Indenture.**

Tax-Exempt Education Revenue Bonds Series 2020. YES Prep has previously issued its \$71,585,000 Clifton Higher Education Finance Corporation Education Revenue Bonds (YES Prep Public Schools) Series 2020 (the “*Series 2020 Bonds*”). The aggregate principal amount of \$71,585,000 remains outstanding on the Series 2020 Bonds. **The Series 2020 Bonds is parity debt under the Master Indenture.**

All prior Debt, except the Series 2020 Bonds, contain a covenant that for any real estate to be added as Collateral (as defined in the Deed of Trust), YES Prep shall provide an Officer’s Certificate with supporting documentation including Appraisals that the Collateral Value will be greater than or equal to the aggregate principal amount of all outstanding Debt, including the additional Debt proposed to be issued. The final maturity of the last of the Prior Master Notes is April 1, 2034, at such time (or sooner due to early defeasance or redemption), such covenant will no longer be applicable to YES Prep and any real estate to be added as Collateral.

For more information see “**TABLE 11: DEBT SUMMARY**” herein. For the current debt service requirements see “**DEBT SERVICE REQUIREMENTS.**”

Future Financings

YES Prep intends to issue additional debt on a parity with the Master Notes in the approximate amount of \$82,558,532 in conjunction with the Board of Directors of YES Prep’s (the “*Board*”) campaign coined “Leading Houston Forward.” The Bonds are the second issuance under the Leading Houston Forward campaign. The goals of Leading Houston Forward are to open a total of 10 new YES Prep elementary schools in communities YES Prep

already serves by 2024, add 10,000 new seats in high-performing schools to the Houston public education ecosystem and raise YES Prep’s total enrollment capacity to 23,000 students by 2025. YES Prep has begun Leading Houston Forward with the opening of its first five elementary schools.

As set forth in the “**PROJECT**” herein, the Bonds will fund an additional three elementary schools to open for the 2024-25 school year.

The additional debt to be issued will cover additional elementary school expansion under Leading Houston Forward. YES Prep will need more than \$300,000,000 million in total to cover Leading Houston Forward and the Board has set an 80% debt and 20% equity goal to fund Leading Houston Forward. To meet the 20% equity component, the Leading Houston Forward campaign has set a goal to raise \$80,000,000 from philanthropic sources in a five-year period. More than \$80,000,000 in pledges (approximately \$50,000,000 received) has been raised in the first four years of the campaign and every member of the Board and staff leadership team has contributed to the campaign. See “**Philanthropy**” herein. All philanthropic funds are pledged directly to YES Prep and YES Prep uses these funds for operations, the purchase of land for new elementary school sites (approximately two plots per year), cover any overages in construction and begin early stage funding of projects where debt has not yet been issued.

Grants

YES Prep has received many grants over the years. It received \$20,966,911 from the Charter School Program (“**CSP**”) grant funding provided by the United States Department of Education. The CSP grant runs from April 1, 2020 to March 31, 2025 and it is used for funding supplies and equipment needed for our new and expanding high-quality college-bound charter schools. In April 2023, YES Prep was awarded an additional \$659,638 of supplemental funding under the same program.

CHARTER CONTRACT

General

The Charter Schools operate pursuant to an open-enrollment charter contract between YES Prep and the Texas State Board of Education (the “**SBOE**”) under Chapter 12 of the Texas Education Code, Section 12.001 *et seq.* (the “**Charter Schools Act**”). The Charter Schools Act provides for the creation of charter schools in order to improve student learning, to increase the choice of learning opportunities within the public school system, to create professional opportunities that will attract new teachers to the public school system, to establish a new form of accountability for public schools and to encourage different and innovative learning methods. The Charter Schools Act provides for three kinds of charter contracts: home-rule school district charters, campus or campus programs charters, and open-enrollment charters. See “**APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF TEXAS CHARTER SCHOOL LAW – GENERAL.**” A charter contract governs such matters as the recipient’s authority to operate, student admissions and performance, financial management, and governance and operations. The term of an open-enrollment charter contract is not specifically provided under State law.

YES Prep was granted its initial open-enrollment charter from the TEA in 2000. YES Prep currently operates the Charter Schools pursuant to the Charter, effective as of June 21, 2000. The Charter was extended on November 27, 2007 (effective as of July 31, 2008) for a period of seven years extending to July 31, 2015, and again on February 2, 2015 (effective as of July 31, 2015) for a period of ten years extending to July 31, 2025. The contract includes YES Prep’s 23 schools and Thrive, and each school meets the elements of a charter school under Section 4310(2) of the ESEA and are treated as separate schools by TEA. Each school has a unique County District Number (CDN) (state) and NCES ID (federal) and appear on YES Prep’s district’s unique CDN and NCES ID. Three of the Charter Schools, YES Prep Eisenhower, YES Prep Northbrook Middle School and YES Prep Northbrook High School are operated outside YES Prep’s charter in co-location partnerships with Aldine Independent School District and Spring Branch Independent School District and do not count against YES Prep’s Charter capacity. In May of 2023, YES Prep received a charter amendment to increase maximum student enrollment to 20,375. YES Prep will need to continue to request charter expansion amendments to expand pursuant to Leading Houston Forward, including increases to maximum student enrollment to meet current enrollment projections. New school amendments are routinely applied for in the

spring of the year in which the school or campus is opening. To date, YES Prep has received over 50 charter amendments.

Revocation and Nonrenewal

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

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

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

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

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

GOVERNANCE, MANAGEMENT AND EMPLOYEES

Board of Directors

YES Prep operates as a nonprofit corporation under the Texas Business Organizations Code. YES Prep is governed by applicable law and its articles of incorporation and bylaws. Board members are recruited among unpaid

volunteers who participate in activities of YES Prep and its Charter Schools and who share goals and objectives with YES Prep. Identification and recruitment of new board members is a long-term process requiring a step-by-step approach. As such, Board nominations can be made by anyone, including existing Board members, YES Prep employees, parents, alumni, and the general public. The existing Board reviews the qualifications of nominees, seeking individuals who have expertise, experience, or leadership abilities that will contribute to maintaining a continued standard of excellence for YES Prep and its students. Each Director holds an office term of three years and until their successor has been elected or they have been removed by the Board. The Board has 5 standing committees: Executive Committee, Finance Committee, Programs Committee, Nomination and Governance Committee, and Safety and Security Committee.

TABLE 1: BOARD OF DIRECTORS

| Name | Title | Occupation | Board Member Since |
|-----------------------|-------------------------|--|---------------------------|
| Melanie Trent | Chair | Retired Executive VP, Rowan Companies PLC | 2017 |
| Eric Calderon | Vice-Chair | President and CEO, LK Industries | 2017 |
| Mickey Barrett | Director | President and CEO, Whitespire Ventures | 2009 |
| Luly Castillo | Director | Global Marketing Manager, Halliburton | 2018 |
| Ben Marshall | Finance Committee Chair | President & CEO, Vitol Americas | 2019 |
| Jordan Marye | Director | Managing Director, Denham Capital | 2019 |
| Reverend Leslie Smith | Director | CEO, Change Happens! | 2006 |
| Brian Colona | Director | Owner, Houston SaberCats | 2022 |
| Michol Ecklund | Director | SVP, Callon Petroleum | 2022 |
| Dr. Andrea Link | Director | Executive Director, Albert Schweitzer Fellowship | 2022 |
| Dr. Amy Wright | Director | Educational Partnerships Director, Houston Methodist | 2023 |

Melanie Trent, Chair. Ms. Trent most recently served as Executive Vice President, General Counsel and Chief Administrative Officer for a global provider of drilling services, Rowan Companies PLC. Trent served at Rowan more than 11 years in various capacities, prior to retiring in mid-2017 to pursue non-profit endeavors. She currently serves on the board of New Hope Housing and has previously served on the audit and compensation committees of the Memorial Hermann Health System and on the board and executive committee of the Hermann Park Conservancy. Ms. Trent received a Bachelor of Arts from Middlebury College and a Juris Doctorate from Georgetown University.

Eric Calderon, Vice-Chair. Mr. Calderon serves as the President and Chief Executive Officer of LK industries, a niche manufacturer of oil testing equipment. In 2012, Mr. Calderon had the privilege of working for House Speaker John Boehner on energy policy and legislation. In 2014, he co-founded the Harvard Latino Alumni Alliance and continues his work within the alumni community by serving on the global alumni board for Harvard Business School. In 2017, Mr. Calderon formally joined the admissions team at the Harvard Business School and is primarily focused on increasing outreach to underrepresented minorities. Mr. Calderon earned his Bachelor of Science in Petroleum Engineering from Texas A&M University and a Master of Business Administration from Harvard University.

Mickey Barrett, Director. Mr. Barrett is President and CEO of Whitespire Ventures and a long-time resident of Houston. Mr. Barrett is a retired senior partner of Vitol and began his career as a chemical engineer for Chevron. In addition to serving as Vice-Chairman of the Board and Chairman of the YES Prep Talent Committee, he is a member of the Alexis de Tocqueville Society, the advisory board of Career and Recovery Resources, the advisory board of Texas Education Reform, and the United Way Education Task Force. Mr. Barrett has a Bachelor of Science in Chemical Engineering from Oregon State University.

Luly Castillo, Director. Ms. Castillo graduated from YES Prep in 2001 and from Drexel University in 2006 with a degree in Mechanical Engineering. She began her career working for CEMEX in management training and commercial strategy. In 2008, Ms. Castillo started working for Halliburton as a mechanical engineer. In 2011, she transferred into the business development team where she now serves as a senior account representative. During her

time at Halliburton, the *Hispanic Engineer & Information Technology* magazine listed Ms. Castillo in its Forty Under Forty and among the top Hispanic Women in Technology. In addition to serving on the Board, Ms. Castillo also serves on the SWAG to College Board of Directors and is the Mentor Chair for YES Prep Professionals, the Working Parent Chair for Women Sharing Excellence, and the PTO President for her son's charter school.

Ben Marshall, Finance Committee Chair. Mr. Marshall is President and CEO of Vitol Americas, and a member of the Vitol Group board of directors. He joined Vitol in 2011 from ExxonMobil where, during his 13-year tenure, he held a variety of manufacturing and business management roles in Refining, Chemical and Polymers. Mr. Marshall holds a Bachelor of Science in Chemical Engineering from Louisiana State University.

Jordan Marye, Director. Mr. Marye is a Managing Partner of Denham Capital Management, where he helps lead the firm's Oil & Gas investment effort. He joined Denham Capital in 2006. Prior to joining Denham, Jordan was an Analyst in the Global Energy Group of UBS Investment Bank and a consultant in the Energy Practice of Huron Consulting Group. He currently serves on the board of directors of multiple Denham portfolio companies including Covey Park Energy, Spire HoldCo, Fairway Resources III, Clear Creek Resource Partners, Atlantic Resources I & II, and Rockies Resources. A native of south Louisiana, Mr. Marye received a Bachelor of Science from Louisiana State University.

Reverend Leslie Smith, Director. Reverend Smith is the Founder and CEO of Change Happens!, a non-profit that transforms the lives of families and children in Houston's high-risk communities. Previously, he was the Associate Pastor of Holman Street Baptist Church. In addition to serving on the Board, Reverend Smith sits on the boards of Mental Health America of Greater Houston, Texas Association of Addiction Professionals, and Houston Communities Seeking Impact through Alliances. Reverend Smith received Bachelor of Arts degrees in management and marketing from Southern University in Baton Rouge, Louisiana. He is also a graduate of Project Blueprint of the United Way, Leadership Houston, and the American Leadership Forum.

Brian Colona, Director. Following his first gift to YES Prep in 2006, Brian Colona has been a loyal YES Prep supporter. He is a long-time member of the Poker Steering Committee and has been a member of the YES Prep Advisory Council since 2021. Following 15 years working at Chevron, Brian moved to Vitol, Inc. where he worked for 20 years. Following his retirement from Vitol, Brian became the President of Houston's own rugby team, the SaberCats. While still an avid supporter and owner of the SaberCats, he retired from his position as President in 2019. He is married to his high school sweetheart Shirley, who is deeply involved in fundraising for pediatric cancer research through the "Mothers Against Cancer" project in Kingwood. Brian and Shirley live in Kingwood, and they have three adult children.

Michol Ecklund, Director. Michol Ecklund is Senior Vice President and General Counsel of Callon Petroleum Company (NYSE: CPE), a publicly traded independent oil and natural gas company. She oversees the legal, sustainability and human resources activities of the company. Prior to joining Callon, Ms. Ecklund was Deputy General Counsel for Operations & Commercial Law at Marathon Oil Company. During her 15 years at Marathon Oil, Ms. Ecklund served in progressive positions within and outside the Law Organization including compliance, litigation, human resources, investor relations, corporate communications, and tax. She began her legal career at Baker Botts LLP. Ms. Ecklund earned a B.A. in political science, economics, and managerial studies from Rice University and a J.D. from Harvard Law School. Ms. Ecklund currently serves on the Board of Trustees of Rice University and previously served as president of the Association of Rice Alumni. She is also a member of the Board of Directors for YES Prep Public Schools and St. Agnes Academy in Houston.

Dr. Andrea Link, Director. Dr. Andrea Link graduated from Brown University, then received her medical degree and training in pediatrics from Stanford University School of Medicine. After several years as a pediatrician with Texas Children's Pediatric Associates, she had a shift in her clinical interests and spent three years working with incarcerated women at Harris County Jail as part of Healthcare for the Homeless Houston's Jail Inreach Program. From her experiences working with these women, she developed "Healthy and Whole" an innovative and award-winning program which provides women exiting prostitution and human trafficking with comprehensive trauma-informed health and wellness programming. Healthy and Whole also gave hundreds of medical, pharmacy, nursing, and social work students the opportunity to learn about marginalized communities while volunteering as part of the program. Dr. Link has long advocated for the underserved, testifying in front of the Texas Supreme Court on mental health reforms and presenting her research on the needs of women exiting the criminal justice system at national

conferences. As a nonprofit consultant, she oversaw the development of the new Reed Family Clinic serving formerly homeless families and worked with the Patient Care Intervention Center revamping their program for high-need, high-cost patients. In 2021, she was named the new Executive Director for the Albert Schweitzer Fellowship Houston Galveston, which provides service-learning opportunities for graduate students in allied-health fields. She currently serves on the Board of Directors for New Hope Housing, leading the Resident Services Committee

Dr. Amy Wright, Director. Dr. Amy Wright serves as the Director of Educational Partnerships and oversees programs within the Academic Institute (AI) at Houston Methodist Hospital, supporting initiatives that build partnerships with research institutions and medical schools around the world. She was appointed Assistant Dean of Student Affairs for the School of Engineering Medicine for Texas A&M in March of 2022, and works with Texas A&M undergraduate medical students in their clerkship rotations. Dr. Wright oversees the research trainees that do translational research at Houston Methodist Research Institute (HMRI) developed the Methodist Academy Postdoctoral and Trainee Association (MAPTA) and manages the summer internship program. She has over 28 years of experience in the healthcare industry and has also served as an Adjunct Professor in the Business Administration Department of San Jacinto College for 13 years. Dr. Wright also serves as the Co-Program Director of the Master in Clinical Translation Management (MCTM) Program and is on the Spring Branch Community Health Center Board of Directors.

Advisory Council

The Advisory Council represent YES Prep's most dedicated supporters who are passionate about YES Prep's mission. Through strategic engagement opportunities, this group of like-minded individuals will participate in several events throughout the year in support of YES Prep. This will include Advisory Council events, major fundraising events, and significant school events such as Senior Signing Day. The vision of the Advisory Council is to *spread awareness of and advocate for YES Prep's mission while building an enduring legacy of philanthropy.*

Senior Leadership

Listed below are members of YES Prep's senior leadership, including biographical information pertaining to each.

Mark DiBella, Chief Executive Officer. Mr. DiBella joined YES Prep in 2001 as an Algebra teacher. He has 20 years of experience in traditional and charter school public education. Mr. DiBella has served as CEO since 2016, and before that as Superintendent, Chief Operating Officer, Head of Schools, principal at two schools, and as a teacher for nine years. During Mr. DiBella's tenure as CEO, he has streamlined and enhanced YES Prep's core business functions, cut central office spending by 11% in only four years, created a long-term path to financial sustainability, and developed YES Prep's new growth strategy and plan. Mr. DiBella graduated from The College of William and Mary with a Bachelor of Arts degree in Political Science and Minor in Mathematics, earned a Master of Business Administration at Rice University, completed the Rice Educational Entrepreneurship Program at Rice University, and is a member of Broad Academy, a highly selective leadership cohort training program founded by the Eli and Edythe Broad Foundation.

Luis Mena, Chief Financial Officer. Mr. Mena joined YES Prep in 2018. He has 21 years of experience in financial and business management in the private and nonprofit sectors. Mr. Mena oversees YES Prep's financial operations, and his department includes 20 full-time employees. In Summer 2019, Mr. Mena launched YES Prep's conversion to new Enterprise Resource Planning and Human Resources Information Systems and is responsible for financing YES Prep's \$220 million capital buildout during the proposed project. Mr. Mena began his career as an analyst at Enron Corporation and worked in the energy and infrastructure business for 15 years. He transitioned to the nonprofit sector in 2013, serving as the CFO for Amigos de las Americas, an international nonprofit focused on experiential education. As CFO, he oversaw finance, nationwide chapter and flight operations, and systemwide enrollment. Mr. Mena graduated from The University of Texas at Austin with a Bachelor of Business Administration and earned a Master of Business Administration at the Anderson School of Business at the University of California, Los Angeles.

Nella Garcia Urban, Chief External Officer. Originally from the Rio Grande Valley, Ms. Urban joined YES Prep in August of 2004 as a founding teacher at the YES Prep North Central campus where she taught various subjects in the humanities for two years. She then became a founding teacher at YES Prep East End in 2006 and a founding

Assistant School Director at YES Prep Lee, now YES Prep Gulfton, in 2007. Ms. Urban transitioned out of school leadership into the Director of Teacher Development role where she led the Teaching Excellence Program for four years. After leading the Teaching Excellence Program, Ms. Urban began to explore alignment within talent initiatives and programs at YES Prep as the Vice President of Talent. Now, as Chief Program Officer, Ms. Urban leads YES Prep's programmatic efforts in teaching and learning. Under her leadership, YES Prep saw academic growth leading towards college readiness through alignment of programmatic efforts across the organization. Ms. Urban graduated from Rice University in 2003 with degrees in English, Spanish and Political Science. She received a master's degree from Sam Houston State University in Education Leadership. In 2013, Ms. Urban was named a Pahara NextGen Fellow with the Aspen Institute, a program geared towards leaders in education reform with a diverse perspective.

Carmen Darville, Chief Operations Officer. Ms. Darville joined YES Prep in 2015. She has 13 years of experience in traditional and charter school public education. During her tenure, Ms. Darville established the Office of the CEO department and reorganized and expanded its functional areas. In 2019-2020, her department includes 42 full-time employees. She oversees 70% of YES Prep's operating budget, maintaining market competition while adhering to Board covenants; serves as the primary facilitator for executive leadership team meetings and manages peer task completion; provides strategic advice to the CEO to maximize his effectiveness and project and resource management; and is responsible for progress monitoring for the YES Prep's strategic priorities and initiatives. Prior to YES Prep, Ms. Darville served in senior leadership roles in Texas's two largest traditional school districts, Dallas ISD and Houston ISD, leading aggressive human resources turnaround efforts. Also, she served as a Recruitment Director for Teach For America in Chicago, increasing diversity recruitment to 40% in her portfolio; and as an English teacher in a Houston-area public school, Elsik High School, fostering a 98% passing rate on state testing. Ms. Darville serves on the Texas Charter Schools Association Planning Committee and won Teach For America Houston's Champion for Education award. She graduated from Case Western Reserve University with a Bachelor of Arts degree in English Literature and Communication Sciences, earned a Master of Education in Educational Leadership at The University of Texas at Austin, and completed the University EdLEADers Superintendent Certification Program at Stanford University.

Philip Wright, Chief Schools Officer. Mr. Wright joined YES Prep in 2004. He has 20 years of experience in traditional and charter school public education. Mr. Wright oversees the management of the Charter Schools. As CSO, he launched an ambitious strategy to allocate resources to increase school performance resulting in all YES Prep schools achieving state accountability standard; initiated a talent transfer to provide targeted staff support to priority schools; developed a standardized staffing model with an equity fund to provide staff and resources to close YES Prep's internal achievement gap; and oversaw the planning and launch of Thrive, the first charter disciplinary alternative education program in Texas. Mr. Wright began his 15-year tenure at YES Prep as a Middle School Language Arts teacher at YES Prep's flagship school, YES Prep Southeast. He also served as YES Prep Southeast's second principal, directing a turnaround initiative that resulted in notably improved teacher satisfaction and the school's highest scores in standardized tests and AP exams. In 2012, Mr. Wright became Associate Head of Schools, providing leadership coaching for principals, and one year later, he was promoted to Head of Schools, managing principals and student support and special education departments. He graduated from Miami University with a Bachelor of Science degree in Human Resource Management and a Minor in Finance, earned a Master of Education in Administration at Sam Houston State University, and completed the JMW Leaders of the Future Program.

Dana Foughty, Chief of Staff. Dana started as YES Prep's Chief of Staff in August of 2022. In this role, Ms. Foughty creates structure and opportunity to align the Executive team and ensures YES Prep's Board of Directors governs through accurate, relevant data and educational context. In addition to this work, Ms. Foughty steers YES Prep's New School Launch work and summer student, adult, and facilities programming. She most recently served as the Managing Director of Program and School Initiatives and joined YES Prep in July 2017 as the Director of Program Initiatives. Prior to YES Prep, Ms. Foughty served as a Region Manager of Professional Development at Catapult Learning; a District Coordinator of Professional Learning for Assessments at Fort Wayne Community Schools, a Founding Teacher and Asst. Principal at KIPP San Antonio; and a Grade 5 Reading Teacher in Edcouch-Elsa, TX during her 2 years as a Teach For America Corps Member. Ms. Foughty has a Master of Education in Education Policy and Leadership Studies from University of Texas San Antonio and a B.S. in Human Development and Family Studies from Texas Tech University. Ms. Foughty is originally from Dallas but loves everything Houston has to offer and is a converted Astros fan. Outside of work you can find Ms. Foughty with her husband, two kids, and pup-dog hanging out at parks and planning or going on their next National Park vacation.

Tony Munoz, Chief Talent Officer. Mr. Munoz is a certified Human Resources leader with nearly 20 years of experience in the public and private sectors. As Chief Talent Officer for YES Prep, he oversees all aspects of talent work, including certification, evaluation, talent development, talent acquisition, employee relations and engagement, compensation, and benefits. He most recently served as Managing Director of Regional Human Assets for IDEA Public Schools in Tarrant County – a role he took on after spending two years in the private sector as Director of Human Resources for Le Meridian Hotel, InterContinental Hotels & Resorts and Aimbridge Hospitality. Mr. Munoz’s career in education began in 1996 in Harlandale Independent School District, where he was a School Social Worker. He subsequently coordinated parent involvement for Grand Prairie public schools prior to joining Dallas ISD, where he spent 11 years working on talent development and acquisition via his roles as a Professional Development Specialist, Recruiting Coordinator, Staffing Manager, Talent Leader, and ultimately as Executive Director of Talent Management. Mr. Munoz grew up in the Rio Grande Valley and is a first-generation college graduate with a Bachelor of Social Work from The University of Texas at Austin.

Employees

General

The following table provides information regarding the number of professional staff and faculty that YES Prep employs.

| TABLE 2: PROFESSIONAL STAFF AND FACULTY | | | | |
|--|------------------------------|------------------------------|------------------------------|------------------------------|
| Faculty & Staff | 2019-20⁽¹⁾ | 2020-21⁽²⁾ | 2021-22⁽³⁾ | 2022-23⁽⁴⁾ |
| Teachers | 828 | 925 | 975 | 1,070 |
| Campus Administration | 484 | 486 | 552 | 694 |
| Central Administration | 242 | 254 | 299 | 371 |
| Total | 1,554 | 1,665 | 1,826 | 2,135 |

| Faculty | 2019-20⁽³⁾ | 2020-21⁽³⁾ | 2021-22⁽³⁾ | 2022-23⁽⁴⁾ |
|---------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Beginning Teachers | 197 | 309 | 181 | 438 |
| 1-5 Years’ Experience | 482 | 405 | 573 | 497 |
| 6-10 Years’ Experience | 107 | 128 | 157 | 110 |
| Over 10 Years’ Experience | 42 | 83 | 64 | 25 |
| Total | 828 | 925 | 975 | 1,070 |

| Student: Teacher Ratio | 2019-20⁽³⁾ | 2020-21⁽³⁾ | 2021-22⁽³⁾ | 2022-23⁽⁴⁾ |
|--|------------------------------|------------------------------|------------------------------|------------------------------|
| Enrollment | 13,970 | 14,607 | 16,523 | 17,962 |
| Number of Students Per Teacher | 17:1 | 18:1 | 18.5:1 | 18:1 |
| Teacher Retention⁽⁵⁾ | 91% | 80% | 72% | 85% |

⁽¹⁾ As of March 3, 2020.

⁽²⁾ As of December 18, 2020.

⁽³⁾ As of December 14, 2021.

⁽⁴⁾ As of December 8, 2022.

⁽⁵⁾ Does not include teachers who assumed a leadership position within YES Prep.

Labor Relations

All of YES Prep’s teachers, support staff and other employees are at-will employees and are held to high standards. The management of YES Prep believes that the faculty, administration and the Board of Directors have a strong and collaborative working relationship. YES Prep management considers its relations with its teachers to be very good.

ENROLLMENT, WAITLIST, STUDENT RETENTION AND DEMOGRAPHICS

Enrollment

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

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

The following table sets forth data provided by YES Prep regarding its historical, current and projected enrollment by grade level. For 2023-24 and thereafter, data presented represents projected enrollment as estimated by YES Prep, and is subject to the general qualifications and limitations described under “**INTRODUCTION – Forward-Looking Statements**” in the Official Statement. The table includes projected information for YES Prep’s currently existing campuses and the Project campuses.

| TABLE 3: HISTORICAL AND FUTURE PROJECTED ENROLLMENT BY GRADE LEVEL | | | | | | | | | |
|---|---------------------------------|---------------|---------------|---------------|---------------|------------------------------|------------------|---------------|---------------|
| Grade | <i>Historical⁽¹⁾</i> | | | | | <i>Current⁽²⁾</i> | <i>Projected</i> | | |
| | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
| PreK4 | - | - | - | - | 164 | 440 | 448 | 677 | 857 |
| K | - | - | - | 266 | 402 | 550 | 627 | 930 | 1,125 |
| 1 | - | - | - | 196 | 409 | 563 | 633 | 848 | 1,082 |
| 2 | - | - | - | 199 | 326 | 557 | 617 | 821 | 981 |
| 3 | - | - | - | - | 217 | 402 | 593 | 590 | 782 |
| 4 | - | - | - | - | - | 258 | 434 | 551 | 548 |
| 5 | - | - | - | - | - | - | 250 | 404 | 507 |
| 6 | 1,970 | 2,250 | 2,375 | 2,293 | 2,239 | 2,176 | 1,812 | 1,941 | 1,956 |
| 7 | 2,039 | 2,079 | 2,305 | 2,442 | 2,305 | 2,254 | 2,187 | 1,831 | 1,958 |
| 8 | 1,988 | 1,967 | 2,102 | 2,279 | 2,382 | 2,309 | 2,195 | 2,107 | 1,774 |
| 9 | 1,693 | 1,861 | 1,945 | 2,053 | 2,125 | 2,357 | 2,168 | 2,099 | 2,015 |
| 10 | 1,527 | 1,501 | 1,612 | 1,728 | 1,790 | 1,847 | 2,033 | 1,981 | 1,918 |
| 11 | 1,213 | 1,356 | 1,355 | 1,562 | 1,574 | 1,618 | 1,635 | 1,936 | 1,886 |
| 12 | 1,050 | 1,168 | 1,284 | 1,323 | 1,549 | 1,479 | 1,505 | 1,604 | 1,899 |
| Totals | 11,480 | 12,182 | 12,978 | 14,341 | 15,482 | 16,810 | 17,137 | 18,320 | 19,287 |

(1) As of October 1st of each year. Numbers do not include the Partnership Schools.

(2) As of October 28, 2022.

Waitlist

After the lotteries mentioned above, and once all remaining slots are filled, students are placed on a waiting list in the order in which their names are selected. If there are additional students who apply after the lottery has been conducted, they are added to the waiting list in the order in which their applications are received. Each year, students

wishing to enroll must reapply, a new lottery is conducted, and a new waiting list prepared. YES Prep currently maintains waiting lists by grade for the 2022-2023 school year.

| TABLE 4: WAITLIST BY GRADE | |
|-----------------------------------|------------------------------|
| Grade | 2022-23⁽¹⁾ |
| Pre-K | 214 |
| K | 62 |
| 1 | 150 |
| 2 | 84 |
| 3 | 147 |
| 4 | 183 |
| 5 | N/A |
| 6 | 809 |
| 7 | 857 |
| 8 | 731 |
| 9 | 1,605 |
| 10 | 783 |
| 11 | 516 |
| 12 | 203 |
| Totals | 6,344 |

⁽¹⁾ As of December 8, 2022. Numbers do not include the Partnership Schools.

Student Retention

The following chart set forth the percentage of students (aggregate for all schools) that returned to YES Prep the following school year since the 2017 - 2018 school year. Retention rate is calculated by the number of students active on open date of school year who are active or graduated on close date of School Year divided number of students active on open date of following School Year.

| TABLE 5: STUDENT RETENTION DATA⁽¹⁾ | | | | | |
|--|---|---|---|---|---|
| Grade | 2017-18 to 2018-19⁽²⁾ | 2018-19 to 2019-20⁽³⁾ | 2019-20 to 2020-21⁽⁴⁾ | 2020-21 to 2021-22⁽⁴⁾ | 2021-22 to 2022-23⁽⁴⁾ |
| PreK to K | N/A | N/A | N/A | N/A | 84% |
| K to 1 | N/A | N/A | N/A | 87% | 83% |
| 1 to 2 | N/A | N/A | N/A | 84% | 83% |
| 2 to 3 | N/A | N/A | N/A | 83% | 84% |
| 3 to 4 | N/A | N/A | N/A | N/A | 88% |
| 4 to 5 | N/A | N/A | N/A | N/A | N/A |
| 6 to 7 | 93% | 93% | 94% | 90% | 88% |
| 7 to 8 | 93% | 93% | 95% | 92% | 90% |
| 8 to 9 | 87% | 86% | 89% | 84% | 84% |
| 9 to 10 | 88% | 88% | 92% | 87% | 88% |
| 10 to 11 | 89% | 90% | 95% | 91% | 90% |
| 11 to 12 | 96% | 94% | 97% | 94% | 94% |
| Average | 91% | 91% | 94% | 90% | 89% |

⁽¹⁾ Numbers do not include Partnership Schools.

⁽²⁾ Data is based on Oct 2 to August 31 (Open date extended 1 month due to Hurricane Harvey).

⁽³⁾ Data is based on September 4, 2018 to August 30, 2019.

⁽⁴⁾ Data is based on the first Tuesday after Labor Day through the Friday before Labor Day of the following year.

Student Demographics

The following table details additional demographic information about the composition of YES Prep’s student body for the 20-21, 2021-22 and 2022-23 school years.

| Demographic Identifier | Percentage of Students 2020-21 | Percentage of Students 2021-22 | Percentage of Students 2022-23 |
|----------------------------|--------------------------------|--------------------------------|--------------------------------|
| African American | 9.1% | 8.4 | 8.4 |
| Hispanic | 88.1% | 81.5 | 81.5 |
| White | 1.2% | 1.0 | 1.0 |
| American Indian | 0.5% | 0.3 | 0.3 |
| Asian | 0.9% | 0.7 | 0.7 |
| Pacific Islander | 0.0% | 0.0 | 0.0 |
| Two or More Races | 0.2% | 8.0 | 8.0 |
| Economically Disadvantaged | 88.5% | 90.0 | 90.0 |
| EL | 30.9% | 42.5% | 42.5 |
| At-Risk | 52.1% | 65.0% | 68.9 |

SOURCE: For the 2020-21 and 2021-22 school years, Texas Academic Performance Report. For the 2022-23 school year, YES Prep. Excludes Partnership Schools.

COMPETITION; SERVICE AREA

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

YES Prep serves students in the greater Houston area. According to the terms of its charter, the YES Prep schools are open to all students in the independent school districts (“ISDs”) of Aldine ISD, Alief ISD, Alvin ISD, Angleton ISD, Brazos ISD, Channelview ISD, Clear Creek ISD, Conroe ISD, Cypress-Fairbanks ISD, Deer Creek ISD, Dickinson ISD, Fort Bend ISD, Friendswood ISD, Galena Park ISD, Goose Creek ISD, Houston ISD, Huffman ISD, Humble ISD, Katy ISD, Klein ISD, La Porte ISD, Lamar Consolidated ISD, Needville ISD, New Caney ISD, Pasadena ISD, Pearland ISD, Santa Fe ISD, Sheldon ISD, Spring Branch ISD, Spring ISD, Stafford Municipal School District, Texas City ISD and Tomball ISD.

The following tables are based on the 2022 TEA Accountability Ratings as compared to other charter schools and ISDs in the general area.

| School/District | Student Achievement | School Progress | Closing the Gap | Accountability Rating |
|--|------------------------|-----------------|------------------------|-----------------------|
| YES Prep | B (85) | A (91) | C (76) | B (87) |
| KIPP Texas | B (84) | A (90) | C (76) | B (86) |
| Harmony Public Schools- Houston West | A (95) | A (95) | A (95) | A (95) |
| Harmony Public Schools- Houston South | B (89) | A (94) | B (86) | A (92) |
| Harmony Public Schools- Houston North | B (89) | A (93) | B (89) | A (92) |
| International Leadership of Texas | B (83) | B (89) | C (78) | B (86) |
| Houston ISD | C (78) | B (89) | B (86) | B (88) |
| Spring Branch ISD | B (83) | B (89) | B (88) | B (89) |
| Aldine ISD | NR (63) ⁽¹⁾ | B (80) | NR (69) ⁽¹⁾ | 77 (C) |

SOURCE: TEA.

⁽¹⁾ Not Rated: Senate Bill 1365.

STUDENT PERFORMANCE AND ACCOUNTABILITY RATINGS

State Accountability

The Student Assessment Division of the Texas Education Agency manages and oversees the development, administration, scoring, and analysis of the State’s assessment program, which is 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. Beginning in the spring of 2012, the State of Texas Assessments of Academic Readiness (“*STAAR*”) assessments replaced the Texas Assessment of Knowledge and Skills (“*TAKS*”). The STAAR program at grades 3-8 assesses the same subjects and grades that were previously assessed on TAKS. In high school, STAAR replaced grade-specific assessments with 5 end-of-course assessments (“*EOCs*”). The State of Texas Assessments of Academic Readiness Modified (“*STAAR Modified*”) is no longer offered to students with disabilities as of the 2014-2015 school year, as a result of requirements from the U.S. Department of Education. Testing accommodations have been made for students with disabilities who meet specific eligibility requirements. The Student Assessment Division oversees the administration of the State of Texas Assessments of Academic Readiness Alternate 2 (“*STAAR Alternate 2*”) for the purpose of assessing students in grades 3-8 and high school who have significant cognitive disabilities and are receiving special education services. The Student Assessment Division also oversees the administration of STAAR Spanish for students in grades 3-5 for whom a Spanish version of STAAR is the most appropriate measure of their academic progress, and provides for the administration of the Texas English Language Proficiency Assessment System (“*TELPAS*”) assessments, which are designed to assess the progress that limited English proficient students make in learning the English language.

Due to COVID-19, on March 16, 2020 the Governor waived STAAR testing for the 2019-2020 school year. STAAR testing was conducted for the 2020-21 and the 2021-22 school years.

Historical and Current Accountability Rating Frameworks

The State’s accountability system assigns ratings to every campus and district in the public education system each year. The State’s accountability system has been amended several times in recent years. For purposes of this Appendix B, three separate accountability systems have been analyzed: (i) accountability ratings for the 2017-2018 year; and (ii) accountability ratings for the 2018-2019 year which also applies to 2019-20, 2020-21 and 2021-22 years unless otherwise noted below. Further explanation of each of these respective systems is provided below.

2017-2018 Accountability Rating

For the 2017-2018 school year, the State revised its accountability rating system to better align federal funding with priorities within TEA’s strategic plan. See “**RISK FACTORS – Federal Accountability Measures**” in the Official Statement. For the 2017-2018 year, the accountability ratings were as follows:

- (a) *Met Standard*. Assigned for overall performance and for performance in each domain to campuses that met the performance targets.
- (b) *Improved Required*. Assigned for overall performance and for performance in each domain to campuses that did not meet the performance targets.
- (c) *Met Alternative Standard*. Assigned for overall performance and for performance in each domain to alternative education campuses that met the performance targets.
- (d) *Not Rated*. Assigned to campuses that—under certain, specific circumstances—did not receive a rating

The overall design of the accountability system evaluated performance according to three domains:

- (a) *Student Achievement Domain*. Evaluated performance across all subjects for all students, on both general and alternate assessments, College, Career, and Military Readiness (CCMR) indicators, and graduation rates.

(b) *Student Progress Domain*. Measured district and campus outcomes in two areas: the number of students that grew at least one year academically (or were on track) as measured by STAAR results and the achievement of all students relative to districts or campuses with similar economically disadvantaged percentages.

(c) *Closing the Gaps Domain*. Used disaggregated data to demonstrate differentials among racial/ethnic groups, socioeconomic backgrounds and other factors. The indicators included in this domain aligned the state accountability system with the Every Student Succeeds Act (ESSA).

2018-2019 Accountability Rating

The State again revised the accountability system for the 2018-2019 school year. Currently, districts and campuses receive letter grades both in an overall context, as well as for each respective domain evaluated:

(a) *A (Exemplary Performance), B (Recognized Performance), C (Acceptable Performance), or D (In Need of Improvement)*: Assigned for overall performance and for performance in each domain to districts (including those evaluated under alternative education accountability (AEA)) that meet the performance target for the letter grade.

(b) *F (Unacceptable Performance)*. Assigned for overall performance and for performance in each domain to districts (including AEAs) that do not meet the performance target to earn at least a D.

(c) *Not Rated*. Assigned to districts that—under certain, specific circumstances—do not receive a rating.

To learn more about the A–F accountability system, visit <https://tea.texas.gov/A-F/>.

The current accountability system evaluates performance in the following three domains:

(a) *Student Achievement*. Evaluates performance across all subjects for all students, on both general and alternate assessments, College, Career, and Military Readiness (CCMR) indicators, and graduation rates.

(b) *School Progress*. Measures district and campus outcomes in two areas: the number of students that grew at least one year academically (or are on track) as measured by STAAR results and the achievement of all students relative to districts or campuses with similar economically disadvantaged percentages.

(c) *Closing the Gaps*. Uses disaggregated data to demonstrate differentials among racial/ethnic groups, domain’s construction, align the state accountability system with the Every Student Succeeds Act (ESSA).

Distinction designations are awarded to campuses in the following areas:

- Academic Achievement in English Language Arts/Reading
- Academic Achievement in Mathematics
- Academic Achievement in Science
- Academic Achievement in Social Studies
- Top 25 Percent: Comparative Academic Growth
- Top 25 Percent: Comparative Closing the Gaps
- Postsecondary Readiness

For the 2019-20 and 2020-21 school year all Texas districts and campuses were labeled Not Rated: Declared State of Disaster. For the 2021-22 school year all Texas districts and campuses were labeled A, B,

C or Not Rated: Senate Bill 1365. TEA has announced preliminary plans to implement an updated A-F accountability ratings framework for the 2023 accountability ratings.

The table below shows YES Prep accountability ratings determined by the Texas Education Agency for the 2017-2018, 2018-2019 and 2021-22 school years.

| TABLE 8: CHARTER SCHOOLS' ACCOUNTABILITY RATINGS⁽²⁾ | | | | | |
|---|-----------------------------------|--------------------------------|-------------------------|-------------------------------|--|
| 2017-18 | | | | | |
| Campus | Student Achievement Domain | Student Progress Domain | Closing the Gaps | Overall | Distinctions |
| District | B (88) | B (89) | C (79) | NOT RATED (86) ⁽³⁾ | |
| Brays Oaks | Met Standard | Met Standard | Met Standard | Met Standard | Social Studies |
| East End | Met Standard | Met Standard | Met Standard | Met Standard | Mathematics, Science |
| Eisenhower ⁽²⁾ | Met Standard | Met Standard | Met Standard | Met Standard | |
| Fifth Ward | Met Standard | Met Standard | Met Standard | Met Standard | Social Studies, Postsecondary Readiness |
| Gulfton | Met Standard | Met Standard | Met Standard | Met Standard | |
| Hobby | N/A | N/A | N/A | N/A | |
| Northbrook HS ⁽²⁾ | Met Standard | Met Standard | Met Standard | Met Standard | |
| Northbrook MS ⁽²⁾ | Met Standard | Met Standard | Met Standard | Met Standard | Comparative Academic Growth |
| North Central | Met Standard | Met Standard | Met Standard | Met Standard | Mathematics, Comparative Academic Growth |
| North Forest | Met Standard | Met Standard | Met Standard | Met Standard | |
| Northline | Improvement Required | Met Standard | Improvement Required | Improvement Required | |
| Northside | Met Standard | Met Standard | Met Standard | Met Standard | Science |
| Northwest | N/A | N/A | N/A | N/A | |
| Southeast | Met Standard | Met Standard | Met Standard | Met Standard | Mathematics, Science, Social Studies, Postsecondary Readiness, Comparative Academic Growth |
| Southside | Met Standard | Met Standard | Met Standard | Met Standard | Comparative Academic Growth, Comparative Closing the Gaps |
| Southwest | Met Standard | Met Standard | Met Standard | Met Standard | Mathematics, Postsecondary Readiness, Comparative Academic Growth |
| West | Met Standard | Met Standard | Met Standard | Met Standard | |
| White Oak | Met Standard | Met Standard | Met Standard | Met Standard | |
| 2018-19 | | | | | |
| Campus | Student Achievement Domain | Student Progress Domain | Closing the Gaps | Overall | Distinctions |
| District | A (90) | A (93) | C (79) | B (88) | |
| Brays Oaks | B (82) | A (90) | B (83) | B (88) | Comparative Academic Growth |
| East End | A (90) | A (91) | B (83) | B (89) | |
| Eisenhower ⁽²⁾ | C (72) | C (79) | C (72) | C (77) | |
| Fifth Ward | B (83) | A (91) | C (77) | B (87) | |
| Gulfton | B (84) | B (87) | C (77) | B (84) | |
| Hobby | N/A | N/A | N/A | N/A | |
| Northbrook HS ⁽²⁾ | D (67) | C (76) | D (86) | C (74) | Mathematics |
| Northbrook MS ⁽²⁾ | D (69) | B (80) | C (72) | C (78) | Comparative Academic Growth |
| North Central | A (93) | A (92) | B (83) | A (90) | Mathematics |
| North Forest | B (85) | B (87) | B (82) | B (86) | |
| Northline | C (73) | B (83) | F (50) | C (73) | Mathematics |
| Northside | B (81) | A (90) | C (75) | B (86) | |
| Northwest | C (77) | B (88) | D (67) | B (82) | ELA/Reading, Postsecondary Readiness |
| Southeast | A (93) | A (92) | A (94) | A (93) | Mathematics, Postsecondary Readiness, Comparative Closing |

| | | | | | the Gaps |
|------------------------------|----------------------------|-------------------------|------------------------|------------------------|--|
| Southside | C (75) | B (86) | C (77) | B (83) | Comparative Academic Growth, Postsecondary Readiness, Comparative Closing the Gaps |
| Southwest | A (92) | A (92) | B (84) | A (90) | Mathematics, Science, Postsecondary Readiness, Comparative Closing the Gaps |
| West | B (88) | A (92) | B (85) | A (90) | Comparative Academic Growth |
| White Oak | C (75) | B (84) | C (79) | B (83) | Comparative Academic Growth |
| 2021-22 | | | | | |
| Campus | Student Achievement Domain | Student Progress Domain | Closing the Gaps | Overall | Distinctions |
| District | B (85) | A (91) | C (76) | B (87) | |
| Brays Oaks | B (86) | A (90) | C (78) | B (86) | |
| East End | B (85) | A (90) | C (77) | B (86) | |
| Eisenhower ⁽²⁾ | NR (62) ⁽¹⁾ | NR (68) ⁽¹⁾ | NR (63) ⁽¹⁾ | NR (67) ⁽¹⁾ | |
| Fifth Ward | B (85) | A (90) | B (81) | B (87) | |
| Gulfton | B (81) | B (86) | C (77) | B (83) | |
| Hobby | C (75) | B (88) | B (85) | B (87) | Science |
| Northbrook HS ⁽²⁾ | NR (64) ⁽¹⁾ | C (72) | NR (47) ⁽¹⁾ | NR (65) ⁽¹⁾ | |
| Northbrook MS ⁽²⁾ | C (70) | B (81) | C (77) | B (80) | Postsecondary Readiness |
| North Central | B (88) | B (89) | B (84) | B (88) | Science |
| North Central Elementary | C (72) | B (81) | NR (67) ⁽¹⁾ | C (77) | |
| North Forest | B (83) | B (86) | C (75) | B (83) | |
| Northline | C (72) | B (88) | C (75) | B (84) | |
| Northside | C (79) | B (83) | C (75) | B (81) | |
| Northwest | C (78) | B (89) | C (75) | B (85) | Social Studies, Postsecondary Readiness |
| Southeast | B (88) | A (91) | C (78) | B (87) | |
| Southeast Elementary | C (79) | B (87) | A (100) | A (91) | Postsecondary Readiness, Closing the Gaps |
| Southside | NR (56) ⁽¹⁾ | C (70) | NR (50) ⁽¹⁾ | NR (64) ⁽¹⁾ | |
| Southwest | B (88) | A (91) | B (83) | B (89) | Science, Postsecondary Readiness |
| West | A (87) | A (91) | C (78) | B (87) | |
| White Oak | C (76) | A (91) | C (75) | B (86) | |

SOURCE: TEA.

⁽¹⁾ Not Rated: Senate Bill 1365.

⁽²⁾ Partnership school rated as part of the corresponding independent school district.

⁽³⁾ Ninety-two (92) school districts and district charters would have received a rating of B, C, D or F, but met at least one of the Hurricane Harvey criteria. As a result, those districts are labeled “Not Rated: Harvey Provision”. For purposes of counting consecutive years of ratings, 2017 and 2019 will be considered consecutive for school districts, open-enrollment charter schools, and campuses receiving a “Not Rated” label in 2018 due to hurricane

For the 2019-20 and 2020-21 school years all Texas districts and campuses were labeled Not Rated: Declared State of Disaster.

For more information regarding the effects of accountability ratings on YES Prep, see “**RISK FACTORS—Dependence on the State—Public School System Accountability**” in the Official Statement.

The table below provides information from the Texas Education Agency and shows the percentage of students at YES Prep and in the State of Texas who scored at the proficiency level or above on the STAAR for the school years shown below, which are the most recent scores available. The information in the tables below was compiled from the Texas Academic Performance Reports.

| TABLE 9: STAAR PERFORMANCE (MEETS GRADE LEVEL OR ABOVE) | | | | | | | | | |
|---|---------|--------|----------|------------------------|--------|----------|---------|--------|----------|
| | 2018-19 | | | 2020-21 ⁽¹⁾ | | | 2021-22 | | |
| | State | Region | YES Prep | State | Region | YES Prep | State | Region | YES Prep |
| All Subjects | 50% | 51% | 51% | 41% | 43% | 33% | 48% | 49% | 41% |
| ELA/Reading | 48% | 49% | 47% | 45% | 46% | 37% | 53% | 54% | 45% |
| Mathematics | 52% | 53% | 57% | 37% | 39% | 28% | 42% | 44% | 37% |
| Writing | 38% | 39% | 41% | 30% | 31% | 25% | N/A | N/A | N/A |
| Science | 54% | 55% | 58% | 44% | 45% | 39% | 47% | 49% | 44% |
| Social Studies | 55% | 57% | 51% | 49% | 51% | 31% | 50% | 51% | 37% |

SOURCE: Texas Academic Performance Report. Additional breakdowns by grade or campus can be found at <https://tea.texas.gov/texas-schools/accountability/academic-accountability/performance-reporting/texas-academic-performance-reports>.

⁽¹⁾ The decline in the 2020-21 STAAR performance levels were due to the Pandemic and do not have any bearing on YES Prep’s accountability ratings because accountability ratings were not given for the 2020-21 school year. YES Prep continues to work with its student to close the educational gaps created by the Pandemic.

Federal Accountability

Title I of the Elementary and Secondary Education Act of 1965, as reauthorized by the Every Student Succeeds Act (“ESSA”) of 2015, requires each state to submit a plan outlining its statewide accountability system to the U.S. Department of Education (the “USDOE”). The plan submitted by the State was approved by USDOE in March 2018 (the “Texas Plan”).

Under the Texas Plan, the TEA will maintain rigorous, yet achievable goals for all student groups; create stronger alignment between all State and federal program areas; shift the proficiency level for students from the “Approaches” label on STAAR to the “Meets” label; and better align federal funding with priorities within TEA’s strategic plan. Certain information regarding State assessments, including accountability and transparency metrics, is set forth above under “— ACCOUNTABILITY RATINGS AND STUDENT PERFORMANCE.”

Any failure of YES Prep to meet the requirements of ESSA or the Texas Plan may have a material adverse effect on the ability of YES Prep to generate revenues sufficient to make payments under the Master Notes representing debt service on the Bonds and other bonds issued for the benefit of YES Prep.

On March 27, 2020 the U.S. Department of Education waived the following requirements under the ESSA for Texas schools:

- Assessment requirements in section 1111(b)(2) for the school year 2019-2020.
- Accountability and school identification requirements in sections 1111(c)(4) and 1111(d)(2)(C)-(D) that are based on data from the 2019-2020 school year.
- Report card provisions related to assessments and accountability in section 1111(h) based on data from the 2019-2020 school year. These include:
 - Section 1111(h)(1)(C)(i) (accountability system description);
 - Section 1111(h)(1)(C)(ii) (assessment results);
 - Section 1111(h)(1)(C)(iii)(I) (other academic indicator results);
 - Section 1111(h)(1)(C)(iv) (English language proficiency results);
 - Section 1111(h)(1)(C)(v) (school quality or student success indicator results);
 - Section 1111(h)(1)(C)(vi) (progress toward meeting long-term goals and measurements of interim progress);
 - Section 1111(h)(1)(C)(vii) (percentage of students assessed and not assessed);
 - Section 1111(h)(1)(C)(xi) (number and percentage of students with the most significant cognitive disabilities taking an alternate assessment); and
 - Section 1111(h)(2)(C) with respect to all waived requirements in section 1111(h)(1)(C) as well as 1111(h)(2)(C)(i)-(ii) (information showing how students in a school district and each school,

respectively, achieved on the academic assessments compared to students in the State and school district).

- o Section 1111(h)(1)(C)(v) (School Quality or Student Success indicator results).
- o Section 1111(h)(1)(C)(vi) (Progress toward meeting long-terms goals and measurements of interim progress).
- o Section 1111(h)(2)(C) with respect, at the local educational agency (LEA) and school levels, to all waived requirements in section 1111(h)(1)(C).

On April 6, 2021 the U.S. Department of Education waived the following requirements under the ESSA for Texas schools:

- Accountability and school identification requirements in sections 1111(c)(4) and 1111(d)(2)(C)-(D) for the 2020-2021 school year.
- Report card provisions related to accountability in section 1111(h) based on data from the 2020-2021 school year. These include:
 - o Section 1111(h)(1)(C)(i)(I)-(IV) and (VI) (Accountability system description, other than the list of comprehensive, targeted, and additional targeted support and improvement schools).
 - o Section 1111(h)(1)(C)(iii)(I) (Other Academic indicator results for schools that are not high schools).
 - o Section 1111(h)(1)(C)(v) (School Quality or Student Success indicator results).
 - o Section 1111(h)(1)(C)(vi) (Progress toward meeting long-terms goals and measurements of interim progress).
 - o Section 1111(h)(2)(C) with respect, at the local educational agency (LEA) and school levels, to all waived requirements in section 1111(h)(1)(C).

On April 22, 2022 the U.S. Department of Education waived the following requirements under the ESSA for Texas schools:

Alternate Academic Achievement Assessments under 1111(d)(2)(D)(i)(I) for the 2020-2021 school year.

No waivers were made for the 2022-23 school year.

FIRST Financial Ratings

The purpose of the financial accountability rating system (Texas Administrative Code (“TAC”), Title 19, § 109.1001), also known as the Financial Integrity Rating System of Texas (“FIRST”), is to ensure that open-enrollment charter schools are held accountable for the quality of their financial management practices and achieve improved performance in the management of their financial resources. The system is designed to encourage Texas public schools to manage their financial resources better in order to provide the maximum allocation possible for direct instructional purposes.

The system also discloses the quality of local management and decision-making processes that impact the allocation of financial resources in Texas public schools. An evaluation of the long-term effectiveness of the system should disclose a measurable improvement in the quality of Texas public schools' financial decision-making processes.

The FIRST ratings are determined by TEA and take certain critical indicators, fiscal responsibility and data quality, budgeting, personnel, and cash management into account. The following table reflects YES Prep's FIRST Ratings (one of four possible letter grades: A, B, C, or F).

| TABLE 10 – FIRST FINANCIAL RATINGS | | |
|---|---------------|--------------|
| | Rating | Score |
| 2021-2022 | A - Superior | 92/100 |
| 2020-2021 | A - Superior | 90/100 |
| 2019-2020 | A- Superior | 94/100 |
| 2018-2019 | A - Superior | 94/100 |
| 2017-2018 | A - Superior | 94/100 |

SOURCE: TEA.

FINANCIAL INFORMATION

YES Prep prepares its financial statements on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (“GAAP”). 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 Resource Guide (“Guide”). The Guide also requires an annual budget to be created, approved by the Board of Directors, and posted to the school's website. On a monthly basis the budget is compared to year-to-date actual balances. The comparison is provided to the Board of Directors and adjustments to the budget are considered when necessary. All budget adjustments are approved by the Board of Directors and posted to the Academy's website.

Management of YES Prep is responsible for establishing and maintaining effective internal control over financial reporting and compliance with certain provisions of laws, regulations, contracts, and grant agreements. YES Prep's bylaws require financial statements to be certified by an independent public accountant. In addition to a Report of Independent Auditors containing an audit opinion on YES Prep's financial statements, YES Prep annually receives a report of independent auditors 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 and a report of independent auditors on compliance for each major program and on internal control over compliance required by OMB Circular A-133.

YES Prep’s financial statements in 2020 were consolidated with the financial statements of YES Prep Facilities, LLC which was a limited liability company organized to work with YES Prep to obtain a new market tax credit financing. YES Prep Facilities, LLC was terminated in December of 2020. Audited financial statements for YES Prep for the fiscal years ending in 2022, 2021 and 2020 are included herein as APPENDIX C.

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Statement of Financial Position for the Years Ended June 30, 2022, June 30, 2021 and June 30, 2020

The following is derived from YES Prep’s audited financial statements for fiscal years ended June 30, 2022, June 30, 2021 and June 30, 2020.

| | FYE <u>2022</u> | FYE <u>2021</u> | FYE <u>2020</u> |
|---|-----------------------|-----------------------|-----------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and Cash Equivalents | \$ 71,788,524 | \$ 65,116,671 | \$ 49,169,264 |
| Contributions Receivables: | | | |
| Government Grants | 46,619,197 | 31,211,421 | 18,534,955 |
| Other Contributions Receivables | 486,940 | 515,333 | 4,009,916 |
| Accounts Receivable | 1,077,948 | 806,844 | 2,369,048 |
| Beneficial Interest in Charitable Trust | 250,000 | 250,000 | 250,000 |
| Prepaid Expense and Other Assets | <u>1,470,300</u> | <u>1,183,788</u> | <u>869,625</u> |
| Total Current Assets | <u>\$ 121,692,909</u> | <u>\$ 99,084,057</u> | <u>\$ 75,202,808</u> |
| Contributions Receivables, net | \$ 748,200 | \$ 951,750 | \$ 1,502,586 |
| Beneficial Interest in Charitable Trust | 1,102,023 | 1,126,376 | 1,339,876 |
| Bond Proceeds Held In Trust | 338,743 | 26,787,655 | - |
| Bond Sinking Fund Investments | 31,177,783 | 27,728,184 | 23,813,133 |
| Property and Equipment, net | <u>250,951,422</u> | <u>211,643,032</u> | <u>175,785,309</u> |
| TOTAL ASSETS | <u>\$ 406,011,080</u> | <u>\$ 367,321,054</u> | <u>\$ 277,643,712</u> |
| LIABILITIES AND NET ASSETS | | | |
| CURRENT LIABILITIES | | | |
| Accounts Payable and Accrued Expense | \$ 8,249,559 | \$ 3,401,116 | \$ 931,317 |
| Accrued Payroll Expense | 14,128,579 | 13,637,465 | 9,425,609 |
| Construction Payable | 6,129,098 | 4,209,308 | 1,692,166 |
| Accrued Interest | 1,296,225 | 1,611,500 | 1,041,866 |
| Refundable Advances | 2,032,076 | 200,681 | - |
| Current Portion of Notes Payable | 2,952,917 | 1,546,667 | 1,546,667 |
| Current Portion of Bonds Payable | <u>3,002,459</u> | <u>3,431,697</u> | <u>3,411,697</u> |
| TOTAL CURRENT LIABILITIES | <u>\$ 37,790,913</u> | <u>\$ 28,038,434</u> | <u>\$ 18,049,322</u> |
| Bonds Payable, net | \$ 137,919,104 | \$ 140,974,492 | \$ 64,790,006 |
| Notes Payable, net | <u>38,588,441</u> | <u>25,614,679</u> | <u>45,815,014</u> |
| TOTAL LIABILITIES | <u>\$ 214,298,458</u> | <u>\$ 194,627,605</u> | <u>\$ 128,654,342</u> |
| NET ASSETS | | | |
| Unrestricted | \$ 140,284,861 | \$ 114,474,841 | \$ 100,467,547 |
| Temporarily Restricted | <u>51,427,761</u> | <u>58,218,608</u> | <u>48,521,823</u> |
| TOTAL NET ASSETS | <u>\$ 191,712,622</u> | <u>\$ 172,693,449</u> | <u>148,989,370</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 406,011,080</u> | <u>\$ 367,321,054</u> | <u>\$ 277,643,712</u> |

Statements of Activities for the Years Ended June 30, 2022, June 30, 2021 and June 30, 2020

The following is derived from YES Prep’s audited financial statements for fiscal years 2022, 2021 and 2020.

Statement of Activities

| | FYE <u>2022</u> | FYE <u>2021</u> | FYE <u>2020</u> |
|--|---------------------------------|---------------------------------|---------------------------------|
| <u>OPERATING REVENUE</u> | | | |
| Government Grants | \$196,120,136 | \$170,462,215 | \$136,127,015 |
| Contributions | 12,091,413 | 9,244,873 | 25,600,818 |
| Program Service Fees | 16,378,399 | 18,486,039 | 18,152,573 |
| Special Events | 2,855,799 | 1,942,599 | 2,667,007 |
| Cost of Direct Donor Benefits | (203,630) | (104,288) | (200,459) |
| Interest Income | 1,387,917 | 1,025,495 | 989,932 |
| Other | 35,469 | 35,186 | 160,956 |
| TOTAL OPERATING REVENUE | <u>\$228,665,503</u> | <u>\$201,092,119</u> | <u>\$183,497,842</u> |
| <u>OPERATING EXPENSES</u> | | | |
| Program Expenses: | | | |
| Instructional Program | \$159,943,744 | \$130,721,501 | \$122,327,792 |
| Auxiliary Services | 33,792,135 | 29,646,252 | 16,027,740 |
| TOTAL PROGRAM EXPENSES | <u>\$193,735,879</u> | <u>\$160,367,753</u> | <u>\$138,355,532</u> |
| General and Administrative | \$14,549,239 | \$15,930,859 | \$13,685,278 |
| Fundraising | 1,361,212 | 1,089,428 | 1,131,805 |
| TOTAL OPERATING EXPENSES | <u>\$209,646,330</u> | <u>\$177,388,040</u> | <u>\$153,172,615</u> |
| CHANGE IN NET ASSETS | <u>\$19,019,173</u> | <u>\$23,704,079</u> | <u>\$33,332,461</u> |
| NET ASSETS, BEGINNING OF YEAR | <u>\$172,693,449</u> | <u>\$148,989,370</u> | <u>\$115,656,909</u> |
| NET ASSETS, ENDING OF YEAR | <u>\$191,712,622</u> | <u>\$172,693,449</u> | <u>\$148,989,370</u> |

The Board’s current financial policies require that YES Prep maintain 75 days cash and maintain a Debt Service Coverage ratio minimum of 1.35x when funding capital construction projects.

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DEBT

Existing Debt

Below is a list of the long-term outstanding debt obligations of YES Prep as of the Date of Delivery of the Bonds.

| TABLE 11: DEBT SUMMARY⁽¹⁾⁽²⁾ | | | | | | |
|--|-------------------------|----------------|----------------------|----------------------|----------------------|---------------|
| Debt | Secured by Trust Estate | Effective Rate | Original Amount | Outstanding Amount | Sinking Fund Balance | Maturity Date |
| Series 2010Z Bonds | YES | 2.00% | \$16,000,000 | \$16,000,000 | \$13,240,143 | 4/1/25 |
| Series 2010Q Bonds | YES | 2.00% | \$6,100,000 | \$6,100,000 | \$5,047,804 | 4/1/25 |
| Series 2011Z Bonds | YES | 1.50% | \$8,751,000 | \$8,751,000 | \$6,603,565 | 4/1/26 |
| Series 2012Z Bonds | YES | 1.00% | \$3,400,000 | \$3,400,000 | \$2,382,942 | 4/1/27 |
| Series 2013 Note | YES | 3.25% | \$9,740,000 | \$3,892,314 | - | 4/1/28 |
| Series 2015 Note | YES | 2.93% | \$7,000,000 | \$3,644,363 | - | 4/1/30 |
| Series 2015Z Bonds | YES | 1.00% | \$15,000,000 | \$15,000,000 | \$7,314,526 | 4/1/30 |
| Series 2017Z Bonds | YES | 0.00% | \$9,030,000 | \$4,816,000 | - | 4/1/31 |
| Series 2017Z-1 Bonds | YES | 0.00% | \$14,170,000 | \$8,502,000 | - | 4/1/32 |
| Series 2017A Loan | YES | 2.77% | \$10,000,000 | \$6,395,000 | - | 4/1/32 |
| Series 2018 Note | YES | 3.92% | \$13,440,000 | \$10,590,000 | - | 4/1/34 |
| Regions Bank Note | YES | BSBY + 1.35% | \$40,000,000 | ⁽³⁾ | - | 4/1/25 |
| Series 2020 Bonds | YES | Varies | \$71,585,000 | \$70,195,000 | - | 4/01/50 |
| The Bonds | YES | Varies | \$83,220,000 | \$83,220,000 | - | 4/01/53 |
| TOTAL | | | \$307,436,000 | \$240,505,677 | \$34,588,980 | |

SOURCE: YES Prep.

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

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

⁽³⁾ Based on a payoff of the existing balance with a portion of the proceeds of the Bonds.

Future Debt

YES Prep intends to issue additional debt on a parity with the Master Notes over the next three years in the approximate amount of \$82,558,532 in conjunction with the Board’s campaign coined “Leading Houston Forward.” See “FINANCINGS - Future Financings” herein.

Philanthropy

YES Prep is committed to operating an enduring, financially sustainable organization. The Board is highly committed to YES Prep’s success and give generously to the school system on an annual basis. One of the major challenges that YES Prep faces, however, is that open-enrollment charter schools in Texas (unlike independent school districts) do not receive funds from local tax revenue. YES Prep will continue to rely on philanthropy to fully fund its core program model as well as innovation and growth. For the fiscal year ending June 30, 2023, YES Prep’s operating budget is \$253 million, and YES Prep must raise approximately 6% of this amount from philanthropy. More than 700 donors support the continued success of YES Prep annually.

YES Prep has a successful fundraising history. In 2006, YES Prep began hosting its inaugural Texas Hold ‘Em Oil and Gas Poker Tournament Fundraiser which has raised over \$20,000,000 for YES Prep to date. The 2023 event raised a record-breaking \$2,100,000. YES Prep began hosting the Leading Houston Forward Luncheon annually in 2017, which has raised over \$4,600,000 to date. In 2006, YES Prep also received \$10,000,000 from Houston Endowment to expand to new schools. In 2010, YES Prep received \$1,000,000 from the Oprah Winfrey’s Angel Network on national television. In 2015, YES Prep received \$1,000,000 from Spindletop Charities, Inc. to support the Spindletop Teaching Excellence Center, where new teachers are trained to impact thousands of students each year. In

response to the devastating impact of Hurricane Harvey across the Houston area in 2018, YES Prep raised nearly \$4,300,000 to directly support YES Prep families in crisis.

Since kicking off the Leading Houston Forward campaign in 2019 with a goal of \$80,000,000 in philanthropic support (including CSP Funding), YES Prep has raised \$80,186,293, including: \$12,000,000 from Arnold Ventures, \$10,250,000 from the Houston Endowment, \$8,000,000 from the Brown Foundation, \$7,650,000 from the Charter School Growth Fund, \$2,000,000 from the Cullen Foundation, \$1,880,000 from Claire and Joe Greenberg, and \$1,500,000 from Good Reason Houston.

All campaign funds are pledged directly to YES Prep and are generally restricted as to their use. Restricted Funds are noted in Note 4 of YES Prep's financial statements.

Financial Controls

YES Prep Financial Management Policy and bylaws govern financial activity within YES Prep. The strategic objectives of the policies are to maintain an investment grade credit rating that appropriately balances financial flexibility with cost of capital and to ensure spending is efficient and transparent to various stakeholders.

All debt incurred by YES Prep shall be approved by the Board and in accordance with all statutory requirements of the State of Texas and all other administrative codes.

The annual operating and capital budget will be approved by the Board in accordance with the laws of the State of Texas. It is the CEO and CFO's responsibility to develop the annual operating and capital budget and present to the Board prior to the start of each fiscal year. The spending on all operating expenses, capital improvement plans, and other capitalization projects must meet minimum board metrics and existing debt covenants.

The metrics that must be met per Board Policy are:

1. Lease-Adjusted Debt Service Coverage Ratio: Minimum of 1.35x annual debt service
2. Unrestricted Days Cash on Hand: Minimum of 75 days
3. Liquidity Ratio: Minimum of 0.20x

In addition, the CFO must provide transparency to the Board by reporting on system finances at the request of the Board.

YES Prep's Board practices a prudent debt policy to ensure that YES Prep does not take on undue financial risk through the acquisition of debt. In Fiscal Year 2023, more than 93% of YES Prep's revenue will come from state and federal sources. YES Prep only requires philanthropic support for their growing schools, capital projects, innovation, and program enhancement. For quality purposes, YES Prep grows new secondary schools one grade level at a time, leading to a ramp-up period before achieving financial sustainability.

OTHER MATTERS

Conflicts Policy

YES Prep's bylaws expressly state that no part of the net earnings of the corporation shall inure to the benefit of any director of the corporation. Further, directors do not receive salaries or other compensation for their services. The bylaws also expressly prohibit any director, officer or committee member from, without the prior approval of the Board of Directors, (i) doing any act in violation of the bylaws or a binding obligation of the corporation; (ii) doing any act with the intention of harming the corporation or any of its operations; (iii) doing any act that would make it impossible to unnecessarily difficult to carry on the intended or ordinary business of the corporation; (iv) receiving an improper benefit for the operations of the corporation; (v) using the assets of the corporation, directly or indirectly, for any purpose other than carrying on the business of the corporation; (vi) wrongfully transferring or disposing of corporation property, including intangible property such as good will; (vii) using the name of the corporation (or any substantially similar name) or any trademark or trade name adopted by the corporation, except on behalf of the corporation in the ordinary course of the corporation's business and (viii) disclosing any of the corporation's business practices, trade secrets or any other information not generally known to the business community to any person not

authorized to receive it. Additionally, the Board of Directors is subject to the conflict of interest provisions set forth in Section 12.1054 of the Texas Education Code, as amended.

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

In addition to the foregoing, YES Prep (a) requires directors, officers and employees to conduct themselves in an honest ethical manner, (b) requires directors and officers to comply with State law governing conflicts of interest among charter school and charter holder board members and officers and (c) requires the directors and officers to file an affidavit relating to certain conflicts of interest.

Certain Business Relationships

YES Prep has no business transactions with any director or officer of YES Prep.

The husband of Nella Garcia Urban, the Chief External Officer, serves as the Director of Athletic Programming for YES Prep.

Insurance Coverage

In the Master Indenture, YES Prep has covenanted at all times following completion of any Related Project (as defined therein) to keep and maintain such Related Project insured against such risks and in such amounts with such deductible provisions as are customary in connection with the operation of facilities of the type and size comparable to the Related Project and consistent with the requirements of State law, all as further described in the Master Indenture. Additionally, YES Prep has covenanted to review each year the insurance carried by YES Prep with respect to YES Prep and the Related Project and, to the extent feasible, to carry insurance insuring against the risks and hazards described in the previous sentence to the same extent that other entities comparable to YES Prep and owning or operating facilities of the size and type comparable to the Related Project carry such insurance. At least once every two years, YES Prep has covenanted to retain an Independent Insurance Consultant (as defined in the Master Indenture) for the purpose of reviewing the insurance coverage of, and the insurance required for, YES Prep and the Related Project and making recommendations respecting the types, amounts and provisions of insurance that should be carried with respect to YES Prep and the Related Project. The insurance requirements of the Master Indenture shall be deemed modified or superseded as necessary to conform with the recommendations contained in said report to the extent the report recommends additional or increased coverage.

YES Prep currently maintains real and personal property, commercial general liability, commercial automotive, workman's compensation, and educator's legal liability insurance through the following companies: Liberty Mutual, Texas Mutual Insurance Company, National Fire & Marine Insurance Co, StarStone Specialty, Endurance American Specialty (Sompco), National Fire & Marine Insurance (Kemah Capital), Arch Specialty Insurance, Great Lakes Insurance (Rivington), Westfield Specialty Insurance, Kinsale Insurance, and Landmark American Insurance. As YES Prep purchases the additional properties with the proceeds, it will continue to increase its property insurance proportionally.

PROJECTED REVENUES AND EXPENDITURES

The Official Statement and this Appendix B contain certain "forward-looking" statements of the type described in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Although YES Prep believes that the assumptions upon which the forward-looking statements contained herein are based are reasonable, any of the assumptions could prove to be inaccurate and, as a result, the forward-looking statements based on those assumptions could also be incorrect. All phases of the operations of the Charter Schools by YES Prep involve risks and uncertainties, many of which are outside of YES Prep's control and any one of which, or a combination of which, could materially affect YES Prep's results with respect to the Charter Schools' operations. Factors that could cause actual results to differ from those expected include, but are not limited to, general economic conditions; the willingness of the State to fund public schools including charter schools at present or increased levels;

competitive conditions within the Charter Schools' service area; lower-than-projected enrollment; unanticipated expenses; changes in government regulation including changes in the law governing charter schools in Texas; future claims for accidents against YES Prep and the extent of insurance coverage for such claims; and other risks discussed herein. See "**RISK FACTORS**" in the Official Statement.

YES Prep is providing the following Historical and Projected Revenues and Expenses table for illustrative purposes only. These projections have been prepared by YES Prep, based on YES Prep'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. YES Prep's projections have not been independently verified by any party other than YES Prep. YES Prep'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 YES Prep pertinent to the Bonds. The Underwriters have not independently verified YES Prep'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 YES PREP WILL REALIZE REVENUES IN AMOUNTS SUFFICIENT TO MAKE ALL REQUIRED PAYMENTS REPRESENTING DEBT SERVICE ON THE BONDS. THE REALIZATION OF FUTURE REVENUES DEPENDS ON, AMONG OTHER THINGS, THE MATTERS DESCRIBED IN "RISK FACTORS" IN THE OFFICIAL STATEMENT, AND FUTURE CHANGES IN ECONOMIC AND OTHER CONDITIONS THAT ARE UNPREDICTABLE AND CANNOT BE DETERMINED AT THIS TIME. THE UNDERWRITERS MAKE NO REPRESENTATION AS TO THE ACCURACY OF THE PROJECTIONS CONTAINED HEREIN, NOR AS TO THE ASSUMPTIONS ON WHICH THE PROJECTIONS ARE BASED.

YES Prep Public School

Financials (Actuals FY 22, Projected FY 23, Forecast FY24 - on)

| Revenue | 2022 | Fcst 2023 | 2024 | 2025 | 2026 | 2027 |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| STATE REVENUE | \$ 156,389,600 | \$ 170,607,558 | \$ 191,456,793 | \$ 210,194,963 | \$ 227,281,361 | \$ 243,238,309 |
| FED REVENUE | \$ 33,347,067 | \$ 46,162,739 | \$ 51,095,498 | \$ 23,026,272 | \$ 24,893,452 | \$ 26,549,956 |
| FED REVENUE - FOOD | \$ 7,130,272 | \$ 7,739,504 | \$ 9,194,001 | \$ 10,123,282 | \$ 10,938,632 | \$ 11,635,682 |
| SUB-TOTAL STATE & FED REVENUE | \$ 196,866,939 | \$ 224,509,800 | \$ 251,746,292 | \$ 243,344,517 | \$ 263,113,446 | \$ 281,423,946 |
| LOCAL REVENUE (Partnerships/Fundraising/Etc) | \$ 31,798,564 | \$ 31,193,838 | \$ 22,548,160 | \$ 26,199,186 | \$ 26,586,845 | \$ 25,017,218 |
| TOTAL REVENUE | \$228,665,503 | \$255,703,638 | \$274,294,452 | \$269,543,704 | \$289,700,291 | \$306,441,165 |

| Expenses | 2022 | Fcst 2023 | 2024 | 2025 | 2026 | 2027 |
|-------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Salaries & Benefits | \$ 140,578,199 | \$ 157,427,965 | \$ 173,510,629 | \$ 168,695,305 | \$ 178,408,168 | \$ 187,505,590 |
| Professional Services | \$ 32,992,367 | \$ 39,962,909 | \$ 45,260,184 | \$ 46,335,535 | \$ 50,609,642 | \$ 54,485,345 |
| Supplies & Materials | \$ 18,687,626 | \$ 17,087,413 | \$ 20,472,001 | \$ 17,978,715 | \$ 20,161,924 | \$ 22,437,756 |
| Other Operating Expense | \$ 13,009,991 | \$ 16,993,115 | \$ 18,517,462 | \$ 19,378,985 | \$ 19,729,811 | \$ 19,843,588 |
| Amortization | \$ (5,403) | \$ 360,146 | \$ 415,375 | \$ 382,241 | \$ 381,323 | \$ 405,560 |
| Interest | \$ 4,383,550 | \$ 5,169,801 | \$ 6,544,619 | \$ 6,865,754 | \$ 7,797,076 | \$ 8,435,234 |
| Total | \$209,646,330 | \$237,001,347 | \$264,720,271 | \$259,636,535 | \$277,087,944 | \$293,113,073 |

| Change in Net Assets | \$19,019,173 | \$18,702,291 | \$9,574,181 | \$9,907,169 | \$12,612,346 | \$13,328,092 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|
| Depreciation | \$ 9,623,755 | \$ 10,868,978 | \$ 10,909,245 | \$ 13,148,496 | \$ 12,933,444 | \$ 12,497,260 |
| Amortization | \$ (5,403) | \$ 360,146 | \$ 415,375 | \$ 382,241 | \$ 381,323 | \$ 405,560 |
| Lease Expense | \$ 1,450,250 | \$ 1,493,758 | \$ 1,538,571 | \$ 1,584,728 | \$ 1,632,269 | \$ 1,681,238 |
| Interest | \$ 4,383,550 | \$ 5,169,801 | \$ 4,157,130 | \$ 3,161,029 | \$ 4,162,101 | \$ 4,873,509 |
| Interest - Series 2023 | | | \$ 2,387,489 | \$ 3,704,725 | \$ 3,634,975 | \$ 3,561,725 |
| EBIDA | \$ 34,471,325 | \$ 36,594,973 | \$ 28,981,991 | \$ 31,888,387 | \$ 35,356,458 | \$ 36,347,383 |
| Debt Service (excl Sinking fund interest) | \$ 16,201,151 | \$ 17,755,789 | \$ 16,476,313 | \$ 15,648,140 | \$ 13,937,990 | \$ 15,015,878 |
| Debt Service - Series 2023 | \$ - | \$ - | \$ 2,387,489 | \$ 5,099,725 | \$ 5,099,975 | \$ 5,101,725 |
| Lease-Adjusted Debt Service Coverage Ratio | 2.13x | 2.06x | 1.54x | 1.54x | 1.86x | 1.81x |

Key Financial Assumptions

| | |
|---------------------|----------------|
| Building Cost | \$17mm-\$18mm |
| Debt / Equity Ratio | 80 / 20 |
| Financing Term | 30 years |
| State Rev Inflation | 2.50% to 6.00% |
| Expense Inflation | 0.50% to 3.00% |

Key Operational Assumptions

| | |
|----------------------------------|----------------|
| Average Daily Attendance | 92.5% to 94.0% |
| Enrollment Scenario (ES Opening) | PK-2 |
| Students per Grade | 100 |
| PK Class Length | Full day |
| Student-to-Teacher Ratio | 25:1 |

Except as described above, the foregoing projections assume current fiscal policies of YES Prep are continued, with considerations of historical information as well as known events and conditions that affect the projection periods. The projections may be used to assess whether projected cash inflows will be sufficient to sustain YES Prep's services and to meet financial obligations as they come due. However, it is important to note that the projections of cash inflows, cash outflows, and accrued financial obligations based on current policy do not represent a forecast or a prediction of the most likely outcome.

Financial projections may be based upon assumptions regarding changes in social, economic and demographic events and conditions that are inherently subject to uncertainties. Therefore, readers are cautioned that actual future financial results of YES Prep may be significantly different from the financial projections that are reported.

APPENDIX C
FINANCIAL STATEMENTS

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YES Prep Public Schools, Inc.

Financial Statements
and Single Audit Reports
for the year ended June 30, 2022

YES Prep Public Schools, Inc.

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Certificate of Board

YES Prep Public Schools, Inc.
Name of Charter Holder

76-0563835
Federal Employer ID Number

YES Prep Public Schools, Inc.
Name of Charter School

Harris 101-845
County Co. Dist. Number

We, the undersigned, certify that the attached financial and compliance report of YES Prep Public Schools, Inc. was reviewed and (check one) X approved disapproved for the year ended June 30, 2022, at a meeting of the governing body of the Charter Holder on the 2nd day of November 2022.

DocuSigned by:
Carmen Danville
117708234D63448
Signature of Board Secretary

DocuSigned by:
A
3302C668974544E...
Signature of Board President

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

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Independent Auditors' Report

To the Board of Directors of
YES Prep Public Schools, Inc.:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of YES Prep Public Schools, Inc. (YES Prep), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of YES Prep as of June 30, 2022 and 2021, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of YES Prep and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about YES Prep's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 YES Prep’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about YES Prep’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 21 through 38 is presented for purposes of additional analysis as required by the Texas Education Agency and is not a required part of the financial statements. The accompanying supplementary information included in the schedule of expenditures of federal awards for the year ended June 30, 2022 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 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.

Unaudited Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The explanation for budget variances on page 31 is presented for purposes of additional analysis as required by the Texas Education Agency and is not a required part of the basic financial statements. The explanation for budget variances has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2022 on our consideration of YES Prep’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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of YES Prep’s 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 YES Prep’s internal control over financial reporting and compliance.

Blazek & Vetterling

November 8, 2022

YES Prep Public Schools, Inc.

Statements of Financial Position as of June 30, 2022 and 2021

| | <u>2022</u> | <u>2021</u> |
|---|-----------------------|-----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents (<i>Notes 3 and 5</i>) | \$ 71,788,524 | \$ 65,116,671 |
| Contributions receivable (<i>Note 4</i>): | | |
| Government grants | 46,619,197 | 31,211,421 |
| Other contributions receivable | 486,940 | 515,333 |
| Accounts receivable | 1,077,948 | 806,844 |
| Beneficial interest in charitable trust (<i>Note 5</i>) | 250,000 | 250,000 |
| Prepaid expenses and other assets | <u>1,470,300</u> | <u>1,183,788</u> |
| Total current assets | 121,692,909 | 99,084,057 |
| Other contributions receivable, net (<i>Note 4</i>) | 748,200 | 951,750 |
| Beneficial interest in charitable trust (<i>Note 5</i>) | 1,102,023 | 1,126,376 |
| Bond proceeds held in trust (<i>Note 3</i>) | 338,743 | 26,787,655 |
| Bond sinking fund investments (<i>Notes 5 and 7</i>) | 31,177,783 | 27,728,184 |
| Property and equipment, net (<i>Note 6</i>) | <u>250,951,422</u> | <u>211,643,032</u> |
| TOTAL ASSETS | <u>\$ 406,011,080</u> | <u>\$ 367,321,054</u> |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 8,249,559 | \$ 3,401,116 |
| Accrued payroll expenses | 14,128,579 | 13,637,465 |
| Construction payable | 6,129,098 | 4,209,308 |
| Accrued interest | 1,296,225 | 1,611,500 |
| Refundable advances (<i>Note 9</i>) | 2,032,076 | 200,681 |
| Current portion of bonds payable (<i>Note 7</i>) | 2,952,917 | 1,546,667 |
| Current portion of notes payable (<i>Note 7</i>) | <u>3,002,459</u> | <u>3,431,697</u> |
| Total current liabilities | 37,790,913 | 28,038,434 |
| Bonds payable, net (<i>Note 7</i>) | 137,919,104 | 140,974,492 |
| Notes payable, net (<i>Note 7</i>) | <u>38,588,441</u> | <u>25,614,679</u> |
| Total liabilities | <u>214,298,458</u> | <u>194,627,605</u> |
| Commitments and contingencies (<i>Notes 9 and 10</i>) | | |
| Net assets: | | |
| Without donor restrictions | 140,284,861 | 114,474,841 |
| With donor restrictions (<i>Note 8</i>) | <u>51,427,761</u> | <u>58,218,608</u> |
| Total net assets | <u>191,712,622</u> | <u>172,693,449</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 406,011,080</u> | <u>\$ 367,321,054</u> |

See accompanying notes to financial statements.

YES Prep Public Schools, Inc.

Statement of Activities for the year ended June 30, 2022

| | WITHOUT DONOR RESTRICTIONS | WITH DONOR RESTRICTIONS | TOTAL |
|--|-------------------------------|----------------------------|----------------|
| OPERATING REVENUE: | | | |
| Contributions: | | | |
| Government grants (<i>Note 10</i>) | | \$ 196,120,136 | \$ 196,120,136 |
| Other contributions | \$ 5,429,594 | 6,661,819 | 12,091,413 |
| Program service fees | 16,378,399 | | 16,378,399 |
| Special events | 2,855,799 | | 2,855,799 |
| Cost of direct donor benefits | (203,630) | | (203,630) |
| Interest income | 1,387,917 | | 1,387,917 |
| Other | 35,469 | | 35,469 |
| Total operating revenue | 25,883,548 | 202,781,955 | 228,665,503 |
| Net assets released from restrictions: | | | |
| Program expenditures | 201,880,204 | (201,880,204) | |
| Capital expenditures | 7,318,488 | (7,318,488) | |
| Expiration of time restrictions | 374,110 | (374,110) | |
| Total | 235,456,350 | (6,790,847) | 228,665,503 |
| OPERATING EXPENSES: | | | |
| Program expenses: | | | |
| Instructional program | 159,943,744 | | 159,943,744 |
| Auxiliary services | 33,792,135 | | 33,792,135 |
| Total program expenses | 193,735,879 | | 193,735,879 |
| General and administrative | 14,549,239 | | 14,549,239 |
| Fundraising | 1,361,212 | | 1,361,212 |
| Total operating expenses | 209,646,330 | | 209,646,330 |
| CHANGES IN NET ASSETS | 25,810,020 | (6,790,847) | 19,019,173 |
| Net assets, beginning of year | 114,474,841 | 58,218,608 | 172,693,449 |
| Net assets, end of year | \$ 140,284,861 | \$ 51,427,761 | \$ 191,712,622 |

See accompanying notes to financial statements.

YES Prep Public Schools, Inc.

Statement of Activities for the year ended June 30, 2021

| | WITHOUT DONOR RESTRICTIONS | WITH DONOR RESTRICTIONS | TOTAL |
|--|-------------------------------|----------------------------|-----------------------|
| OPERATING REVENUE: | | | |
| Contributions: | | | |
| Government grants (<i>Note 10</i>) | | \$ 170,462,215 | \$ 170,462,215 |
| Other contributions | \$ 4,206,076 | 5,038,797 | 9,244,873 |
| Program service fees | 18,486,039 | | 18,486,039 |
| Special events | 1,942,599 | | 1,942,599 |
| Cost of direct donor benefits | (104,288) | | (104,288) |
| Interest income | 1,025,495 | | 1,025,495 |
| Other | 35,186 | | 35,186 |
| | <hr/> | <hr/> | <hr/> |
| Total operating revenue | 25,591,107 | 175,501,012 | 201,092,119 |
| Net assets released from restrictions: | | | |
| Program expenditures | 159,899,215 | (159,899,215) | |
| Capital expenditures | 5,341,512 | (5,341,512) | |
| Expiration of time restrictions | 563,500 | (563,500) | |
| | <hr/> | <hr/> | <hr/> |
| Total | 191,395,334 | 9,696,785 | 201,092,119 |
| OPERATING EXPENSES: | | | |
| Program expenses: | | | |
| Instructional program | 130,721,501 | | 130,721,501 |
| Auxiliary services | 29,646,252 | | 29,646,252 |
| | <hr/> | | <hr/> |
| Total program expenses | 160,367,753 | | 160,367,753 |
| General and administrative | 15,930,859 | | 15,930,859 |
| Fundraising | 1,089,428 | | 1,089,428 |
| | <hr/> | | <hr/> |
| Total operating expenses | 177,388,040 | | 177,388,040 |
| CHANGES IN NET ASSETS | | | |
| | 14,007,294 | 9,696,785 | 23,704,079 |
| Net assets, beginning of year | <u>100,467,547</u> | <u>48,521,823</u> | <u>148,989,370</u> |
| Net assets, end of year | <u>\$ 114,474,841</u> | <u>\$ 58,218,608</u> | <u>\$ 172,693,449</u> |

See accompanying notes to financial statements.

YES Prep Public Schools, Inc.

Statement of Functional Expenses for the year ended June 30, 2022

| | INSTRUCTIONAL PROGRAM | AUXILIARY SERVICES | TOTAL PROGRAM EXPENSES | GENERAL AND ADMINISTRATIVE | FUNDRAISING | TOTAL |
|---|--------------------------|-----------------------|------------------------------|-------------------------------|---------------------|-----------------------|
| Salaries and related costs | \$ 112,818,023 | \$ 16,007,561 | \$ 128,825,584 | \$ 10,896,336 | \$ 856,279 | \$ 140,578,199 |
| Materials and supplies | 15,427,231 | 1,740,333 | 17,167,564 | 1,418,383 | 101,679 | 18,687,626 |
| Professional fees and other contracted services | 6,018,305 | 2,104,754 | 8,123,059 | 1,377,455 | 229,081 | 9,729,595 |
| Depreciation | 9,088,673 | 394,574 | 9,483,247 | 130,883 | 9,624 | 9,623,754 |
| Contracted transportation services | 198,017 | 8,097,950 | 8,295,967 | 1,654 | | 8,297,621 |
| Maintenance and repairs | 6,308,855 | 273,891 | 6,582,746 | 90,852 | 6,680 | 6,680,278 |
| Contracted food services | 407,314 | 4,706,545 | 5,113,859 | 151,298 | 55,487 | 5,320,644 |
| Interest, debt service and bank fees | 4,134,721 | 179,504 | 4,314,225 | 59,543 | 4,378 | 4,378,146 |
| Utilities and occupancy | 3,065,945 | 172,033 | 3,237,978 | 49,089 | 90,147 | 3,377,214 |
| Insurance | 1,287,866 | 58,930 | 1,346,796 | 64,090 | 1,364 | 1,412,250 |
| Travel | 874,724 | 36,394 | 911,118 | 168,582 | 5,421 | 1,085,121 |
| Other | 314,070 | 19,666 | 333,736 | 141,074 | 1,072 | 475,882 |
| Total expenses | <u>\$ 159,943,744</u> | <u>\$ 33,792,135</u> | <u>\$ 193,735,879</u> | <u>\$ 14,549,239</u> | <u>\$ 1,361,212</u> | 209,646,330 |
| Cost of direct donor benefits | | | | | | <u>203,630</u> |
| Total | | | | | | <u>\$ 209,849,960</u> |

See accompanying notes to financial statements.

YES Prep Public Schools, Inc.

Statement of Functional Expenses for the year ended June 30, 2021

| | INSTRUCTIONAL PROGRAM | AUXILIARY SERVICES | TOTAL PROGRAM EXPENSES | GENERAL AND ADMINISTRATIVE | FUNDRAISING | TOTAL |
|---|--------------------------|-----------------------|------------------------------|-------------------------------|---------------------|-----------------------|
| Salaries and related costs | \$ 100,107,816 | \$ 12,615,276 | \$ 112,723,092 | \$ 10,490,618 | \$ 823,289 | \$ 124,036,999 |
| Materials and supplies | 7,563,276 | 1,465,800 | 9,029,076 | 3,827,896 | 22,147 | 12,879,119 |
| Professional fees and other contracted services | 2,930,989 | 2,835,241 | 5,766,230 | 562,295 | 182,170 | 6,510,695 |
| Depreciation | 7,195,564 | 421,405 | 7,616,969 | 282,785 | 21,387 | 7,921,141 |
| Contracted transportation services | 9,556 | 6,554,275 | 6,563,831 | | | 6,563,831 |
| Maintenance and repairs | 4,020,376 | 235,371 | 4,255,747 | 157,946 | 11,946 | 4,425,639 |
| Contracted food services | 209,294 | 4,638,506 | 4,847,800 | 35,552 | 2,778 | 4,886,130 |
| Interest, debt service and bank fees | 5,196,028 | 304,303 | 5,500,331 | 204,203 | 15,444 | 5,719,978 |
| Utilities and occupancy | 1,964,173 | 516,744 | 2,480,917 | 71,007 | 5,370 | 2,557,294 |
| Insurance | 964,801 | 5,281 | 970,082 | 34,788 | | 1,004,870 |
| Travel | 165,056 | 45,163 | 210,219 | 126,112 | 3,748 | 340,079 |
| Other | 394,572 | 8,887 | 403,459 | 137,657 | 1,149 | 542,265 |
| Total expenses | <u>\$ 130,721,501</u> | <u>\$ 29,646,252</u> | <u>\$ 160,367,753</u> | <u>\$ 15,930,859</u> | <u>\$ 1,089,428</u> | 177,388,040 |
| Cost of direct donor benefits | | | | | | <u>104,288</u> |
| Total | | | | | | <u>\$ 177,492,328</u> |

See accompanying notes to financial statements.

YES Prep Public Schools, Inc.

Statements of Cash Flows for the years ended June 30, 2022 and 2021

| | <u>2022</u> | <u>2021</u> |
|--|-----------------------------|-----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Changes in net assets | \$ 19,019,173 | \$ 23,704,079 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Contributions restricted for expansion of facilities | (5,400,000) | (4,260,000) |
| Depreciation | 9,623,754 | 7,921,141 |
| Amortization of bonds premium | (305,441) | (279,985) |
| Amortization of bonds and notes payable issuance costs | 274,213 | 283,716 |
| Changes in operating assets and liabilities: | | |
| Receivables | (15,446,937) | (7,373,012) |
| Prepaid expenses and other assets | (286,512) | (314,163) |
| Beneficial interest in charitable trust | 24,353 | 213,500 |
| Accounts payable and accrued expenses | 5,339,557 | 6,882,458 |
| Accrued interest | (315,275) | 569,634 |
| Refundable advances | <u>1,831,395</u> | <u> </u> |
| Net cash provided by operating activities | <u>14,358,280</u> | <u>27,347,368</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | <u>(47,012,354)</u> | <u>(41,261,722)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Change in bond sinking fund investments | (3,449,599) | (3,915,051) |
| Principal repayments of bonds and notes payable | (4,978,243) | (4,458,665) |
| Proceeds from bonds and notes payable | 15,904,857 | 63,332,826 |
| Proceeds from contributions restricted for expansion of facilities | 5,400,000 | 4,564,169 |
| Capitalized bonds and notes payable issuance costs | <u> </u> | <u>(2,873,863)</u> |
| Net cash provided by financing activities | <u>12,877,015</u> | <u>56,649,416</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (19,777,059) | 42,735,062 |
| Cash and cash equivalents, beginning of year | <u>91,904,326</u> | <u>49,169,264</u> |
| Cash and cash equivalents, end of year | <u>\$ 72,127,267</u> | <u>\$ 91,904,326</u> |
| <i>Reconciliation of cash balances:</i> | | |
| Cash and cash equivalents | \$ 71,788,524 | \$ 65,116,671 |
| Bond proceeds held in trust | <u>338,743</u> | <u>26,787,655</u> |
| Total cash and cash equivalents | <u>\$ 72,127,267</u> | <u>\$ 91,904,326</u> |
| <i>Supplemental disclosure of cash flow information:</i> | | |
| Interest payments | \$4,693,421 | \$4,409,301 |
| Retirement of line of credit with bond proceeds | | \$18,912,108 |

See accompanying notes to financial statements.

YES Prep Public Schools, Inc.

Notes to Financial Statements for the years ended June 30, 2022 and 2021

NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Organization – YES Prep Public Schools, Inc. (YES Prep) operates seventeen Texas Open-Enrollment Charter Schools under one state charter. The schools are located in Houston, Texas and serve approximately 15,000 students from K through 2nd grade and 6th through 12th grade. Additionally, YES Prep operates two schools within Spring Branch Independent School District and one school within Aldine Independent School District on a contract basis. These partnerships (Partnerships) are conducted outside of YES Prep’s charter.

Federal income tax status – YES Prep is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(ii).

Cash equivalents include highly liquid investments with original maturities of three months or less.

Government grants and other contributions receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in more than one year, if material, are discounted to estimate the present value of future cash flows. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contributions and government grants revenue. An allowance for uncollectible receivables is provided when it is believed balances may not be collected in full. The adequacy of the allowance at the end of each period is determined using a combination of historical loss experience and donor-by-donor analysis of balances.

Allowance for doubtful accounts – An allowance for receivables is provided when it is believed the balances may not be collected in full. Balances are written off against the allowance when management determines the receivable will not be collected. The amount of bad debt expense or loss on valuation of receivables recognized each period and the resulting adequacy of the allowance at the end of each period are determined using a combination of historical loss experience and account-by-account analysis of receivable balances each period. YES Prep considers receivables to be fully collectible; accordingly, no allowance for doubtful accounts is recorded in these financial statements.

Beneficial interest in charitable trust – YES Prep is the beneficiary of an irrevocable charitable trust that is reported at the fair value of the underlying assets. The purpose of the gift is to provide college scholarships to YES Prep graduates who attend out-of-state colleges.

Property and equipment is reported at cost if purchased or at fair value at the date of gift if donated. YES Prep recognizes depreciation using the straight-line method over the estimated useful lives of the assets, which range from 5 to 40 years for buildings and improvements and 2 to 12 years for furniture and equipment. YES Prep capitalizes additions and improvements that have a cost of more than \$5,000.

Debt issuance costs represent costs incurred related to the issuance of bonds and notes payable and are amortized over the repayment period of the related debt. Unamortized debt issuance costs are reported as a reduction to related debt.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.

- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service.

Government grants and other contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions and grants received with donor stipulations that limit their use are classified as restricted support. Conditional contributions and grants are subject to one or more barriers that must be overcome before YES Prep is entitled to receive or retain funding. Conditional contributions and grants are recognized in the same manner when the conditions have been met. Funding received before conditions are met is reported as refundable advances and are recognized in the same manner when the conditions are met. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are classified as restricted support.

Program service fees comprise revenue from contracts from YES Prep's Partnerships activity, teacher training services, and food service fees. Revenue is recognized when the services are provided to a customer in an amount that reflects the consideration YES Prep expects to be entitled to in exchange for those services. Payment is due monthly for all services. The nature of these services does not give rise to contract costs or any variable considerations, warranties or other related obligations.

Special events revenue is the total amount paid by sponsors and attendees of an event and includes elements of both contributions and exchange transactions. Special events revenue is recognized when the event occurs. Amounts received for future events represent conditional contributions and are reported in the statement of financial position as refundable advances until earned. Cost of direct donor benefits represent the cost of goods and services provided to attendees of special events.

Donated materials, use of facilities and services – Donated materials and use of facilities are recognized at fair value when an unconditional commitment is received from the donor. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation of buildings and improvements, maintenance and repairs, utility and occupancy costs and interest and debt service costs are allocated based on square footage.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 2 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of June 30 comprise the following:

| | <u>2022</u> | <u>2021</u> |
|---|-----------------------|----------------------|
| Financial assets: | | |
| Cash and cash equivalents | \$ 71,788,524 | \$ 65,116,671 |
| Receivables, net | 48,932,285 | 33,485,348 |
| Beneficial interest in charitable trust | 1,352,023 | 1,376,376 |
| Bond proceeds held in trust | 338,743 | 26,787,655 |
| Bond sinking fund investments | <u>31,177,783</u> | <u>27,728,184</u> |
| Total financial assets | 153,589,358 | 154,494,234 |
| Less financial assets not available for general expenditure: | | |
| Bond sinking fund investments | (31,177,783) | (27,728,184) |
| Bond proceeds held in trust and contributions receivable restricted for long-term purposes | (788,743) | (27,187,655) |
| Beneficial interest in charitable trust, net of current portion | (1,102,023) | (1,126,376) |
| Restricted by donors for use in future periods or for future projects, net of expected amount to be satisfied in coming year | <u>(2,064,700)</u> | <u>(115,482)</u> |
| Total financial assets available for general expenditure | <u>\$ 118,456,109</u> | <u>\$ 98,336,537</u> |

YES Prep relies on state and federal grants and program fees from agreements with local public school districts to meet general expenditures related to operations. For purposes of analyzing resources available to meet general expenditures over a 12-month period, YES Prep considers all expenditures related to its ongoing activities of instructional program and auxiliary services, excluding capital and debt repayments, as well as the conduct of services undertaken to support those activities, to be general expenditures. See Note 7 for bond sinking fund requirements.

As part of YES Prep's liquidity management, financial assets have been structured to be available as its general expenditures, liabilities, and other obligations become due by maintaining a significant portion of its assets in cash. To help manage unanticipated liquidity needs, YES Prep has a \$40 million credit facility with a financial institution.

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

| | <u>2022</u> | <u>2021</u> |
|---|----------------------|----------------------|
| Demand deposits | \$ 4,383,291 | \$ 10,145,149 |
| Money market fund | 7,893,263 | 28,802,560 |
| TexPool, TexSTAR and LOGIC investment pools | <u>59,850,713</u> | <u>52,956,617</u> |
| Total cash and cash equivalents | <u>\$ 72,127,267</u> | <u>\$ 91,904,326</u> |

Bank deposits exceed the federally insured limit per depositor per institution. Approximately \$4.9 million was not collateralized by a security agreement with a bank at June 30, 2022.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

| | <u>2022</u> | <u>2021</u> |
|---------------------------------------|-----------------------|-----------------------|
| Land | \$ 28,886,066 | \$ 21,963,370 |
| Buildings and improvements | 241,742,594 | 200,290,764 |
| Furniture and equipment | 18,106,712 | 12,591,534 |
| Construction in progress | <u>27,594,376</u> | <u>32,551,935</u> |
| Total property and equipment, at cost | 316,329,748 | 267,397,603 |
| Accumulated depreciation | <u>(65,378,326)</u> | <u>(55,754,571)</u> |
| Property and equipment, net | <u>\$ 250,951,422</u> | <u>\$ 211,643,032</u> |

YES Prep has buildings and improvements with an approximate net book value of \$42 million that have been purchased with Texas Education Agency funds. Texas statutes state that property purchased with funds received by a charter school holder is considered to be public property under state law and is held in trust by the charter school holder for the benefit of the students of the open enrollment charter school and may be used only for those purposes.

NOTE 7 – BONDS AND NOTES PAYABLE

In March 2010, YES Prep entered into a Master Trust Indenture (the MTI) for the purpose of issuing bonds. Under the MTI, YES Prep has the ability to issue additional debt on a parity basis. The MTI is secured by a first lien on YES Prep's revenue, as well as on certain real property of YES Prep. YES Prep is required to maintain 1.2 times debt coverage at each fiscal year end while the MTI debt is still outstanding. With the exception of the Charter School Growth Fund loans, all bonds and notes held by YES Prep exist under, and are subject to, the MTI.

Bonds payable at June 30, 2022 consist of the following:

| | OUTSTANDING <u>BALANCE</u> | <u>PREMIUM</u> | ISSUANCE <u>COSTS</u> | <u>TOTAL</u> |
|------------------------------|-------------------------------|---------------------|--------------------------|-----------------------|
| Series 2020 | \$ 71,585,000 | \$ 8,577,787 | \$ (2,749,309) | \$ 77,413,478 |
| Series 2010Z | 16,000,000 | | (58,797) | 15,941,203 |
| Series 2015Z | 15,000,000 | | (201,466) | 14,798,534 |
| Series 2017Z-1 | 9,446,667 | | (105,431) | 9,341,236 |
| Series 2011Z | 8,751,600 | | (58,851) | 8,692,749 |
| Series 2010Q | 6,100,000 | | (33,185) | 6,066,815 |
| Series 2017Z | 5,417,700 | | (133,116) | 5,284,584 |
| Series 2012Z | <u>3,400,000</u> | | <u>(66,578)</u> | <u>3,333,422</u> |
| Total | 135,700,967 | 8,577,787 | (3,406,733) | 140,872,021 |
| Less current portion | <u>(2,952,917)</u> | | | <u>(2,952,917)</u> |
| Long-term bonds payable, net | <u>\$ 132,748,050</u> | <u>\$ 8,577,787</u> | <u>\$ (3,406,733)</u> | <u>\$ 137,919,104</u> |

Bonds payable at June 30, 2021 consist of the following:

| | OUTSTANDING BALANCE | PREMIUM | ISSUANCE COSTS | TOTAL |
|------------------------------|------------------------|---------------------|-----------------------|-----------------------|
| Series 2020 | \$ 71,585,000 | \$ 8,883,228 | \$ (2,840,446) | \$ 77,627,782 |
| Series 2010Z | 16,000,000 | | (86,421) | 15,913,579 |
| Series 2015Z | 15,000,000 | | (226,649) | 14,773,351 |
| Series 2017Z-1 | 10,391,333 | | (116,245) | 10,275,088 |
| Series 2011Z | 8,751,600 | | (72,976) | 8,678,624 |
| Series 2010Q | 6,100,000 | | (39,608) | 6,060,392 |
| Series 2017Z | 6,019,700 | | (148,390) | 5,871,310 |
| Series 2012Z | <u>3,400,000</u> | | <u>(78,967)</u> | <u>3,321,033</u> |
| Total | 137,247,633 | 8,883,228 | (3,609,702) | 142,521,159 |
| Less current portion | <u>(1,546,667)</u> | | | <u>(1,546,667)</u> |
| Long-term bonds payable, net | <u>\$ 135,700,966</u> | <u>\$ 8,883,228</u> | <u>\$ (3,609,702)</u> | <u>\$ 140,974,492</u> |

Series 2020: Education Revenue Bonds issued by the Clifton Higher Education Finance Corporation. The bonds bear interest of 3% to 5% and accrue interest semi-annually. The bond is due April 2050. The proceeds were used to rehabilitate or repair specified campus facilities, the home office and to pay off a line of credit balance of \$18,912,108 and are secured by real estate.

Series 2010Z: Qualified Zone Academy Bond, Taxable issued by the City of Houston Higher Education Finance Corporation. The investor earns 5.73% in annual tax credits as part of a federal tax credit bond program and YES Prep pays 2% supplemental interest semi-annually. The bond is due April 1, 2025. The proceeds were used to rehabilitate or repair specified campus facilities and are secured by real estate.

Series 2015Z: Qualified Zone Academy Bond, Taxable issued by the City of Houston Higher Education Finance Corporation. The investor earns 4.87% in annual tax credits as part of a federal tax credit bond program and YES Prep pays 1% supplemental interest semi-annually. The bond is due April 1, 2030. The proceeds were used to rehabilitate or repair specified campus facilities and are secured by real estate.

Series 2017Z-1: Qualified Zone Academy Bond, Taxable issued by the City of Houston Higher Education Finance Corporation. The investor earns 4.11% in annual tax credits as part of a federal tax credit bond program and YES Prep pays no interest. Principal payments are due annually through maturity on April 1, 2026. The proceeds were used to rehabilitate or repair specified campus facilities and are secured by real estate. The bonds require YES Prep to maintain certain financial ratios and meet other covenants over the life of the bonds.

Series 2011Z: Qualified Zone Academy Bond, Taxable issued by the City of Houston Higher Education Finance Corporation. The investor earns 5.18% in annual tax credits as part of a federal tax credit bond program and YES Prep pays 2.21% supplemental interest semi-annually. The bond is due April 1, 2026. The proceeds were used to rehabilitate or repair specified campus facilities and are secured by real estate.

Series 2010Q: Qualified School Construction Bond, Taxable issued by the City of Houston Higher Education Finance Corporation. The investor earns 5.82% in annual tax credits as part of a federal tax credit bond program and YES Prep pays 2% supplemental interest semi-annually. The bond is due April 1, 2025. The proceeds were used to construct specified campus facilities and are secured by real estate.

Series 2017Z: Qualified Zone Academy Bond issued by the City of Houston Higher Education Finance Corporation. The investor earns 4.57% in annual tax credits as part of a federal tax credit bond program and YES Prep pays no interest. The bond is due April 1, 2031. The proceeds were used to construct, rehabilitate, or repair specified campus facilities and are secured by real estate.

Series 2012Z: Qualified Zone Academy Bond, Taxable issued by the City of Houston Higher Education Finance Corporation. The investor earns 4.49% in annual tax credits as part of a federal tax credit bond program and YES Prep pays 1% supplemental interest semi-annually. The bond is due April 1, 2027. The proceeds were used to rehabilitate or repair specified campus facilities and are secured by real estate.

Bond sinking fund investments at June 30, 2022 are held in money market mutual funds and are escrowed for future debt service in the amount of \$31,177,783. Interest on the bonds payable totaled approximately \$3,400,000 and \$846,000 at June 30, 2022 and 2021, respectively.

Maturities of bonds payable, including interest, at June 30, 2022 are as follows:

| | <u>PRINCIPAL</u> | <u>INTEREST</u> | <u>TOTAL</u> |
|---------------------------------|-----------------------|----------------------|-----------------------|
| 2023 | \$ 2,952,917 | \$ 3,412,390 | \$ 6,365,307 |
| 2024 | 3,020,417 | 3,395,015 | 6,415,432 |
| 2025 | 3,095,417 | 3,324,703 | 6,420,120 |
| 2026 | 3,171,667 | 2,809,015 | 5,980,682 |
| 2027 | 3,252,917 | 2,538,168 | 5,791,085 |
| Thereafter | <u>120,207,632</u> | <u>29,304,675</u> | <u>149,512,307</u> |
| Total payments due | 135,700,967 | <u>\$ 44,783,966</u> | <u>\$ 180,484,933</u> |
| Unamortized bond premium | 8,577,787 | | |
| Unamortized debt issuance costs | <u>(3,406,733)</u> | | |
| Total bonds payable, net | <u>\$ 140,872,021</u> | | |

As specified in the MTI, YES Prep entered into two repurchase agreements to fund the repayment of bonds upon maturity. YES Prep makes equal annual deposits into these accounts over the 15-year term of the underlying bonds, and earns interest at rates varying between 2.18% and 4.259%. The combination of the annual deposits and interest earned on the accounts will provide the full amount due upon maturity of the covered bonds.

YES Prep's minimum cash commitments under the repurchase agreements are as follows:

| | |
|------------|----------------------|
| 2023 | \$ 2,558,713 |
| 2024 | 2,558,713 |
| 2025 | 2,558,713 |
| 2026 | 1,479,713 |
| 2027 | 1,031,912 |
| Thereafter | <u>2,514,036</u> |
| Total | <u>\$ 12,701,800</u> |

Notes payable consist of the following:

| | <u>2022</u> | <u>2021</u> |
|--|---------------|---------------|
| Credit facility with a bank for \$40,000,000 dated June 2022. Interest is due semi-annually at a variable interest rate based on LIBOR, plus 1.35%. Principal is due upon maturity on April 1, 2025. The loan is secured by real estate. | \$ 15,904,857 | |
| Loan agreement with a bank for \$13,440,000 dated December 2018. Interest and principal due annually through maturity on April 1, 2034 with an interest rate of 3.92%, net of unamortized debt issuance costs of \$274,637 and \$289,184 in 2022 and 2021, respectively. Proceeds were used for acquiring, constructing, and renovating buildings at YES Prep Hobby. The loan is secured by real estate. | 9,844,036 | \$ 10,554,491 |
| Loan agreement with a bank for \$10,000,000 dated October 2017. Interest and principal due annually through maturity on April 1, 2032 with an interest rate of 2.93%, net of unamortized debt issuance costs of \$100,697 and \$108,249 in 2022 and 2021, respectively. Proceeds were used to acquire land and construct buildings. The loan is secured by real estate. | 6,874,303 | 7,466,751 |
| Series 2013 loan agreement for \$9,740,000 with a bank issued by Dickinson Education Finance Corporation, net of unamortized debt issuance costs of \$71,923 and \$93,071 in 2022 and 2021, respectively. The loan bears interest at 3.95% and payments are due in semi-annual installments through April 1, 2028. The proceeds were used to retire existing debt and to provide funding for expansions at YES Prep Southwest and YES Prep Fifth Ward. The loan is secured by real estate. | 4,714,455 | 5,331,267 |
| Series 2015 loan agreement for \$7,000,000 with a bank issued by Dickinson Education Finance Corporation, net of unamortized debt issuance costs of \$78,137 and \$106,255 in 2022 and 2021, respectively. The loan bears interest at 2.93% and payments are due in semi-annual installments through April 1, 2030. The proceeds were used to renovate the YES Prep North Forest campus and to construct the YES Prep System Office. The loan is secured by real estate and revenue streams. | 3,653,249 | 4,093,745 |
| Loan agreement for \$1,000,000 with Charter School Growth Fund dated December 2014. Interest at 1%. Principal payments were due in annual installments in June 2021 and June 2022, with interest due in June 2022. Charter School Growth Fund deferred the June 2021 principal payment until June 2022 and the June 2022 payment until June 2023. The loan is unsecured. | 500,000 | 1,000,000 |
| Loan agreement for \$100,000 with Charter School Growth Fund dated May 2019. Interest is at 1%. Loan matures on June 28, 2024, with interest due at that time. The loan is unsecured. | 100,000 | 100,000 |

Loan agreement for \$2,500,000 with Charter School Growth Fund amended in December 2014. Interest at 1%. Principal payments were due in annual installments in June 2020 and June 2021. Charter School Growth Fund extended the due dates of the annual installments to June 2021 to provide relief due to the COVID-19 pandemic. The loan is unsecured.

| | |
|--------------------|---|
| | <u>500,000</u> |
| Notes payable, net | <u>\$ 41,590,900</u> <u>\$ 29,046,254</u> |

Interest on the notes payable totaled approximately \$971,000 and \$1,261,000 for the years ended June 30, 2022 and 2021, respectively.

Maturities of notes payable, including interest, at June 30, 2022 are as follows:

| | <u>PRINCIPAL</u> | <u>INTEREST</u> | <u>TOTAL</u> |
|---------------------------------|----------------------|---------------------|----------------------|
| 2023 | \$ 3,002,459 | \$ 1,246,479 | \$ 4,248,938 |
| 2024 | 2,678,976 | 1,158,695 | 3,837,671 |
| 2025 | 18,557,251 | 1,065,226 | 19,622,477 |
| 2026 | 2,736,547 | 594,614 | 3,331,161 |
| 2027 | 2,821,880 | 497,099 | 3,318,979 |
| Thereafter | <u>12,319,181</u> | <u>1,170,822</u> | <u>13,490,003</u> |
| Total payments due | 42,116,294 | <u>\$ 5,732,935</u> | <u>\$ 47,849,229</u> |
| Unamortized debt issuance costs | <u>(525,394)</u> | | |
| Total notes payable, net | <u>\$ 41,590,900</u> | | |

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

| | <u>2022</u> | <u>2021</u> |
|---|----------------------|----------------------|
| State resources for future educational activity | \$ 41,617,086 | \$ 40,149,240 |
| Leading Houston Forward elementary schools | 2,393,894 | 9,404,332 |
| Leading Houston Forward capital campaign | 2,164,000 | 4,082,488 |
| National School Lunch Program | 2,027,502 | 1,450,923 |
| College scholarships for YES Prep graduates | 1,692,701 | 1,581,168 |
| YES Prep future operations | 587,640 | 547,750 |
| Campus academic/extra-curricular programs | 390,528 | 394,127 |
| Innovation Fund | 345,324 | 374,799 |
| Other | <u>209,086</u> | <u>233,781</u> |
| Total net assets with donor restrictions | <u>\$ 51,427,761</u> | <u>\$ 58,218,608</u> |

NOTE 9 – COMMITMENTS

Construction commitments – In 2022, YES Prep entered into contracts totaling approximately \$35 million for construction projects at certain schools. As of June 30, 2022, outstanding commitments on these contracts totaled approximately \$10 million.

NOTE 10 – GOVERNMENT GRANTS

YES Prep is the recipient of government grants from various federal, state and local agencies. Government grants include the following:

| | <u>2022</u> | <u>2021</u> |
|--|-----------------------|-----------------------------|
| State grants: | | |
| Texas Education Agency Foundation School Program Act | \$ 154,066,152 | \$ 142,448,214 |
| Textbook and Kindergarten Materials | 1,530,082 | 700,576 |
| Other | <u>12,471</u> | <u> </u> |
| Total state grants | <u>155,608,705</u> | <u>143,148,790</u> |
| Federal grants: | | |
| U. S. Department of Education | 29,751,876 | 18,268,661 |
| U. S. Department of Agriculture | 7,130,272 | 7,950,357 |
| U. S. Department of the Treasury | 168,605 | 1,080,007 |
| U. S. Federal Communications Commission | 2,679,783 | |
| U. S. Department of Homeland Security | | 14,400 |
| U. S. Department of Health and Human Services | <u>780,895</u> | <u> </u> |
| Total federal grants | <u>40,511,431</u> | <u>27,313,425</u> |
| Total government grants | <u>\$ 196,120,136</u> | <u>\$ 170,462,215</u> |

The grants from government funding sources require fulfillment of certain conditions as set forth in the grant contracts and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of non-compliance by YES Prep with the terms of the contracts. Management believes such disallowances, if any, would not be material to YES Prep's financial position or changes in net assets.

NOTE 11 – MULTIEMPLOYER PENSION PLAN

YES Prep's full-time employees participate in the Teacher Retirement System of Texas (TRS), a public employee retirement system. TRS is a cost-sharing, multiemployer, defined benefit pension plan. All risks and costs are not shared by YES Prep, but are the liability of the State of Texas. For 2022, plan members contribute 8% of their annual covered salary. YES Prep contributes 7.75% for new members the first 90 days of employment, and the State of Texas contributes 7.75%. Additionally, YES Prep makes a 1.7% non-OASDI payment on all TRS eligible employees. YES Prep's contributions do not represent more than 5% of the pension plan's total contributions. YES Prep contributed \$5,044,871 and \$3,273,880 to the plan during fiscal years 2022 and 2021, respectively, equal to the required contribution for each year.

The risks of participating in a multiemployer, defined benefit plan are different from single-employer plans because (a) amounts contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers and (b) if an employer stops contributing to TRS, unfunded obligations of TRS may be required to be borne by the remaining employers. There is no withdrawal penalty for leaving TRS.

Total TRS plan assets as of August 31, 2021 and 2020 were \$223.2 billion and \$184.4 billion, respectively. Accumulated benefit obligations as of August 31, 2021 and 2020 were \$227.3 billion and \$218.9 billion, respectively. The plan was 79.1% funded at August 31, 2021 and 76.8% funded at August 31, 2020.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 8, 2022, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

YES Prep Public Schools, Inc.

Charter #101845

Supplemental Statement of Financial Position as of June 30, 2022

ASSETS

Current assets:

| | |
|---|------------------|
| Cash and cash equivalents | \$ 65,506,201 |
| Contributions receivable: | |
| Government grants | 46,619,197 |
| Other contributions receivable | 486,940 |
| Accounts receivable | 350,568 |
| Beneficial interest in charitable trust | 250,000 |
| Prepaid expenses and other assets | <u>1,462,552</u> |
| Total current assets | 114,675,458 |

| | |
|---|------------------------------|
| Other contributions receivable, net | 748,200 |
| Beneficial interest in charitable trust | 1,102,023 |
| Bond proceeds held in trust | 338,743 |
| Bond sinking fund investments | 31,177,783 |
| Property and equipment, net | <u>250,945,007</u> |
| TOTAL ASSETS | <u>\$ 398,987,214</u> |

LIABILITIES AND NET ASSETS

Current liabilities:

| | |
|---------------------------------------|------------------|
| Accounts payable and accrued expenses | \$ 6,426,663 |
| Accrued payroll expenses | 13,582,769 |
| Construction payable | 6,129,098 |
| Accrued interest | 1,296,225 |
| Refundable advances | 2,032,076 |
| Current portion of bonds payable | 2,952,917 |
| Current portion of notes payable | <u>3,002,459</u> |
| Total current liabilities | 35,422,207 |

| | |
|--------------------|--------------------|
| Bonds payable, net | 137,919,104 |
| Notes payable, net | <u>38,588,441</u> |
| Total liabilities | <u>211,929,752</u> |

Net assets:

| | |
|----------------------------|--------------------|
| Without donor restrictions | 136,376,504 |
| With donor restrictions | <u>50,680,958</u> |
| Total net assets | <u>187,057,462</u> |

| | |
|---|------------------------------|
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 398,987,214</u> |
|---|------------------------------|

YES Prep Public Schools, Inc.

Charter #101845

Supplemental Statement of Activities for the year ended June 30, 2022

| | <u>WITHOUT DONOR RESTRICTIONS</u> | <u>WITH DONOR RESTRICTIONS</u> | <u>TOTAL</u> |
|--|---------------------------------------|------------------------------------|--------------------|
| REVENUE: | | | |
| Local program revenue: | | | |
| 5740 Other revenue from local sources | \$ 9,941,121 | \$ 6,661,819 | \$ 16,602,940 |
| 5750 Co-curriculum/enterprising | <u>1,498,088</u> | <u> </u> | <u>1,498,088</u> |
| Total local support | <u>11,439,209</u> | <u>6,661,819</u> | <u>18,101,028</u> |
| State program revenue: | | | |
| 5810 Foundation School Program Act Revenue | | 154,066,152 | 154,066,152 |
| 5820 State program revenue distributed by Texas Education Agency | | <u>1,542,553</u> | <u>1,542,553</u> |
| Total state program revenues | | <u>155,608,705</u> | <u>155,608,705</u> |
| Federal program revenue: | | | |
| 5910 Federal revenue distributed through government entities other than State or Federal Agencies | | 2,679,823 | 2,679,823 |
| 5920 Federal revenue distributed by the State of Texas Education Agency | | 33,881,131 | 33,881,131 |
| 5930 Federal revenue distributed by other State of Texas government agencies | | 1,048,424 | 1,048,424 |
| 5940 Federal revenue distributed directly from the Federal government | | <u>2,902,053</u> | <u>2,902,053</u> |
| Total federal program revenues | | <u>40,511,431</u> | <u>40,511,431</u> |
| Total revenue | 11,439,209 | 202,781,955 | 214,221,164 |
| Net assets released from restrictions: | | | |
| Program expenditures | 202,627,007 | (202,627,007) | |
| Capital expenditures | 7,318,488 | (7,318,488) | |
| Expiration of time restrictions | <u>374,110</u> | <u>(374,110)</u> | |
| Total | <u>221,758,814</u> | <u>(7,537,650)</u> | <u>214,221,164</u> |
| EXPENSES: | | | |
| 11 Instruction | 83,600,489 | | 83,600,489 |
| 12 Instructional resources and media services | 641,814 | | 641,814 |
| 13 Curriculum development and instructional staff development | 7,004,855 | | 7,004,855 |
| 21 Instructional leadership | 5,484,820 | | 5,484,820 |
| 23 School leadership | 17,619,289 | | 17,619,289 |
| 31 Guidance counseling and evaluation services | 6,456,881 | | 6,456,881 |
| 32 Social work services | 4,280,304 | | 4,280,304 |

(continued)

YES Prep Public Schools, Inc.

Charter #101845

Supplemental Statement of Activities for the year ended June 30, 2022

(continued)

| | WITHOUT DONOR RESTRICTIONS | WITH DONOR RESTRICTIONS | TOTAL |
|---|-------------------------------|----------------------------|-----------------------|
| 33 Health services | 907,009 | | 907,009 |
| 34 Student transportation | 8,078,374 | | 8,078,374 |
| 35 Food services | 5,786,911 | | 5,786,911 |
| 36 Co-curricular and extracurricular activities | 5,444,047 | | 5,444,047 |
| 41 General administration | 14,077,093 | | 14,077,093 |
| 51 Plant maintenance and operations | 21,639,562 | | 21,639,562 |
| 52 Security and monitoring services | 1,802,689 | | 1,802,689 |
| 53 Data processing services | 5,908,910 | | 5,908,910 |
| 61 Community services | 310,100 | | 310,100 |
| 71 Debt service | 4,378,146 | | 4,378,146 |
| 81 Fundraising | <u>1,327,287</u> | | <u>1,327,287</u> |
| Total expenses | <u>194,748,580</u> | | <u>194,748,580</u> |
| CHANGES IN NET ASSETS | 27,010,234 | (7,537,650) | 19,472,584 |
| Net assets, beginning of year | <u>109,366,270</u> | <u>58,218,608</u> | <u>167,584,878</u> |
| Net assets, end of year | <u>\$ 136,376,504</u> | <u>\$ 50,680,958</u> | <u>\$ 187,057,462</u> |

Note: Expenses include cost of direct donor benefits of \$203,630 that are reported as reductions from special events revenue on the Statement of Activities.

YES Prep Public Schools, Inc.

Charter #101845

Supplemental Statement of Cash Flows for the year ended June 30, 2022

| | |
|--|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Changes in net assets | \$ 19,472,584 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | |
| Contributions restricted for expansion of facilities | (5,400,000) |
| Depreciation | 9,621,671 |
| Amortization of bonds premium | (305,441) |
| Amortization of bonds and notes payable issuance costs | 274,213 |
| Changes in operating assets and liabilities: | |
| Receivables | (15,526,401) |
| Prepaid expenses and other assets | (284,852) |
| Beneficial interest in charitable trust | 24,353 |
| Accounts payable and accrued expenses | 5,373,594 |
| Accrued interest | <u>(315,275)</u> |
| Net cash provided by operating activities | <u>12,934,446</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Purchases of property and equipment | <u>(47,012,354)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | |
| Change in bond sinking fund investments | (3,449,599) |
| Principal repayments of bonds and notes payable | (4,978,243) |
| Proceeds from bonds and notes payable | 15,904,857 |
| Proceeds from contributions restricted for expansion of facilities | <u>5,400,000</u> |
| Net cash provided by financing activities | <u>12,877,015</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (21,200,893) |
| Cash and cash equivalents, beginning of year | <u>87,045,837</u> |
| Cash and cash equivalents, end of year | <u>\$ 65,844,944</u> |
| <i>Reconciliation of cash balances:</i> | |
| Cash and cash equivalents | \$ 65,506,201 |
| Bond proceeds held in trust | <u>338,743</u> |
| Total cash and cash equivalents | <u>\$ 65,844,944</u> |

YES Prep Public Schools, Inc.

Charter #101845

Supplemental Schedule of Expenses for the year ended June 30, 2022

| | | |
|-------|--------------------------------------|-----------------------|
| 6100 | Payroll costs | \$ 127,087,992 |
| 6200 | Professional and contracted services | 33,021,309 |
| 6300 | Supplies and materials | 15,920,084 |
| 6400 | Other operating costs | 14,341,049 |
| 6500 | Interest expense | <u>4,378,146</u> |
| Total | | <u>\$ 194,748,580</u> |

Note: Expenses include cost of direct donor benefits of \$203,630 that are reported as reductions from special events revenue on the Statement of Activities.

YES Prep Public Schools, Inc.

Charter #101845

Schedule of Capital Assets as of June 30, 2022

| | OWNERSHIP INTEREST | | | TOTAL |
|--------------------------------------|-----------------------|----------------------|---------------------|-----------------------|
| | LOCAL | STATE | FEDERAL | |
| <u>YES PREP PUBLIC SCHOOLS, INC.</u> | | | | |
| 1510 Land and improvements | \$ 26,529,643 | \$ 2,356,423 | | \$ 28,886,066 |
| 1520 Buildings and improvements | 214,473,073 | 53,741,978 | \$ 1,044,626 | 269,259,677 |
| 1539 Furniture and equipment | 11,691,789 | 4,049,558 | 2,237,455 | 17,978,802 |
| 1551 Leasehold improvements | | 35,126 | 25,875 | 61,001 |
| 1569 Library books and media | | 66,909 | | 66,909 |
| Total | <u>\$ 252,694,505</u> | <u>\$ 60,249,994</u> | <u>\$ 3,307,956</u> | <u>\$ 316,252,455</u> |

| | OWNERSHIP INTEREST | | | TOTAL |
|---------------------------------|--------------------|-------------|-------------|------------------|
| | LOCAL | STATE | FEDERAL | |
| <u>PARTNERSHIP SCHOOLS</u> | | | | |
| 1520 Buildings and improvements | \$ 77,293 | | | \$ 77,293 |
| Total | <u>\$ 77,293</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 77,293</u> |

| | OWNERSHIP INTEREST | | | TOTAL |
|---------------------------------|-----------------------|----------------------|---------------------|-----------------------|
| | LOCAL | STATE | FEDERAL | |
| <u>TOTAL CAPITAL ASSETS</u> | | | | |
| 1510 Land and improvements | \$ 26,529,643 | \$ 2,356,423 | | \$ 28,886,066 |
| 1520 Buildings and improvements | 214,550,366 | 53,741,978 | \$ 1,044,626 | 269,336,970 |
| 1539 Furniture and equipment | 11,691,789 | 4,049,558 | 2,237,455 | 17,978,802 |
| 1551 Leasehold improvements | | 35,126 | 25,875 | 61,001 |
| 1569 Library books and media | | 66,909 | | 66,909 |
| Total | <u>\$ 252,771,798</u> | <u>\$ 60,249,994</u> | <u>\$ 3,307,956</u> | <u>\$ 316,329,748</u> |

YES Prep Public Schools, Inc.

Charter #101845

Schedule of Related Party Transactions for the year ended June 30, 2022

| <u>RELATED PARTY NAME</u> | <u>NAME OF RELATION TO THE RELATED PARTY</u> | <u>RELATIONSHIP</u> | <u>TYPE OF TRANSACTION</u> | <u>DESCRIPTION OF TERMS AND CONDITIONS</u> | <u>SOURCE OF FUNDS USED</u> | <u>PAYMENT FREQUENCY</u> | <u>TOTAL PAID DURING FISCAL YEAR</u> | <u>PRINCIPAL BALANCE DUE</u> |
|---------------------------|--|---------------------|--------------------------------|--|---------------------------------|------------------------------|--|----------------------------------|
| None | | | | | | | | |

YES Prep Public Schools, Inc.

Charter #101845

Schedule of Related Party Compensation and Benefits for the year ended June 30, 2022

| <u>RELATED PARTY NAME</u> | <u>NAME OF RELATION TO THE RELATED PARTY</u> | <u>RELATIONSHIP</u> | <u>COMPENSATION OR BENEFIT</u> | <u>PAYMENT FREQUENCY</u> | <u>DESCRIPTION</u> | <u>SOURCE OF FUNDS USED</u> | <u>TOTAL PAID DURING FISCAL YEAR</u> |
|---------------------------|--|---------------------|------------------------------------|------------------------------|--------------------|---------------------------------|--|
| None | | | | | | | |

YES Prep Public Schools, Inc.

Charter #101845

Budgetary Comparison Schedule for the year ended June 30, 2022

| | BUDGETED AMOUNTS | | ACTUAL AMOUNTS | VARIANCE FROM FINAL BUDGET |
|--|--------------------|----------------------|--------------------|----------------------------------|
| | ORIGINAL | FINAL | | |
| REVENUE: | | | | |
| Local program revenue: | | | | |
| 5740 Other revenue from local sources | \$ 12,979,051 | \$ 17,052,054 (1) | \$ 16,602,940 | \$ (449,114) |
| 5750 Co-curriculum/enterprising | 2,121,750 | 1,597,257 (2) | 1,498,088 | (99,169) |
| State program revenue: | | | | |
| 5810 Foundation School Program Act Revenue | 148,406,512 | 156,339,948 | 154,066,152 | (2,273,796) |
| 5820 State program revenue distributed by Texas Education Agency | 5,445,800 | 1,447,912 (3) | 1,542,553 | 94,641 |
| Federal program revenue: | | | | |
| 5910 Federal revenue distributed through government entities other than State or Federal Agencies | | | 2,679,823 | 2,679,823 (17) |
| 5920 Federal revenue distributed by the State of Texas Education Agency | 39,418,294 | 29,620,796 (4) | 33,881,131 | 4,260,335 (18) |
| 5930 Federal revenue distributed by other State of Texas government agencies | 670,000 | 1,056,370 (5) | 1,048,424 | (7,946) |
| 5940 Federal revenue distributed directly from the Federal government | <u>5,044,198</u> | <u>6,171,511 (6)</u> | <u>2,902,053</u> | <u>(3,269,458) (19)</u> |
| Total revenue | <u>214,085,605</u> | <u>213,285,848</u> | <u>214,221,164</u> | <u>935,316</u> |
| EXPENSES: | | | | |
| 11 Instruction | 82,795,793 | 81,185,986 | 83,600,489 | 2,414,503 |
| 12 Instructional resources and media services | 279,759 | 730,829 (7) | 641,814 | (89,015) (20) |

(continued)

YES Prep Public Schools, Inc.

Charter #101845

Budgetary Comparison Schedule for the year ended June 30, 2022

(continued)

| | BUDGETED AMOUNTS | | ACTUAL AMOUNTS | VARIANCE FROM FINAL BUDGET |
|---|-----------------------|-----------------------|-----------------------|----------------------------------|
| | ORIGINAL | FINAL | | |
| 13 Curriculum development and instructional staff development | 7,563,502 | 5,634,992 (8) | 7,004,855 | 1,369,863 (21) |
| 21 Instructional leadership | 6,010,213 | 5,904,545 | 5,484,820 | (419,725) |
| 23 School leadership | 16,276,851 | 18,617,727 (9) | 17,619,289 | (998,438) |
| 31 Guidance counseling and evaluation services | 6,164,510 | 5,980,766 | 6,456,881 | 476,115 |
| 32 Social work services | 4,643,454 | 4,277,414 | 4,280,304 | 2,890 |
| 33 Health services | 731,581 | 937,357 (10) | 907,009 | (30,348) |
| 34 Student transportation | 8,703,049 | 9,220,271 | 8,078,374 | (1,141,897) (22) |
| 35 Food services | 6,365,710 | 5,197,039 | 5,786,911 | 589,872 (23) |
| 36 Co-curricular and extracurricular activities | 5,654,970 | 5,024,835 | 5,444,047 | 419,212 |
| 41 General administration | 17,764,261 | 15,015,826 (11) | 14,077,093 | (938,733) |
| 51 Plant maintenance and operations | 21,052,966 | 19,780,081 (12) | 21,639,562 | 1,859,481 |
| 52 Security and monitoring services | 2,341,103 | 1,709,611 (13) | 1,802,689 | 93,078 |
| 53 Data processing services | 7,698,166 | 5,723,946 (14) | 5,908,910 | 184,964 |
| 61 Community services | 209,469 | 291,214 (15) | 310,100 | 18,886 |
| 71 Debt service | 5,179,195 | 4,400,011 (16) | 4,378,146 | (21,865) |
| 81 Fundraising | <u>1,480,788</u> | <u>1,437,687</u> | <u>1,327,287</u> | <u>(110,400)</u> |
| Total expenses | <u>200,915,340</u> | <u>191,070,137</u> | <u>194,748,580</u> | <u>3,678,443</u> |
| CHANGES IN NET ASSETS | 13,170,265 | 22,215,711 | 19,472,584 | (2,743,127) |
| Net assets, beginning of year | <u>167,584,878</u> | <u>167,584,878</u> | <u>167,584,878</u> | |
| Net assets, end of year | <u>\$ 180,755,143</u> | <u>\$ 189,800,589</u> | <u>\$ 187,057,462</u> | <u>\$ (2,743,127)</u> |

Note: Expenses include cost of direct donor benefits of \$203,630 that are reported as reductions from special events revenue on the Statement of Activities.

YES Prep Public Schools, Inc.

Charter #101845

Budget Variance Explanations for the year ended June 30, 2022 (unaudited)

Material Budget Variance Revenue

The following is an explanation of the 10% variances from original budget to final budget of revenue reported on the Budgetary Comparison Schedule:

- (1) Major donor contributed \$6MM instead of \$2MM per year as planned.
- (2) Less than anticipated number of Teaching Certificate participants from other Districts.
- (3) Foundation School Program – ASF funds originally budgeted to the wrong account. Revision made to correct this error.
- (4) Underspent ESSER II Funding.
- (5) Received SHARS annual payment (based on the annual report) and did not have knowledge prior to original budget of what the amount would be.
- (6) Charter School Program grant budget revisions done, after budget approved, to increase/realign some of the grant expenditures.

The following is an explanation of the 10% variances from original budget to final budget of expenses reported on the Budgetary Comparison Schedule:

- (7) Charter School Program grant budget revision done, after budget approved, to increase/realign some of the grant expenditures.
- (8) Miscoding of budget adjustment between Function 13 and Function 23.
- (9) Miscoding of budget adjustment between Function 13 and Function 23.
- (10) Additional bonuses and stipends added after original budget approved.
- (11) Salaries and related far underbudget due to staff vacancies. New computers originally budgeted mainly to Function 41 instead of all Departments/Functions. Actuals recorded appropriately.
- (12) Telephone expense budgeted net of eRate reimbursements. Actuals are coded gross and eRate credits are coded to Revenue.
- (13) Timing of ESSER funded classroom to office communication system. Project to be completed in fiscal year 2023.
- (14) Timing of ESSER funded maintenance. Work to be done in fiscal year 2023.
- (15) Additional expansion to the Family Engagement program upon receipt of additional grant funds not known at time of original budget.
- (16) Amortization of Discount on Bond Premium not included in original budget.

The following is an explanation of the 10% variances from final budget to actual revenue reported on the Budgetary Comparison Schedule:

- (17) ECF Funding included in budget under wrong object.
- (18) Planned to push more ESSER II Funding to fiscal year 2023; however, were eligible expenditures in fiscal year 2022.

The following is an explanation of the 10% variances from final budget to actual expenses reported on the Budgetary Comparison Schedule:

- (19) Charter School Program grant underspent in fiscal year 2022 due to timing of purchases. Expenditures expected to be incurred in future grant years.
- (20) Miscoding of budget adjustment between Function 13 and Function 23.
- (21) Analysis and correction to actuals made aligning them with original budget.
- (22) Reduction in bus routes due to staffing shortages.
- (23) Lower than budgeted attendance; therefore, fewer students eating meals.

YES Prep Public Schools, Inc.

Charter #101845

Schedule of Real Property Ownership Interest for the year ended June 30, 2022 (unaudited)

| <u>DESCRIPTION</u> | <u>PROPERTY ADDRESS</u> | TOTAL ASSESSED <u>VALUE</u> | <u>OWNERSHIP INTEREST</u> | | |
|--|---|-----------------------------------|---------------------------|--------------|----------------|
| | | | <u>LOCAL</u> | <u>STATE</u> | <u>FEDERAL</u> |
| Res A, Blk 1 YES College Preparatory School | 353 Crenshaw Rd., Houston, TX 77504 | \$ 5,830,597 | \$ 4,198,030 | \$ 1,632,567 | |
| Res B, Blk 2 YES Preparatory School Southwest Campus R/P and Extn. | 0 Hiram Clark Blvd., Houston, TX 77053 | 17,577 | 17,577 | | |
| Res A, Blk 1 YES Preparatory School Southwest Campus R/P and Extn. | 4411 Anderson Rd., Houston, TX 77053 | 1,966,757 | 1,416,065 | 550,692 | |
| Lot 6 & Tr 13C, Blk 66 Harrisburg | 0 Channelside St., Houston, TX 77012 | 60,160 | 60,160 | | |
| Lot 4 & Tr 13A, Blk 66 Harrisburg | 8211 Channelside St., Houston, TX 77012 | 315,083 | 315,083 | | |
| Lot 5 & Tr 13B, Blk 66 Harrisburg | 8211 Channelside St., Houston, TX 77012 | 62,360 | 62,360 | | |
| Lot 3 & Tr 13, Blk 66 Harrisburg | 8215 Channelside St., Houston, TX 77012 | 63,731 | 63,731 | | |
| Trs 2A & 14A, Blk 66 Harrisburg | 8219 Channelside St., Houston, TX 77012 | 54,566 | 39,288 | 15,278 | |
| Trs 7 & 8, Blk 66 Harrisburg | 8222 Manchester St., Houston, TX 77012 | 378,089 | 272,224 | 105,865 | |

(continued)

YES Prep Public Schools, Inc.

Charter #101845

Schedule of Real Property Ownership Interest for the year ended June 30, 2022 (unaudited)

(continued)

| DESCRIPTION | PROPERTY ADDRESS | TOTAL ASSESSED VALUE | OWNERSHIP INTEREST | | |
|--|---|----------------------------|--------------------|-----------|---------|
| | | | LOCAL | STATE | FEDERAL |
| Trs 1A & 14, Blk 66 Harrisburg | 8223 Channelside St., Houston, TX 77012 | 54,566 | 39,288 | 15,278 | |
| Res A, Blk 1 Alta Lawndale Campus | 8329 Lawndale St., Houston, TX 77012 | 1,574,024 | 1,133,297 | 440,727 | |
| Trs 7A, 8A & 13F, Blk 66 Harrisburg | 901 Lavaca St., Houston, TX 77012 | 238,107 | 171,437 | 66,670 | |
| Trs 12 & 13G, Blk 66 Harrisburg | 914 Lavaca St., Houston, TX 77012 | 244,424 | 175,985 | 68,439 | |
| Tr 19F, Blk 19 Sharpstown Ind. Park Sec 7 | 6565 De Moss Dr., Houston, TX 77074 | 9,324,085 | 6,713,341 | 2,610,744 | |
| Res D5, Blk 9 Beltway Sec 2 | 10535 Harwin Dr., Houston, TX 77036 | 7,610,870 | 5,479,826 | 2,131,044 | |
| Res B2, Blk 2 Westbrae Park Sec 2 | 0 Benning Dr., Houston, TX 77031 | 252,616 | 252,616 | | |
| Res B1, Blk 2 Westbrae Park Sec 2 | 9000 W. Bellfort St., Houston, TX 77031 | 3,975,196 | 2,862,141 | 1,113,055 | |
| Res A, Blk 1 YES Preparatory Jensen | 5215 Jenson Dr., Houston, TX 77026 | 6,703,004 | 4,826,162 | 1,876,842 | |
| Trs 8, 4A, 5B & 6B Jacob Smith 2 Acres | 0 Benson St., Houston, TX 77020 | 87,021 | 87,021 | | |

(continued)

YES Prep Public Schools, Inc.

Charter #101845

Schedule of Real Property Ownership Interest for the year ended June 30, 2022 (unaudited)

(continued)

| <u>DESCRIPTION</u> | <u>PROPERTY ADDRESS</u> | <u>TOTAL ASSESSED VALUE</u> | <u>OWNERSHIP INTEREST</u> | | |
|---|------------------------------------|-------------------------------------|---------------------------|--------------|----------------|
| | | | <u>LOCAL</u> | <u>STATE</u> | <u>FEDERAL</u> |
| Trs 1, 2, 3 & 4, Blk 5 Burke Sec 3 | 0 Curtis Ave., Houston, TX 77020 | 181,632 | 181,632 | | |
| Lot 1, Blk 2 Roys | 0 Market St., Houston, TX 77020 | 66,000 | 66,000 | | |
| Lots 6-10, Trs 1-5, Blk 20 Michaud M M | 0 Market St., Houston, TX 77020 | 430,650 | 430,650 | | |
| Lot 4, Blk 2 Roys | 1304 Benson St., Houston, TX 77020 | 67,387 | 67,387 | | |
| Lots 7-12, Trs 1-6, Blk 14 Michaud M M | 1305 Benson St., Houston, TX 77020 | 2,622,663 | 2,622,663 | | |
| Lots 6-10, Blk 1 Roys | 1305 Press St., Houston, TX 77020 | 318,797 | 318,797 | | |
| Trs 4 & 5 Jacob Smith 2 Acres | 1420 Benson St., Houston, TX 77020 | 69,765 | 50,231 | 19,534 | |
| Lot 1, Blk 6 Burke Extn. Sec 3 | 3914 Curtis St., Houston, TX 77020 | 68,987 | 68,987 | | |
| Lot 3, Blk 2 Roys | 4017 Market St., Houston, TX 77020 | 65,696 | 65,696 | | |

(continued)

YES Prep Public Schools, Inc.

Charter #101845

Schedule of Real Property Ownership Interest for the year ended June 30, 2022 (unaudited)

(continued)

| <u>DESCRIPTION</u> | <u>PROPERTY ADDRESS</u> | <u>TOTAL ASSESSED VALUE</u> | <u>OWNERSHIP INTEREST</u> | | |
|---|--|-------------------------------------|---------------------------|--------------|----------------|
| | | | <u>LOCAL</u> | <u>STATE</u> | <u>FEDERAL</u> |
| Lot 2, Blk 2 Roys | 4019 Market St., Houston, TX 77020 | 66,000 | 66,000 | | |
| Lot 6, Blk 5 Burke Sec 3 | 4102 Curtis St., Houston, TX 77020 | 71,363 | 71,363 | | |
| Lot 4, Blk 1 Roys | 4107 Market St., Houston, TX 77020 | 63,483 | 63,483 | | |
| Res A2, Blk 1 Albertsons Antoine/Tidwell | 0 Antoine Dr., Houston, TX 77091 | 323,978 | 323,978 | | |
| Res A4-A1, Blk 1 Albertsons Antoine/Tidwell | 5608 W. Tidwell Rd., Houston, TX 77091 | 42,942 | 30,918 | 12,024 | |
| Res A & A4-A, Blk 1 Albertsons Antoine/Tidwell | 5616 W. Tidwell Rd., Houston, TX 77091 | 1,332,502 | 959,401 | 373,101 | |
| Res A & A5, Blk 1 Albertsons Antoine/Tidwell | 5620 W. Tidwell Rd., Houston, TX 77091 | 4,395,944 | 3,165,079 | 1,230,865 | |
| Res A4, Blk 1 Albertsons Antoine/Tidwell | 5620 W. Tidwell Rd., Houston, TX 77091 | 76,342 | 54,966 | 21,376 | |
| Res A2-A, Blk 1 Albertsons Antoine/Tidwell | 5624 W. Tidwell Rd., Houston, TX 77091 | 812,758 | 585,186 | 227,572 | |

(continued)

YES Prep Public Schools, Inc.

Charter #101845

Schedule of Real Property Ownership Interest for the year ended June 30, 2022 (unaudited)

(continued)

| <u>DESCRIPTION</u> | <u>PROPERTY ADDRESS</u> | <u>TOTAL ASSESSED VALUE</u> | <u>OWNERSHIP INTEREST</u> | | |
|--|---|-------------------------------------|---------------------------|--------------|----------------|
| | | | <u>LOCAL</u> | <u>STATE</u> | <u>FEDERAL</u> |
| Trs 4A, 4B, 5A & 5B, Blk 5 Houston Suburban Heights | 6602 Winfield Rd., Houston, TX 77050 | 7,074,204 | 5,093,426 | 1,980,778 | |
| Res A Blk 1 Southside Campus Extn | 5515 S. Loop E., Houston, TX 77033 | 12,268,754 | 8,833,502 | 3,435,252 | |
| Trs 24D, 24E, 24F-1 & 24G Mitchell Place | 5815 Airline Dr., Houston, TX 77076 | 13,001,128 | 9,360,564 | 3,640,564 | |
| Res K2 & M1 America Plaza | 0 Yorktown Plaza Dr., Houston, TX 77040 | 818,918 | 818,918 | | |
| Res K1 (Imps Only (Land*1161560010025) America Plaza | 14741 Yorktown Plaza Dr., Houston, TX 77040 | 13,084,130 | 9,420,574 | 3,663,556 | |
| Res K1 (Imps*1161560010027) America Plaza | 14741 Yorktown Plaza Dr., Houston, TX 77040 | 1,091,178 | 785,648 | 305,530 | |
| Res A, Blk 1 Universal Weather R/P | 8787 Tallyho Rd., Houston, TX 77061 | 4,987,297 | 3,590,854 | 1,396,443 | |
| Lot 175 Magnolia Gardens – Aldine | 0 Lauder Rd., Houston, TX 77039 | 3,221,575 | 2,319,534 | 902,041 | |
| Lots 160-162 Magnolia Gardens – Aldine | 0 Aldine Westfield Rd., Houston, TX 77039 | 1,560,335 | 1,123,441 | 436,894 | |

(continued)

YES Prep Public Schools, Inc.

Charter #101845

Schedule of Real Property Ownership Interest for the year ended June 30, 2022 (unaudited)

(continued)

| DESCRIPTION | PROPERTY ADDRESS | TOTAL ASSESSED VALUE | OWNERSHIP INTEREST | | |
|--|---|----------------------------|-----------------------|----------------------|-------------|
| | | | LOCAL | STATE | FEDERAL |
| Tr 176A Magnolia Gardens – Aldine | 13703 Aldine Westfield Rd., Houston, TX 77039 | 2,659,512 | 1,914,849 | 744,663 | |
| Res A Blk 1 East Little York Shopping Ctr | 441 Little York Rd., Houston, TX 77076 | 1,371,600 | 1,371,600 | | |
| Tr 2D Abst 750 P Sullivan | 0 Kuykendahl Rd., Houston, TX 77090 | 1,272,562 | 1,272,562 | | |
| Tr 2B Abst 27 J R H ARRIS | 8410 Manchester St., Houston, TX 77012 | <u>17,785,926</u> | <u>17,785,926</u> | | |
| Total | | <u>\$ 130,086,841</u> | <u>\$ 101,069,447</u> | <u>\$ 29,017,394</u> | <u>\$ 0</u> |

YES Prep Public Schools, Inc.

Charter #101845

Use of Funds Report – Select State Allotment Programs for the year ended June 30, 2022

| Section A: Compensatory Education Programs | Responses |
|--|------------------|
| Did your LEA expend any state compensatory education program state allotment funds during the district's fiscal year? | Yes |
| Does the LEA have written policies and procedures for its state compensatory education program? | Yes |
| List the total state allotment funds received for state compensatory education programs during the district's fiscal year. | \$21,083,702 |
| List the actual direct program expenditures for state compensatory education programs during the LEA's fiscal year. | \$12,678,797 |
| Section B: Bilingual Education Programs | Responses |
| Did your LEA expend any bilingual education program state allotment funds during the LEA's fiscal year? | Yes |
| Does the LEA have written policies and procedures for its bilingual education program? | Yes |
| List the total state allotment funds received for bilingual education programs during the LEA's fiscal year. | \$3,088,275 |
| List the actual direct program expenditures for bilingual education programs during the LEA's fiscal year. | \$2,180,738 |

YES Prep Public Schools, Inc.

Schedule of Expenditures of Federal Awards for the year ended June 30, 2022

| <u>FEDERAL GRANTOR</u> | Assistance | | | |
|---|---|---------------|------------------|------------------------------|
| <u>Pass-through Grantor</u> | Listing | | | |
| <u>Program Title & Period</u> | <u>Number</u> | <u>Grant</u> | <u>Award</u> | <u>Federal</u> |
| | | <u>Number</u> | <u>Amount</u> | <u>Expenditures</u> |
| U. S. DEPARTMENT OF AGRICULTURE | | | | |
| Passed through Texas Education Agency: | | | | |
| #1 | School Breakfast Program – (SBP) | | | |
| | 10/01/20 – 09/30/21 | 10.553 | 71402001 | N/A \$ 175,466 |
| | 10/01/21 – 09/30/22 | 10.553 | 71402101 | N/A <u>686,508</u> |
| Total School Breakfast Program | | | | <u>861,974</u> |
| #2 | National School Lunch Program – (NSLP) | | | |
| | 10/01/20 – 09/30/21 | 10.555 | 71302001 | N/A 1,248,081 |
| | 10/01/21 – 09/30/22 | 10.555 | 71302001 | N/A <u>4,005,824</u> |
| Total National School Lunch Program | | | | <u>5,253,905</u> |
| Passed through Texas Department of Agriculture: | | | | |
| #3 | Child and Adult Care Food Program – (CACFP) | | | |
| | 10/01/20 – 09/30/21 | 10.558 | 806780706 | N/A 4,027 |
| #4 | Child and Adult Care Food Program – (CACFP) | | | |
| | 10/01/21 – 09/30/22 | 10.558 | 806780706 | N/A <u>86,584</u> |
| Total Child and Adult Care Food Program | | | | <u>90,611</u> |
| #5 | Soil and Water Conservation | | | |
| | 09/29/20 – 09/28/21 | 10.902 | NR207442XXXXC066 | \$18,500 <u>6,717</u> |
| Total U. S. Department of Agriculture | | | | <u>6,213,207</u> |
| U. S. DEPARTMENT OF THE TREASURY | | | | |
| Passed through Harris County: | | | | |
| #6 | COVID-19 Coronavirus Relief Fund | | | |
| | 03/27/20 – 12/30/20 | 21.019 | 1760563835 | \$1,104,611 <u>168,605</u> |
| Total U. S. Department of the Treasury | | | | <u>168,605</u> |
| U. S. FEDERAL COMMUNICATIONS COMMISSION | | | | |
| Direct Federal Funding: | | | | |
| #7 | Emergency Connectivity Fund | | | |
| | 07/01/21 – 06/30/23 | 32.009 | ecf222118170 | \$3,287,600 <u>2,679,823</u> |
| Total U. S. Federal Communications Commission | | | | <u>2,679,823</u> |

(continued)

YES Prep Public Schools, Inc.

Schedule of Expenditures of Federal Awards for the year ended June 30, 2022

(continued)

| <u>FEDERAL GRANTOR</u> <u>Pass-through Grantor</u> <u>Program Title & Period</u> | <u>Assistance</u> <u>Listing</u> <u>Number</u> | <u>Grant</u> <u>Number</u> | <u>Award</u> <u>Amount</u> | <u>Federal</u> <u>Expenditures</u> |
|--|--|-------------------------------|-------------------------------|---------------------------------------|
| U. S. DEPARTMENT OF EDUCATION | | | | |
| Direct Federal Funding: | | | | |
| #8 Charter Schools | | | | |
| 04/01/20 – 03/31/25 | 84.282M | S282M200003 | \$20,966,911 | <u>2,902,052</u> |
| Passed through Texas Education Agency: | | | | |
| #9 Title I, Grants to Local Education Agencies | | | | |
| Part A, Improving Basic Skills | | | | |
| 09/01/20 – 09/30/21 | 84.010A | 21-610101-101845 | \$6,619,575 | 479,576 |
| #10 Title I, Grants to Local Education Agencies | | | | |
| Part A, Improving Basic Skills | | | | |
| 09/01/21 – 09/30/22 | 84.010A | 21-610101-101845 | \$6,790,702 | 6,048,953 |
| #11 Title I, Grants to Local Education Agencies | | | | |
| 1003 School Improvement | | | | |
| 11/06/20 – 09/30/21 | 84.010A | 21-610141-101845 | \$79,100 | <u>4,535</u> |
| Total Title I, Grants to Local Education Agencies | | | | <u>6,533,064</u> |
| #12 Special Education Grants to States – (IDEA, Part B) | | | | |
| 09/03/21 – 09/30/22 | 84.027A | 21-660001-101845-6600 | \$2,123,335 | <u>2,034,937</u> |
| #13 Title II, Part A – Supporting Effective Instruction | | | | |
| 09/01/20 – 09/30/21 | 84.367A | 20-694501-101845 | \$711,224 | 15,724 |
| 09/01/21 – 09/30/22 | 84.367A | 21-694501-101845 | \$801,263 | <u>694,732</u> |
| Total Title II, Part A – Supporting Effective | | | | <u>710,456</u> |
| #14 Title III, Part A – ELA | | | | |
| 09/01/21 – 09/30/22 | 84.365A | 22-671001-101845 | \$527,164 | <u>453,411</u> |
| #15 Title IV, Part A, Subpart 1 | | | | |
| 09/03/21 – 09/30/22 | 84.424A | 20-680101-101845 | \$494,411 | 481,167 |
| 09/01/20 – 09/30/21 | 84.424A | 21-680101-101845 | \$410,803 | <u>32,176</u> |
| Total Title IV, Part A – Subpart 1 | | | | <u>513,343</u> |
| #16 Twenty-First Century Community Learning Centers | | | | |
| 08/01/21 – 07/31/22 | 84.287C | 20-6950267110050 | \$1,500,000 | 1,280,353 |
| 08/01/20 – 07/31/21 | 84.287C | 21-6950267110050 | \$1,500,000 | <u>151,703</u> |
| Total Twenty-First Century Community Learning Centers | | | | <u>1,432,056</u> |

(continued)

YES Prep Public Schools, Inc.

Schedule of Expenditures of Federal Awards for the year ended June 30, 2022 *(continued)*

| <u>FEDERAL GRANTOR</u> <u>Pass-through Grantor</u> <u>Program Title & Period</u> | <u>Assistance</u> <u>Listing</u> <u>Number</u> | <u>Grant</u> <u>Number</u> | <u>Award</u> <u>Amount</u> | <u>Federal</u> <u>Expenditures</u> |
|---|--|-------------------------------|-------------------------------|---------------------------------------|
| U. S. DEPARTMENT OF EDUCATION <i>(continued)</i> | | | | |
| #17 Americas Relief Plan – ESSER III 07/23/21 – 09/30/23 | 84.425U | 21528001101845 | \$33,116,547 | <u>9,421,458</u> |
| #18 COVID-19 Education Stabilization Fund Elementary and Secondary School Emergency Relief Fund 08/01/20 – 09/30/22 | 84.425D | 20-521001-101845 | \$4,518,345 | 2,364,311 |
| CRRSA ESSER II 09/10/21 – 09/30/22 | 84.425D | 215210011017845 | \$22,118,416 | <u>3,386,788</u> |
| Total Elementary and Secondary School Emergency Relief Fund | | | | <u>5,751,099</u> |
| Total U. S. Department of Education | | | | <u>29,751,876</u> |
| TOTAL FEDERAL AWARDS | | | | <u>\$ 38,813,511</u> |

Federal funds expended by YES Prep, by Assistance Listing Number or Assistance Listing cluster, are summarized as follows:

| <u>Assistance Listing Number(s)</u> | <u>Name of Program or Cluster</u> | <u>Amount</u> |
|-------------------------------------|---|----------------------|
| 10.553, 10.555 | Child Nutrition Cluster | \$ 6,115,879 |
| 10.558 | Child and Adult Care Food Program | 90,611 |
| 10.902 | Soil and Water Conservation | 6,717 |
| 21.019 | COVID-19 Coronavirus Relief Fund | 168,605 |
| 32.009 | Emergency Connectivity Fund | 2,679,823 |
| 84.010A | Title I, Grants to Local Education Agencies | 6,533,065 |
| 84.027A | Special Education Cluster (IDEA) | 2,034,937 |
| 84.282M | Charter Schools | 2,902,052 |
| 84.287C | Twenty-First Century Community Learning Centers | 1,432,055 |
| 84.365A | English Language Acquisition State Grants | 453,412 |
| 84.367A | Supporting Effective Instruction State Grants | 710,456 |
| 84.424A | Student Support and Academic Enrichment Program | 513,342 |
| 84.425D | COVID-19 Education Stabilization Fund | 5,751,099 |
| 84.425U | Americas Relief Plan - ESSER III | <u>9,421,458</u> |
| Total | | <u>\$ 38,813,511</u> |

See accompanying note to schedule of expenditures of federal awards.

YES Prep Public Schools, Inc.

Note to Schedule of Expenditures of Federal Awards for the year ended June 30, 2022

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The schedule of expenditures of federal awards (the schedule) 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 costs funded by federal awards. Allowable costs are subject to the cost principles of the Uniform Guidance and the U. S. Department of the Treasury guidelines and include costs that are recognized as expenses in YES Prep’s financial statements in conformity with generally accepted accounting principles. YES Prep has elected not to use the 10% de minimus rate for indirect costs and does not have any subrecipients.

Because the schedule presents only a selected portion of the operations of YES Prep, it is not intended to and does not present the financial position, changes in net assets, or cash flows of YES Prep.

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Board of Directors of
YES Prep Public Schools, Inc.:

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 YES Prep Public Schools, Inc (YES Prep), which comprise the statement of financial position as of June 30, 2022 and the related statements of activities, of functional expenses, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 8, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered YES Prep's internal control over financial reporting (internal control) as a basis for designing 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 YES Prep's internal control. Accordingly, we do not express an opinion on the effectiveness of YES Prep'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We identified certain deficiencies in internal control, described in the schedule of findings and questioned costs as items #2022-001 and #2022-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether YES Prep'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests

disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items #2022-001 and 2022-002.

YES Prep's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on YES Prep's response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. YES Prep's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 YES Prep'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blazek & Vetterling

November 8, 2022

**Independent Auditors' Report on Compliance for Each Major
Federal Program and Report on Internal Control Over
Compliance Required by the Uniform Guidance**

To the Board of Directors of
YES Prep Public Schools, Inc.:

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited YES Prep Public Schools, Inc.'s (YES Prep) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of YES Prep's major federal programs for the year ended June 30, 2022. YES Prep's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, YES Prep complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditors' Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of YES Prep and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of YES Prep's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to YES Prep's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on YES Prep's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about YES Prep's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding YES Prep's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of YES Prep's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 YES Prep's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 *Auditors' Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not

identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Blazek & Vetterling

November 8, 2022

YES Prep Public Schools, Inc.

Schedule of Findings and Questioned Costs for the year ended June 30, 2022

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: unmodified qualified adverse disclaimer

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 none reported

Noncompliance material to the financial statements noted? yes no

Other noncompliance noted? yes no

Federal Awards

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 none reported

Type of auditors’ report issued on compliance for major programs: unmodified qualified adverse disclaimer

Any audit findings disclosed that are required to be reported in accordance with 2 CFR §200.516(a)? yes no

Identification of major programs:

| <u>Assistance Listing Number(s)</u> | <u>Name of Program or Cluster</u> |
|-------------------------------------|---|
| 32.009 | Emergency Connectivity Fund |
| 84.010A | Title I, Grants to Local Education Agencies |
| 84.282M | Charter Schools Program |
| 84.425D | COVID-19 Education Stabilization Fund |

Dollar threshold used to distinguish between Type A and Type B programs: \$1,164,405

Auditee qualified as a low-risk auditee? yes no

Section II – Financial Statement Findings

Finding #2022-001 – Other Noncompliance

Criteria: YES Prep is required to have an internal control process to ensure that only eligible costs are charged to special allotments in accordance with Texas Education Agency (TEA) Guidelines.

Condition and context: During our testing of disbursements, 1 out of 77 items tested were incorrectly charged to the Compensatory Education Program Intent Code (PIC). YES Prep personnel determined that approximately \$425,000 had been inappropriately charged to this PIC. Total reported expenses were unaffected because YES Prep had incurred other costs that could be charged to this PIC.

Cause: Personnel responsible for coding invoices did not appropriately apply TEA guidance to designate the PIC charged.

Effect: Failure to properly code disbursements to the appropriate PIC could impact state funding and TEA reporting.

Recommendation: Provide additional training to personnel responsible for coding disbursements to ensure that disbursements are charged to the appropriate PIC.

Views of responsible officials and planned corrective actions: Management agrees with the finding. See Corrective Action Plan.

Finding #2022-002 – Other Noncompliance

Criteria: YES Prep is required to establish and comply with internal control procedures over student enrollment.

Condition and context: During our testing of student enrollment, we noted that for 5 out of the 60 students tested YES Prep did not retain documentation to support the students' reenrollment. Also, 1 out of 60 students tested was determined to reside outside of YES Prep's charter's geographical boundaries.

Cause: Student enrollment personnel did not comply with YES Prep's existing student enrollment policies and procedures.

Effect: Failure to properly apply enrollment procedures could result in errors in enrollment and attendance reporting.

Recommendation: Establish training and monitoring practices to ensure compliance with YES Prep's established student enrollment procedures.

Views of responsible officials and planned corrective actions: Management agrees with the finding. See Corrective Action Plan.

Section III – Federal Award Findings and Questioned Costs

There were no findings for federal awards required to be reported in accordance with 2 CFR §200.516(a).

CORRECTIVE ACTION PLAN

November 8, 2022

TEXAS EDUCATION AGENCY

YES Prep Public Schools, Inc. (YES Prep) respectfully submits the following Corrective Action Plan for the year ended June 30, 2022. The audit was performed by: Blazek & Vetterling, 2900 Wesleyan, Suite 200, Houston, Texas, 77027.

The findings from the June 30, 2022 schedule of findings and questioned costs are discussed below.

FINDINGS – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Finding #2022-001 – Other Noncompliance

Recommendation: Provide additional training to personnel responsible for coding disbursements to ensure that disbursements are charged to the appropriate PIC.

Planned corrective action: Yes Prep's Accounting Management team will continue to work with the Compliance and Budget teams to review Campus and District Improvement plans; utilizing them to determine what expenses are eligible for and will be coded to appropriate Program Intent Codes. Yes Prep's Accounting Management team will develop and implement a code training for all staff involved in the purchase, approval, budget, and expense review process. This session will be required annually, at a minimum, and will be offered as needed to new employees.

In addition, the Yes Prep Accounting team and Accounting Management team will perform a quarterly review of expenses coded to all Program Intent Codes ensuring their accuracy.

Responsible officer: Luis Mena, Chief Financial Officer

Estimated completion date: March 31, 2023

Finding #2022-002 – Other Noncompliance

Recommendation: Establish training and monitoring practices to ensure compliance with YES Prep's established student enrollment procedures.

Planned corrective action: In order to be in compliance with internal control procedures over student enrollment, we will implement the following:

- Improving the internal workflows to ensure all student documentation is in place for enrollment and re-enrollment.
- Automating the registration process and Back to School Form collection.

Additionally, to ensure that students are within the YES Prep charter's geographical boundaries, we will implement the following:

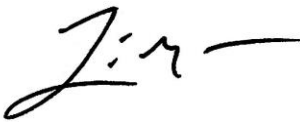
- All applicants outside of YES Prep's campus boundaries will be marked as no priority.
- All no priority applicants' addresses will be checked using a geographical boundary map.
- Through the application management process, all applicants outside of YES Prep's geographical boundaries will be marked as ineligible and will not be allowed to enter the lottery or join the waiting list.

Responsible officer: Nella Garcia, Chief Operating Officer

Estimated completion date: March 31, 2023

If the Texas Education Agency has questions regarding this plan, call Luis Mena at (713) 924-5385.

Sincerely,



Luis Mena
Chief Financial Officer

Summary Schedule of Prior Audit Findings

The following audit finding for the year ended June 30, 2021, is required to be reported in accordance with 2 CFR §200.511.

Section II – Financial Statement Findings

Finding #2021-001 – Other Noncompliance

Condition and context: During our testing of student enrollment, we noted that 1 out of the 40 students tested was improperly classified as being eligible for free lunch, but the documentation illustrated the student being eligible for reduced lunch.

Recommendation: Establish automated procedures to identify students' free and reduced lunch status.

Management's 2022 follow-up response: Income Surveys are now part of YES Prep's Back-to-School form, which each family completes in order to re-enroll their child each year. This form is now uploaded in the Skyward Student Information System, and the system will automatically determine eligibility based on the federal income guidelines and then code to free/reduced/paid lunch, accordingly. The PEIMS team will provide a report identifying students who are still pending income surveys, to the campus DCO, who will initiate a calling campaign to get families to complete the form online or the caller will input the information into Skyward manually. A sampling of records is being tested to ensure Skyward is properly coding in accordance with federal guidelines. Training on the new process and how to pull reports has been provided to the Skyward Student Information System, PEIMS and School Operations teams. This new process was implemented and training was provided prior to the start of the 2022-2023 school year.

YES Prep Public Schools, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2021 and 2020

YES Prep Public Schools, Inc.

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Independent Auditors' Report

To the Board of Directors of
YES Prep Public Schools, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of YES Prep Public Schools, Inc. (YES Prep), which comprise the statements of financial position as of June 30, 2021 and 2020 and the related statements of activities, of functional expenses, and of 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.

Auditors' Responsibility

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 our audits 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 auditors' 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 YES Prep as of June 30, 2021 and 2020 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.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2021 on our consideration of YES Prep'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of YES Prep's 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 YES Prep's internal control over financial reporting and compliance.

Blazek & Vetterling

November 9, 2021

YES Prep Public Schools, Inc.

Statements of Financial Position as of June 30, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|---|-----------------------|-----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents (<i>Notes 3 and 5</i>) | \$ 65,116,671 | \$ 49,169,264 |
| Contributions receivable (<i>Note 4</i>): | | |
| Government grants | 31,211,421 | 18,534,955 |
| Other contributions receivable | 515,333 | 4,009,916 |
| Accounts receivable | 806,844 | 2,369,048 |
| Beneficial interest in charitable trust (<i>Note 5</i>) | 250,000 | 250,000 |
| Prepaid expenses and other assets | <u>1,183,788</u> | <u>869,625</u> |
| Total current assets | 99,084,057 | 75,202,808 |
| Other contributions receivable, net (<i>Note 4</i>) | 951,750 | 1,502,586 |
| Beneficial interest in charitable trust (<i>Note 5</i>) | 1,126,376 | 1,339,876 |
| Bond proceeds held in trust | 26,787,655 | |
| Bond sinking fund investments (<i>Notes 5 and 7</i>) | 27,728,184 | 23,813,133 |
| Property and equipment, net (<i>Note 6</i>) | <u>211,643,032</u> | <u>175,785,309</u> |
| TOTAL ASSETS | <u>\$ 367,321,054</u> | <u>\$ 277,643,712</u> |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 3,601,797 | \$ 931,317 |
| Accrued payroll expenses | 13,637,587 | 9,425,609 |
| Construction payable | 4,209,308 | 1,692,166 |
| Accrued interest | 1,611,500 | 1,041,866 |
| Current portion of bonds payable (<i>Note 7</i>) | 1,546,667 | 1,546,667 |
| Current portion of notes payable (<i>Note 7</i>) | <u>3,431,575</u> | <u>3,411,697</u> |
| Total current liabilities | 28,038,434 | 18,049,322 |
| Bonds payable, net (<i>Note 7</i>) | 140,974,492 | 64,790,006 |
| Notes payable, net (<i>Note 7</i>) | <u>25,614,679</u> | <u>45,815,014</u> |
| Total liabilities | <u>194,627,605</u> | <u>128,654,342</u> |
| Commitments and contingencies (<i>Notes 9 and 10</i>) | | |
| Net assets: | | |
| Without donor restrictions | 114,474,841 | 100,467,547 |
| With donor restrictions (<i>Note 8</i>) | <u>58,218,608</u> | <u>48,521,823</u> |
| Total net assets | <u>172,693,449</u> | <u>148,989,370</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 367,321,054</u> | <u>\$ 277,643,712</u> |

See accompanying notes to financial statements.

YES Prep Public Schools, Inc.

Statement of Activities for the year ended June 30, 2021

| | WITHOUT DONOR RESTRICTIONS | WITH DONOR RESTRICTIONS | TOTAL |
|--|-------------------------------|----------------------------|----------------|
| OPERATING REVENUE: | | | |
| Contributions: | | | |
| Government grants (<i>Note 10</i>) | | \$ 170,462,215 | \$ 170,462,215 |
| Other contributions | \$ 4,206,076 | 5,038,797 | 9,244,873 |
| Program service fees | 18,486,039 | | 18,486,039 |
| Special events | 1,942,599 | | 1,942,599 |
| Cost of direct donor benefits | (104,288) | | (104,288) |
| Interest income | 1,025,495 | | 1,025,495 |
| Other | 35,186 | | 35,186 |
| | <hr/> | <hr/> | <hr/> |
| Total operating revenue | 25,591,107 | 175,501,012 | 201,092,119 |
| Net assets released from restrictions: | | | |
| Program expenditures | 159,899,215 | (159,899,215) | |
| Capital expenditures | 5,341,512 | (5,341,512) | |
| Expiration of time restrictions | 563,500 | (563,500) | |
| | <hr/> | <hr/> | <hr/> |
| Total | 191,395,334 | 9,696,785 | 201,092,119 |
| OPERATING EXPENSES: | | | |
| Program expenses: | | | |
| Instructional program | 130,721,501 | | 130,721,501 |
| Auxiliary services | 29,646,252 | | 29,646,252 |
| | <hr/> | | <hr/> |
| Total program expenses | 160,367,753 | | 160,367,753 |
| General and administrative | 15,930,859 | | 15,930,859 |
| Fundraising | 1,089,428 | | 1,089,428 |
| | <hr/> | | <hr/> |
| Total operating expenses | 177,388,040 | | 177,388,040 |
| CHANGES IN NET ASSETS | | | |
| | 14,007,294 | 9,696,785 | 23,704,079 |
| Net assets, beginning of year | 100,467,547 | 48,521,823 | 148,989,370 |
| | <hr/> | <hr/> | <hr/> |
| Net assets, end of year | \$ 114,474,841 | \$ 58,218,608 | \$ 172,693,449 |

See accompanying notes to financial statements.

YES Prep Public Schools, Inc.

Statement of Activities for the year ended June 30, 2020

| | WITHOUT DONOR RESTRICTIONS | WITH DONOR RESTRICTIONS | TOTAL |
|--|-------------------------------|----------------------------|----------------|
| OPERATING REVENUE: | | | |
| Contributions: | | | |
| Government grants (<i>Note 10</i>) | | \$ 136,127,015 | \$ 136,127,015 |
| Other contributions | \$ 3,718,542 | 21,882,276 | 25,600,818 |
| Program service fees | 18,152,573 | | 18,152,573 |
| Special events | 2,667,007 | | 2,667,007 |
| Cost of direct donor benefits | (200,459) | | (200,459) |
| Interest income | 989,932 | | 989,932 |
| Other | 160,956 | | 160,956 |
| | <hr/> | <hr/> | <hr/> |
| Total operating revenue | 25,488,551 | 158,009,291 | 183,497,842 |
| Net assets released from restrictions: | | | |
| Program expenditures | 138,551,421 | (138,551,421) | |
| Capital expenditures | 4,065,000 | (4,065,000) | |
| Expiration of time restrictions | 10,000 | (10,000) | |
| | <hr/> | <hr/> | <hr/> |
| Total | 168,114,972 | 15,382,870 | 183,497,842 |
| OPERATING EXPENSES: | | | |
| Program expenses: | | | |
| Instructional program | 113,792,633 | | 113,792,633 |
| Auxiliary services | 24,562,899 | | 24,562,899 |
| | <hr/> | | <hr/> |
| Total program expenses | 138,355,532 | | 138,355,532 |
| General and administrative | 13,685,278 | | 13,685,278 |
| Fundraising | 1,131,805 | | 1,131,805 |
| | <hr/> | | <hr/> |
| Total operating expenses | 153,172,615 | | 153,172,615 |
| Changes in net assets before gain on New Markets | | | |
| Tax Credit transaction | 14,942,357 | 15,382,870 | 30,325,227 |
| Gain on New Markets Tax Credit transaction | | | |
| | <hr/> | <hr/> | <hr/> |
| | 3,007,234 | | 3,007,234 |
| CHANGES IN NET ASSETS | | | |
| | <hr/> | <hr/> | <hr/> |
| Net assets, beginning of year | 82,517,956 | 33,138,953 | 115,656,909 |
| | <hr/> | <hr/> | <hr/> |
| Net assets, end of year | \$ 100,467,547 | \$ 48,521,823 | \$ 148,989,370 |

See accompanying notes to financial statements.

YES Prep Public Schools, Inc.

Statement of Functional Expenses for the year ended June 30, 2021

| | INSTRUCTIONAL PROGRAM | AUXILIARY SERVICES | TOTAL PROGRAM EXPENSES | GENERAL AND ADMINISTRATIVE | FUNDRAISING | TOTAL |
|---|--------------------------|-----------------------|------------------------------|-------------------------------|---------------------|-----------------------|
| Salaries and related costs | \$ 100,107,816 | \$ 12,615,276 | \$ 112,723,092 | \$ 10,490,618 | \$ 823,289 | \$ 124,036,999 |
| Materials and supplies | 7,563,276 | 1,465,800 | 9,029,076 | 3,827,896 | 22,147 | 12,879,119 |
| Depreciation | 7,195,564 | 421,405 | 7,616,969 | 282,785 | 21,387 | 7,921,141 |
| Contracted transportation services | 9,556 | 6,554,275 | 6,563,831 | | | 6,563,831 |
| Professional fees and other contracted services | 2,930,989 | 2,835,241 | 5,766,230 | 562,295 | 182,170 | 6,510,695 |
| Interest, debt service and bank fees | 5,196,028 | 304,303 | 5,500,331 | 204,203 | 15,444 | 5,719,978 |
| Contracted food services | 209,294 | 4,638,506 | 4,847,800 | 35,552 | 2,778 | 4,886,130 |
| Maintenance and repairs | 4,020,376 | 235,371 | 4,255,747 | 157,946 | 11,946 | 4,425,639 |
| Utilities and occupancy | 1,964,173 | 516,744 | 2,480,917 | 71,007 | 5,370 | 2,557,294 |
| Insurance | 964,801 | 5,281 | 970,082 | 34,788 | | 1,004,870 |
| Travel | 165,056 | 45,163 | 210,219 | 126,112 | 3,748 | 340,079 |
| Other | 394,572 | 8,887 | 403,459 | 137,657 | 1,149 | 542,265 |
| Total expenses | <u>\$ 130,721,501</u> | <u>\$ 29,646,252</u> | <u>\$ 160,367,753</u> | <u>\$ 15,930,859</u> | <u>\$ 1,089,428</u> | 177,388,040 |
| Cost of direct donor benefits | | | | | | <u>104,288</u> |
| Total | | | | | | <u>\$ 177,492,328</u> |

See accompanying notes to financial statements.

YES Prep Public Schools, Inc.

Statement of Functional Expenses for the year ended June 30, 2020

| | INSTRUCTIONAL PROGRAM | AUXILIARY SERVICES | TOTAL PROGRAM EXPENSES | GENERAL AND ADMINISTRATIVE | FUNDRAISING | TOTAL |
|---|--------------------------|-----------------------|------------------------------|-------------------------------|---------------------|-----------------------|
| Salaries and related costs | \$ 82,984,291 | \$ 11,575,617 | \$ 94,559,908 | \$ 10,799,456 | \$ 716,816 | \$ 106,076,180 |
| Materials and supplies | 10,145,624 | 1,145,081 | 11,290,705 | 628,875 | 103,722 | 12,023,302 |
| Depreciation | 5,688,632 | 409,116 | 6,097,748 | 274,236 | 20,456 | 6,392,440 |
| Contracted transportation services | 139,533 | 5,544,631 | 5,684,164 | 2,006 | | 5,686,170 |
| Professional fees and other contracted services | 3,446,418 | 1,485,907 | 4,932,325 | 877,575 | 213,985 | 6,023,885 |
| Interest, debt service and bank fees | 2,392,373 | 172,055 | 2,564,428 | 115,331 | 8,603 | 2,688,362 |
| Contracted food services | 141,323 | 3,450,642 | 3,591,965 | 83,283 | 30,399 | 3,705,647 |
| Maintenance and repairs | 4,504,610 | 324,003 | 4,828,613 | 217,157 | 16,198 | 5,061,968 |
| Utilities and occupancy | 2,414,141 | 192,758 | 2,606,899 | 120,439 | 7,929 | 2,735,267 |
| Insurance | 685,292 | 54,663 | 739,955 | 242,110 | 2,464 | 984,529 |
| Travel | 924,840 | 206,083 | 1,130,923 | 211,168 | 9,536 | 1,351,627 |
| Other | 325,556 | 2,343 | 327,899 | 113,642 | 1,697 | 443,238 |
| Total expenses | <u>\$ 113,792,633</u> | <u>\$ 24,562,899</u> | <u>\$ 138,355,532</u> | <u>\$ 13,685,278</u> | <u>\$ 1,131,805</u> | 153,172,615 |
| Cost of direct donor benefits | | | | | | <u>200,459</u> |
| Total | | | | | | <u>\$ 153,373,074</u> |

See accompanying notes to financial statements.

YES Prep Public Schools, Inc.

Statements of Cash Flows for the years ended June 30, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|--|----------------------|-----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Changes in net assets | \$ 23,704,079 | \$ 33,332,461 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Contributions restricted for expansion of facilities | (4,260,000) | (17,200,000) |
| Depreciation | 7,921,141 | 6,392,440 |
| Gain on New Markets Tax Credit transaction | | (3,007,234) |
| Amortization of bonds premium | (279,985) | |
| Amortization of bonds and notes payable issuance costs | 283,716 | 326,676 |
| Changes in operating assets and liabilities: | | |
| Receivables | (7,373,012) | (419,559) |
| Prepaid expenses and other assets | (314,163) | 908,190 |
| Beneficial interest in charitable trust | 213,500 | 165,625 |
| Accounts payable and accrued expenses | 6,882,458 | (2,432,371) |
| Accrued interest | <u>569,634</u> | <u>53,384</u> |
| Net cash provided by operating activities | <u>27,347,368</u> | <u>18,119,612</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | <u>(41,261,722)</u> | <u>(29,100,735)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Change in bond sinking fund investments | (3,915,051) | (3,057,581) |
| Capitalized bonds and notes payable issuance costs | (2,873,863) | (52,263) |
| Proceeds from bonds and notes payable | 63,332,826 | 17,415,389 |
| Principal repayments of bonds and notes payable | (4,458,665) | (6,050,113) |
| Proceeds from contributions restricted for expansion of facilities | <u>4,564,169</u> | <u>15,712,499</u> |
| Net cash provided by financing activities | <u>56,649,416</u> | <u>23,967,931</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 42,735,062 | 12,986,808 |
| Cash and cash equivalents, beginning of year | <u>49,169,264</u> | <u>36,182,456</u> |
| Cash and cash equivalents, end of year | <u>\$ 91,904,326</u> | <u>\$ 49,169,264</u> |
| <i>Reconciliation of cash balances:</i> | | |
| Cash and cash equivalents | \$ 65,116,671 | \$ 49,169,264 |
| Bond proceeds held in trust | <u>26,787,655</u> | <u> </u> |
| Total cash and cash equivalents | <u>\$ 91,904,326</u> | <u>\$ 49,169,264</u> |
| <i>Supplemental disclosure of cash flow information:</i> | | |
| Interest payments | \$4,409,301 | \$2,057,800 |
| Retirement of line of credit with bond proceeds | \$18,912,108 | |

See accompanying notes to financial statements.

YES Prep Public Schools, Inc.

Notes to Financial Statements for the years ended June 30, 2021 and 2020

NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Organization – YES Prep Public Schools, Inc. (YES Prep) operates seventeen Texas Open-Enrollment Charter Schools under one state charter. The schools are located in Houston, Texas and serve approximately 15,000 students from K through 2nd grade and 6th through 12th grade. Additionally, YES Prep operates two schools within Spring Branch Independent School District and two schools within Aldine Independent School District on a contract basis. These partnerships (Partnerships) are conducted outside of YES Prep’s charter.

YES Prep Facilities, LLC (Facilities) was created in 2013 to operate buildings on YES Prep’s Fifth Ward and Northside campuses and to construct improvements on those buildings. Facilities leased the buildings to YES Prep and incurred New Markets Tax Credit (NMTC) debt to improve the buildings. YES Prep owned 99% of Facilities with the remaining 1% interest owned by YES Prep Holdings, Inc., a Texas non-profit corporation that was not under the control of YES Prep. The 1% interest owned by YES Prep Holdings, Inc. was reported as a minority interest on the statements of financial position of YES Prep. In September 2019, the NMTC transactions were unwound and Facilities transferred the buildings to YES Prep without consideration. YES Prep, as the 100% owner of COCRF Investor, cancelled the note receivable and related notes payable. YES Prep recognized a \$3,007,234 gain on these transactions. In December 2019, a Certificate of Termination for Facilities was filed with the State of Texas Secretary of State.

Federal income tax status – YES Prep is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(ii).

Cash equivalents include highly liquid investments with original maturities of three months or less.

Government grants and other contributions receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in more than one year are discounted to estimate the present value of future cash flows, if material. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contributions and government grants revenue. An allowance for uncollectible receivables is provided when it is believed balances may not be collected in full. The adequacy of the allowance at the end of each period is determined using a combination of historical loss experience and donor-by-donor analysis of balances.

Allowance for doubtful accounts – An allowance for receivables is provided when it is believed the balances may not be collected in full. Balances are written off against the allowance when management determines the receivable will not be collected. The amount of bad debt expense or loss on valuation of receivables recognized each period and the resulting adequacy of the allowance at the end of each period are determined using a combination of historical loss experience and account-by-account analysis of receivable balances each period. YES Prep considers receivables to be fully collectible; accordingly, no allowance for doubtful accounts is recorded in these financial statements.

Beneficial interest in charitable trust – YES Prep is the beneficiary of an irrevocable charitable trust that is reported at the fair value of the underlying assets. The purpose of the gift is to provide college scholarships to YES Prep graduates who attend out-of-state colleges.

Property and equipment is reported at cost if purchased or at fair value at the date of gift if donated. YES Prep recognizes depreciation using the straight-line method over the estimated useful lives of the assets, which range from 5 to 40 years for buildings and improvements and 2 to 12 years for furniture and equipment. YES Prep capitalizes additions and improvements that have a cost of more than \$5,000.

Debt issuance costs represent costs incurred related to the issuance of bonds and notes payable and are amortized over the repayment period of the related debt. Unamortized debt issuance costs are reported as a reduction to related debt.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service.

Government grants and other contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions and grants received with donor stipulations that limit their use are classified as restricted support. Conditional contributions and grants are subject to one or more barriers that must be overcome before YES Prep is entitled to receive or retain funding. Conditional contributions and grants are recognized in the same manner when the conditions have been met. Funding received before conditions are met is reported as refundable advances and are recognized in the same manner when the conditions are met. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are classified as restricted support.

Program service fees comprise revenue from contracts from YES Prep's Partnerships activity, teacher training services, and food service fees. Revenue is recognized when the services are provided to a customer in an amount that reflects the consideration YES Prep expects to be entitled to in exchange for those services. Payment is due monthly for all services. The nature of these services does not give rise to contract costs or any variable considerations, warranties or other related obligations.

Special event revenue is the total amount paid by sponsors and attendees of an event and includes elements of both contributions and exchange transactions. Special event revenue is recognized when the event occurs. Amounts received for future events represent conditional contributions and are reported in the statement of financial position as refundable advances until earned. Direct donor benefit costs represent the cost of goods and services provided to attendees of special events.

Donated materials, use of facilities and services – Donated materials and use of facilities are recognized at fair value when an unconditional commitment is received from the donor. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the

organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation of buildings and improvements, maintenance and repairs, utility and occupancy costs and interest and debt service costs are allocated based on square footage.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Reclassifications – Expenses of \$8,535,159 for the year ended June 30, 2020 have been reclassified from instructional program expenses to auxiliary services to conform with the current presentation. These reclassifications had no impact on total net assets or changes in net assets for fiscal year 2020.

NOTE 2 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of June 30 comprise the following:

| | <u>2021</u> | <u>2020</u> |
|---|----------------------|----------------------|
| Financial assets: | | |
| Cash and cash equivalents | \$ 65,116,671 | \$ 49,169,264 |
| Receivables, net | 33,485,348 | 26,416,505 |
| Beneficial interest in charitable trust | 1,376,376 | 1,589,876 |
| Bond proceeds held in trust | 26,787,655 | |
| Bond sinking fund investments | <u>27,728,184</u> | <u>23,813,133</u> |
| Total financial assets | 154,494,234 | 100,988,778 |
| Less financial assets not available for general expenditure: | | |
| Bond sinking fund investments | (27,728,184) | (23,813,133) |
| Bond proceeds held in trust and contributions receivable restricted for long-term purposes | (27,187,655) | (3,143,114) |
| Beneficial interest in charitable trust, net of current portion | (1,126,376) | (1,339,876) |
| Restricted by donors for use in future periods or for future projects, net of expected amount to be satisfied in coming year | <u>(115,482)</u> | <u>(831,750)</u> |
| Total financial assets available for general expenditure | <u>\$ 98,336,537</u> | <u>\$ 71,860,905</u> |

YES Prep relies on state and federal grants and program fees from agreements with local public school districts to meet general expenditures related to operations. For purposes of analyzing resources available to meet general expenditures over a 12-month period, YES Prep considers all expenditures related to its ongoing activities of instructional program and auxiliary services, excluding capital and debt repayments, as well as the conduct of services undertaken to support those activities, to be general expenditures. See Note 7 for bond sinking fund requirements.

As part of YES Prep’s liquidity management, financial assets have been structured to be available as its general expenditures, liabilities, and other obligations become due by maintaining a significant portion of its assets in cash. To help manage unanticipated liquidity needs, YES Prep has available lines of credit with banks for \$35 million and \$5 million.

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

| | <u>2021</u> | <u>2020</u> |
|---|----------------------|----------------------|
| Demand deposits | \$ 10,145,149 | \$ 1,749,838 |
| Money market fund | 28,802,560 | 2,014,111 |
| TexPool, TexSTAR and LOGIC investment pools | <u>52,956,617</u> | <u>45,405,315</u> |
| Total cash and cash equivalents | <u>\$ 91,904,326</u> | <u>\$ 49,169,264</u> |

Bank deposits exceed the federally insured limit per depositor per institution. Approximately \$6.1 million was not collateralized by a security agreement with a bank at June 30, 2021.

NOTE 4 – CONTRIBUTIONS RECEIVABLE

Contributions receivable are as follows:

| | <u>2021</u> | <u>2020</u> |
|---|----------------------|----------------------|
| Government agencies | \$ 31,211,421 | \$ 18,534,955 |
| Other contributions receivable | 1,067,083 | 2,808,333 |
| Contributions receivable restricted for capital expansion | <u>400,000</u> | <u>2,704,169</u> |
| Total contributions receivable | <u>\$ 32,678,504</u> | <u>\$ 24,047,457</u> |

Contributions receivable at June 30, 2021 are expected to be collected as follows:

| | |
|--------------------------------|----------------------|
| Due within one year | \$ 31,926,754 |
| Due in one to five years | <u>751,750</u> |
| Total contributions receivable | <u>\$ 32,678,504</u> |

In 2020, YES Prep received a \$6,250,000 contribution from the Charter School Growth Fund, \$5,000,000 of which is contingent upon meeting certain milestones and conditions. In 2021, \$1,000,000 was recognized as revenue with \$4,000,000 remaining to be recognized as of June 30, 2021 as conditions are satisfied.

NOTE 5 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is 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. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.

- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets reported at fair value at June 30, 2021 consist of the following:

| | <u>LEVEL 1</u> | <u>LEVEL 2</u> | <u>LEVEL 3</u> | <u>TOTAL</u> |
|--|----------------------|----------------------|---------------------|----------------------|
| Cash equivalents held as investments: | | | | |
| Pooled funds held in TexPool, TexSTAR and LOGIC | \$ 52,956,617 | | | \$ 52,956,617 |
| Repurchase agreements for bond sinking fund | | \$ 27,728,184 | | 27,728,184 |
| Beneficial interest in charitable trust | | | \$ 1,376,376 | <u>1,376,376</u> |
| Total assets reported at fair value | <u>\$ 52,956,617</u> | <u>\$ 27,728,184</u> | <u>\$ 1,376,376</u> | <u>\$ 82,061,177</u> |

Assets reported at fair value at June 30, 2020 consist of the following:

| | <u>LEVEL 1</u> | <u>LEVEL 2</u> | <u>LEVEL 3</u> | <u>TOTAL</u> |
|--|----------------------|----------------------|---------------------|----------------------|
| Cash equivalents held as investments: | | | | |
| Pooled funds held in TexPool, TexSTAR and LOGIC | \$ 45,405,315 | | | \$ 45,405,315 |
| Repurchase agreements for bond sinking fund | | \$ 23,813,133 | | 23,813,133 |
| Beneficial interest in charitable trust | | | \$ 1,589,876 | <u>1,589,876</u> |
| Total assets reported at fair value | <u>\$ 45,405,315</u> | <u>\$ 23,813,133</u> | <u>\$ 1,589,876</u> | <u>\$ 70,808,324</u> |

Valuation methods used for assets measured at fair value are as follows:

- *TexPool* and *LOGIC* operate in a manner consistent with SEC Rule 2a-7 of the Investment Company Act of 1940, and fully comply with the Texas Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These investment pools primarily include short-term marketable securities and use amortized cost rather than market value to report net assets and to compute share prices. Accordingly, the fair value of the positions in TexPool and LOGIC are the same value as the number of shares owned.
- *TexSTAR* conforms with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Texas Public Funds Investment Act, Chapter 2256 of the Texas Government Code. TexSTAR is a cash reserve fund that invests in low-risk securities; it uses the fair value method to report net position and to compute share prices.
- *Repurchase agreements* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas which may include market-corroborated inputs for credit risk factors, interest rate and yield curves and broker quotes, to calculate fair values.
- *Beneficial interest in charitable trust* is valued at the fair value of the underlying investments, as provided by the trustee.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the YES Prep believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

Changes in the fair value of Level 3 assets consist of the following:

| | |
|--------------------------|---------------------|
| Balance at June 30, 2019 | \$ 1,755,501 |
| Distribution | (250,000) |
| Change in fair value | <u>84,375</u> |
| Balance at June 30, 2020 | 1,589,876 |
| Distribution | (250,000) |
| Change in fair value | <u>36,500</u> |
| Balance at June 30, 2021 | <u>\$ 1,376,376</u> |

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

| | <u>2021</u> | <u>2020</u> |
|---------------------------------------|-----------------------|-----------------------|
| Land | \$ 21,963,370 | \$ 18,397,478 |
| Buildings and improvements | 200,290,764 | 170,064,620 |
| Furniture and equipment | 12,591,534 | 11,162,986 |
| Construction in progress | <u>32,551,935</u> | <u>23,993,658</u> |
| Total property and equipment, at cost | 267,397,603 | 223,618,742 |
| Accumulated depreciation | <u>(55,754,571)</u> | <u>(47,833,433)</u> |
| Property and equipment, net | <u>\$ 211,643,032</u> | <u>\$ 175,785,309</u> |

YES Prep has buildings and improvements with an approximate net book value of \$36 million that have been purchased with Texas Education Agency funds. Texas statutes state that property purchased with funds received by a charter school holder is considered to be public property for all purposes under state law and is held in trust by the charter school holder for the benefit of the students of the open enrollment charter school and may be used only for those purposes.

NOTE 7 – BONDS AND NOTES PAYABLE

In March 2010, YES Prep entered into a Master Trust Indenture (the MTI) for the purpose of issuing bonds. Under the MTI, YES Prep has the ability to issue additional debt on a parity basis. The MTI is secured by a first lien on YES Prep's revenue, as well as on certain real property of YES Prep. YES Prep is required to maintain 1.2 times debt coverage at each fiscal year end while the MTI debt is still outstanding. With the exception of the Charter School Growth Fund loans, all bonds and notes held by YES Prep exist under, and are subject to, the MTI.

Bonds payable at June 30, 2021 consist of the following:

| | OUTSTANDING BALANCE | PREMIUM/ DISCOUNT | ISSUANCE COSTS | TOTAL |
|-----------------------------|------------------------|----------------------|-----------------------|-----------------------|
| Series 2020 | \$ 71,585,000 | \$ 8,883,228 | \$ (2,840,446) | \$ 77,627,782 |
| Series 2010Z | 16,000,000 | | (86,421) | 15,913,579 |
| Series 2015Z | 15,000,000 | | (226,649) | 14,773,351 |
| Series 2017Z-1 | 10,391,333 | | (116,245) | 10,275,088 |
| Series 2011Z | 8,751,600 | | (72,976) | 8,678,624 |
| Series 2010Q | 6,100,000 | | (39,608) | 6,060,392 |
| Series 2017Z | 6,019,700 | | (148,390) | 5,871,310 |
| Series 2012Z | <u>3,400,000</u> | | <u>(78,967)</u> | <u>3,321,033</u> |
| Total | 137,247,633 | 8,883,228 | (3,609,702) | 142,521,159 |
| Less current portion | <u>(1,546,667)</u> | | | <u>(1,546,667)</u> |
| Net long-term bonds payable | <u>\$ 135,700,966</u> | <u>\$ 8,883,228</u> | <u>\$ (3,609,702)</u> | <u>\$ 140,974,492</u> |

Bonds payable at June 30, 2020 consist of the following:

| | OUTSTANDING BALANCE | PREMIUM/ DISCOUNT | ISSUANCE COSTS | TOTAL |
|-----------------------------|------------------------|----------------------|---------------------|----------------------|
| Series 2010Z | \$ 16,000,000 | | \$ (114,044) | \$ 15,885,956 |
| Series 2015Z | 15,000,000 | | (251,832) | 14,748,168 |
| Series 2017Z-1 | 11,336,000 | | (127,058) | 11,208,942 |
| Series 2011Z | 8,751,600 | | (87,100) | 8,664,500 |
| Series 2010Q | 6,100,000 | | (46,031) | 6,053,969 |
| Series 2017Z | 6,622,000 | | (155,518) | 6,466,482 |
| Series 2012Z | <u>3,400,000</u> | | <u>(91,344)</u> | <u>3,308,656</u> |
| Total | 67,209,600 | | (872,927) | 66,336,673 |
| Less current portion | <u>(1,546,667)</u> | | | <u>(1,546,667)</u> |
| Net long-term bonds payable | <u>\$ 65,662,933</u> | <u>\$ 0</u> | <u>\$ (872,927)</u> | <u>\$ 64,790,006</u> |

Series 2020: Education Revenue Bonds issued by the Clifton Higher Education Finance Corporation. The bonds bear interest of 3% to 5% and accrue interest semi-annually. The bond is due April 2050. The proceeds were used to rehabilitate or repair specified campus Facilities, the home office and to pay off a line of credit balance of \$18,912,108 and are secured by real estate.

Series 2010Z: Qualified Zone Academy Bond, Taxable issued by the City of Houston Higher Education Finance Corporation. The investor earns 5.73% in annual tax credits as part of a federal tax credit bond program and YES Prep pays 2% supplemental interest semi-annually. The bond is due April 1, 2025. The proceeds were used to rehabilitate or repair specified campus facilities and are secured by real estate.

Series 2015Z: Qualified Zone Academy Bond, Taxable issued by the City of Houston Higher Education Finance Corporation. The investor earns 4.87% in annual tax credits as part of a federal tax credit bond program and YES Prep pays 1% supplemental interest semi-annually. The bond is due April 1, 2030. The proceeds were used to rehabilitate or repair specified campus facilities and are secured by real estate.

Series 2017Z-1: Qualified Zone Academy Bond, Taxable issued by the City of Houston Higher Education Finance Corporation. The investor earns 4.11% in annual tax credits as part of a federal tax

credit bond program and YES Prep pays no interest. Principal payments are due annually through maturity on April 1, 2026. The proceeds were used to rehabilitate or repair specified campus facilities and are secured by real estate. The bonds require YES Prep to maintain certain financial ratios and meet other covenants over the life of the bonds.

Series 2011Z: Qualified Zone Academy Bond, Taxable issued by the City of Houston Higher Education Finance Corporation. The investor earns 5.18% in annual tax credits as part of a federal tax credit bond program and YES Prep pays 2.21% supplemental interest semi-annually. The bond is due April 1, 2026. The proceeds were used to rehabilitate or repair specified campus facilities and are secured by real estate.

Series 2010Q: Qualified School Construction Bond, Taxable issued by the City of Houston Higher Education Finance Corporation. The investor earns 5.82% in annual tax credits as part of a federal tax credit bond program and YES Prep pays 2% supplemental interest semi-annually. The bond is due April 1, 2025. The proceeds were used to construct specified campus facilities and are secured by real estate.

Series 2017Z: Qualified Zone Academy Bond issued by the City of Houston Higher Education Finance Corporation. The investor earns 4.57% in annual tax credits as part of a federal tax credit bond program and YES Prep pays no interest. The bond is due April 1, 2031. The proceeds were used to construct, rehabilitate, or repair specified campus facilities and are secured by real estate.

Series 2012Z: Qualified Zone Academy Bond, Taxable issued by the City of Houston Higher Education Finance Corporation. The investor earns 4.49% in annual tax credits as part of a federal tax credit bond program and YES Prep pays 1% supplemental interest semi-annually. The bond is due April 1, 2027. The proceeds were used to rehabilitate or repair specified campus facilities and are secured by real estate.

Bond sinking fund investments at June 30, 2021 are held in money market mutual funds and are escrowed for future debt service in the amount of \$27,728,184. Interest on the bonds payable totaled approximately \$846,000 and \$834,000 at June 30, 2021 and 2020, respectively.

Maturities of bonds payable, including interest, at June 30, 2021 are as follows:

| | <u>PRINCIPAL</u> | <u>INTEREST</u> | <u>TOTAL</u> |
|---------------------------------|-----------------------|----------------------|-----------------------|
| 2022 | \$ 1,546,667 | \$ 3,412,390 | \$ 4,959,057 |
| 2023 | 3,001,667 | 3,412,390 | 6,414,057 |
| 2024 | 3,001,667 | 3,342,890 | 6,344,557 |
| 2025 | 25,176,667 | 3,159,640 | 6,236,307 |
| 2026 | 3,151,665 | 2,703,289 | 5,854,954 |
| Thereafter | <u>101,369,300</u> | <u>30,101,660</u> | <u>153,570,960</u> |
| Total payments due | 137,247,633 | <u>\$ 46,132,259</u> | <u>\$ 183,379,892</u> |
| Unamortized bond premium | 8,883,228 | | |
| Unamortized debt issuance costs | <u>(3,609,702)</u> | | |
| Total bonds payable, net | <u>\$ 142,521,159</u> | | |

As specified in the MTI, YES Prep entered into two repurchase agreements to fund the repayment of bonds upon maturity. YES Prep makes equal annual deposits into these accounts over the 15-year term of the underlying bonds, and earns interest at rates varying between 2.18% and 4.259%. The combination of the annual deposits and interest earned on the accounts will provide the full amount due upon maturity of the covered bonds.

YES Prep’s minimum cash commitments under the repurchase agreements are as follows:

| | |
|------------|----------------------|
| 2022 | \$ 2,558,713 |
| 2023 | 2,558,713 |
| 2024 | 2,558,713 |
| 2025 | 2,558,713 |
| 2026 | 2,558,713 |
| Thereafter | <u>3,545,948</u> |
| Total | <u>\$ 16,339,513</u> |

Notes payable consist of the following:

| | <u>2021</u> | <u>2020</u> |
|---|---------------|---------------|
| Loan agreement with a bank for \$13,440,000 dated December 2018. Interest and principal due annually through maturity on April 1, 2034 with an interest rate of 3.92%, net of unamortized debt issuance costs of \$289,184 and \$357,408 in 2021 and 2020, respectively. Proceeds were used for acquiring, constructing, and renovating buildings at YES Prep Hobby. The loan is secured by real estate. | \$ 10,554,491 | \$ 11,186,265 |
| Loan agreement with a bank for \$10,000,000 dated October 2017. Interest and principal due annually through maturity on April 1, 2032 with an interest rate of 2.93%, net of unamortized debt issuance costs of \$108,249 and \$118,319 in 2021 and 2021, respectively. Proceeds were used to acquire land and construct buildings. The loan is secured by real estate. | 7,466,751 | 8,041,681 |
| Series 2013 loan agreement for \$9,740,000 with a bank issued by Dickinson Education Finance Corporation, net of unamortized debt issuance costs of \$93,071 and \$115,813 in 2021 and 2020, respectively. The loan bears interest at 3.95% and payments are due in semi-annual installments through April 1, 2028. The proceeds were used to retire existing debt and to provide funding for expansions at YES Prep Southwest and YES Prep Fifth Ward. The loan is secured by real estate. | 5,331,267 | 5,923,557 |
| Series 2015 loan agreement for \$7,000,000 with a bank issued by Dickinson Education Finance Corporation, net of unamortized debt issuance costs of \$106,255 and \$117,538 in 2021 and 2020, respectively. The loan bears interest at 2.93% and payments are due in semi-annual installments through April 1, 2030. The proceeds were used to renovate the YES Prep North Forest campus and to construct the YES Prep System Office. The loan is secured by real estate and revenue streams. | 4,093,745 | 4,549,129 |
| Loan agreement for \$1,000,000 with Charter School Growth Fund dated December 2014. Interest at 1%. Principal payments were due in annual installments in June 2021 and June 2022, with interest due in June 2022. Charter School Growth Fund deferred the June 2021 principal payment until June 2022 and the June 2022 payment until June 2023. The loan is unsecured. | 1,000,000 | 1,000,000 |

| | | |
|---|----------------------|----------------------|
| Loan agreement for \$2,500,000 with Charter School Growth Fund amended in December 2014. Interest at 1%. Principal payments were due in annual installments in June 2020 and June 2021. Charter School Growth Fund extended the due dates of the annual installments to June 2021 and June 2022 to provide relief due to the COVID-19 pandemic. The loan is unsecured. | 500,000 | 1,045,000 |
| Loan agreement for \$100,000 with Charter School Growth Fund dated May 2019. Interest is at 1%. Loan matures on June 28, 2024, with interest due at that time. The loan is unsecured. | 100,000 | 100,000 |
| Revolving line of credit agreement with a bank for \$35,000,000 dated July 2019. Interest is due semi-annually at a variable interest rate based on LIBOR while available, (replaced with the Federal Funds Rate when unavailable), plus 1.45%. Principal is due upon maturity on April 1, 2022. The loan was secured by real estate and paid in full with proceeds from the Series 2020 Bonds issuance. The line of credit has a \$0 balance and \$35,000,000 available as of June 30, 2021. | | <u>17,381,079</u> |
| Notes payable, net | <u>\$ 29,046,254</u> | <u>\$ 49,226,711</u> |

Interest on the notes payable totaled approximately \$1,261,000 and \$1,148,000 for the years ended June 30, 2021 and 2020, respectively.

Maturities of notes payable, including interest, at June 30, 2021 are as follows:

| | <u>PRINCIPAL</u> | <u>INTEREST</u> | <u>TOTAL</u> |
|---------------------------------|----------------------|---------------------|----------------------|
| 2022 | \$ 3,431,575 | \$ 979,056 | \$ 4,410,631 |
| 2023 | 3,002,459 | 877,722 | 3,880,181 |
| 2024 | 2,678,976 | 785,038 | 3,464,014 |
| 2025 | 2,652,394 | 693,653 | 3,346,047 |
| 2026 | 2,736,549 | 597,484 | 3,334,033 |
| Thereafter | <u>15,141,060</u> | <u>1,826,340</u> | <u>16,967,400</u> |
| Total payments due | 29,643,013 | <u>\$ 5,759,293</u> | <u>\$ 35,402,306</u> |
| Unamortized debt issuance costs | <u>(596,759)</u> | | |
| Total notes payable, net | <u>\$ 29,046,254</u> | | |

The \$35 million line of credit has a variable interest rate based on LIBOR while available (replaced with the Federal Funds Rate when unavailable) plus 1.45%. YES Prep also has a \$5 million line of credit with a bank with an interest rate of 2.40% as of June 30, 2021 on which no amounts were drawn during the current fiscal year.

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

| | <u>2021</u> | <u>2020</u> |
|---|----------------------|----------------------|
| State resources for future educational activity | \$ 40,149,240 | \$ 23,102,955 |
| Leading Houston Forward campaign | 13,486,820 | 18,164,000 |
| College scholarships for YES Prep graduates | 1,581,168 | 1,856,109 |
| National School Lunch Program | 1,450,923 | 1,317,434 |
| YES Prep future operations | 547,750 | 1,108,250 |
| Campus academic/extra-curricular programs | 394,127 | 150,850 |
| Innovation Fund | 374,799 | 1,836,102 |
| Student and family support | | 444,524 |
| Teaching Excellence | | 410,888 |
| Other | <u>233,781</u> | <u>130,711</u> |
| Total net assets with donor restrictions | <u>\$ 58,218,608</u> | <u>\$ 48,521,823</u> |

NOTE 9 – COMMITMENTS

Construction commitments – In 2021, YES Prep entered into contracts totaling approximately \$32 million for construction projects at certain schools and the home office. As of June 30, 2021, outstanding commitments on these contracts totaled approximately \$3.1 million.

NOTE 10 – GOVERNMENT GRANTS

YES Prep is the recipient of government grants from various federal, state and local agencies. Government grants include the following:

| | <u>2021</u> | <u>2020</u> |
|--|-----------------------|-----------------------|
| State grants: | | |
| Texas Education Agency Foundation School Program Act | \$ 142,448,214 | \$ 119,815,261 |
| Textbook and Kindergarten Materials | <u>700,576</u> | <u>1,000,956</u> |
| Total state grants | <u>143,148,790</u> | <u>120,816,217</u> |
| Federal grants: | | |
| U. S. Department of Education | 18,268,661 | 10,265,886 |
| U. S. Department of Agriculture | 7,950,357 | 4,852,214 |
| U. S. Department of Treasury | 1,080,007 | |
| U. S. Department of Homeland Security | <u>14,400</u> | <u>192,698</u> |
| Total federal grants | <u>27,313,425</u> | <u>15,310,798</u> |
| Total government grants | <u>\$ 170,462,215</u> | <u>\$ 136,127,015</u> |

The grants from government funding sources require fulfillment of certain conditions as set forth in the grant contracts and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of non-compliance by YES Prep with the terms of the contracts. Management believes such disallowances, if any, would not be material to YES Prep's financial position or changes in net assets.

NOTE 11 – MULTIEMPLOYER PENSION PLAN

YES Prep’s full-time employees participate in the Teacher Retirement System of Texas (TRS), a public employee retirement system. TRS is a cost-sharing, multiemployer, defined benefit pension plan. All risks and costs are not shared by YES Prep, but are the liability of the State of Texas. For 2021, plan members contribute 7.7% of their annual covered salary. YES Prep contributes 6.8% for new members the first 90 days of employment, and the State of Texas contributes 6.8%. Additionally, YES Prep makes a 1.5% non-OASDI payment on all TRS eligible employees. YES Prep’s contributions do not represent more than 5% of the pension plan’s total contributions. YES Prep contributed \$3,273,880 and \$2,718,807 to the plan during fiscal years 2021 and 2020, respectively, equal to the required contribution for each year.

The risks of participating in a multiemployer, defined benefit plan are different from single-employer plans because (a) amounts contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers and (b) if an employer stops contributing to TRS, unfunded obligations of TRS may be required to be borne by the remaining employers. There is no withdrawal penalty for leaving TRS.

Total TRS plan assets as of August 31, 2020 and 2019 were \$184.4 billion and \$181.8 billion, respectively. Accumulated benefit obligations as of August 31, 2020 and 2019 were \$218.9 billion and \$209.9 billion, respectively. The plan was 76.8% funded at August 31, 2020 and 76.4% funded at August 31, 2019.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 9, 2021, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

YES Prep Public Schools, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2020 and 2019

YES Prep Public Schools, Inc.

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Independent Auditors' Report

To the Board of Directors of
YES Prep Public Schools, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of YES Prep Public Schools, Inc. (YES Prep), which comprise the statements of financial position as of June 30, 2020 and 2019 and the related statements of activities, of functional expenses, and of 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.

Auditors' Responsibility

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 our audits 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 auditors' 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 YES Prep as of June 30, 2020 and 2019 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.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2020 on our consideration of YES Prep'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of YES Prep's 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 YES Prep's internal control over financial reporting and compliance.

Blazek & Vetterling

November 10, 2020

YES Prep Public Schools, Inc.

Statements of Financial Position as of June 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|--|------------------------------|------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents (<i>Notes 4 and 7</i>) | \$ 49,169,264 | \$ 34,381,817 |
| Contributions receivable (<i>Note 5</i>): | | |
| Government grants | 18,534,955 | 22,532,329 |
| Other contributions receivable | 4,009,916 | 1,050,740 |
| Accounts receivable | 2,369,048 | 229,041 |
| Beneficial interest in charitable trust | 250,000 | 250,000 |
| Prepaid expenses and other assets | <u>869,625</u> | <u>1,777,815</u> |
| Total current assets | 75,202,808 | 60,221,742 |
| Other contributions receivable, net (<i>Note 5</i>) | 1,502,586 | 697,335 |
| Beneficial interest in charitable trust | 1,339,876 | 1,505,501 |
| Note receivable (<i>Note 6</i>) | | 10,422,800 |
| Cash restricted for capital projects (<i>Note 4</i>) | | 1,800,639 |
| Bond sinking fund investments (<i>Note 7</i>) | 23,813,133 | 20,755,552 |
| Property and equipment, net (<i>Note 8</i>) | <u>175,785,309</u> | <u>153,547,303</u> |
| TOTAL ASSETS | <u>\$ 277,643,712</u> | <u>\$ 248,950,872</u> |

LIABILITIES AND NET ASSETS

| | | |
|--|------------------------------|------------------------------|
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 931,317 | \$ 3,552,524 |
| Accrued payroll expenses | 9,425,609 | 9,234,179 |
| Construction payable | 1,692,166 | 2,162,455 |
| Accrued interest | 1,041,866 | 988,482 |
| Current portion of bonds payable (<i>Note 9</i>) | 1,546,667 | 1,546,667 |
| Current portion of notes payable (<i>Note 9</i>) | <u>3,411,697</u> | <u>4,233,751</u> |
| Total current liabilities | 18,049,322 | 21,718,058 |
| Bonds payable, net (<i>Note 9</i>) | 64,790,006 | 66,222,702 |
| Notes payable, net (<i>Note 9</i>) | <u>45,815,014</u> | <u>45,350,609</u> |
| Total liabilities | <u>128,654,342</u> | <u>133,291,369</u> |
| Minority interest in YES Prep Holdings, Inc. | | <u>2,594</u> |
| Commitments and contingencies (<i>Note 11</i>) | | |
| Net assets: | | |
| Without donor restrictions | 100,467,547 | 82,517,956 |
| With donor restrictions (<i>Note 10</i>) | <u>48,521,823</u> | <u>33,138,953</u> |
| Total net assets | <u>148,989,370</u> | <u>115,656,909</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 277,643,712</u> | <u>\$ 248,950,872</u> |

See accompanying notes to financial statements.

YES Prep Public Schools, Inc.

Statement of Activities for the year ended June 30, 2020

| | WITHOUT DONOR RESTRICTIONS | WITH DONOR RESTRICTIONS | TOTAL |
|--|-------------------------------|----------------------------|----------------|
| OPERATING REVENUE: | | | |
| Contributions: | | | |
| Government grants <i>(Note 12)</i> | | \$ 136,127,015 | \$ 136,127,015 |
| Other contributions | \$ 3,718,542 | 21,882,276 | 25,600,818 |
| Program service fees | 18,152,573 | | 18,152,573 |
| Special events | 2,667,007 | | 2,667,007 |
| Cost of direct donor benefits | (200,459) | | (200,459) |
| Interest income | 989,932 | | 989,932 |
| Other | 160,956 | | 160,956 |
| Total operating revenue | 25,488,551 | 158,009,291 | 183,497,842 |
| Net assets released from restrictions: | | | |
| Program expenditures | 138,551,421 | (138,551,421) | |
| Capital expenditures | 4,065,000 | (4,065,000) | |
| Expiration of time restrictions | 10,000 | (10,000) | |
| Total | 168,114,972 | 15,382,870 | 183,497,842 |
| OPERATING EXPENSES: | | | |
| Program expenses: | | | |
| Instructional program | 122,327,792 | | 122,327,792 |
| Auxiliary services | 16,027,740 | | 16,027,740 |
| Total program expenses | 138,355,532 | | 138,355,532 |
| General and administrative | 13,685,278 | | 13,685,278 |
| Fundraising | 1,131,805 | | 1,131,805 |
| Total operating expenses | 153,172,615 | | 153,172,615 |
| Changes in net assets before gain on New Markets | | | |
| Tax Credit transaction | 14,942,357 | 15,382,870 | 30,325,227 |
| Gain on New Markets Tax Credit transaction <i>(Note 6)</i> | 3,007,234 | | 3,007,234 |
| CHANGES IN NET ASSETS | 17,949,591 | 15,382,870 | 33,332,461 |
| Net assets, beginning of year | 82,517,956 | 33,138,953 | 115,656,909 |
| Net assets, end of year | \$ 100,467,547 | \$ 48,521,823 | \$ 148,989,370 |

See accompanying notes to financial statements.

YES Prep Public Schools, Inc.

Statement of Activities for the year ended June 30, 2019

| | WITHOUT DONOR RESTRICTIONS | WITH DONOR RESTRICTIONS | TOTAL |
|--|-------------------------------|----------------------------|----------------|
| OPERATING REVENUE: | | | |
| Contributions: | | | |
| Government grants (<i>Note 12</i>) | | \$ 127,688,940 | \$ 127,688,940 |
| Other contributions | \$ 848,752 | 7,161,514 | 8,010,266 |
| Program service fees | 15,429,122 | | 15,429,122 |
| Special events | 2,339,526 | | 2,339,526 |
| Cost of direct donor benefits | (222,996) | | (222,996) |
| Interest income | 1,391,248 | | 1,391,248 |
| Other | 41,519 | | 41,519 |
| | <hr/> | <hr/> | <hr/> |
| Total operating revenue | 19,827,171 | 134,850,454 | 154,677,625 |
| Net assets released from restrictions: | | | |
| Program expenditures | 123,124,860 | (123,124,860) | |
| Capital expenditures | 3,193,232 | (3,193,232) | |
| Expiration of time restrictions | 60,000 | (60,000) | |
| | <hr/> | <hr/> | <hr/> |
| Total | 146,205,263 | 8,472,362 | 154,677,625 |
| OPERATING EXPENSES: | | | |
| Program expenses: | | | |
| Instructional program | 111,856,711 | | 111,856,711 |
| Auxiliary services | 17,341,264 | | 17,341,264 |
| | <hr/> | | <hr/> |
| Total program expenses | 129,197,975 | | 129,197,975 |
| General and administrative | 11,489,941 | | 11,489,941 |
| Fundraising | 871,965 | | 871,965 |
| | <hr/> | | <hr/> |
| Total operating expenses | 141,559,881 | | 141,559,881 |
| CHANGES IN NET ASSETS | | | |
| | 4,645,382 | 8,472,362 | 13,117,744 |
| Net assets, beginning of year | <hr/> | <hr/> | <hr/> |
| | 77,872,574 | 24,666,591 | 102,539,165 |
| Net assets, end of year | <hr/> | <hr/> | <hr/> |
| | \$ 82,517,956 | \$ 33,138,953 | \$ 115,656,909 |

See accompanying notes to financial statements.

YES Prep Public Schools, Inc.

Statement of Functional Expenses for the year ended June 30, 2020

| | INSTRUCTIONAL PROGRAM | AUXILIARY SERVICES | TOTAL PROGRAM EXPENSES | GENERAL AND ADMINISTRATIVE | FUNDRAISING | TOTAL |
|---|--------------------------|-----------------------|------------------------------|-------------------------------|---------------------|-----------------------|
| Salaries and related costs | \$ 91,261,970 | \$ 3,297,938 | \$ 94,559,908 | \$ 10,799,456 | \$ 716,816 | \$ 106,076,180 |
| Materials and supplies | 10,265,998 | 1,024,707 | 11,290,705 | 628,875 | 103,722 | 12,023,302 |
| Depreciation | 5,688,632 | 409,116 | 6,097,748 | 274,236 | 20,456 | 6,392,440 |
| Professional fees and other contracted services | 3,536,246 | 1,396,079 | 4,932,325 | 877,575 | 213,985 | 6,023,885 |
| Contracted transportation services | 164,428 | 5,519,736 | 5,684,164 | 2,006 | | 5,686,170 |
| Maintenance and repairs | 4,504,610 | 324,003 | 4,828,613 | 217,157 | 16,198 | 5,061,968 |
| Contracted food services | 163,706 | 3,428,259 | 3,591,965 | 83,283 | 30,399 | 3,705,647 |
| Utilities and occupancy | 2,414,141 | 192,758 | 2,606,899 | 120,439 | 7,929 | 2,735,267 |
| Interest, debt service and bank fees | 2,392,373 | 172,055 | 2,564,428 | 115,331 | 8,603 | 2,688,362 |
| Travel | 924,840 | 206,083 | 1,130,923 | 211,168 | 9,536 | 1,351,627 |
| Insurance | 685,292 | 54,663 | 739,955 | 242,110 | 2,464 | 984,529 |
| Other | 325,556 | 2,343 | 327,899 | 113,642 | 1,697 | 443,238 |
| Total expenses | <u>\$ 122,327,792</u> | <u>\$ 16,027,740</u> | <u>\$ 138,355,532</u> | <u>\$ 13,685,278</u> | <u>\$ 1,131,805</u> | 153,172,615 |
| Cost of direct donor benefits | | | | | | <u>200,459</u> |
| Total | | | | | | <u>\$ 153,373,074</u> |

See accompanying notes to financial statements.

YES Prep Public Schools, Inc.

Statement of Functional Expenses for the year ended June 30, 2019

| | INSTRUCTIONAL PROGRAM | AUXILIARY SERVICES | TOTAL PROGRAM EXPENSES | GENERAL AND ADMINISTRATIVE | FUNDRAISING | TOTAL |
|---|--------------------------|-----------------------|------------------------------|-------------------------------|-------------------|-----------------------|
| Salaries and related costs | \$ 83,104,039 | \$ 3,081,288 | \$ 86,185,327 | \$ 8,722,495 | \$ 487,506 | \$ 95,395,328 |
| Materials and supplies | 7,525,159 | 945,292 | 8,470,451 | 499,516 | 51,501 | 9,021,468 |
| Depreciation | 5,392,937 | 354,426 | 5,747,363 | 260,394 | 19,891 | 6,027,648 |
| Professional fees and other contracted services | 2,801,442 | 1,238,307 | 4,039,749 | 1,025,389 | 222,486 | 5,287,624 |
| Contracted transportation services | 563,830 | 7,005,764 | 7,569,594 | 11,584 | 5 | 7,581,183 |
| Maintenance and repairs | 4,541,047 | 320,499 | 4,861,546 | 218,182 | 16,749 | 5,096,477 |
| Contracted food services | 211,197 | 3,570,324 | 3,781,521 | 106,604 | 37,724 | 3,925,849 |
| Utilities and occupancy | 2,844,756 | 272,468 | 3,117,224 | 131,666 | 12,216 | 3,261,106 |
| Interest, debt service and bank fees | 1,952,528 | 128,321 | 2,080,849 | 94,277 | 7,201 | 2,182,327 |
| Travel | 1,830,785 | 378,626 | 2,209,411 | 270,441 | 12,984 | 2,492,836 |
| Insurance | 691,037 | 45,415 | 736,452 | 79,713 | 2,549 | 818,714 |
| Other | 397,954 | 534 | 398,488 | 69,680 | 1,153 | 469,321 |
| Total expenses | <u>\$ 111,856,711</u> | <u>\$ 17,341,264</u> | <u>\$ 129,197,975</u> | <u>\$ 11,489,941</u> | <u>\$ 871,965</u> | 141,559,881 |
| Cost of direct donor benefits | | | | | | <u>222,996</u> |
| Total | | | | | | <u>\$ 141,782,877</u> |

See accompanying notes to financial statements.

YES Prep Public Schools, Inc.

Statements of Cash Flows for the years ended June 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|--|-----------------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Changes in net assets | \$ 33,332,461 | \$ 13,117,744 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Contributions restricted for expansion of facilities | (17,200,000) | (5,223,765) |
| Depreciation | 6,392,440 | 6,027,648 |
| Gain on New Markets Tax Credit transaction | (3,007,234) | |
| Amortization of bonds and notes payable issuance costs | 326,676 | 309,869 |
| Changes in operating assets and liabilities: | | |
| Receivables | (419,559) | 1,232,554 |
| Prepaid expenses and other assets | 908,190 | (752,533) |
| Beneficial interest in charitable trust | 165,625 | 168,761 |
| Accounts payable and accrued expenses | (2,432,371) | 733,522 |
| Accrued interest | <u>53,384</u> | <u>149,143</u> |
| Net cash provided by operating activities | <u>18,119,612</u> | <u>15,762,943</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | <u>(29,100,735)</u> | <u>(28,739,229)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Change in bond sinking fund investments | (3,057,581) | (3,236,162) |
| Capitalized bonds and notes payable issuance costs | (52,263) | (413,218) |
| Proceeds from bonds and notes payable | 17,415,389 | 13,179,514 |
| Principal repayments of bonds and notes payable | (6,050,113) | (3,652,854) |
| Proceeds from contributions restricted for expansion of facilities | <u>15,712,499</u> | <u>4,757,097</u> |
| Net cash provided by financing activities | <u>23,967,931</u> | <u>10,634,377</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 12,986,808 | (2,341,909) |
| Cash and cash equivalents, beginning of year | <u>36,182,456</u> | <u>38,524,365</u> |
| Cash and cash equivalents, end of year | <u>\$ 49,169,264</u> | <u>\$ 36,182,456</u> |
| <i>Reconciliation of cash balances:</i> | | |
| Cash and cash equivalents | \$ 49,169,264 | \$ 34,381,817 |
| Cash restricted for capital projects | <u> </u> | <u>1,800,639</u> |
| Total cash and cash equivalents | <u>\$ 49,169,264</u> | <u>\$ 36,182,456</u> |
| <i>Supplemental disclosure of cash flow information:</i> | | |
| Interest payments | \$2,057,800 | \$1,816,062 |

See accompanying notes to financial statements.

YES Prep Public Schools, Inc.

Notes to Financial Statements for the years ended June 30, 2020 and 2019

NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Organization – YES Prep Public Schools, Inc. (YES Prep) operates sixteen Texas Open-Enrollment Charter Schools under one state charter. The schools are located in Houston, Texas and serve approximately 14,000 students from 6th through 12th grade. Additionally, YES Prep operates two schools within Spring Branch Independent School District and two schools within Aldine Independent School District on a contract basis. These partnerships (Partnerships) are conducted outside of YES Prep's charter.

YES Prep Facilities, LLC (Facilities) was created in 2013 to operate buildings on YES Prep's Fifth Ward and Northside campuses and to construct improvements on those buildings. Facilities leased the buildings to YES Prep and held New Markets Tax Credit (NMTC) debt incurred to improve the buildings. YES Prep owned 99% of Facilities with the remaining 1% interest owned by YES Prep Holdings, Inc., a Texas non-profit corporation that was not under the control of YES Prep. The 1% interest owned by YES Prep Holdings, Inc. is reported as a minority interest on the statements of financial position of YES Prep. In September 2019, the NMTC transactions were unwound and Facilities transferred the buildings to YES Prep without consideration (see Notes 6 and 9). In December 2019, a Certificate of Termination for Facilities was filed with the State of Texas Secretary of State.

Basis of consolidation – These financial statements as of and for the year ended December 31, 2019 include the assets, liabilities, net assets and activities of YES Prep Public Schools, Inc. and Facilities (collectively YES Prep). All balances and transactions between the consolidated entities have been eliminated.

Federal income tax status – YES Prep is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(ii).

Cash equivalents include highly liquid investments with original maturities of three months or less.

Government grants and other contributions receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in more than one year are discounted to estimate the present value of future cash flows, if material. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contributions and government grants revenue. An allowance for uncollectible receivables is provided when it is believed balances may not be collected in full. The adequacy of the allowance at the end of each period is determined using a combination of historical loss experience and donor-by-donor analysis of balances.

Beneficial interest in charitable trust – YES Prep is the beneficiary of an irrevocable charitable trust that is reported at the fair value of the underlying assets. The purpose of the gift is to provide college scholarships to YES Prep graduates who attend out-of-state colleges.

Property and equipment is reported at cost if purchased or at fair value at the date of gift if donated. YES Prep recognizes depreciation using the straight-line method over the estimated useful lives of the assets, which range from 5 to 40 years for buildings and improvements and 2 to 12 years for furniture and equipment. YES Prep capitalizes additions and improvements that have a cost of more than \$5,000.

Debt issuance costs represent costs incurred related to the issuance of bonds and notes payable and are amortized over the repayment period of the related debt. Unamortized debt issuance costs are reported as a reduction to related debt.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service.

Government grants and other contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions and grants received with donor stipulations that limit their use are classified as restricted support. Conditional contributions and grants are subject to one or more barriers that must be overcome before YES Prep is entitled to receive or retain funding. Conditional contributions and grants are recognized in the same manner when the conditions have been met. Funding received before conditions are met is reported as refundable advances and are recognized in the same manner when the conditions are met. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are classified as restricted support.

Program service fees comprise revenue from contracts from YES Prep's Partnerships activity, teacher training services, and food service fees. Revenue is recognized when the services are provided to a customer in an amount that reflects the consideration YES Prep expects to be entitled to in exchange for those services. Payment is due monthly for all services. The nature of these services does not give rise to contract costs or any variable considerations, warranties or other related obligations.

Donated materials, use of facilities and services – Donated materials and use of facilities are recognized at fair value when an unconditional commitment is received from the donor. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation of buildings and improvements, maintenance and repairs, utility and occupancy costs and interest and debt service costs are allocated based on square footage.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent financial accounting pronouncement – In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. Qualitative and quantitative disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The ASU is effective for fiscal periods beginning after December 15, 2021. YES Prep plans to adopt this ASU for fiscal year ending June 30, 2023. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATES

YES Prep adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU and all subsequently clarifying ASU's replaced most existing revenue recognition guidance in generally accepted accounting principles. The ASU also required expanded disclosures related to the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. YES Prep adopted the new standard effective July 1, 2018 using the full retrospective method. The timing and amount of revenue recognized previously is consistent with how revenue is recognized under this ASU, and therefore, adoption of this ASU had no impact on total net assets or total changes in net assets in fiscal year 2019.

YES Prep also adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction and provide additional guidance on determining whether a contribution is conditional or unconditional. YES Prep adopted the new standard retrospectively effective July 1, 2018. Adoption of this ASU had no impact on total net assets or changes in net assets for fiscal year 2019.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of June 30 comprise the following:

| | <u>2020</u> | <u>2019</u> |
|--|----------------------|----------------------|
| Financial assets: | | |
| Cash and cash equivalents | \$ 49,169,264 | \$ 36,182,456 |
| Receivables, net | 26,416,505 | 24,509,445 |
| Beneficial interest in charitable trust | 1,589,876 | 1,755,501 |
| Bond sinking fund investments | <u>23,813,133</u> | <u>20,755,552</u> |
| Total financial assets | 100,988,778 | 83,202,954 |
| Less financial assets not available for general expenditure: | | |
| Bond sinking fund investments | (23,813,133) | (20,755,552) |
| Cash and cash equivalents and contributions restricted and designated for long-term purposes | (3,143,114) | (5,179,762) |
| Beneficial interest in charitable trust, net of current portion | (1,339,876) | (1,505,501) |
| Restricted by donors for use in future periods or for future projects, net of expected amount to be satisfied in coming year | <u>(831,750)</u> | <u>(14,000)</u> |
| Total financial assets available for general expenditure | <u>\$ 71,860,905</u> | <u>\$ 55,748,139</u> |

YES Prep relies on state and federal grants and program fees from agreements with local public school districts to meet general expenditures related to operations. For purposes of analyzing resources available to meet general expenditures over a 12-month period, YES Prep considers all expenditures related to its ongoing activities of instructional program and auxiliary services, excluding capital and debt repayments, as well as the conduct of services undertaken to support these activities, to be general expenditures. See Note 9 for bond sinking fund requirements.

As part of YES Prep’s liquidity management, financial assets have been structured to be available as its general expenditures, liabilities, and other obligations become due by maintaining a significant portion of its assets in cash. To help manage unanticipated liquidity needs, YES Prep has committed lines of credit of \$5 million for operation purposes, of which \$0 has been drawn upon at June 30, 2020.

NOTE 4 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

| | <u>2020</u> | <u>2019</u> |
|---|----------------------|----------------------|
| Demand deposits | \$ 1,749,838 | \$ 7,050,241 |
| Money market fund | 2,014,111 | |
| TexPool, TexSTAR and LOGIC investment pools | <u>45,405,315</u> | <u>29,132,215</u> |
| Total cash and cash equivalents | <u>\$ 49,169,264</u> | <u>\$ 36,182,456</u> |

Bank deposits exceed the federally insured limit per depositor per institution and approximately \$1.5 million was not collateralized by a security agreement with a bank at June 30, 2020.

NOTE 5 – CONTRIBUTIONS RECEIVABLE

Contributions receivable are as follows:

| | <u>2020</u> | <u>2019</u> |
|---|----------------------|----------------------|
| Government agencies | \$ 18,534,955 | \$ 22,532,329 |
| Other contributions receivable | 2,808,333 | 531,407 |
| Contributions receivable restricted for capital expansion | <u>2,704,169</u> | <u>1,216,668</u> |
| Operating contributions receivable | <u>\$ 24,047,457</u> | <u>\$ 24,280,404</u> |

Contributions receivable at June 30, 2020 are expected to be collected as follows:

| | |
|--------------------------------|----------------------|
| Due within one year | \$ 22,544,871 |
| Due in one to five years | <u>1,502,586</u> |
| Total contributions receivable | <u>\$ 24,047,457</u> |

Approximately 46% and 35% of contributions were from two donors for the years ended June 30, 2020 and 2019, respectively.

In 2020, YES Prep received a \$6,250,000 contribution from the Charter School Growth Fund, \$5,000,000 of which is contingent upon meeting certain milestones and conditions. This amount will be recognized as revenue as conditions are satisfied.

NOTE 6 – NOTE RECEIVABLE

In 2012, YES Prep loaned \$10,422,800 to COCRF Investor XIV, LLC (COCRF Investor). The loan was to mature on November 1, 2042 and bore interest at 1.31%, which was paid quarterly. The loan was interest only for the first seven years, until October 2019. Simultaneous to YES Prep making the loan, Capital One Bank, NA (the Bank) invested \$3,577,200 in COCRF Investor, which in turn placed these combined funds as equity in the form of a Qualified Equity Investment under Section 45D of the Internal Revenue Code of 1986, as amended, into COCRF SubCDE XIV, LLC (COCRF CDE) and New Markets Investment 71, LLC (NMI 71). The loan from YES Prep to COCRF Investor was secured by COCRF Investor's interests in COCRF CDE and NMI 71. COCRF CDE and NMI 71 made loans to Facilities in the form of New Markets Tax Credit Qualified Low-Income Community Investments under Section 45D of the Internal Revenue Code of 1986, as amended, for the construction of YES Prep Fifth Ward and YES Prep Northside. Interest totaling \$136,641 was earned on the note for each of the years ended June 30, 2020 and 2019.

Put and Call Options

The Bank held a put option on its investment in COCRF Investor, whereby it could sell its ownership to YES Prep at a prearranged price (\$178,860) during the six-month period commencing October 11, 2019 (the Put Option Period). In August 2019, the Bank notified YES Prep of its intent to exercise its put option in October 2019 and thereafter sold its interest to YES Prep at the prearranged price. Subsequently, in related transactions, loans by COCRF CDE and NMI 71 were transferred to COCRF Investor. YES Prep, as the 100% owner of COCRF Investor, cancelled the note receivable and related notes payable. YES Prep recognized a \$3,007,234 gain on these transactions.

NOTE 7 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is 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. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity's assumptions about the inputs market participants would use in pricing the asset or liability.

Assets reported at fair value at June 30, 2020 consist of the following:

| | <u>LEVEL 1</u> | <u>LEVEL 2</u> | <u>LEVEL 3</u> | <u>TOTAL</u> |
|--|----------------------|----------------------|---------------------|----------------------|
| Cash equivalents held as investments: | | | | |
| Pooled funds held in TexPool, LOGIC and TexSTAR | \$ 45,405,315 | | | \$ 45,405,315 |
| Repurchase agreements for bond sinking fund | | \$ 23,813,133 | | 23,813,133 |
| Beneficial interest in charitable trust | | | \$ 1,589,876 | 1,589,876 |
| Total assets reported at fair value | <u>\$ 45,405,315</u> | <u>\$ 23,813,133</u> | <u>\$ 1,589,876</u> | <u>\$ 70,808,324</u> |

Assets reported at fair value at June 30, 2019 consist of the following:

| | <u>LEVEL 1</u> | <u>LEVEL 2</u> | <u>LEVEL 3</u> | <u>TOTAL</u> |
|--|-----------------------------|-----------------------------|---------------------|----------------------|
| Cash equivalents held as investments: | | | | |
| Pooled funds held in TexPool, LOGIC and TexSTAR | \$ 29,132,215 | | | \$ 29,132,215 |
| Repurchase agreements for bond sinking fund | | \$ 20,755,552 | | 20,755,552 |
| Beneficial interest in charitable trust | <u> </u> | <u> </u> | \$ 1,755,501 | <u>1,755,501</u> |
| Total assets reported at fair value | <u>\$ 29,132,215</u> | <u>\$ 20,755,552</u> | <u>\$ 1,755,501</u> | <u>\$ 51,643,268</u> |

Valuation methods used for assets measured at fair value are as follows:

- *TexPool* and *LOGIC* operate in a manner consistent with SEC Rule 2a-7 of the Investment Company Act of 1940, and fully comply with the Texas Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These investment pools primarily include short-term marketable securities and use amortized cost rather than market value to report net assets and to compute share prices. Accordingly, the fair value of the positions in *TexPool* and *LOGIC* are the same value as the number of shares owned.
- *TexSTAR* conforms with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Texas Public Funds Investment Act, Chapter 2256 of the Texas Government Code. *TexSTAR* is a cash reserve fund that invests in low risk securities; it uses the fair value method to report net position and to compute share prices.
- *Repurchase agreements* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas which may include market-corroborated inputs for credit risk factors, interest rate and yield curves and broker quotes, to calculate fair values.
- *Beneficial interest in charitable trust* is valued at the fair value of the underlying investments, as provided by the trustee.

YES Prep's beneficial interest in charitable trust is valued at the fair value of the underlying investments, as provided by the trustee.

Changes in the fair value of Level 3 assets consist of the following:

| | |
|--------------------------|---------------------|
| Balance at June 30, 2018 | \$ 1,924,262 |
| Distribution | (250,000) |
| Change in fair value | <u>81,239</u> |
| Balance at June 30, 2019 | 1,755,501 |
| Distribution | (250,000) |
| Change in fair value | <u>84,375</u> |
| Balance at June 30, 2020 | <u>\$ 1,589,876</u> |

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the YES Prep believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

NOTE 8 – PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

| | <u>2020</u> | <u>2019</u> |
|---------------------------------------|-----------------------|-----------------------|
| Land | \$ 18,397,478 | \$ 15,608,352 |
| Buildings and improvements | 170,064,620 | 156,538,070 |
| Furniture and equipment | 11,162,986 | 10,113,537 |
| Construction in progress | <u>23,993,658</u> | <u>12,728,337</u> |
| Total property and equipment, at cost | 223,618,742 | 194,988,296 |
| Accumulated depreciation | <u>(47,833,433)</u> | <u>(41,440,993)</u> |
| Property and equipment, net | <u>\$ 175,785,309</u> | <u>\$ 153,547,303</u> |

YES Prep has buildings and improvements with an approximate net book value of \$23 million that have been purchased with Texas Education Agency funds. Texas statutes state that property purchased with funds received by a charter school holder is considered to be public property for all purposes under state law and is held in trust by the charter school holder for the benefit of the students of the open enrollment charter school and may be used only for those purposes.

NOTE 9 – BONDS AND NOTES PAYABLE

In March 2010, YES Prep entered into a Master Trust Indenture (the MTI) for the purpose of issuing bonds. Under the MTI, YES Prep has the ability to issue additional debt on a parity basis. The MTI is secured by a first lien on YES Prep's revenue, as well as on certain real property of YES Prep. YES Prep is required to maintain 1.2 times debt coverage at each quarter-end while MTI debt is still outstanding. With the exception of the New Markets Tax Credit and the Charter School Growth Fund loans, all bonds and notes held by YES Prep exist under, and are subject to, the MTI.

Bonds payable consist of the following:

| | <u>2020</u> | <u>2019</u> |
|--|---------------|---------------|
| Qualified Zone Academy Bond, Taxable Series 2010Z, issued by the City of Houston Higher Education Finance Corporation, net of unamortized debt issuance costs of \$114,044 and \$141,668 in 2020 and 2019, respectively. The investor earns 5.73% in annual tax credits as part of a federal tax credit bond program and YES Prep pays 2% supplemental interest semi-annually. The bond is due April 1, 2025. The proceeds were used to rehabilitate or repair specified campus facilities and are secured by real estate. | \$ 15,885,956 | \$ 15,858,332 |
| Qualified Zone Academy Bond, Taxable Series 2015Z, issued by the City of Houston Higher Education Finance Corporation, net of unamortized debt issuance costs of \$251,832 and \$271,015 in 2020 and 2019, respectively. The investor earns 4.87% in annual tax credits as part of a federal tax credit bond program and YES Prep pays 1% supplemental interest semi-annually. The bond is due April 1, 2030. The proceeds were used to rehabilitate or repair specified campus facilities and are secured by real estate. | 14,748,168 | 14,728,985 |

| | | |
|--|----------------------|----------------------|
| <p>Qualified Zone Academy Bond, Taxable Series 2017Z-1, issued by the City of Houston Higher Education Finance Corporation, net of unamortized debt issuance costs of \$127,058 and \$137,832 in 2020 and 2019, respectively. The investor earns 4.11% in annual tax credits as part of a federal tax credit bond program and YES Prep pays no interest. Principal payments are due annually through maturity on April 1, 2026. The proceeds were used to rehabilitate or repair specified campus facilities and are secured by real estate.</p> | 11,208,942 | 12,142,795 |
| <p>Qualified Zone Academy Bond, Taxable Series 2011Z, issued by the City of Houston Higher Education Finance Corporation, net of unamortized debt issuance costs of \$87,100 and \$101,224 in 2020 and 2019, respectively. The investor earns 5.18% in annual tax credits as part of a federal tax credit bond program and YES Prep pays 2.21% supplemental interest semi-annually. The bond is due April 1, 2026. The proceeds were used to rehabilitate or repair specified campus facilities and are secured by real estate.</p> | 8,664,500 | 8,650,376 |
| <p>Qualified Zone Academy Bond, Taxable Series 2017Z, issued by the City of Houston Higher Education Finance Corporation, net of unamortized debt issuance costs of \$155,518 and \$178,938 in 2020 and 2019, respectively. The investor earns 4.57% in annual tax credits as part of a federal tax credit bond program and YES Prep pays no interest. The bond is due April 1, 2031. The proceeds were used to construct, rehabilitate, or repair specified campus facilities and are secured by real estate.</p> | 6,466,482 | 7,045,062 |
| <p>Qualified School Construction Bond, Taxable Series 2010Q, issued by the City of Houston Higher Education Finance Corporation, net of unamortized debt issuance costs of \$46,031 and \$52,454 in 2020 and 2019, respectively. The investor earns 5.82% in annual tax credits as part of a federal tax credit bond program and YES Prep pays 2% supplemental interest semi-annually. The bond is due April 1, 2025. The proceeds were used to construct specified campus facilities and are secured by real estate.</p> | 6,053,969 | 6,047,546 |
| <p>Qualified Zone Academy Bond, Taxable Series 2012Z, issued by the City of Houston Higher Education Finance Corporation, net of unamortized debt issuance costs of \$91,344 and \$103,727 in 2020 and 2019, respectively. The investor earns 4.49% in annual tax credits as part of a federal tax credit bond program and YES Prep pays 1% supplemental interest semi-annually. The bond is due April 1, 2027. The proceeds were used to rehabilitate or repair specified campus facilities and are secured by real estate.</p> | <u>3,308,656</u> | <u>3,296,273</u> |
| <p>Bonds payable, net</p> | <u>\$ 66,336,673</u> | <u>\$ 67,769,369</u> |

Interest on the bonds payable totaled approximately \$834,000 and \$816,000 at June 30, 2020 and 2019, respectively.

Maturities of bonds payable, including interest, at June 30, 2020 are as follows:

| | <u>PRINCIPAL</u> | <u>INTEREST</u> | <u>TOTAL</u> |
|---------------------------------|----------------------|---------------------|----------------------|
| 2021 | \$ 1,546,667 | \$ 816,834 | \$ 2,363,501 |
| 2022 | 1,546,667 | 816,834 | 2,363,501 |
| 2023 | 1,546,667 | 816,834 | 2,363,501 |
| 2024 | 1,546,667 | 816,834 | 2,363,501 |
| 2025 | 1,546,667 | 816,834 | 2,363,501 |
| Thereafter | <u>59,476,265</u> | <u>812,688</u> | <u>60,288,953</u> |
| Total payments due | 67,209,600 | <u>\$ 4,896,858</u> | <u>\$ 72,106,458</u> |
| Unamortized debt issuance costs | <u>(872,927)</u> | | |
| Total bonds payable, net | <u>\$ 66,336,673</u> | | |

As specified in the MTI, YES Prep entered into two repurchase agreements to fund the repayment of bonds upon maturity. YES Prep makes equal annual deposits into these accounts over the 15-year term of the underlying bonds, and earns interest at rates varying between 2.18% and 4.259%. The combination of the annual deposits and interest earned on the accounts will provide the full amount due upon maturity of the covered bonds.

YES Prep's minimum cash commitments under the repurchase agreements are as follows:

| | |
|------------|----------------------|
| 2021 | \$ 2,558,713 |
| 2022 | 2,558,713 |
| 2023 | 2,558,713 |
| 2024 | 2,558,713 |
| 2025 | 2,558,713 |
| Thereafter | <u>5,025,662</u> |
| Total | <u>\$ 17,819,227</u> |

Notes payable consist of the following:

| | <u>2020</u> | <u>2019</u> |
|--|---------------|---------------|
| Revolving line of credit agreement with a bank for \$35,000,000 dated July 2019. Interest is due semi-annually at a variable interest rate based on LIBOR while available, (replaced with the Federal Funds Rate when unavailable), plus 1.45%, net of unamortized debt issuance costs of \$34,311 in 2020. Principal is due upon maturity on April 1, 2022. The loan is secured by real estate. | \$ 17,381,079 | |
| Loan agreement with a bank for \$13,440,000 dated December 2018. Interest and principal due annually through maturity on April 1, 2034 with an interest rate of 3.92%, net of unamortized debt issuance costs of \$357,408 and \$386,986 in 2020 and 2019, respectively. Proceeds were used for acquiring, constructing, and renovating buildings at YES Prep Hobby. The loan is secured by real estate. | 11,186,265 | \$ 13,053,015 |
| Loan agreement with a bank for \$10,000,000 dated October 2017. Interest and principal due annually through maturity on April 1, 2032 with an interest rate of 2.93%, net of unamortized debt issuance costs of \$118,319 and \$131,794 in 2020 and 2019, respectively. Proceeds were used to acquire land and construct buildings. The loan is secured by real estate. | 8,041,681 | 8,628,206 |

| | | |
|---|----------------------|----------------------|
| Series 2013 loan agreement for \$9,740,000 with a bank issued by Dickinson Education Finance Corporation, net of unamortized debt issuance costs of \$115,813 and \$119,044 in 2020 and 2019, respectively. The loan bears interest at 3.95% and payments are due in semi-annual installments through April 1, 2028. The proceeds were used to retire existing debt and to provide funding for expansions at YES Prep Southwest and YES Prep Fifth Ward. The loan is secured by real estate. | 5,923,557 | 6,510,779 |
| Series 2015 loan agreement for \$7,000,000 with a bank issued by Dickinson Education Finance Corporation, net of unamortized debt issuance costs of \$117,538 and \$128,822 in 2020 and 2019, respectively. The loan bears interest at 2.93% and payments are due in semi-annual installments through April 1, 2030. The proceeds were used to renovate the YES Prep North Forest campus and to construct the YES Prep System Office. The loan is secured by real estate and revenue streams. | 4,549,129 | 5,001,918 |
| Loan agreement for \$2,500,000 with Charter School Growth Fund amended December 2014. Interest at 1%. Principal payments were due in annual installments in June 2020 and June 2021. Charter School Growth Fund extended the due dates of the annual installments to June 2021 and June 2022 to provide relief due to the COVID pandemic. The loan is unsecured. | 1,045,000 | 1,045,000 |
| Loan agreement for \$1,000,000 with Charter School Growth Fund dated December 2014. Interest at 1%. Principal payments are due in annual installments in June 2021 and June 2022, with interest due in June 2022. The loan is unsecured. | 1,000,000 | 1,000,000 |
| Loan agreement for \$100,000 with Charter School Growth Fund dated May 2019. Interest is at 1%. Loan matures on June 28, 2024, with interest due at that time. The loan is unsecured. | 100,000 | 100,000 |
| Note payable to New Markets Investment 71, LLC, issued in October 2012, net of unamortized debt issuance costs of \$211,518 in 2019. Proceeds were used to finance buildings at YES Prep Fifth Ward and YES Prep Northside. The loan was secured by real estate and was forgiven as a result of unwinding the NMTC agreement (see Note 6). | | 8,453,442 |
| Note payable to COCRF SubCDE XIV, LLC issued in October 2012, net of unamortized debt issuance costs of \$158,000 in 2019. Proceeds were used to finance buildings at YES Prep Fifth Ward and YES Prep Northside. The loan was secured by real estate and was forgiven as a result of unwinding the NMTC agreement (see Note 6). | | 4,842,000 |
| Loan agreement for \$2,300,000 with Charter School Growth Fund dated April 2015. Interest was at 0%. Principal payments were due in annual installments from June 2015 to June 2020 and matured on June 30, 2020. The loan was unsecured. | | 750,000 |
| Loan agreement for \$200,000 with Charter School Growth Fund dated July 2013. Interest at 1%. Loan matured on June 30, 2019. The loan was unsecured. | | 200,000 |
| Notes payable, net | <u>\$ 49,226,711</u> | <u>\$ 49,584,360</u> |

Interest on the notes payable totaled approximately \$1,261,000 and \$1,148,000 for the years ended June 30, 2020 and 2019, respectively.

Maturities of notes payable, including interest, at June 30, 2020 are as follows:

| | <u>PRINCIPAL</u> | <u>INTEREST</u> | <u>TOTAL</u> |
|---------------------------------|----------------------|---------------------|----------------------|
| 2021 | \$ 3,411,697 | \$ 1,493,389 | \$ 4,905,086 |
| 2022 | 20,846,964 | 1,410,124 | 22,257,088 |
| 2023 | 2,502,459 | 942,211 | 3,444,670 |
| 2024 | 2,678,976 | 856,368 | 3,535,344 |
| 2025 | 2,652,394 | 762,618 | 3,415,012 |
| Thereafter | <u>17,877,610</u> | <u>2,900,270</u> | <u>20,777,880</u> |
| Total payments due | 49,970,100 | <u>\$ 8,364,980</u> | <u>\$ 58,335,080</u> |
| Unamortized debt issuance costs | <u>(743,389)</u> | | |
| Total notes payable, net | <u>\$ 49,226,711</u> | | |

YES Prep also has a \$5 million line of credit with a bank with an interest rate of 2.40% as of June 30, 2020. No amounts were drawn from the line of credit during the current fiscal year.

NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

| | <u>2020</u> | <u>2019</u> |
|---|----------------------|----------------------|
| State resources for future educational activity | \$ 23,102,955 | \$ 23,229,111 |
| Leading Houston Forward campaign | 18,164,000 | 5,029,000 |
| College scholarships for YES Prep graduates | 1,856,109 | 2,058,189 |
| Innovation Fund | 1,836,102 | 263,675 |
| National School Lunch Program | 1,317,434 | 1,286,292 |
| YES Prep future operations | 1,108,250 | 20,000 |
| Student and family support | 444,524 | 105,909 |
| Teaching Excellence | 410,888 | 956,650 |
| Other | <u>281,561</u> | <u>190,127</u> |
| Total net assets with donor restrictions | <u>\$ 48,521,823</u> | <u>\$ 33,138,953</u> |

NOTE 11 – COMMITMENTS

Lease commitments – YES Prep leases certain equipment under noncancelable operating leases. Operating lease payments for the years ended June 30, 2020 and 2019 were approximately \$1,946,000 and \$1,367,000, respectively. Future minimum lease payments are due as follows:

| | |
|-------|---------------------|
| 2021 | \$ 1,372,210 |
| 2022 | 725,201 |
| 2023 | 133,541 |
| 2024 | <u>16,532</u> |
| Total | <u>\$ 2,247,484</u> |

Construction commitments – In 2019, YES Prep entered into contracts totaling approximately \$10.3 million for construction projects at certain schools. As of June 30, 2020, outstanding commitments totaled approximately \$3.2 million for the related contracts.

NOTE 14 – SUBSEQUENT EVENTS

In July 2020, YES Prep issued Education Revenue Bonds Series 2020 in the amount of \$71,585,000 with a premium of \$9,163,215 issued by the City of Clifton's Higher Education Finance Corporation and guaranteed by the corpus of the TEA's Permanent School Fund. The bonds bear interest at rates ranging from 3% to 5% and are due in installments through April 1, 2050. The proceeds were used to pay the outstanding line of credit, including interest of \$19 million, as well as to fund construction. The bonds are secured by real property.

Management has evaluated subsequent events through November 10, 2020, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

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APPENDIX D

FORM OF BOND COUNSEL OPINION

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August 9, 2023

Clifton Higher Education Finance Corporation
Clifton, Texas

Hancock Whitney Bank
Baton Rouge, Louisiana

\$83,220,000
Clifton Higher Education Finance Corporation
Education Revenue Bonds (YES Prep Public Schools Inc.) Series 2023

Ladies and Gentlemen:

We have been engaged by YES Prep Public Schools Inc., a Texas nonprofit corporation (the “Company”), to serve as bond counsel in connection with the issuance by the Clifton Higher Education Finance Corporation (the “Issuer”) of its Education Revenue Bonds (YES Prep Public Schools Inc.) Series 2023 (the “Bonds”). The Bonds are issued pursuant to a Trust Indenture and Security Agreement, dated as of August 1, 2023 (the “Trust Indenture”), by and between the Issuer and Hancock Whitney Bank, as master trustee (the “Master Trustee”) and are secured by a promissory note (the “Note”) entitled to the benefit of an Amended and Restated Master Trust Indenture and Security Agreement, dated as of June 1, 2015 (the “Original Master Indenture”), by and between the Company and Hancock Whitney Bank, successor to Capital One, N.A., as master trustee (the “Master Trustee”), as supplemented by and through Supplemental Master Trust Indenture No. 19, dated as of August 1, 2023 (the Original Master Indenture, as supplemented, is referred to herein as the “Master Indenture”). The proceeds of the Bonds will be loaned by the Issuer to the Company pursuant to a Loan Agreement, dated as of August 1, 2023 (the “Loan Agreement”), by and between the Issuer and the Company. Under the Loan Agreement, the Company has agreed to make payments to or for the account of the Issuer in amounts necessary to pay when due the principal of, premium, if any, and interest on the Bonds. Such payments and the rights of the Issuer under the Loan Agreement (except certain rights to indemnification, rebate payments and administrative fees) and the Note are pledged and assigned by the Issuer under the Trust Indenture to the Trustee as security for the Bonds. A capitalized term not otherwise defined herein shall have the meaning assigned to such term in the Trust Indenture and the Loan Agreement. The Bonds are payable solely from the Trust Estate created under the Trust Indenture.

We have acted as Bond Counsel for the sole purpose of rendering an opinion with respect to (i) the legality and validity of the Bonds under the Constitution and laws of the State of Texas and (ii) the exclusion of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of certified proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the Company or the disclosure thereof in connection with the offer and sale of the Bonds.

In our capacity as Bond Counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the authorization and issuance of the Bonds on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Board of Directors of the Company and the Board of Directors of the Issuer, and certain certificates and other documents of representatives of the Issuer, the Trustee, the Company, and of others. We have also examined such portions of the Constitution and statutes of the State of Texas, and such applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, regulations and published rulings of the Internal Revenue Service (the "Service"), as we have deemed necessary for the purposes of this opinion.

As to questions of fact material to our opinion, we have relied, with your permission, upon representations of the Issuer and the Company contained in the Trust Indenture and the Loan Agreement, the certified proceedings and other certifications of public officials furnished to us, and certifications, documents, and other information furnished to us by or on behalf of the Company, the Issuer, PNC Capital Markets LLC, as representative of a group of underwriters (the "Underwriters"), and others, without undertaking to verify the same by independent investigation.

Reference is made to our opinion of even date herewith, as counsel to the Company, as to among other things, the 501(c)(3) status of the Company, the due authorization, execution and delivery of the Master Indenture, the Note, and related documents by the Company and the validity and enforceability of such documents against the Company.

We have assumed, with your permission, and without independent verification (i) the genuineness of certificates, records and other documents and the accuracy and completeness of the statements contained therein; (ii) the due authorization, execution and delivery of the Trust Indenture by the Trustee and the validity and binding effect of the Trust Indenture on the Trustee; (iii) that all documents and certificates submitted to us as originals are accurate and complete; (iv) that all documents and certificates submitted to us as copies are true and correct copies of the originals thereof; and (v) that all information submitted to us was accurate and complete. No information has come to our attention that is inconsistent with the material facts that have been certified by the Issuer, the Company and others, and upon which we have relied in our opinions.

Based on the foregoing, and subject to the matters set forth herein, we are of the opinion that under existing law:

1. The Trust Indenture has been duly authorized, executed and delivered by the Issuer and is a legal, valid and binding obligation of the Issuer enforceable against the Issuer in

accordance with its terms. The Issuer has assigned its rights, title, and interest in and to the Note and the Loan Agreement (except for certain rights of the Issuer to indemnification and payment of its fees and expenses) and amounts on deposit or held for the credit of the funds and accounts held by the Trustee pursuant to the terms of the Trust Indenture and all amounts held therein (other than the Rebate Fund) and has granted a valid security interest therein to the Trustee pursuant to the Trust Indenture as security for the Bonds.

2. The Bonds have been duly authorized, executed, issued and delivered by the Issuer, and are legal, valid and binding special obligations of the Issuer entitled to the benefits and security of the Trust Indenture and that all conditions precedent provided in the Trust Indenture relating to the authentication and delivery of the Bonds have occurred. The Bonds are limited obligations of the Issuer payable solely from the Trust Estate under the Trust Indenture and the revenues derived therefrom. The Bonds are not obligations of the City of Clifton, Texas, nor of any political corporation, subdivision or agency of the State of Texas.

3. Interest on the Bonds is excludable from gross income of the holders of the Bonds for federal income tax purposes under existing law and is not an item of tax preference for purposes of the federal alternative minimum income tax; however, such interest is taken into account in determining adjusted financial statement income of applicable corporations (as defined in Section 59(k) of the Code) for the alternative minimum tax imposed on such corporations.

4. The Loan Agreement has been duly authorized, executed and delivered by the Issuer and is a legal, valid and binding obligation of the Issuer enforceable against the Issuer in accordance with its terms.

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

The opinions expressed herein are limited to the extent that (i) the performance and enforceability of the Trust Indenture, the Bonds and the Loan Agreement may be subject to applicable bankruptcy, reorganization, moratorium or other similar laws affecting generally the enforcement of creditors' rights; (ii) general equitable principles may limit the availability of equitable remedies, including, but not limited to, the remedy of specific performance; and (iii) the enforceability of provisions relating to indemnification may be limited by public policy or applicable securities law.

In rendering these opinions, we have relied, with your permission, on, among other things, certificates signed by officers of the Issuer, the Company and the Underwriters with respect to certain material facts, estimates and expectations which are solely within the knowledge of the Issuer, the Company and the Underwriters, respectively, and which we have not independently verified. In addition, in rendering the opinions set forth in **paragraph 3**, we have assumed continuing compliance with the covenants in the Loan Agreement and the Trust Indenture pertaining to those sections of the Code that affect the status of the Company as an organization described in Section 501(c)(3) of the Code and the exclusion from gross income of interest on the Bonds for federal income tax purposes. If the certificates upon which we have relied are determined to be inaccurate or incomplete, or the Issuer or the Company fails to comply with such covenants, interest on the Bonds could become includable in gross income

August 9, 2023

Page 4

from the date of their original delivery, regardless of the date on which the event causing such inclusion occurs.

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States of America, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and individuals otherwise qualifying for the earned income tax credit.

The opinions expressed herein are not a guarantee of result and are not binding on the Service; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures, the Service is likely to treat the Issuer as the taxpayer. We observe that the Company has covenanted in the Loan Agreement not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, would adversely affect the excludability of interest on the Bonds from gross income for federal income tax purposes.

The foregoing opinions speak only as of the date hereof and only in connection with the Bonds and may not be applied to any other transaction. We do not undertake to advise you of matters which may come to our attention subsequent to the date hereof that may affect our legal opinion and conclusions expressed herein. Further, the foregoing opinions are specifically limited to the laws of the State of Texas and, to the extent applicable, the federal laws of the United States of America.

Very truly yours,

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

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CONTINUING DISCLOSURE AGREEMENT

\$83,220,000

**CLIFTON HIGHER EDUCATION FINANCE CORPORATION
EDUCATION REVENUE BONDS
(YES PREP PUBLIC SCHOOLS INC.)
SERIES 2023**

This **CONTINUING DISCLOSURE AGREEMENT**, dated August 1, 2023 (the “Disclosure Agreement”), is executed and delivered by YES Prep Public Schools Inc. (the “Borrower”), in connection with the issuance by the Clifton Higher Education Finance Corporation (the “Issuer”), of its \$83,220,000 Education Revenue Bonds (YES Prep Public Schools Inc.) Series 2023 (the “Bonds”), dated as of August 1, 2023 and issued pursuant to a Trust Indenture and Security Agreement (the “Indenture”), between the Issuer and Hancock Whitney Bank, as trustee (the “Trustee”). The proceeds of the Bonds are being loaned to the Borrower pursuant to a Loan Agreement (the “Loan Agreement”), between the Issuer and the Borrower. The Borrower hereby covenants and agrees as follows:

Section 1. Purpose. This Disclosure Agreement is being executed and delivered by the Borrower for the benefit of the holders of the Bonds and in order to assist the purchasers of the Bonds in complying with the provisions of Section (b)(5)(i) of the Rule, as herein defined, promulgated by the Securities and Exchange Commission by providing certain annual financial information and material event notices required by the Rule (collectively, “Continuing Disclosure”).

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Borrower pursuant to, and as described in, Section 3 of this Disclosure Agreement.

“Financial Obligation” shall mean a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final Official Statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

“Holder” shall mean the person in whose name any Bond shall be registered.

“MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Official Statement” shall mean the Official Statement dated July 20, 2023, prepared in connection with the issuance of the Bonds.

“Quarterly Report” shall mean any Quarterly Report provided by the Borrower pursuant to, and as described in, Section 4 of this Disclosure Agreement.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Annual Report.

(a) The Borrower shall provide an Annual Report and operating data in accordance with the provisions of Section (b)(5)(i) of the Rule as follows:

(i) **Audited Financials:** Each Annual Report shall include a copy of the Borrower’s annual audited financial statements for the immediately preceding fiscal year, together with a copy of any accompanying management letter and a copy of the accompanying audit report; provided, however, that such annual audited financial statements may be submitted separately from the balance of the Annual Report and that, if such audited financial statements are not available within six months of the end of the immediately preceding fiscal year, then the Borrower shall provide unaudited financial statements by that date and shall subsequently provide the pertinent audited financial statements as soon as they become available. Such financial statements shall be prepared in accordance with the accounting principles prescribed by the Texas State Board of Education or such other accounting principles as the Borrower may be required to employ from time to time pursuant to State law or regulation.

(ii) **Updated Table Data from APPENDIX B to the Official Statement.** Each Annual Report shall include updated financial information and operating data with respect to the Borrower of the general type included in APPENDIX B to the Official Statement limited to the following tables, but subject to adjustments as may be noted below:

(A) **TABLE 3: HISTORICAL AND FUTURE PROJECTED ENROLLMENT BY GRADE LEVEL;** provided, however, that only historical data will be provided;

(B) **TABLE 4: WAITLIST BY GRADE;** and

(C) **TABLE 8: CHARTER SCHOOLS’ ACCOUNTABILITY RATINGS.**

(b) The Borrower shall provide the Annual Report no later than the last calendar day of December of each year, commencing December 31, 2023, to the MSRB.

(c) Any Annual Report may be included by specific reference to other documents previously provided to the MSRB or filed with the SEC; provided, however, that any final Official Statement incorporated by reference must be available from the MSRB.

(d) The Borrower shall file with the MSRB in a timely manner the notice specifying any failure to provide the Annual Report by the date specified.

Section 4. Reserved.

Section 5. Event Disclosure. The Borrower shall file with the MSRB in a timely manner 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:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults, if material;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) unscheduled draws on any credit enhancement reflecting financial difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;
- (f) adverse tax opinions, 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 material events affecting the tax status of the Bonds;
- (g) modifications to rights of holders, if material;
- (h) bond calls, if material, and tender offers;
- (i) defeasances of all or any portion of the Bonds;
- (j) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (k) rating changes;
- (l) bankruptcy, insolvency, receivership or similar event of the Borrower;

Note: for the purposes of the event identified in subparagraph (l), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or

jurisdiction over substantially all of the assets or business of the obligated person.

(m) the consummation of a merger, consolidation, or acquisition involving the Borrower or the sale of all or substantially all of the assets of the Borrower, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;

(n) appointment of a successor or additional trustee or the change of name of a trustee, if material; provided that nothing in this Section 5 shall require the Borrower to maintain any debt service reserve, credit enhancement or credit or liquidity providers with respect to the Bonds or to pledge any property as security for repayment of the Bonds;

(o) incurrence of a Financial Obligation of the Borrower or obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Borrower or obligated person, any of which affect security holders, if material; and

(p) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the Financial Obligation of the Borrower or obligated person, any of which reflect financial difficulties.

Section 6. Termination. The obligations of the Borrower hereunder will terminate upon the redemption, defeasance (within the meaning of the Rule) or payment in full of all the Bonds.

Section 7. Amendment. The Borrower may modify its obligations hereunder without the consent of Bondholders, provided that this Disclosure Agreement as so modified complies with the Rule as it exists at the time of modification. The Borrower shall file in a timely manner a description of any such modification of its obligations hereunder to the MSRB.

Section 8. Defaults. (a) Failure by the Borrower to comply with any covenant or obligation regarding the Continuing Disclosure specified in this Disclosure Agreement shall not constitute an “Event of Default” under the Indenture or under the Loan Agreement, as provided therein.

(b) Notwithstanding subparagraph (a), any holder (within the meaning of the Rule) of Bonds then outstanding may, by notice to the Borrower and the Trustee, proceed to protect and enforce its rights and the rights of the holders by an action for specific performance of the Borrower’s covenant to provide the Continuing Disclosure.

Section 9. Filing Method. Any filing required hereunder shall be made by transmitting such disclosure, notice or other information in electronic format to the MSRB through the MSRB’s Electronic Municipal Market Access (EMMA) system pursuant to procedures promulgated by the MSRB.

Section 10. Additional Disclosure. The Borrower may from time to time disclose certain information and data in addition to the Continuing Disclosure. Notwithstanding anything herein to the contrary, the Borrower shall not incur any obligation to continue to provide, or to update, such additional information or data, unless it specifically agrees to such obligation.

Section 11. Acknowledgment by Borrower. The Borrower acknowledges and agrees that the Issuer is not a material obligated person for purposes of the Rule and, therefore, is not required to provide any Annual Report, Quarterly Report, or notice of the occurrence of any of the events listed in Section 5, with respect to the Bonds.

Section 12. Governing Law. This Disclosure Agreement shall be construed and enforced in accordance with the laws of the State of Texas.

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Dated: August 9, 2023.

BORROWER:

YES PREP PUBLIC SCHOOLS INC.

By: _____
Name: _____
Title: _____

APPENDIX F

**FINAL FORM OF THE MASTER INDENTURE AND SUBSTANTIALLY FINAL
FORM OF THE SUPPLEMENTAL MASTER INDENTURE**

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AMENDED AND RESTATED MASTER TRUST INDENTURE
AND
SECURITY AGREEMENT

between

YES PREP PUBLIC SCHOOLS INC.

and

CAPITAL ONE, N.A.
as Master Trustee

Dated as of

June 1, 2015

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| Section 415. | Sovereign Immunity. To the fullest extent permitted by applicable law and pursuant to Section 271.152 of the Texas Local Government Code, as amended, the Company irrevocably agrees that it will not claim any immunity on the grounds of sovereignty or other similar grounds from (i) any action, suit or proceeding arising under or relating to Adjusted Revenues, this Master Indenture, any Supplemental Master Indenture or any Related Bond Document, (ii) relief by way of injunction, order for specific performance or writ of mandamus, or (iii) execution or enforcement of any judgment to which it, the Master Trustee, the Holders, any Related Lender or Related Issuer might otherwise be entitled in any proceedings in the courts of any jurisdiction and irrevocably waives, to the fullest extent permitted by applicable law, with respect to itself and the Adjusted Revenues, all such immunity. The Company agrees that for purposes of Section 271.151 of the Texas Local Government Code, this Master Indenture, each Supplemental Master Indenture and the Related Bond Documents each constitutes a written contract stating the | |

essential terms of the agreement for providing goods or services to the Company and each Related Issuer, as applicable, that is properly executed on behalf of the Company and each Related Issuer, and the financing provided hereunder by the Holders and the Related Lenders constitute services to the Company and each Related Issuer for purposes of such Section. Notwithstanding the foregoing, the Company hereby agrees that for purposes of adjudicating sovereign immunity, the Notes constitute debt obligations.....48

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AMENDED AND RESTATED MASTER TRUST INDENTURE AND SECURITY AGREEMENT

THIS AMENDED AND RESTATED MASTER TRUST INDENTURE AND SECURITY AGREEMENT (this “Master Indenture”), dated as of June 1, 2015, is between YES PREP PUBLIC SCHOOLS INC., a Texas non-profit corporation (the “Company”), and CAPITAL ONE, N.A., a national banking association with a corporate trust office in New Orleans, Louisiana not in its individual capacity but solely as the Master Trustee (the “Master Trustee”).

WITNESSETH:

WHEREAS the Company and the Master Trustee entered into that certain Master Trust Indenture and Security Agreement dated as of March 1, 2010, as amended and supplemented through Supplemental Indenture No. 8 dated August 1, 2014 (collectively, the “Original Master Indenture”).

WHEREAS, the Company is authorized by law and deems it necessary and desirable to amend and restate the Original Master Indenture as reflected by the terms and provisions set forth herein and to enter into this Master Indenture for the purpose of providing for the incurrence of Debt and the issuance of Notes hereunder to evidence and secure such Debt.

WHEREAS, all acts and things necessary to constitute these presents a valid indenture and agreement according to its terms have been done and performed and the execution of this Master Indenture has in all respects been duly authorized, and the Company, in the exercise of the legal right and power vested in it, has executed this Master Indenture and may incur Debt and make, execute, issue and deliver Notes hereunder.

NOW, THEREFORE, THIS MASTER INDENTURE WITNESSETH:

GRANTING CLAUSES

In order to declare the terms and conditions upon which Notes are to be authenticated, issued and delivered, and to secure the payment of Notes and the performance and observance of all of the covenants and conditions herein or therein contained, and in consideration of the premises, of the purchase and acceptance of Notes by the Holders thereof and of the sum of One Dollar to them duly paid by the Master Trustee at the execution of these presents, the receipt and sufficiency of which is hereby acknowledged, the Company has executed and delivered this Master Indenture and by these presents does hereby convey, grant, assign, transfer, pledge, set over, confirm and grant a first priority 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, including any additional property included in a Supplemental Master Indenture that is subject to the senior lien and first priority security interest of this Master Indenture, being herein sometimes referred to as the “Trust Estate”) to wit:

- (a) all Adjusted Revenues of the Company except and excluding all such items, whether now owned or hereafter acquired by the Company, which by their terms or by reason of applicable law would become void or

voidable if granted, assigned, or pledged hereunder by the Company, or which cannot be granted, pledged, or assigned hereunder without the consent of other parties whose consent is not secured, or without subjecting the Master Trustee to a liability not otherwise contemplated by the provisions hereof, or which otherwise may not be, or are not, hereby lawfully and effectively granted, pledged, and assigned by the Company, provided that the Company may subject to the lien hereof any such excepted property, whereupon the same shall cease to be excepted property;

- (b) all moneys and securities, if any, at any time held by the Master Trustee in the Revenue Fund and any other fund or account established under the terms of this Master Indenture, or held by other banks or fiduciary institutions which are collaterally assigned to the Master Trustee as security for the Notes including the depository account specified in a 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, chattel paper, general intangibles, instruments, deposit accounts, securities accounts, investment property, supporting obligations and related rights of the Company (each as defined in the UCC) or other rights, and the proceeds of the same, whether now or hereafter owned or held or hereafter coming into being;
- (d) any and all other property of every kind and nature from time to time hereafter, by delivery or by writing of any kind, conveyed, pledged, assigned or transferred as additional security hereunder by the Company or by anyone on its behalf to the Master Trustee, subject to the terms thereof, including without limitation, funds of the Company held by the Master Trustee as security for the Notes;
- (e) the lien of the Deed of Trust (as hereinafter defined);
- (f) supporting evidence and documents relating to any of the above-described property, including, without limitation, all books of account, ledgers, and electronic data in which the same are reflected or maintained; and
- (g) all additions to, and substitutions and replacements of, any and all of the foregoing and all proceeds of the foregoing, including cash equivalents, products, accessions and replacements.

In addition to the foregoing, the "Trust Estate" includes all goods, documents, instruments, tangible and electronic chattel paper, letter of credit rights, investment property, accounts, deposit accounts, general intangibles (including payment intangibles and software),

money and other items of personal property, including proceeds (as each such term is defined in the UCC) which constitute any of the property described in the foregoing Granting Clauses.

TO HAVE AND TO HOLD IN TRUST, upon the terms herein set forth, subject to Section 210 hereof, for the equal and proportionate benefit, security, and protection of all Holders of the Notes issued under and secured by this Master Indenture without privilege, priority or distinction as to the lien or otherwise of any of the Notes over any other; provided, however, that if the Company shall pay, or cause to be paid, but only as permitted in Article IX hereof, 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 but only as provided in Article IX hereof; 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 as permitted in Article IX, the Master Trustee may execute a release of the lien of this Master Indenture on the Deed of Trust and any property of the Company encumbered thereby.

NOW, THEREFORE, in consideration of the premises, the Company covenants and agrees with the Master Trustee, for the equal and proportionate benefit of the respective Holders from time to time of the Notes, as follows:

ARTICLE I

DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

Section 101. Construction of Terms; Definitions.

(a) For all purposes of this Master Indenture, except as otherwise expressly provided or unless the context otherwise requires:

(1) The term “Master Indenture” means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof.

(2) All references in this instrument to designated “Articles”, “Sections” and other subdivisions are to the designated Articles, Sections and other subdivisions of this instrument as originally executed. The words “herein”, “hereof” and “hereunder” and other words of similar import refer to this Master Indenture as a whole and not to any particular Article, Section or other subdivision.

(3) The terms defined in this Article have the meanings assigned to them in this Article throughout this Master Indenture, and include the plural as well as the singular. Reference to any Person means that Person and its successors and assigns.

(4) All accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles (“GAAP”). All accounting determinations shall be made, and all financial statements required to be delivered by the Company shall be prepared, in accordance with GAAP. If, after the date of execution and delivery of this Master Indenture, there shall occur any change in GAAP from those used in the preparation of the financial statements delivered by the Company and such change shall result in a change in the method of calculation of any financial covenant, standard or term found in this Master Indenture or any Related Bond Documents or Related Loan Documents, including, without limitation, a recharacterization of operating leases to the effect that certain operating leases are to be treated as capital leases, either the Company or Capital One may by notice to the other party hereto, require that Capital One and the Company negotiate in good faith to amend such covenants, standards, and terms so as equitably to reflect such change in accounting principles, with the desired result being that the criteria for evaluating the financial condition of the Company shall be the same as if such change had not been made. No delay by the Company or Capital One in requiring such negotiation shall limit their right to so require such a negotiation at any time after such a change in accounting principles. Until any such covenant, standard, or term is amended in accordance with this provision, financial covenants shall be computed and determined in accordance with GAAP in effect prior to such change in accounting principles.

(5) The terms used in this Master Indenture and not defined herein have the meanings assigned to them in the Related Bond Documents.

(6) All references to any instrument in this Master Indenture and in any Supplemental Master Indenture, including any Related Bond Documents or Related Loan Documents, refers to such instrument as the same may be amended, supplemented, modified, renewed and/or extended from time to time pursuant to the applicable provisions of such instrument.

(b) The following terms have the meanings assigned to them below whenever they are used in this Master Indenture:

“Accountant” means a Person engaged in the practice of accounting who is a certified public accountant and who (except as otherwise expressly provided herein) may be employed by or affiliated with the Company.

“Adjusted Revenues” means, for any period of calculation, all moneys, fees, grants, donations, rates, receipts, rentals, revenues, licensing fees, charges, issues and income received by the Company on or after March 1, 2010 including from the operation of the Company or its facilities or any other source whatsoever, and including without limitation gifts, bequests, grants, devises, contributions, moneys received from the operation of the Company’s business, the possession of its

properties, or the fundraising campaigns, insurance proceeds or condemnation awards, and all rights to receive the same, whenever arising, whether in the form of accounts, chattel paper, general intangibles, instruments, deposit accounts, investment property, supporting obligations, (each as defined in the UCC) or other rights, and the proceeds of the same, whether now owned or held or hereafter coming into being, including but not limited to, the total of all operating and non-operating revenues of the Company, including but not limited to State Revenues, federal and local funds for school lunches and other food programs, special education, and transportation, including accounts receivable and rights to receive the same plus investment and other income or loss of the Company for such period, plus the portions of multi-year gifts, grants and donations previously recognized and actually received in the then Current Fiscal Year; provided, however, that no determination thereof shall take into account (a) income derived from Defeasance Obligations that are irrevocably deposited in escrow to pay the principal of or interest on Debt or Related Bonds, (b) any gains or losses resulting from the early extinguishment of Debt, the sale, exchange or other disposition of Property not in the ordinary course of business, or the reappraisal, reevaluation or write-up of assets, or any other extraordinary gains or losses, (c) gifts, grants (excluding grants from the State), bequests or donations and income thereon restricted as to use by the donor or grantor for a purpose inconsistent with the payment of debt service on Debt or Related Bonds or Notes (i.e., unrelated to the purposes for which such obligations were issued), (d) net unrealized gain (losses) on investments and Financial Products Agreements and (e) proceeds of borrowings. Notwithstanding any provision herein to the contrary, State Revenues received by each of the Borrower's campuses will be used in accordance with Section 12.107(a) of the Texas Education Code, as amended.

"Annual Debt Service Requirements" of any specified Person means, for any Fiscal Year, (unless another period is otherwise specified), pursuant to generally accepted accounting principles, 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) and other sinking fund, installment purchase price or lease rental or similar payments on all Debt of such Person coming due at Maturity or Stated Maturity (which with respect to the Company, includes but is not limited to, amounts due during such period on any Notes) plus all rental and operating lease expenses scheduled to be paid during such period. The "Annual Debt Service Requirements" shall be calculated pursuant to the Sample Debt Service Coverage Calculation sheet attached hereto as Exhibit A, which calculation will be rendered in writing to Capital One, which shall have the right to object to errors in the calculations within 15 days of receipt thereof. For such purposes, any one or more of the following rules shall apply:

- (a) Committed Take Out - if such Person has received a binding commitment, within normal commercial practice, from any bank, savings and loan association, insurance company, or similar institution to refund or

purchase any of its Long Term Debt at its Stated Maturity (or, if due on demand, or payable in respect of any required purchase of such Debt by such Person, at any date on which demand may be made), then the portion of the Long Term Debt committed to be refunded or purchased shall be excluded from such calculation and the principal of (and premium, if any) and interest on the Long Term Debt incurred for such refunding or purchase that would be due in the Fiscal Year for which the calculation is being made, if incurred at the Maturity or purchase date of the Long Term Debt to be refunded or purchased, shall be added;

- (b) Pro Forma Refunding - in the case of Balloon Debt, if the Person obligated thereon shall deliver to the Master Trustee a certificate of a nationally recognized firm of investment bankers or financial consultants dated within 90 days prior to the date of the determination of Annual Debt Service Requirements is to be made, stating that financing at a stated interest rate (which shall not be less than the Bond Buyer Revenue Bond Index or, if the Bond Buyer Revenue Bond Index is unavailable, a comparable index acceptable to Capital One, with a Stated Maturity not greater than 30 years is reasonably attainable on the date of such determination 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 acceptable to Capital One) and the weighted average rate of interest born by such Debt (or other indebtedness of comparable credit quality, maturity and purchase terms in the event that such Debt was not

outstanding) during the preceding Fiscal Year (or any period of comparable length ending within 180 days) prior to the date of calculation shall be presumed to apply for all future dates and if the Debt is Balloon Debt, the principal and interest shall be evenly allocated over the life of the Bond issue with an equal amount of principal and interest deemed due each year but solely for the purpose of spreading the principal and interest requirements for calculation of coverage;

- (e) Contingent Obligations - in the case of any guarantees or other Debt described in clause (3) of the definition of Debt, the principal of (and premium, if any) and interest and other debt service charges on such Debt for any Fiscal Year shall be deemed to be 25% of the principal of (and premium, if any) and interest and other debt service charges on the indebtedness guaranteed due in such Fiscal Year; provided, however, that if the Person which guarantees or is otherwise obligated in respect of such Debt is actually required to make any payment in respect of such Debt, the total amount payable by such Person in respect of such guarantee or other obligation in such Fiscal Year shall be included in any computation of the Annual Debt Service Requirements of such Person for such year and the amount payable by such Person in respect of such guarantee or other obligation in any future Fiscal Year shall be included in any computation of the estimated Annual Debt Service Requirements for such Fiscal Year; and
- (f) Financial Products - in the event there shall have been issued or entered into in respect of all or a portion of any Debt a Financial Products Agreement with respect to Long Term Debt, interest on such Long Term Debt shall be included in the calculation of Annual Debt Service Requirements by including for such period an amount equal to the amount payable on such Long Term Debt in such period at the rate or rates stated in such Long Term Debt plus any payments payable by such Person in respect of such Financial Products Agreement minus any payments receivable by such Person in respect of such Financial Products Agreement for such period, as calculated by the financial advisor to the Company pursuant to Exhibit A attached hereto, which calculation will be rendered in writing to Capitol One, which shall have the right to object to errors in the calculations within 15 days of receipt thereof.
- (g) Annual Debt Service for Tax Credit Bonds - shall mean (a) the amount of the annual deposit to any sinking fund if invested in a fixed interest rate investment agreement plus annual Interest Payments on the Bonds, (b) if there is a single maturity with no fixed rate investment agreement, the pro-rata amount of principal, assuming equal annual installments, and the annual Interest Payments on the Bonds or (c) if issued as serial bonds, the annual principal and interest payments on the Bonds.

- (h) Annual Debt Service for Lines of credit with 1-yr maturities - shall mean, with respect to lines of credit with maturities of one-year in which the principal balance is to be renewed at maturity or restructured with a differing debt service requirement, the annual interest requirements due in any Fiscal Year. Upon the restructuring of the line of credit at maturity, the resulting debt service will be treated as parity debt, subordinate debt or short-term debt as further provided herein.

“Appraisal” means (a) for the Series 2015 Master Note, the Notes Outstanding, and any Bonds related thereto, an appraisal for the Collateral (as defined in the Deed of Trust) performed by an appraiser acceptable to Capital One according to FIRREA standards; and, at any other time (b) for any additional Debt incurred pursuant to Section 212 herein, an appraisal for the Collateral (as defined in the Deed of Trust) performed by an appraiser according to FIRREA standards.

“Appraised Value” means the fair market value of the Collateral (as defined in the Deed of Trust” as set forth in the most recent Appraisal.

“Authorized Denominations” means the amounts, if any, set forth therefor in the Supplemental Master Indenture authorizing any series of Notes.

“Authorized Representative” means the Chief Executive Officer of the Company and the Chairman of the Governing Body of the Company, or any other person duly appointed by the Governing Body of the Company to act on behalf of the Company, each as evidenced by a written certificate furnished to the Master Trustee and Capital One containing the specimen signature of such person or persons and signed on behalf of the Company by an authorized officer of the Company. The Master Trustee and Capital One may rely on such written certificate until it is given written notice to the contrary.

“Available Revenues” means Cash Available for Debt Service.

“Balloon Debt” means Debt where the principal of (and premium, if any) and interest and other debt service charges on such Long Term Debt due (or payable in respect of any required purchase of such Debt by such Person on demand) in any Fiscal Year either are equal to at least 25% of the total principal of (any premium, if any) and interest and other debt service charges on such Long Term Debt or exceed by more than 50% the greatest amount of principal of (and premium, if any) and interest and other debt service charges on such Long Term Debt due in any preceding or succeeding Fiscal Year.

“Board Resolution” means a copy of a resolution certified by the Person responsible for maintaining the records of the Governing Body to have been duly adopted by the Governing Body and to be in full force and effect on the date of such certification and delivered to the Master Trustee.

“Bond Counsel” means Andrews Kurth LLP or an independent attorney or firm of attorneys nationally recognized as municipal bond counsel.

“Bond Sinking Funds” means all bond sinking funds, debt service funds and debt service reserve funds pledged to the payment of indebtedness of the Company (to the extent such funds are not subject to any lien or restricted for purposes inconsistent with payment of debt service of the Company), as evidenced by the most recent financial statements of the Company delivered to Capital One pursuant a Related Bond Document or Related Loan Document and as determined in accordance with GAAP.

“Capital Leases” means all leases which have been or should be capitalized in accordance with generally accepted accounting principles as in effect from time to time, including Statement No. 13 of the Financial Accounting Standards Board and any successor thereof.

“Capital One” means, so long as Capital One, N.A., and/or its affiliates including, but not limited to, Capital One Municipal Funding, Inc., are owners of any Related Bonds Outstanding or any Notes Outstanding, Capital One, N.A., and/or its affiliates including, but not limited to, Capital One Municipal Funding, Inc., and their respective successors and assigns; provided that, after selling 100% of the Related Bonds originally purchased by Capital One, N.A., and/or its affiliates including, but not limited to, Capital One Municipal Funding, Inc., any reacquisition of Related Bonds shall only result in Capital One, N.A., and/or its affiliates including, but not limited to, Capital One Municipal Funding, Inc., enjoying the rights of a Holder of Related Bonds.

“Cash Available for Debt Service” shall mean the excess of Adjusted Revenues of the Company over Expenses of the Company (such excess referred to as “Net Income”) plus, to the extent deducted from revenues of the Company in determining such net income, (i) interest expense (including payments in the nature of interest under capital leases), (ii) taxes, (iii) depreciation, (iv) amortization, (v) rent expense, (vi) other non-cash charges, and (vii) extraordinary losses on investments and (viii) the Memphis Expansion Amount, and minus, to the extent added to revenues in determining net income, (x) extraordinary gains, (y) unrealized gains on investments, and (z) other similar non-cash revenues.

“Cash Collateral” means the fair market value of all cash, cash equivalents and marketable securities of the Company made part of this Master Indenture and pledged to the repayment of the Notes Outstanding, the Series 2015 Master Note or any additional Debt issued pursuant to this Master Indenture, which valuation shall be rendered in writing to Capital One, which shall have the right to object to errors in the valuation or calculations within 15 days of receipt thereof.

“Charter” means the charter or charters issued to the Company by the Texas Education Agency pursuant to Chapter 12, Texas Education Code, authorizing the

Company to open one or more open-enrollment charter schools and receive State Revenues for the operation thereof.

“Code” means the Internal Revenue Code of 1986, as amended from time to time, including relevant applicable regulations and temporary regulations thereunder and the corresponding provisions, if any, of any successor internal revenue laws, regulations or temporary regulations of the United States.

“Collateral Value” means an amount equal to the sum of (a) the Cash Collateral and (b) 75% of the Appraised Value of all Collateral (as defined in the Deed of Trust) then securing payment of the Notes Outstanding, the Series 2015 Master Note, and any additional Notes issued pursuant to this Master Indenture.

“Company” means YES Prep Public Schools Inc., a Texas non-profit corporation, its permitted successors and assigns, and any resulting, surviving or transferee Person permitted hereunder.

“Consent,” “Order,” and “Request” means a written consent, order or request signed in the name of the Company and delivered to the Master Trustee by the Chairman of the Governing Body, the President, an Executive or Senior Vice President, the Chief Financial Officer or any other Person designated by the Company to execute any such instrument on behalf of the Company as evidenced by an Officer’s Certificate.

“Corporate Trust Office” means the address or addresses of the Master Trustee designated from time to time in accordance with Section 104.

“Debt” means all:

- (i) indebtedness incurred or assumed by the Company for borrowed money or for the acquisition, construction or improvement of property other than goods that are acquired in the ordinary course of business of the Company, including guaranties of the indebtedness of another Person;
- (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;

- (iv) all indebtedness 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;
- (v) all leases which have been or should be capitalized in accordance with generally accepted accounting principles as in effect from time to time, including Statement No. 13 of the Financial Accounting Standards Board and any successor thereof;
- (vi) 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;
- (vii) any obligation to make payments pursuant to a Financial Products Agreement;
- (viii) commercial paper or similar debt instruments; and
- (ix) any obligations for lease-leaseback or sale-leaseback transactions whether such are treated as capital expenditures or operating expenses.

For the purpose of computing the "Debt," there shall be included all Subordinate Debt and Debt not secured by any Notes and there shall be excluded any particular Debt if, upon or prior to the Maturity thereof, and if permitted by the instrument creating such Debt, 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 Cash Available for Debt Service.

"Debt Service Coverage Ratio" means the ratio determined by dividing Cash Available for Debt Service as of the end of each fiscal quarter of the Company for the immediately preceding consecutive 12 months by the Annual Debt Service Requirements for such related period.

"Deed of Trust" means that certain Deed of Trust and Security Agreement dated January 15, 2015 from the Company to the Master Trustee, and any Related Deed of Trust as either 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.

“Default” means any condition or event which after notice and/or lapse of time would constitute an Event of Default. “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 EACH 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 601 of this Master Indenture.

“Excluded Debt” means, the (i) any debt of YES Prep Facilities Inc. outstanding of the Amendment Date and (ii) convertible loans to grants incurred by the Company (example: Charter School Growth Fund), only so long as no amounts are required to be paid thereon by the Company. “Excluded Memphis Expansion Plan Amounts” during the 12 month period preceding the June 30, 2015 compliance calculation date, any net losses resulting from the Memphis Expansion Plan, inclusive of Memphis Donations returned to the donors in an aggregate amount not to exceed [\$5,450,000] or such amount as otherwise substantiated by the audited financial statements of the Company.

“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.

“Favorable Opinion of Bond Counsel” means, with respect to any action, the taking of which requires such an opinion, an unqualified opinion of nationally recognized bond counsel delivered to and in form and substance satisfactory to the Master Trustee to the effect that such action is permitted under the laws of the State (including the Act) and the Related Indenture(s) and shall not adversely affect the tax status of the Related Bonds (including but not limited to the status of any Related Bond as a “qualified school construction bond” pursuant to Section 54F of the Code or a “qualified zone academy bond” pursuant to Section 54E of the Code, as applicable).

“Financial Products Agreement” means any type of financial management instrument or contract, which shall include, but not be limited to, (i) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or a series of payments; (iv) any type of contract called, or designed to perform the function of, interest rate floors or caps, options, puts or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate or other financial risk forward supply agreements; and (v) any other type of contract or arrangement that the Governing Body of the Company determines is to be used, or is intended to be used, to manage or reduce the cost of debt (including but not limited to a bond insurance policy), to convert any element of debt from one form to another, to maximize or increase investment return, to minimize investment return risk or to protect against any type of financial risk or uncertainty.

“Fiscal Year” means any twelve-month period beginning on July 1 of any calendar year and ending on June 30 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 Master Trustee and Capital One.

“Funded Debt” means all Debt created, assumed, issued, incurred or guaranteed by the Company that matures by its terms (in the absence of the exercise of any earlier right of demand), or is renewable at the option of the Company to a date, more than one year after the original creation, assumption, or guarantee of such Debt by the Company (including but not limited to all Debt under the Master Indenture, each Supplemental Master Indenture, each Related Bond Document, and all Subordinate Debt of the Company), less any Excluded Debt.

“Governing Body” means the board of directors of the Company or any duly authorized committee of that board.

“Holder” or “Note Holder” means a Person in whose name a Note is registered in the Note Register.

“Independent” when used with respect to any specified Person means such a Person who (i) is in fact independent, (ii) does not have any direct financial interest or any material indirect financial interest in the Company, and (iii) is not connected with the Company as an officer, employee, promoter, trustee, partner, director or person performing similar functions. Whenever it is provided that any Independent Person’s opinion or certificate shall be furnished to the Master Trustee, such Person shall be appointed by Order and such opinion or certificate shall state that the signer has read this definition and that the signer is Independent within the meaning hereof.

“Interest Payment Date” means the Stated Maturity of an installment of principal (including mandatory sinking fund payments), premium or interest on any Note.

“Investments” means all short-term securities (which have a readily determinable market price) of the Company (to the extent such items are not subject to any lien or restricted for purposes inconsistent with payment of operating expenses or debt service of the Company), as evidenced by the most recent financial statements of the Company delivered to Capital One pursuant a Related Bond Document or Related Loan Document and as determined in accordance with GAAP, and specifically excluding any items that are unavailable to pay debt service or operating expenses.

“Liquidity Ratio” means the ratio of (i) the sum of Operating Cash *plus* Bond Sinking Funds *plus* Investments to (ii) Funded Debt.

“Long Term Debt” means all Debt created, assumed or guaranteed by the Company that matures by its terms (in the absence of the exercise of any earlier right of demand), or is renewable at the option of the Company to a date, more than one year after the original creation, assumption, or guarantee of such Debt by the Company.

“Management Consultant” means a firm of Independent professional management consultants, or an independent school management organization, knowledgeable and experienced with charter schools, selected by the Company from the following:

Acacia Financial Group Inc
BD Advisors
Blazek and Vettering
Buck Financial Advisors LLC
Charter FS Corporation
Coastal Securities
D A Davidson & Co
Daroth Capital Advisors LLC
Deloitte
Ernst & Young
Ford & Associates
Gomez & Company
J Berg Financial Advisors
JEC Advisors Inc
KPMG
Lakepointe Capital Advisors LLC
Lewis Young Robertson & Burningham
Merritt Capital Inc
PricewaterhouseCoopers
Providence Financial Co Inc
Public Financial Management Inc

RBC Capital Markets
S B Clark Companies
Scott Balice Strategies
William Blair & Company

“Master Indenture” means this Master Trust Indenture, as amended and supplemented from time to time in accordance with its terms.

“Master Trustee” means Capital One, N.A., a national banking association with a corporate trust office in New Orleans, Louisiana, serving as trustee pursuant to this Master Indenture, and its successors and assigns.

“Material Subordinate Payment” means any whole or partial prepayments or accelerated or rescheduled payments of principal or interest on the Subordinate Debt.

“Material Change to Subordinate Debt” means any action taken or approved, directly or indirectly, by the Company to (i) shorten the maturity or increase the rate of amortization of the Subordinate Lender Note from that provided for therein as of the date of the related Subordination Agreement or in the Subordinate Lender Loan Agreement as in effect as of the date of the related Subordination Agreement, (ii) increase the rate of interest accruing on the Subordinate Lender Note so as to exceed the rate or rates set forth therein or in the Subordinate Lender Loan Agreement as of the date of the related Subordination Agreement or (iii) amend or otherwise modify the Subordinate Lender Loan Agreement or any other Subordinate Lender Loan Document so as to make the same materially more burdensome on Company than is the case as of the date of the related Subordination Agreement.

“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.

“Memphis Donations” means the donations received during the 24 month period preceding June 30, 2015 in the aggregate amount of \$6,650,000 directly attributable to the Memphis Expansion Plan.

“Memphis Expansion Amount” means an amount equal to the difference between (a) (i) the sum of the Memphis Donations plus (ii) the direct expenses of Company relating to the Memphis Expansion Plan *minus* (b) the fund raising revenues recognized from Memphis Expansion Plan, in each case during the 12 month period preceding June 30, 2015, such Memphis Expansion Amount not to

exceed [\$5,450,000] in the aggregate or such other amount substantiated by the audited financial statements of the Company

“Memphis Expansion Plan” means YES Prep’s efforts to open YES Prep schools in Memphis, Tennessee which was abandoned in April 2015, the full and complete details regarding the total costs and losses of which were to Capital One prior to the Amendment Date.

“Note” means any obligation of the Company issued pursuant to Section 201 of the Original Master Indenture and of this Master Indenture and executed, authenticated, and delivered pursuant to Section 203 thereof and hereof.

“Note Register” and “Note Registrar” have the respective meanings specified in Section 205 hereof.

“Notice of Exclusive Control” means the Notice of Exclusive Control specified in 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, as evidenced by a certificate of the Authorized Representative or any other Person designated by any of such Persons to execute an Officer’s Certificate.

“Opinion of Counsel” means a written opinion of counsel, acceptable to the Master Trustee and otherwise selected by the Company, who may (except as otherwise expressly provided) be counsel to any party to any transaction involving the issuance of Notes pursuant to Section 201 hereof.

“Operating Cash” means all operating cash and cash equivalents of the Company (to the extent such items are not subject to any lien or restricted for purposes inconsistent with payment of operating expenses or debt service of the Company), as evidenced by the most recent financial statements of the Company delivered to Capital One pursuant a Related Bond Document or Related Loan Document and as determined in accordance with GAAP, and specifically excluding all non-operating cash and cash equivalents, capital cash, funds (including, but not limited to, donor restricted funds, trustee-held funds, deposits, set-asides, reserve funds or other reserves) that are unavailable to pay debt service or operating expenses, construction funds, malpractice funds, litigation reserves, self-insurance or captive insurer funds, and pension or retirement funds.

“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 Article IX of this Master Indenture) in the necessary amount has been theretofore deposited with the Master Trustee or any Paying Agent for such Notes in trust for the Holders of such Notes pursuant to this Master Indenture or any Supplemental Master Indenture authorizing such Notes; provided, that if such Notes are to be redeemed, notice of such redemption has been duly given pursuant to this Master Indenture or irrevocable provision therefor satisfactory to the Master Trustee has been made; and
- (iii) Notes upon transfer of or in exchange for or in lieu of which other Notes have been authenticated and delivered pursuant to this Master Indenture or any Supplemental Master Indenture authorizing such Notes; provided, however, that in determining whether the Holders of the requisite principal amount of Outstanding Notes have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Notes owned by the Company shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Master Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Notes which the Master Trustee knows to be so owned shall be so disregarded. Notes so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Master Trustee the pledgee's right so to act with respect to such Notes and that the pledgee is not the Company or any other obligor upon the Notes or any other Person Obligated thereon. If there is any conflict between the aforementioned provisions of this subsection (iii) and Section 103 of this Master Indenture, Section 103 shall control.

"Participating Campuses" means the authorized charter schools operated by the Company that are (i) acquired, constructed, renovated, benefitted, improved or equipped with the proceeds of Related Bonds and (ii) made part of the Trust Estate pursuant to any Supplemental Master Indenture.

"Paying Agent" means the Master Trustee or any other Person authorized by the Company to pay the principal of (and premium, if any) or interest on any series of Notes.

"Person" means any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Place of Payment" for any series of Notes means a city or any political subdivision thereof designated as such in the Notes of such series.

"Pro Forma Financial Tests" means compliance with each of the following:

(a) the Company shall have (i) notified the Master Trustee and Capital One in writing in the form of Exhibit B hereto not less than 30 days prior to any such Material Subordinate Payment, Material Change to Subordinate Debt or Subordinate Debt Payment, as applicable, and (ii) furnished to the Master Trustee and Capital One at such time (A) details as to such Material Subordinate Payment, Material Change to Subordinate Debt or Subordinate Debt Payment, as applicable (including sources and uses of funds therefor, if applicable or the terms of the Material Change to Subordinate Debt), (B) for informational purposes, 1 year historical pro forma financial information of the Company after giving effect to the Material Subordinate Payment, Material Change to Subordinate Debt or Subordinate Debt Payment, as applicable, and (C) covenant compliance calculations satisfactory to the Master Trustee and Capital One demonstrating satisfaction of the financial covenants set forth in subparagraphs (b) and (c) of this definition, for the action or event that requires compliance with this Pro Forma Financial Test, calculated as of the proposed effective date of such Material Subordinate Payment, Material Change to Subordinate Debt or Subordinate Debt Payment;

(b) for the most recent 12-month period immediately preceding the proposed effective date of such Material Subordinate Payment, Material Change to Subordinate Debt or Subordinate Debt Payment, a Debt Service Coverage Ratio (taking into account the proposed Material Subordinate Payment, Material Change to Subordinate Debt or Subordinate Debt Payment, as applicable) of at least 1.20 to 1.00 on a pro forma basis after giving effect to the proposed Material Subordinate Payment, Material Change to Subordinate Debt or Subordinate Debt Payment, calculated as of the proposed effective date of such event; and

(c) a Liquidity Ratio (taking into account the proposed Acquired Material Subordinate Payment, Material Change to Subordinate Debt or Subordinate Debt Payment, as applicable) of at least 0.20 to 1.00 on a pro forma basis after giving effect to the proposed Material Subordinate Payment, Material Change to Subordinate Debt or Subordinate Debt Payment, calculated as of the proposed effective date of such event;

provided, however, that the pro forma compliance with the foregoing financial covenants, and the pro forma financial information used to calculate such financial covenants, shall be reasonably satisfactory to the Master Trustee and Capital One and, if requested by the Master Trustee and Capital One, the Company shall employ a consultant satisfactory to the Company, to perform such pro forma calculations.

“Property” means any and all rights, titles and interests of the Company in and to any and all property located upon a Participating Campus whether real or personal, tangible or intangible, and wherever situated including cash.

“Qualified Provider” means any financial institution or insurance company which is a party to a Financial Products Agreement if the unsecured long term debt

obligations of such financial institution or insurance company (or of the parent or a subsidiary of such financial institution or insurance company if such parent or subsidiary guarantees the performance of such financial institution or insurance company under such Financial Products Agreement), or obligations secured or supported by a letter of credit, contract, guarantee, agreement, insurance policy or surety bond issued by such financial institution or insurance company (or such guarantor parent or subsidiary), are rated in one of the two highest rating categories of a Rating Service at the time of the execution and delivery of the Financial Products Agreement.

“Rating Service” means each nationally recognized securities rating service which at the time has a credit rating assigned to any series of Notes (or any other indebtedness secured by Notes) at the request of the Company.

“Record Date” means the regular record date specified for each series of Notes.

“Related Bond Documents” means the Related Bonds, Related Bond Indenture, the Related Loan Documents, each Deposit Account Control Agreement 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 or other obligations (including Related Loans) with respect to which any Notes are issued and which are secured by such Notes 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 or Related Bond Trustee, as the case may be.

“Related Bonds Outstanding” means all Related Bonds which have been duly authenticated and delivered by a Related Bond Trustee under a Related Bond Indenture (and all Related Loans of a Related Lender pursuant to a Related Loan Document), except:

- (i) Related Bonds theretofore cancelled by the Related Bond Trustee or delivered to the Related Bond Trustee for cancellation (or Related Loans theretofore cancelled by the Related Lender upon the full payment of the same);
- (ii) Related Bonds for whose payment or redemption money (or defeasance obligations to the extent permitted by the Related Bond Indenture) in the necessary amounts has been theretofore deposited with the Related Bond

Trustee or any paying agent for such Related Bonds in trust for the holders of such Related Bonds pursuant to the Related Bond Indenture; provided, that, if such Related Bonds are to be redeemed, notice of such redemption has been duly given pursuant to the Related Bond Indenture or irrevocable provision therefor satisfactory to the Related Bond Trustee has been made;

- (iii) Related Bonds upon transfer of or in exchange for or in lieu of which other Related Bonds have been authenticated and delivered pursuant to the Related Bond Indenture; provided, however, that in determining whether the holders of the requisite principal amount of Related Bonds Outstanding have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Related Bonds owned by the Company or any other obligor thereon shall be disregarded and deemed not to be Outstanding except that, in determining whether the Related Bond Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Related Bonds which the Related Bond Trustee knows to be so owned shall be so disregarded. Related Bonds so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to satisfaction of the Related Bond Trustee the pledgee's right so to act with respect to such Related Bonds and that the pledgee is not the Company or any other obligor upon the Related Bonds or any other Person obligated thereon. If there is any conflict between the aforementioned provisions in this subsection (iii) and Section 103 of this Master Indenture, Section 103 shall control; and
- (iv) Related Bonds owned or held by or for the account of the Company, for the purpose of consent or other action or any calculation of Related Bonds Outstanding provided for in this Master Indenture.

“Related Bond Trustee” means any trustee under any Related Bond Indenture and any successor trustee thereunder or, if no trustee is appointed under a Related Bond Indenture, the Related Issuer.

“Related Deed of Trust” means each 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 Lender” means any lender to the Company of Debt with respect to which any Notes are issued and which are secured by such Notes.

“Related Loan” means a loan made by a Related Lender to the Company pursuant to a Related Loan Document that is secured by a Note or a Series of Notes hereunder.

“Related Loan Documents” means any loan agreement, credit agreement or other document pursuant to which a Related Issuer or Related Lender loans the proceeds of a series of Related Bonds or Related Loan (as applicable) 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 407 hereof.

“Series 2015 Master Note” shall mean that certain \$15,000,000 Qualified Zone Academy Bond Master Indenture Note (YES Prep Public Schools Inc.) Series 2015Z of the Company issued pursuant to Supplemental Master Trust Indenture No. 9 and secured by this Master Indenture.

“State” means the State of Texas.

“State Revenues” means, for any period of time for which calculated, the total of all moneys received by the Company for all students and all the Participating Campuses under their state charter from the State during such period.

“Stated Maturity” when used with respect to any Debt or any Note or any installment of interest or premium 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 or premium is due and payable.

“Subordinate Debt” shall have the meaning ascribed to such term in Section 212(c).

“Subordinate Debt Payment” means payment of any amount by the Company on Subordinate Debt after curing a Default or Event of Default..

“Subordinate Lender Loan Agreement” has the meaning set forth in the related Subordination Agreement.

“Subordinate Lender Note” has the meaning set forth in the related Subordination Agreement.

“Subordinate Loan Documents” has the meaning set forth in Section 212(d)(3) hereof and each Subordination Agreement.

“Subordination Agreement” has the meaning set forth in Section 212(d)(2) hereof.

“Supplemental Master Indenture” means an indenture amending or supplementing this Master Indenture entered into pursuant to Article VIII hereof.

“Supplemental Master Indenture No. 9” means that Supplemental Master Indenture between the Company and the Master Trustee dated June 1, 2015.

“Trust Estate” means the property described as the Trust Estate in the Granting Clauses of this Master Indenture or any Supplemental Master Indenture that is subject to the lien and security interest of this Master Indenture.

“UCC” means the Uniform Commercial Code as in effect in the State of Texas.

Section 102. Form of Documents Delivered to Trustee. Every certificate and every Opinion of Counsel with respect to compliance with a condition or covenant provided for in this Master Indenture shall include a statement that the person making such certification or opinion has read such covenant or condition and the definitions relating thereto, has made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether such covenant or condition has been complied with, and a statement whether such condition or covenant has been complied with. In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of any officer of a Person may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of a specified Person stating that the information with respect to such factual matters is in the possession of such Person, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Master Indenture, they may, but need not, be consolidated and form one instrument.

Section 103. Acts of Note Holders.

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Master Indenture to be given or taken by Note Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Note Holders in person or by agent duly appointed in writing; and, except as herein otherwise

expressly provided, such action shall become effective when such instrument or instruments are delivered to the Master Trustee or Paying Agent, and, where it is hereby expressly required, to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Note Holders signing such instrument or instruments. Proof of execution of any such instrument, or of a writing appointing any such agent, shall be sufficient for any purpose of this Master Indenture and (subject to Section 801) conclusive in favor of the Master Trustee and the Company, if made in the manner provided in this Section.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by the certificate of any notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by an officer of a corporation or a member of a partnership, on behalf of such corporation or partnership, such certificate or affidavit shall also constitute sufficient proof of his authority. The fact and date of the execution of any such instrument or writing, or the authority of the person executing the same, may also be proved in any other manner which the Master Trustee deems sufficient.

(c) The ownership of Notes shall be proved by the Note Register.

(d) Any request, demand, authorization, direction, notice, consent, waiver or other action by any Note Holder shall bind every Holder of any Note issued upon the transfer thereof or in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Master Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Note.

(e) The ownership of Related Bonds may be proved by the registration books for such Related Bonds maintained pursuant to the Related Bond Indenture.

(f) In determining whether the Holders of the requisite aggregate principal amount of Notes have concurred in any demand, direction, request, notice, consent, waiver or other action under this Master Indenture, or for any other purpose of this Master Indenture, Notes or Related Bonds that are owned by the Company shall be disregarded and deemed not to be Outstanding or outstanding under the Related Bond Indenture, as the case may be, for the purpose of any such determination, provided that for the purposes of determining whether the Master Trustee shall be protected in relying on any such direction, consent or waiver, only such Notes or Related Bonds which the Master Trustee has actual notice or knowledge are so owned shall be so disregarded and deemed not to be Outstanding Notes or Related Bonds Outstanding. Notes or Related Bonds so owned that have been pledged in good faith may be regarded as outstanding or outstanding under the Related Bond Indenture, as the case may be, for purposes of this Section, if the pledgee shall establish to the satisfaction of the Master Trustee the pledgee's right to vote such Notes or Related Bonds. In case of a dispute as to such right, any decision by the Master Trustee taken upon the advice of counsel shall be full protection to the Master Trustee. In the event that a Note secures the obligation of a Person under an agreement or instrument that provides for the making of advances to or on behalf of such Person, such Note shall only be counted to be Outstanding in a principal amount equal to the amount so advanced or otherwise due and owing under the terms

of such agreement (and only if such amount remains outstanding or unpaid) to or on behalf of such Person. In the event that a Note secures a Financial Products Agreement, such Note shall only be deemed to be Outstanding in a principal amount equal to any amount with which the Company is in default with respect to the payment thereof. In no event however, shall the amount owed to a holder be counted twice because there are the same amounts due and owing under two Notes relating to the same obligations (e.g., the principal amount reimbursable to the provider of a liquidity facility as the holder of bonds purchased by such liquidity provider as well as the principal amount of such purchased bonds by such liquidity provider as holder of the purchased bonds).

(g) At any time prior to (but not after) the time the Master Trustee takes action in reliance upon evidence, as provided in this Section 103, of the taking of any action by the Holders of the percentage in aggregate principal amount of Notes specified herein in connection with such action, any Holder of such Note or Related Bond that is shown by such evidence to be included in Notes the Holders of which have consented to such action may, by filing written notice with the Master Trustee and upon proof of holding as provided in this Section 103, revoke such action so far as concerns such Note or Related Bond. Except upon such revocation or such action taken by the Holder of a Note or Related Bond in any direction, demand, request, waiver, consent, vote or other action of the Holder of such Note or Related Bond which by any provision hereof is required or permitted to be given shall be conclusive and binding upon such Holder and upon all future Holders and owners of such Note or Related Bond, and of any Note or Related Bond issued in lieu thereof, whether or not any notation in regard thereto is made upon such Note or Related Bond. Any action taken by the Holders of the percentage in aggregate principal amount of Notes specified herein in connection with such action shall be conclusively binding upon the Company, the Master Trustee and the Holders of all of such Notes or Related Bonds.

Section 104. Notices, etc., to Master Trustee and Company. Any request, demand, authorization, direction, notice, consent, waiver or Act of Note Holders or other document provided or permitted by this Master Indenture to be made upon, given or furnished to, or filed with:

(1) the Master Trustee by any Note Holder or by any specified Person shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with and actually received by a Responsible Officer of the Master Trustee at:

Capital One, N.A.
201 St. Charles Avenue, 23rd Floor
New Orleans, LA 70170
504-533-3406 (telephone)
504-533-3447 (fax)
E-mail: colleen.mccarthy@capitalone.com
Attention: Colleen McCarthy, Assistant Vice President & Trust Officer

With a copy to:

Capital One, N.A.
5444 Westheimer, Suite 700

Houston, Texas 77056
713.212.5251 (Telephone)
855.735.8388 (Fax)
E-mail: s.miller@capitalone.com
Attention: Scott Miller, Vice President

or at any other address subsequently furnished in writing to the Company by the Master Trustee; and

(2) the Company by any Note Holder or by any Person shall be sufficient for every purpose hereunder if in writing and mailed, first-class postage prepaid, to the Company at YES Prep Public Schools Inc., 6201 Bonhomme, Suite 168N, Houston, TX. 77036, Attention: President, or at any other address subsequently furnished in writing to the Master Trustee by the Company.

Section 105. Notices to Note Holders; Waiver. Where this Master Indenture provides for notice to Capital One or to the Note Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and shall be communicated by personal delivery, facsimile, electronic mail (email), registered or certified mail, return receipt requested, or overnight delivery, to Capital One and to each Note Holder affected by such event, as applicable, at his address as it appears on the Note Register, not later than the latest date, and not earlier than the earliest date, prescribed for the first giving of such notice. In any case where notice to Note Holders is given by mail, neither the failure to mail such notice, nor any default in any notice so mailed to any particular Note Holder shall affect the sufficiency of such notice with respect to other Note Holders. Where this Master Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders of Notes shall be filed with the Master Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Section 106. Successors and Assigns. All covenants and agreements in this Master Indenture by the Company and the Master Trustee shall bind their respective successors and assigns, whether so expressed or not.

Section 107. Severability Clause. If any provision of this Master Indenture shall be held or deemed to be, or shall in fact be, inoperative or unenforceable as applied to any particular case in any jurisdiction or jurisdictions, or in all jurisdictions or in all cases because of the conflicting of any provision with any constitution or statute or rule of public policy or for any other reasons, such circumstance shall not have the effect of rendering the provision or provisions in question inoperative or unenforceable in any other jurisdiction or in any other case or circumstance or of rendering any other provision or provisions herein contained invalid, inoperative or unenforceable to the extent that such other provisions are not themselves actually in conflict with such constitution, statute or rule of public policy.

Section 108. Benefits of Master Indenture. Nothing in this Master Indenture or in the Notes, express or implied, shall give to any Person, other than the parties hereto, and their

successors hereunder, Capital One and the Holders of the Notes, any benefit or any legal or equitable right, remedy or claim under this Master Indenture.

Section 109. Governing Law. This Master Indenture shall be governed, in all respects including validity, interpretation and effect by, and shall be enforceable in accordance with, the laws of the State.

Section 110. Effect of Headings and Table of Contents. The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

Section 111. Amendment and Restatement. This Master Indenture shall become effective on June 15, 2015 (the “Amendment Date”) and shall supersede, amend and restate all provisions of the Original Master Indenture as of such date. From and after the Amendment Date, all references made to the Original Master Indenture in any instrument or document shall, without more, be deemed to refer to this Agreement. Without limiting the foregoing, the parties to this Master Indenture hereby acknowledge and agree that the “Master Indenture” referred to in the Original Master Indenture shall from and after the date hereof be deemed a reference to this Master Indenture.

ARTICLE II

ISSUANCE AND FORM OF NOTES

Section 201. Series, Amount and Denomination of Notes.

(a) Subject to the provisions of this Master Indenture, including but not limited to Sections 202 and 212 hereof, from time to time after the execution and delivery of this Master Indenture, Notes shall be issued under this Master Indenture in series issued pursuant to a Supplemental Master Indenture. Each series shall be designated to differentiate the Notes of such series from the Notes of any other series. Notes shall be issued as fully registered notes with the Notes of each series to be lettered and numbered MR-1 upwards (with such prefix as may be designated in the Supplemental Master Indenture authorizing any series). The aggregate principal amount of Notes of each series that may be created under this Master Indenture is not limited, except by the additional Long Term Debt limitations provided in this Master Indenture. A series of Notes may consist of a single Note or more than one Note.

(b) Subject to the provisions of this Master Indenture, including but not limited to Sections 202 and 212 hereof, Notes may be issued hereunder to evidence any type of Debt. The Supplemental Master Indenture pursuant to which any Notes are issued may provide for such supplements or amendments to the provisions hereof, including without limitation Article II hereof, as are necessary to permit the issuance of such Notes hereunder. Any duly authorized Note evidencing obligations under a Financial Products Agreement related to Related Bonds 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 and (iii) without the prior written consent of Capital One, no Note outstanding or issued may secure any termination payments under a Financial Products Agreement.

Section 202. Conditions to Issuance of Notes. Any Note or series of Notes shall be authenticated by the Master Trustee and delivered to the purchaser only upon its receipt of the following:

(a) An Officer's Certificate stating (1) that no Event of Default under this Master Indenture has occurred or will result from the issuance of such Note or series of Notes; (2) that the Governing Body has authorized or approved the issuance of such Note or series of Notes; and (3) that the Supplemental Master Indenture relating thereto authorizes such Debt and that such Supplemental Master Indenture complies with the provisions of Article VIII hereof;

(b) An original executed counterpart of a Supplemental Master Indenture providing for the issuance of such Note or series of Notes; such Supplemental Master Indenture shall set forth the purpose for which the Debt evidenced thereby is being incurred, the principal amount, maturity date or dates, interest rate or rates and the other pertinent terms of the Note or series of Notes and the name of the Company; and

(c) Other than in connection with the Notes Outstanding prior to the Amendment Date and the Series 2015 Master Note, an Opinion of Counsel to the effect that (1) the conditions to issuance of any particular Note or series of Notes set forth in this Section 202 of this Master Indenture have been satisfied, (2) upon the execution of such Note or series of Notes by the Company and the authentication thereof by the Master Trustee, such Note or series of Notes will be the valid and binding obligations of the Company enforceable in accordance with its (their) terms, subject to the customary bankruptcy, insolvency and equitable principles exceptions and such other exceptions as may be acceptable to the initial payee thereof, (3) registration of such Note or series of Notes under the Securities Act of 1933, as amended, is not required, or, if such registration is required, that the Company has complied with all applicable provisions of said Act and (4) qualification of the Master Indenture and any Supplemental Master Indenture providing for the issuance of such Note or series of Notes under the Trust Indenture Act of 1939 is not required, or if such qualification is required, that the Company has complied with all applicable provisions of such Act.

(d) The title insurance policy, or endorsement thereof, required by Section 212 or Section 409, if necessary.

(e) Any other opinion, certificate, report or other item required under Section 212.

Section 203. Execution, Authentication and Delivery.

(a) Notes shall be executed by the Company through the chairman of its Governing Body or its president or any officer authorized by the Governing Body and attested to by the secretary or an assistant secretary of the Company, as appropriate, and Notes may have the corporate seal impressed or reproduced thereon. The signature of any officer on the Notes may be manual or facsimile.

(b) Notes bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Notes or did not hold such offices at the date of such Notes.

(c) Subject to the provisions of this Master Indenture, including but not limited to Sections 202 and 212 hereof, from time to time, after the execution and delivery of this Master Indenture, the Company may deliver executed Notes to the Master Trustee together with the Supplemental Master Indenture creating such series; and upon the receipt of the Supplemental Master Indenture, the Master Trustee shall authenticate and deliver such Notes as in this Master Indenture and the relevant Supplemental Master Indenture provided.

(d) No Note shall be entitled to any benefit under this Master Indenture or be valid or obligatory for any purpose, unless there appears on or attached to such Note a certificate of authentication substantially in the form set forth below executed by the Master Trustee by its manual signature, and such certificate upon any Note shall be conclusive evidence, and the only evidence, that such Note has been duly authenticated and delivered hereunder. The form of certificate of authentication shall be as follows:

CERTIFICATE OF AUTHENTICATION

This is one of the Notes referred to in the Master Indenture.

Date of Authentication:

Capital One, N.A., as Master Trustee, or its agent

By: _____
Authorized Signature

Section 204. Form and Terms of Notes. The Notes of each series of Notes shall contain such terms, and be in substantially the form set forth in the Supplemental Master Indenture creating such series, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Master Indenture and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any regulatory body, or as may, consistently

herewith, be determined by the officers executing such Notes, as evidenced by their signing of the Notes. The Notes of any series or the relevant Supplemental Master Indenture may contain additional (or different) representations, warranties, covenants, defaults and remedies and other provisions which do not contradict the terms of this Master Indenture, to the extent provided in the related Supplemental Master Indenture, and such additional terms shall supplement and be in addition to the terms of this Master Indenture. Unless the Notes of a series have been registered under the Securities Act of 1933, as amended, each Note of such series shall be endorsed with a legend which shall read substantially as follows: "This Note has not been registered under the Securities Act of 1933, as amended."

Section 205. Registration, Transfer and Exchange.

(a) The Company shall cause to be kept at the corporate trust office of the Master Trustee in New Orleans, Louisiana, or the payment office of the Master Trustee in New Orleans, Louisiana, a register (sometimes herein referred to as the "Note Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Notes and of transfers of Notes. The Master Trustee is hereby appointed Note Registrar (the "Note Registrar") for the purpose of registering Notes and transfers of Notes as herein provided. The Master Trustee may delegate any of its duties hereunder pursuant to the terms of a Supplemental Master Indenture. In such case, the Note Register may consist of one or more records of ownership of the various series of Notes and any part of such register may be maintained by the agent of the Master Trustee relating to such series.

(b) Upon surrender for transfer of any Note at the office or agency of the Company in a Place of Payment, the Company shall execute, and the Master Trustee or its designated agent shall authenticate and deliver, in the name of the designated transferee, one or more new Notes of any Authorized Denominations, of a like aggregate principal amount, series, Stated Maturity and interest rate.

(c) At the option of the Holder, Notes may be exchanged for Notes of any Authorized Denomination, of a like aggregate principal amount, series, Stated Maturity and interest rate, upon the surrender of the Notes to be exchanged at such office or agency. Whenever any Notes are so surrendered for exchange, the Master Trustee or its designated agent shall authenticate and deliver the Notes which the Note Holder making the exchange is entitled to receive.

(d) All Notes issued upon any transfer or exchange of Notes shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Master Indenture as the Notes surrendered upon such transfer or exchange.

(e) Every Note presented or surrendered for transfer or exchange shall (if so required by the Company or the Master Trustee) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Master Trustee or its designated agent duly executed by the Holder thereof or his attorney duly authorized in writing.

(f) No charge shall be made for any transfer or exchange of Notes, and any transfer or exchange of Notes shall be made without expense or without charge to Holders.

Section 206. Mutilated, Destroyed, Lost and Stolen Notes.

(a) If (i) any mutilated Note is surrendered to the Master Trustee or the Paying Agent, and the Master Trustee receives evidence to its satisfaction of the destruction, loss or theft of any Note, and (ii) there is delivered to the Master Trustee such security or indemnity as may be required by the Master Trustee to save each of the Master Trustee and the Company harmless, then, in the absence of notice to the Company or the Master Trustee that such Note has been acquired by a bona fide purchaser, the Company shall execute and, upon its request, the Master Trustee shall authenticate and deliver in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Note, a new Note of like tenor, series, interest rate and principal amount, bearing a number not contemporaneously outstanding.

(b) In case any such mutilated, destroyed, lost or stolen Note has become or is about to become due and payable, the Company may, in its discretion, instead of issuing a new Note, pay such Note.

(c) Upon the issuance of any new Note under this Section, the Master Trustee or its designated agent under any Supplemental Master Indenture may require the payment by the Company of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Master Trustee) connected therewith.

(d) Every new Note issued pursuant to this Section in lieu of any destroyed, lost or stolen Note shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Note shall be at any time enforceable by anyone, and shall be entitled to all the benefits and security of this Master Indenture equally and proportionately with any and all other Notes duly issued hereunder.

(e) The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Notes.

Section 207. Method of Payment of Notes.

(a) The principal of, premium, if any, and interest on the Notes shall be payable in any currency of the United States of America which, at the respective dates of payment thereof, is legal tender for the payment of public and private debts, and such principal, premium, if any, and interest shall be payable at the principal payment office of the Master Trustee in New Orleans, Louisiana, or at the office of any alternate Paying Agent or agents named in any such Notes. Unless contrary provision is made in the Supplemental Master Indenture pursuant to which such Note is issued or the election referred to in the next sentence is made, payment of the interest on the Notes and payment of any redemption or prepayment price on any Note pursuant to Section 303 hereof shall be made to the Person appearing on the Note Register as the Holder thereof and shall be paid by check or draft mailed to the Holder thereof at his address as it appears on such registration books or at such other address as is furnished the Master Trustee in writing by such Holder; provided, however, that any Supplemental Master Indenture creating any Note may provide that interest on such Note may be paid, upon the request of the Holder of such

Note, by wire transfer. Anything to the contrary in this Master Indenture notwithstanding, if an Event of Default has not occurred and is not continuing hereunder and the Company so elects, payments on a Note shall be made directly by the Company, by check or draft hand delivered to the Holder thereof or its designee or shall be made by the Company by wire transfer to such Holder, in either case delivered on or prior to the date on which such payment is due. The Company may give notice (on which the Master Trustee may conclusively rely) of any such payment to the Master Trustee concurrently with the making thereof, specifying the amount paid and identifying the Note or Notes with respect to which such payment was made by series designation, number and Holder thereof. Except with respect to Notes directly paid, the Company agrees to deposit with the Master Trustee on or prior to each due date, as specified in the Related Bond Documents, a sum sufficient to pay the principal of, premium, if any, and interest on any of the Notes due on such date. Any such moneys shall, upon direction of the Company set forth in an Officer's Certificate, be invested as set forth therein. The foregoing notwithstanding, amounts deposited with the Master Trustee to provide for the payment of Notes pledged to the payment of Related Bonds shall be invested in accordance with the provisions of the Related Bond Indenture and Related Loan Document. The Master Trustee shall not be liable or responsible for any loss resulting from any such investments, and shall not be responsible for determining whether any such investment is permitted hereunder or in accordance with any such Related Bond Indenture or Related Loan Agreement.

(b) Subject to the foregoing provisions of this Section 207, each Note delivered under this Master Indenture upon transfer of or in exchange for or in lieu of any other Note shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Notes.

Section 208. Persons Deemed Owners. The Company, the Master Trustee and any agent thereof may treat the Person in whose name any Note is registered as the owner of such Note for the purpose of receiving payment of principal of (and premium, if any) and interest on such Note and for all other purposes whatsoever whether or not such payment is past due, and neither the Company, the Master Trustee, nor any agent of the Company or the Master Trustee shall be affected by notice to the contrary.

Section 209. Cancellation. All Notes surrendered for payment, redemption, transfer or exchange shall, if delivered to any Person other than the Master Trustee, be delivered to the Master Trustee and, if not already cancelled or required to be otherwise delivered by the terms of the Supplemental Master Indenture authorizing the series of Notes of which such Note is a part, shall be promptly cancelled by the Master Trustee. The Company may at any time deliver to the Master Trustee for cancellation any Notes previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and all Notes so delivered shall be promptly cancelled by the Master Trustee. No Notes shall be authenticated in lieu of or in exchange for any Notes cancelled as provided in this Section, except as expressly permitted by this Master Indenture. All cancelled Notes held by the Master Trustee shall be disposed of according to the retention policies of the Master Trustee.

Section 210. Security for Notes.

(a) All Notes issued and Outstanding under this Master Indenture are equally and ratably secured by the pledge and assignment of a first priority security interest in the Trust

Estate pursuant to the Granting Clauses of this Master Indenture. Any one or more series of Notes or obligations issued hereunder may be secured by additional and separate 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). The security described in the foregoing sentence 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 the first priority, senior lien created pursuant to or constituting a part of the Trust Estate under this Master Indenture.

(b) To the extent that any Debt which is permitted to be issued pursuant to this Master Indenture is not issued directly in the form of a Note, a Note may be issued hereunder and pledged as security for the payment of such Debt in lieu of directly issuing such Debt as a Note hereunder.

Section 211. Mortgage, Pledge and Assignment; Further Assurances.

(a) Subject only to the provisions of this Master Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein and in order to secure the payment of the Notes and the performance of the duties and obligations of the Company under the Notes and this Master Indenture, the Company has pledged and assigned unto the Master Trustee and its successors and assigns forever, and granted a security interest thereunto in, among other things, all of the Adjusted Revenues and any other amounts (including proceeds of the sale of Bonds) held in the Revenue Fund to secure the payment of the principal of and interest and premium 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), each Deposit Account Control Agreement; provided, that the Master Trustee shall have no duty or responsibility to determine the existence of, or the necessity of perfecting any security interest of the Master Trustee in, any fund or account in which the Master Trustee has been granted a security interest, including without limitation, as described in Granting Clause (b) of this Master Indenture.

Upon the occurrence of an Event of Default, the Master Trustee shall be entitled to, subject to its rights to be indemnified pursuant to Article VII, (i) at the direction of Capital One, issue a Notice of Exclusive Control under the Deposit Account Control Agreement and (ii) collect and receive all of the Adjusted Revenues. The Master Trustee also shall be entitled to and shall (1) enforce the terms, covenants and conditions of, and preserve and protect the priority of its interest in and under this Master Indenture and the Deed of Trust and (2) assure compliance with all covenants, agreements and conditions of the Company contained in this Master Indenture with respect to the Adjusted Revenues; provided that, without limiting the generality of any of the provisions of this Master Indenture or the Deed of Trust, the Master Trustee need

not foreclose the Deed of Trust (or accept a deed in lieu of foreclosure or otherwise exercise remedies with respect to the Collateral as 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 Collateral as defined in the Deed of Trust) would be to cause the Master Trustee to: (i) incur financial liability for any then existing environmental contamination at or from the Collateral 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 and priority of such 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 priority thereof and from time to time will perform or cause to be performed any other act as provided by law and will execute or cause to be executed and filed as provided herein any and all continuation statements as required for such perfection and protection. Copies of all filings and recordings hereunder shall be promptly filed with the Master Trustee and Capital One. 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 master indenture, any mortgage, deed of trust, other security or other instruments of further assurance.

The Master Trustee shall confirm, on an annual basis, the filing of continuation statements by the Company required to maintain the perfection and priority of the security interests granted hereby and by the Bond Documents and, if necessary, make such filings as may be required to maintain the perfection and priority of the security interests granted hereby and by the Bond Documents.

(c) The Company covenants not to take any action that would create or allow any senior, parity or subordinate liens to exist, except any Permitted Encumbrances (as defined in the Deed of Trust), on any real property included in the Deed of Trust other than a lien arising in connection with the issuance of Debt as permitted by Section 212; provided that no such lien on Adjusted Revenues or Collateral or the Trust Estate may arise or shall be permitted to exist in connection with any Subordinate Debt. The Company has not heretofore made a pledge of, granted a lien on or security interest in, or made an assignment or sale of the collateral granted hereunder (or filed any UCCs with respect thereto) that ranks on a parity with or prior or subordinate to the first priority, senior lien granted hereunder that will remain outstanding while any Notes remain outstanding. The Company will not hereafter make or suffer to exist any pledge or assignment of, lien on, or security interest in the Adjusted Revenues, Trust Estate or Collateral under the Deeds of Trust or described hereunder that ranks prior or subordinate to or on parity with the first priority, senior lien granted hereunder, or file any financing statement describing any such pledge, assignment, lien or security interest. 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 Company on a simple contract.

Section 212. Additional Debt.

(a) Upon satisfaction of the applicable requirements of Section 202, one or more series of Debt payable from the Adjusted Revenues of the Company may be delivered pursuant to this Master Indenture for the purposes provided in the Act, to pay the costs associated with such Debt, and/or for the purpose of refunding any Outstanding Debt (only so long as such refunding is permitted under the Related Bond Documents) if the following conditions are first met:

(1) No Default. Delivery of an Officer's Certificate stating that this Master Indenture is in effect and no Event of Default is then existing under this Master Indenture or with respect to any Debt Outstanding (including but not limited to any Related Bonds Documents) or any agreement entered into in conjunction with such Debt;

(2) Parity Pledge. Such Debt shall be secured on a parity with respect to the Trust Estate with interest payable on each April 1 and October 1 and principal payments on each April 1 (and, if approved by the Holders of a majority in principal amount of the Notes Outstanding, each October 1), and shall be payable by the issuer solely from the Adjusted Revenues and other amounts derived from the loan agreement relating to such debt (except to the extent paid out of moneys attributable to the proceeds derived from the sale of the additional Debt or to income from the temporary investment thereof); provided that solely respect to the Debt secured by (i) that certain Note entitled "Taxable Master Indenture Note (YES Prep Public Schools Inc.) Series 2012-CF" (the "Monthly MTI Note") issued pursuant to that certain Supplemental Master Trust Indenture No. 4 dated as of June 1, 2012 by and between the Company and the Master Trustee, principal and interest on the Monthly MTI Note shall be payable on a monthly basis as provided therein, and (ii) the Series 2013 Master Note issued pursuant to the Seventh Supplemental Master Indenture, principal and interest on the Series 2013 Master Note shall be payable on a semiannual basis as provided therein, solely from the Adjusted Revenues and other amounts derived from the loan agreement relating to such Debt (except to the extent paid out of moneys attributable to the proceeds derived from the sale of the additional Debt or to income from the temporary investment thereof);

(3) Sufficient funds must be evidenced as follows:

(A) Historical Coverage on Outstanding Debt. Delivery of an Officer's Certificate stating that, for either the Company's most recently completed Fiscal Year for which audited financial statements are available or for any consecutive 12 months out of the most recent 18 months immediately preceding the issuance of the additional Debt, the Cash Available for Debt Service equal at least 1.20 times Maximum Annual Debt Service on all Debt then Outstanding prior to the issuance of the additional Debt; and

(B) Projected Coverage for Additional Debt. An Independent Management Consultant provides a written report to the Master Trustee setting forth projections which indicate that the estimated Cash Available for Debt Service 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 report of the Independent Management Consultant shall take into account (i) the audited results of operations and verified enrollment of the Project for the most recently completed Fiscal Year and (ii) the projected enrollment for the Fiscal Year immediately following the completion of the new Project, and shall assume that the proposed additional Debt shall have been outstanding for the entire year;

(4) Alternate Coverage for Additional Debt. In lieu of the requirements described in Section 212(a)(3) above, the Company may deliver an Officer's Certificate stating that, based on the audited results of the operations for the most recently completed Fiscal Year, the Cash Available for Debt Service equal at least 1.10 times Maximum Annual Debt Service on all Debt then Outstanding and the proposed additional Debt;

(5) Reserve Fund Deposits. For the purposes of calculating Maximum Annual Debt Service in Sections 212(a)(3) and 212(a)(4) above, the principal and interest payable upon final maturity for any outstanding Debt for which a reserve fund has been established shall be reduced by the amounts held in such reserve fund(s).

(6) Bond Counsel Opinion. Bond Counsel shall render a Favorable Opinion of Bond Counsel to the Master Trustee to the effect that the issuance of the proposed additional Debt will not adversely affect the tax status of the Related Bonds (including causing the interest on the Related Bonds Outstanding issued as tax-exempt bonds to be includable in the gross income of the Owners thereof for purposes of federal income taxation or adversely affect the qualification of any qualified tax credit bonds as "qualified school construction bonds" or "qualified zone academy bonds");

(7) Title Insurance. So long as the Trust Estate contains the lien of the Deed of Trust upon any real property of the Company, to the extent permitted by law, the Company shall obtain and provide to the Master Trustee (a) an endorsement of the title insurance policy issued in connection with the Debt increasing the coverage thereunder by an amount equal to the aggregate principal amount of the additional Debt and conforming to the requirements of Section 409 hereof or (b) a new ALTA title insurance policy issued in connection with the additional Debt in the amount equal to the aggregate principal amount of the additional Debt and conforming to the requirements of Section 409, in each case containing no exceptions to title (printed or otherwise) that are unacceptable to Capital One and insuring that the Deeds of Trust are first-priority liens on the Collateral under the Deed of Trust and related fixtures, each in form and content satisfactory to Capital One; ;

(8) Collateral Value. Delivery of complete, narrative appraisal and property condition report, prepared by an MAI certified appraiser as to real estate to be added to the Collateral (as defined in the Deed of Trust) and an Officer's Certificate with supporting documentation including Appraisals that the Collateral Value will be greater than or equal to the aggregate principal amount of all outstanding Debt, including the additional Debt proposed to be issued. Additionally, Company hereby covenants and agrees that within 60 days of upon completion of construction and renovation of any Collateral (as defined in the Deed of Trust) subject to the Deed of Trust the Company shall provide the Master Trustee evidence that an independent, licensed, certified inspector or appraiser certifies as to either (1) the "as completed" value or (2) that the work was substantially completed in accordance with the original Appraisal;

(9) Deed of Trust. Delivery of amendments to the Deeds of Trust to provide that all Deeds of Trust secure the additional Debt and all outstanding Notes under this Master Indenture, and delivery of opinion of local real estate counsel to the effect that all the Deeds of Trust are sufficient to create a lien on the real estate and related fixtures and validly secure the permitted additional Debt and all outstanding Notes under this Master indenture, in form and content satisfactory to the Master Trustee;

(10) Flood hazard certification and/or flood hazard insurance for the real estate subject to the Deed of Trust, if applicable for the particular property;

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

The satisfaction of the conditions set forth in paragraphs (1) through (9) above shall be evidenced to the Master Trustee. The Master Trustee may rely, and (subject to Section 701) shall be fully protected in relying upon, a closing certificate that items (1) through (9) were completed.

(b) Refunding. So long as a refunding is permitted under the Related Bond Documents, if additional Debt is being issued for the purpose of refunding any Outstanding Debt, the report required to be delivered by Section 212(a)(3) or Section 212(a)(4) shall not apply so long as both the total and Maximum Annual Debt Service Requirements on all Outstanding Debt after issuance of the refunding 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) Subordinate Debt.

(1) The Company reserves the right to incur Subordinate Debt that is not secured by a lien on Cash Available for Debt Service, Adjusted Revenues or any collateral included within the Trust Estate or any Collateral (as defined in the Deed of Trust) or any Deed of Trust, but may be secured by a lien on the portion of the assets financed with such indebtedness (“Subordinate Lender Collateral”) and such Subordinate Debt shall be incurred solely for financing the acquisition, renovation or equipping of educational facilities (“Subordinate Debt”). Subject to the terms of the related Subordination Agreement the Company may make regularly scheduled payments of principal and interest on Subordinate Debt, so long as no Default or Event of Default exists or is continuing under this Master Indenture and the Company is compliance with the Pro Forma Financial Covenants taking into consideration such proposed payments on Subordinate Debt. Prior to making any Material Subordinate Payment, any Material Change to Subordinate Debt or any Subordinate Debt Payment, the Company must be in compliance with the Pro Forma Financial Tests taking into consideration the proposed Material Subordinate Payment, Material Change to Subordinate Debt or any Subordinate Debt Payment, as the case may be.

(2) As a condition to the issuance of Subordinate Debt, the lender of such debt (each a “Subordinate Lender”) shall execute and deliver a Debt Subordination Agreement with the Company and the Master Trustee in the form attached hereto as Exhibit C, with such modifications thereto as approved in writing by Capital One (each a “Subordination Agreement”).

(3) The Company and the Master Trustee agree to comply with the terms of each Subordination Agreement and the following terms, and the Company shall cause each Subordinate Lender to comply with the terms of the related Subordination Agreement.

(4) Any and all payments and related obligations under the loan documents evidencing and issuing the Subordinate Debt (the “Subordinate Loan Documents”) whether now existing or hereafter arising (including all principal, interest, fees, costs, expenses and post-petition amounts, whether or not allowed) shall be subordinate to the payment of the Notes under this Master Indenture.

(5) Upon, and during the continuation of any Event of Default under this Master Indenture, Subordinate Lender shall not be permitted to receive any payments on any Subordinate Debt; provided, however, Subordinate Lender may retain all proceeds realized from the sale of Subordinate Lender’s Collateral.

(6) Upon the occurrence of a non-payment default under this Master Indenture, the Master Trustee shall deliver a Blockage Notice to the Subordinate Lenders and the Company.

(7) After 180 days following notice of a non-payment default under the Master Indenture (“Blockage Notice”), payments of Subordinate Debt may resume provided no other default has occurred (i.e., a default other than the default(s) that gave rise to the Blockage Notice) or would occur on a proforma basis as a result of such

payment, as shown by calculations set forth in a compliance and no default certificate in the form set forth in Exhibit B hereto to be provided by the Company to the Master Trustee and Capital One.

(8) In any bankruptcy or insolvency proceeding of any kind, the Notes shall be paid in full prior to the payment of or any distribution to the holder of the Subordinate Debt. If any bankruptcy insolvency proceeding is commenced by or against the Company, any payment or distribution of any of the Company's assets, whether in cash, securities or any other property, which would be payable or deliverable with respect to Subordinate Debt, shall be paid or delivered to the Master Trustee until all Notes hereunder are paid in full; provided, however, Subordinate Lender may retain all proceeds realized from the sale of Subordinate Lender's Collateral.

(9) If any insolvency proceeding is commenced by or against the Company, any payment or distribution of any of the Company's assets, whether in cash, securities or any other property, which would be payable or deliverable with respect to Subordinate Debt, shall be paid or delivered to the Master Trustee until all Notes hereunder are paid in full; provided, however, Subordinate Lender may retain all proceed realized from the sale of Subordinate Lender's collateral.

(10) Any Subordinate Lender shall be subject to a standstill on the enforcement of its rights under the Subordinate Loan Documents until the Notes are paid in full; provided, however, Subordinate Lender may foreclose on Subordinate Lender's Collateral and apply all proceeds realized therefrom to the payment of Subordinate Debt.

(11) Except as provided in (5) below, the requirements of Section 212(a) (except Section 212(a)(2)) must be satisfied prior to the Company's incurrence (including, without limitation, in connection with any increase in the amount of or extension of) of any Subordinate Debt.

(12) Subject to the provisions of Section 413 hereunder, the Company reserves the right to incur indebtedness subordinate to this Master Indenture in the form of a New Markets Tax Credits transaction (NMTC) substantially similar to those in effect as of the Amendment Date or convertible loans to grants (example: Charter School Growth Fund) in an aggregate amount not to exceed \$30,000,000 without regard for Section 212(a) above, provided that the Master Trustee shall receive an executed Subordination Agreement satisfactory to Capital One for any such convertible loans to grants; and

(13) All Subordinate Debt shall be treated as Debt for the purposes of calculating Annual Debt Service Requirements; provided that, any portion incurred in the form of a New Markets Tax Credits transaction (NMTC) or convertible loans to grants (example: Charter School Growth Fund) shall not be included in Annual Debt Service Requirements unless such amounts become due and payable. In such case, the amounts due and payable in any Fiscal Year shall be included in Annual Debt Service Requirements in accordance with the provisions applicable to its structure.

Section 213. Insurance. (a) The Company shall at all times following completion of any Related Project, keep and maintain such Related Project insured against such risks and in such amounts, with such deductible provisions, as are customary in connection with the operation of facilities of the type and size comparable to the Related Project and consistent with the requirements of state law. Subject to subsection (c) hereof, the Company shall carry and maintain, or cause to be carried and maintained, and pay or cause to be paid timely the premiums for, at least the following insurance with respect to the Related Project and the Company:

(1) insurance coverage for buildings and contents, including steam boilers, fired pressure vessels and certain other machinery for fire, lightning, windstorm and hail, explosion, aircraft and vehicles, sprinkler leakage, elevator, and all other risks of direct physical loss, at all times in an amount not less than the replacement cost of the Related Project as determined on the date of issuance of any Notes and subsequently determined after construction is completed on any properties covered under the Deed of Trust;

(2) during the course of any construction, reconstruction, remodeling or repair of the Related Project, builders' all risk extended coverage insurance (non-reporting Completed Value with Special Cause of Loss form) in amounts based upon the completed replacement value of the Related Project and insurance coverage for lost gross revenues due to damage or destruction of the Related Project prior to construction in an amount sufficient to provide temporary or interim facilities and equipment during the period of replacement or repair of the damaged or destroyed facility, and endorsed to provide that occupancy by any person shall not void such coverage;

(3) general liability (other than as set forth in subsection (4) of this subsection (a));

(4) comprehensive professional liability insurance (other than as set forth in subparagraph (3) of this subsection (a)); and

(5) 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 and shall be in an amount not less than the greater of (i) the then unpaid aggregate principal amount of the Related Bonds or (ii) 100% of the full insurable replacement value of 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 acceptable to Capital One, or by an insurance fund established by the United States or State or an agency or instrumentality thereof unless such insurance is not otherwise available on commercially reasonable terms from an insurer rated at least "A" by S&P or "Excellent (A or A-)" by A.M. Best Company, Inc., (ii) shall be in such form and with such provisions (including, without limitation and where

applicable, loss payable clauses payable to the Master Trustee, its successors and assigns in trust and for the benefit of the owners of the Notes, waiver of subrogation clauses, provisions relieving the insurer of liability to the extent of minor claims and the designation of the named insureds) as are generally considered standard provisions for the type of insurance involved, (iii) shall prohibit cancellation or substantial modification by the insurer without at least thirty days' prior written notice to the Master Trustee, Capital One and the Company and (iv) shall name the Master Trustee as additional insured. Without limiting the generality of the foregoing, all insurance policies carried pursuant to clause (a)(1) of this Section 213 contain a standard NY Mortgagee clause in favor of the Master Trustee (as mortgagee/loss payee) shall name the Master Trustee, and the Company as parties insured thereunder as the respective interest of each of such parties may appear, and loss thereunder shall be made payable and shall be applied as provided in the Related Loan Documents. The Company shall deliver to the Master Trustee and Capital One, no later than the date on which it is required to obtain an insurance policy pursuant to Section 213(a), proof of each such insurance policy. The insurance is payable to the Master Trustee as the representative for all Holders.

(c) Insurance Consultant. The Company covenants to review each year the insurance carried by the Company with respect to the Company and the Related Project and, to the extent feasible, will carry insurance insuring against risks and hazards specified in Section 213(a) to the same extent that other entities comparable to the Company and owning or operating facilities of the size and type comparable to the Related Project carry such insurance. At least once every two years, from and after the date hereof, the Company shall retain an Independent Insurance Consultant, for the purpose of reviewing the insurance coverage of, and the insurance required for, the Company and the Related Project and making recommendations respecting the types, amounts and provisions of insurance that should be carried with respect to the Company and the Related Project and their operation, maintenance and administration. A signed copy of the report of the Independent Insurance Consultant shall be filed with the Master Trustee and Capital One. The insurance requirements of Section 213(a) and this subsection (c) shall be deemed modified or superseded as necessary to conform with the recommendations contained in said report to the extent the report recommends additional or increased coverage.

(d) Certifications. The Company shall, on the closing date for any Debt and thereafter within 120 days after the end of each of its Fiscal Years submit to the Master Trustee and Capital One 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 213(d).

ARTICLE III

REDEMPTION OR PREPAYMENT OF NOTES

Section 301. Redemption or Prepayment. Notes of each series shall be subject to optional and mandatory redemption or prepayment (subject to Section 602) in whole or in part and may be redeemed prior to Stated Maturity only as provided in the Supplemental Master Indenture creating such series. Unless otherwise provided by the Supplemental Master Indenture

creating a series of Notes, the provisions of Sections 302 through 305 of this Master Indenture shall also apply to the redemption of Notes.

Section 302. Election to Redeem or Prepay; Notice to Master Trustee. The Company shall notify the Master Trustee in writing of the election of the Company to redeem or prepay all or any portion of the Notes of any series, together with the redemption or prepayment date and the principal amount of Notes of each Stated Maturity and series to be redeemed or prepaid, at least 60 days prior to the redemption or prepayment date fixed by the Company, unless a shorter notice shall be satisfactory to the Master Trustee.

Section 303. Deposit of Redemption or Prepayment Price. Prior to any redemption or prepayment date, the Company shall deposit with the Master Trustee or its designated agent an amount of money sufficient to pay the redemption or prepayment price (including interest and premium thereon if applicable) of all the Notes which are to be redeemed or prepaid on such date.

Section 304. Notes Payable on Redemption or Prepayment Date.

(a) Notice of redemption or prepayment (including interest and premium thereon if applicable) having been given as aforesaid, and the monies for redemption or prepayment having been deposited as described in Section 303, the Notes to be redeemed or prepaid shall become due and payable on the redemption or prepayment date at the redemption or prepayment price (including interest and premium thereon if applicable) 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 (including interest and premium thereon if applicable). Installments of interest whose Stated Maturity is on or prior to the redemption date shall be payable to the registered Note Holders on the relevant Record Dates according to their terms.

(b) If any Note called for redemption shall not be so paid upon surrender thereof for redemption, the principal (and premium, if any) shall, until paid, bear interest from the redemption date at the rate then borne by the Note.

Section 305. Notes Redeemed or Prepaid in Part. Any Note which is to be redeemed or prepaid only in part shall be surrendered at a Place of Payment (with, if the Company or the Master Trustee so requires, due endorsement by, or a written instrument of transfer satisfactory in form to, the Company and the Master Trustee, and duly executed by the Holder thereof or by his attorney who has been duly authorized in writing) and the Company shall execute and the Master Trustee shall authenticate and deliver without service charge a new Note or Notes of the same series, interest rate and maturity, and of any Authorized Denomination, to the Holder of such Note as requested by such Holder in aggregate principal amount equal to and in exchange for the unredeemed or unpaid portion of the principal of the Note so surrendered.

ARTICLE IV

COVENANTS OF THE COMPANY

Section 401. Limitation on Debt. The Company covenants and agrees that so long as Capital One is the owner of any Related Bonds or any obligations secured by any Notes, the Company shall not issue, incur or assume any Debt, or in any manner become liable in respect of any Debt, whether as endorser, guarantor or otherwise, regardless of whether such Debt will be subject to the lien of this Master Indenture, unless the conditions set forth in Section 212 have first been met.

Section 402. 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 403. Adjusted Revenues. The Company represents and warrants that Adjusted Revenues includes State Revenues of the Company. The Company covenants and agrees that (i) no Adjusted Revenues shall be deposited into any deposit account for which the Master Trustee's control has not been perfected by a Deposit Account Control Agreement and (ii) prior to depositing any Adjusted Revenues into any deposit account, the Company shall enter into a Deposit Account Control Agreement (in form and substance satisfactory to Capital One) with such depository institution in favor of the Master Trustee, as secured party. For the avoidance of doubt and without limiting the generality of the foregoing, the Company may not deposit any Adjusted Revenues into any deposit account without first entering into a Deposit Account Control Agreement (in form and substance satisfactory to the Capital One) with the respective depository institution in favor of the Master Trustee, as secured party.

Section 404. Money for Note Payments to be Held in Trust; Appointment of Paying Agents.

(a) The Company may appoint a Paying Agent for each series of the Notes.

(b) Each such Paying Agent appointed by the Company shall be (i) a corporation organized and doing business under the laws of the United States of America or of any state, (ii) authorized under such laws to exercise corporate trust powers, (iii) have a combined capital and surplus of at least \$50,000,000, and (iv) be subject to supervision or examination by federal or state authority.

(c) Subject to Section 207 hereof and pursuant to Section 401, 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 due on any Notes, deposit with the Master Trustee which shall thereupon deposit such with the Paying Agent, a sum sufficient to pay the principal (and premium, if any) or interest or purchase price so becoming due and any other amounts due in accordance with the terms of the Notes and this Master Indenture, such sum to be held in trust for the benefit of the Holders of such Notes, and the Company will promptly notify the Master Trustee of its action or failure so to act unless such Paying Agent is the Master Trustee.

(d) The Company will cause each Paying Agent other than the Master Trustee to execute and deliver to the Master Trustee an instrument in which such Paying Agent shall agree with the Master Trustee, subject to the provisions of this Subsection, that such Paying Agent will

(1) hold all sums held by it for the payment of principal of (and premium, if any) or interest or any other amounts on the Notes in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;

(2) give the Master Trustee notice of any default by the Company or any other obligor upon the Notes in the making of any such payment of principal (and premium, if any) or interest or any other amounts; and

(3) upon request by the Master Trustee, pay to the Master Trustee all sums so held in trust by such Paying Agent forthwith at any time during the continuance of such default.

(e) For the purpose of obtaining the satisfaction and discharge of this Master Indenture as permitted by Article IX hereof or for any other purpose, the Company may at any time by Order direct any Paying Agent to pay to the Master Trustee all sums held in trust by such Paying Agent, such sums to be held by the Master Trustee upon the same trusts as those upon which such sums were held by such Paying Agent. Upon such payment by any Paying Agent to the Master Trustee, such Paying Agent shall be released from all further liability with respect to such money.

(f) Subject to applicable escheat laws of the State, any money deposited in trust with the Master Trustee or any Paying Agent for the payment of the principal of (and premium, if any) or interest on any Notes and remaining unclaimed for the later of (i) the first anniversary of the Stated Maturity of the Notes or the installment of interest for the payment of which such money is held or (ii) two years after such principal (and premium, if any) or interest has become due and payable shall to the extent permitted by law be paid to the Company on its Request (which Request shall include the Company's representation that it is entitled to such funds under applicable escheatment laws and its agreement to comply with such laws) and the Holder of such Note shall thereafter, to the extent of any legal right or claim, be deemed to be an unsecured general creditor, and shall look only to the Company for payment thereof, and all liability of the Master Trustee or such Paying Agent with respect to such trust money, and all liability of the Company, shall thereupon cease; provided, however, that the Master Trustee or such Paying Agent, before being required to make any such repayment, shall, at the written direction of the Company, publish notice in an Authorized Newspaper at the expense of the Company that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30

days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company; provided further, notwithstanding the foregoing, the Master Trustee shall be entitled to deliver any such funds to any escheatment authority in accordance with the Master Trustee's customary procedures. The Master Trustee shall hold any such funds in trust uninvested (without liability for interest accrued after the date of deposit or other compensation) for the benefit of holders entitled thereto.

Section 405. Notice of Non-Compliance. Promptly upon the discovery of any default, the Company will deliver to the Master Trustee a written statement describing each default and status thereof which has not been cured or waived under any Note. For the purpose of this Section, the term "default" means any event which is, or after notice or lapse of time or both would become, an Event of Default.

Section 406. Corporate Existence. Subject to Sections 501 and 502, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence, rights (charter and statutory), and franchises; provided, however, that the Company shall not be required to preserve any right or franchise if the Governing Body shall determine that the preservation thereof is no longer desirable in the conduct of its business and that the loss thereof is not disadvantageous in any material respect to the Holders of the Notes and the Master Trustee receives a Favorable Opinion of Bond Counsel with respect thereto.

Section 407. Revenue Fund.

(a) There is hereby created by the Company and established with the Master Trustee the special fund of the Company designated the "YES Prep Public Schools Education Revenue Fund" (herein referred to as the "Revenue Fund"). The Revenue Fund shall contain a principal account (the "Principal Account") and an interest account (the "Interest Account") and such other accounts as the Master Trustee finds necessary or desirable, provided, the Master Trustee shall have no duty to establish and maintain the Revenue Fund prior to the occurrence and continuance of an Event of Default. The money deposited to the Revenue Fund, together with all investments thereof and investment income therefrom, shall be held in trust and applied solely as provided in this Section and in Section 606.

(b) If, and only if, an Event of Default under this Master Indenture shall occur, the Company shall deposit, within two (2) 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 day of such Event of Default thereof and on each day thereafter, until no default under Section 601(a) of this Master Indenture then exists.

(c) Immediately upon receipt of any payments to the Master Trustee for deposit into the Revenue Fund, the Master Trustee shall withdraw and pay or deposit from the amounts on deposit in the Revenue Fund the following amounts in the order indicated:

- (1) to the Master Trustee any fees or expenses which are then payable;
 - (2) equally and ratably to the Holder of each instrument evidencing a Note on which there has been a default pursuant to Section 601(a) an amount equal to all defaulted principal of (or premium, if any), interest and obligations on such Note;
 - (3) a transfer to the Interest Account of an amount necessary to accumulate in equal monthly installments the interest (or premium if any) on the Notes due and payable on the next Interest Payment Date (or date established for the payment of premium, if applicable), provided, however, that to the extent available, each transfer made on the fifth Business Day before the end of each month immediately preceding each Interest Payment Date (or date established for the payment of premium, if applicable) shall be in an amount to provide, together with amounts then on deposit in the Interest Account, the balance of the interest (or premium if any) due on the Notes on the next succeeding Interest Payment Date (or date established for the payment of premium, if applicable). There shall be paid from the Interest Account equally and ratably to the Holder of each instrument evidencing a Note the amount of interest (or premium if any) on each Note as such interest (or premium if any) becomes due;
 - (4) a transfer to the Principal Account of the amount necessary to accumulate the principal of the Notes maturing or subject to mandatory sinking fund redemption or mandatory sinking fund deposit on the next Interest Payment Date in installments as established under any Related Bond Documents, taking into account with respect to each such payment (i) any other money actually available in the Principal Account for such purpose and (ii) any credit against amounts due on each Interest Payment Date granted pursuant to other provisions of this Master Indenture; provided, however, that to the extent available, the transfer made on the fifth Business Day before the end of each month immediately preceding such Interest Payment Date shall be in an amount to provide, together with amounts then on deposit in the Principal Account, the balance of the principal maturing or subject to mandatory sinking fund redemption or mandatory sinking fund deposit on such Interest Payment Date. There shall be paid from the Principal Account equally and ratably to the Holder of each instrument evidencing a Note the amount of principal payments due on each Note, whether at maturity or earlier mandatory redemption (other than by reason of acceleration of maturity or other demand for payment), as such principal becomes due;
 - (5) to the Holder of any Note entitled to maintain a reserve fund for the payment of such Note, an amount sufficient to cause the balance on deposit in such reserve fund to equal the required balance in 12 equal monthly installments or as otherwise in such amounts required by the applicable Related Bond Documents; and
 - (6) to the Company, the amount specified in a Request as the amount of ordinary and necessary expenses of the Company for its operations for the following month.
- (d) Any amounts remaining on deposit in the Revenue Fund on the day following the end of the month in which all Events of Default under Section 601(a) of this Master Indenture

have been cured or waived, shall be paid to the Company upon Request for deposit in a deposit account of the Company subject to a Deposit Account Control Agreement, which may be used for any lawful purpose.

(e) Pending disbursements of the amounts on deposit in the Revenue Fund, the Master Trustee shall promptly invest and reinvest such amounts in the Permitted Investments specified in any Order. All such investments shall have a maturity not greater than 91 days from date of purchase.

Section 408. 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 “YES Prep Public Schools Education Insurance and Condemnation Proceeds Fund” (herein referred to as the “Insurance and Condemnation Fund”). The Master Trustee is hereby authorized to create any accounts within such Insurance and Condemnation Fund as the Master Trustee finds necessary or desirable, provided, the Master Trustee shall have no duty to establish the Insurance and Condemnation Fund prior to the first occurring receipt of proceeds under an insurance policy or a condemnation of all or a portion of any Related Project. The money deposited to the Insurance and Condemnation Fund, together with all investments thereof and investment income therefrom, shall be held in trust and applied solely as provided in this Section.

(b) Immediately upon receipt of any payments to the Master Trustee for deposit into the Insurance and Condemnation Fund, the Master Trustee shall transfer such amounts to the Related Bond Trustee in accordance with the Related Indenture and Related Loan Documents to which such insurance or condemnation proceeds relate for use pursuant to such Related Loan Documents for such Related Project or the redemption of Related Bonds as set forth in any Related Indenture and Related Loan Documents. The Company shall ensure that the Collateral Value following the redemption of Related Bonds with such insurance or condemnation proceeds will be greater than or equal to the aggregate principal amount of all Notes that will be Outstanding hereunder following such redemption with such insurance or condemnation proceeds.

Section 409. 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 and approved by the Master Trustee or Capital One showing the Master Trustee as insured party, as their interests may appear, with respect to the Collateral, 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 Collateral (as defined in the Deed of Trust). The policies shall insure that the Company has fee title in the Collateral and the Master Trustee has a valid first lien on the Company’s interest in the Collateral described in the Deed of Trust; subject to Permitted Encumbrances and subject to the Master Trustee’s protection in Section 703(l) hereof.

Section 410. Charters. So long as any Notes or Related Bonds remain Outstanding, the Company covenants that it shall never transfer any Participating Campus to operate under a

separate Charter regardless as to whether such Charter is held by the Company or other Charter-holder as permitted under the Act. Further, while the Company may open up to six campuses under a separate charter, it covenants and agrees, to the extent permitted by law, to include these six campuses as Participating Campuses. The Company shall provide Capital One 90 days prior written notice before the earlier of applying for or accepting another charter from the State.

Section 411. Subordination of Prior Debt. The Company, represents, warrants and agrees that all of the Company's outstanding loans from the Charter School Growth Foundation ("CSGF Loans") have been subordinated to the Series 2015 Master Note and all Notes outstanding hereunder. The Company agrees that the CSGF Loans are deemed to bear all the characteristics of Subordinate Debt set forth in Section 212(d)(3) and the Charter School Growth Foundation shall be treated as a Subordinate Lender whose relative rights and interests rank junior to those of the Holders of the Notes as set forth in Section 212(d)(3) and herein.

Section 412. Subordinate Debt

The Company covenants and agrees:

(a) That all Subordinate Debt shall be and hereby is subordinated to all Notes issued hereunder (a) in rights of enforcement and time of payment to amounts due and payable (whether at stated maturity, prepayment, acceleration or otherwise); and (b) in the exercise of rights and remedies (including waivers and rights in connection with certain Proceedings) from and after the occurrence and during the continuation of an Event of Default. No Subordinate Debt shall at any time have any pledge of or lien or priority on (whether mortgage lien or otherwise) or any security interest in, to or on the Adjusted Revenues, the Revenue Fund or any funds and accounts created and administered under this Master Indenture, any accounts subject to a Deposit Account Control Agreement, any other deposit accounts or the Company or any of the Collateral subject to any Deed of Trust.

(b) That it shall not take any action the effect of which would be to adversely affect the right of payment under this Master Indenture to which the Holders of the Notes are entitled on a prior and senior basis in terms of rights of enforcement and time of payment to the owners of Subordinate Debt (each a "Subordinate Lender") whose rights and interests are subject and subordinate to the Holders of the Notes as provided in this Master Indenture and each Subordination Agreement.

(c) That upon an Event of Default it shall not make any payment or benefit, by setoff or otherwise, directly or indirectly, on account of principal, interest or any other amounts owing on any Subordinate Debt unless expressly permitted to do so under the related Subordination Agreement or in a separate writing executed by the Master Trustee on behalf of the all of the Holders of the Notes. Any payment made in violation of this Master Indenture shall promptly be delivered to the Master Trustee on behalf of the Holders of the Notes in the form received, with any endorsement or assignment necessary for the transfer to Master Trustee on behalf of the Holders of the Notes, of such payment to be either (in the Master Trustee's sole discretion) held as cash collateral securing the Notes or applied in pro-rata reduction of Notes and until so

delivered, the Subordinate Lender shall hold such payment in trust for and on behalf of, and as the property of, Master Trustee.

Section 413. Waiver of Certain Covenants. The Company may omit in any particular instance to comply with any covenant or condition set forth in Sections 402 through 407 hereof if before or after the time for such compliance the Holders of the same percentage in principal amount of all Notes then Outstanding the consent of which would be required to amend the provisions hereof to permit such noncompliance; provided however that no waiver, with respect to any covenant, shall become effective without the prior written consent of Capital One.

Section 414. Mandamus. (i) The duties and obligations under this Master Indenture, each Supplemental Master Indenture and the Related Bond Documents that are clearly defined and non-discretionary and for which there is no other remedy available at law (including, without limitation, the issuance and payment of the Notes hereunder) shall be enforceable by mandamus in any court of competent jurisdiction. To the extent permitted by law, the Company has waived any claim of immunity on the grounds of sovereignty or similar grounds from (i) relief by way of mandamus to perform its clearly defined non-discretionary obligations under this Master Indenture, each Supplemental Master Indenture and the other Related Bond Documents (including, without limitation, the issuance and payment of the Notes and the payment of the Obligations hereunder) or (iii) enforcement by mandamus of its obligations with respect to the Notes and all Obligations.

Section 415. Sovereign Immunity. To the fullest extent permitted by applicable law and pursuant to Section 271.152 of the Texas Local Government Code, as amended, the Company irrevocably agrees that it will not claim any immunity on the grounds of sovereignty or other similar grounds from (i) any action, suit or proceeding arising under or relating to Adjusted Revenues, this Master Indenture, any Supplemental Master Indenture or any Related Bond Document, (ii) relief by way of injunction, order for specific performance or writ of mandamus, or (iii) execution or enforcement of any judgment to which it, the Master Trustee, the Holders, any Related Lender or Related Issuer might otherwise be entitled in any proceedings in the courts of any jurisdiction and irrevocably waives, to the fullest extent permitted by applicable law, with respect to itself and the Adjusted Revenues, all such immunity. The Company agrees that for purposes of Section 271.151 of the Texas Local Government Code, this Master Indenture, each Supplemental Master Indenture and the Related Bond Documents each constitutes a written contract stating the essential terms of the agreement for providing goods or services to the Company and each Related Issuer, as applicable, that is properly executed on behalf of the Company and each Related Issuer, and the financing provided hereunder by the Holders and the Related Lenders constitute services to the Company and each Related Issuer for purposes of such Section. Notwithstanding the foregoing, the Company hereby agrees that for purposes of adjudicating sovereign immunity, the Notes constitute debt obligations.

ARTICLE V

CONSOLIDATION, MERGER, CONVEYANCE AND TRANSFER

Section 501. Consolidation, Merger, Conveyance, or Transfer Only on Certain Terms. In addition to any other requirements set forth in the Related Bond Documents, the

Company covenants and agrees that it will not consolidate with or merge into any corporation or convey or transfer its properties substantially as an entirety to any Person, unless:

(a) all of the following conditions exist:

(1) the Person formed by such consolidation or into which the Company merges or the Person which acquires substantially all of the properties of the Company as an entirety shall be a Person organized and existing under the laws of the United States of America or any state or the District of Columbia and shall expressly assume by instrument supplemental hereto executed and delivered to the Master Trustee, the due and punctual payment of the principal (and premium, if any) and interest on the Notes and any other amounts due thereunder or in accordance with this Master Indenture and the performance and observance of every covenant and condition hereof on the part of the Company to be performed or observed;

(2) an Officer's Certificate shall be delivered to the Master Trustee to the effect that such consolidation, merger or transfer shall not, immediately after giving effect to such transaction, cause a default hereunder to occur and be continuing;

(3) the Company shall have delivered to the Master Trustee and Related Bond Trustee an Officer's Certificate and Opinion of Counsel, each stating that such consolidation, merger, conveyance, or transfer and such supplemental instrument comply with this Article and that all conditions precedent relating to such transaction provided for herein have been complied with, and a Favorable Opinion of Bond Counsel with respect to all Related Bonds; and

(4) the prior written consent of Capital One shall have been obtained.

Section 502. Successor Corporation Substituted. Upon any consolidation or merger, or any conveyance or transfer of the properties and assets of the Company substantially as an entirety in accordance with Section 501, the successor Person formed by such consolidation or into which the Company is merged or to which such conveyance or transfer is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company hereunder with the same effect as if such successor Person had been named as the Company herein.

ARTICLE VI

REMEDIES OF THE MASTER TRUSTEE AND HOLDERS OF NOTES IN EVENT OF DEFAULT

Section 601. Events of Default. "Event of Default," whenever used herein means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) default in the payment of the principal of (premium, if any) or interest or any other amount due on any Note when due (giving effect to any applicable period of grace, if any); or

(b) default in the performance, or breach, of any covenant or agreement on the part of the Company contained in this Master Indenture (other than a covenant or agreement the default in the performance or observance of which is elsewhere in this Section specifically addressed) and continuance of such default or breach for a period of 30 days after a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a “Notice of Default” hereunder has been given by registered or certified mail by (i) the Holders of at least 25% in principal amount of Notes then Outstanding, or (ii) Capital One or (iii) the Master Trustee to the Company (with a copy to the Master Trustee in the case of notice by the Holders); provided that if such default under this Section 601(b) can be cured by the Company but cannot be cured within the 30-day curative period described above, it shall not constitute an Event of Default if corrective action is instituted by the Company within such 30-day period and diligently pursued until the default is corrected; or

(c) a decree or order by a court having jurisdiction in the premises shall have been entered adjudging the Company a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization or arrangement of the Company under the federal Bankruptcy Code of 1978, as amended (the “Bankruptcy Code”), or any other similar applicable federal or state law, and such decree or order shall have continued undischarged and unstayed for a period of 60 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 60 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, the Deed of Trust, any Credit Documents (as defined under the Deed of Trust) occurs and is continuing beyond any applicable period of grace, if any;

(f) a Qualified Provider under a Financial Products Agreement which is secured by a Note notifies the Master Trustee that an event of default or termination event requirement payment from the Company or posting of collateral under such Financial Products Agreement, as therein defined, has occurred and is continuing beyond the applicable grace period, if any;

(g) default in the payment when due (whether at maturity, mandatory prepayment, acceleration or otherwise) of all or any portion of the amounts payable with respect to any other Debt of the Company (including but not limited to Subordinate Debt or Short-Term Debt) giving effect to any applicable period of grace, if any;

(h) any default by the Company under a Subordinate Loan Document;

(i) the failure by the Company to comply with the Pro Forma Financial Covenants in connection with any Material Subordinate Payment, Material Change to Subordinate Debt or any Subordinate Debt Payment;

(j) any breach or default by the Company of any provision of any Subordination Agreement.

Section 602. Acceleration of Maturity In Certain Cases; Rescission and Annulment.

(a) If an Event of Default occurs and is continuing, then and in every such case the Master Trustee may, and upon the request of: (i) the Holders of not less than 25% in principal amount of the Notes Outstanding (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 tax credits with respect thereto, or adverse effect to the tax status of, or the invalidity of, any Debt secured by a pledge of Notes, the Holders of not less than 25% in principal amount of the Notes Outstanding of the affected series) or (ii) Capital One, shall, by a notice in writing to the Company, accelerate the Maturity of the Notes, and upon any such declaration such principal (premium, if any) and interest and any other amount due on any Note shall become immediately due and payable.

(b) At any time after such a declaration of acceleration has been made and before a judgment or decree for payment of the money due has been obtained by the Master Trustee as hereinafter in this Article provided, the Holders of a majority in principal amount of the Notes Outstanding, by written notice to the Company and the Master Trustee, may rescind and annul such declaration and its consequences if:

(1) the Company has caused to be paid or deposited with the Master Trustee a sum sufficient to pay:

(i) all overdue installments of interest on all Notes;

(ii) the principal of (and premium, if any, on) any Notes which have become due otherwise than by such declaration of acceleration and interest thereon at the rate borne by the Notes as well as any other amounts due and owing as provided in such Notes; and

(iii) all sums paid or advanced by the Master Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Master Trustee, its agents and counsel; and

(2) all Events of Default, other than the non-payment of the principal of Notes which have become due solely by such acceleration, have been cured or waived as provided in Section 613.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

(c) Acceleration of Notes pursuant to this Section 602 may be declared separately and independently with or without an acceleration of the Related Bonds.

Section 603. Collection of Indebtedness and Suits for Enforcement by Master Trustee.

(a) The Company covenants that if:

(1) default is made in the payment of any installment of interest on any Note when such interest becomes due and payable;

(2) default is made in the payment of the principal of (or premium, if any, on) any Note when such principal (or premium, if any) becomes due and payable; or

(3) default is made in the payment of any other amount when such amount is due and payable;

the Company will, subject to Section 4012 hereof, upon demand of the Master Trustee, pay to it, for the benefit of the Holders of such Notes, the whole amount then due and payable on such Notes for principal (and premium, if any) and interest, with interest upon the overdue principal (and premium, if any) and any other amount due; and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Master Trustee, its agents and counsel.

(b) If the Company fails to pay any of the foregoing amounts forthwith upon demand, the Master Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid, and may prosecute such proceeding to judgment or final decree, and may enforce the same, against the Company and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the Property of the Company.

(c) If an Event of Default occurs and is continuing, the Master Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Notes and other obligations secured hereunder by such appropriate judicial proceedings as the Master Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Master Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy, including without limitation proceeding under the UCC as to all or any part of the Trust Estate, and the Company hereby covenants and agrees with the Master Trustee that the Master Trustee shall have and may exercise with respect to the Trust Estate all the rights, remedies and powers of a secured party under the UCC as in effect in the State of Texas.

(d) If an Event of Default occurs and is continuing, the Master Trustee shall provide a Notice of Exclusive Control to the Company's Depository Bank unless Capital One directs the Master Trustee to withhold such Notice of Exclusive Control.

(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 604. Master Trustee May File Proofs of Claim.

(a) In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Company or Property of the Company or of such other obligor or their creditors, the Master Trustee (irrespective of whether the principal of the Notes shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Master Trustee shall have made any demand on the Company for the payment of overdue principal or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise:

(1) to file and prove a claim for the whole amount of principal (and premium, if any) and interest and any other amounts owing and unpaid in respect of the Notes and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Master Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Master Trustee, its agents and counsel) and of the Holders of Notes allowed in such judicial proceeding; and

(2) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any receiver, assignee, trustee, liquidator, sequestrator (or other similar official) in any such judicial proceeding is hereby authorized by each Holder of Notes to make such payments to the Master Trustee, and in the event that the Master Trustee shall consent to the making of such payments directly to the Holders of Notes, to pay to the Master Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Master Trustee, its agents and counsel, and any other amounts due the Master Trustee under this Master Indenture.

(b) Nothing herein contained shall be deemed to authorize the Master Trustee to authorize or consent to or accept or adopt on behalf of any Holder of Notes any plan of reorganization, arrangement, adjustment or composition affecting the Notes or the rights of any Holder thereof, or to authorize the Master Trustee to vote in respect of the claim of any Holder of Notes in any such proceeding.

Section 605. Master Trustee May Enforce Claims Without Possession of Notes. All rights of action and claims under this Master Indenture or the Notes may be prosecuted and enforced by the Master Trustee without the possession of any of the Notes or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Master Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses,

disbursements and advances of the Master Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Notes in respect of which such judgment has been recovered.

Section 606. Application of Money Collected. Any money collected by the Master Trustee pursuant to this Article and any proceeds of any sale (after deducting the costs and expenses of such sale, including a reasonable compensation to the Master Trustee, its agents and counsel, and any taxes, assessments, or liens prior to the lien of this 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 4067, at the date or dates fixed by the Master Trustee and, in case of the distribution of such money on account of principal (or premium, if any), upon presentation of the Notes and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid.

Section 607. Limitation on Suits. No Holder of any Note shall have any right to institute any proceeding, judicial or otherwise, with respect to this Master Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

- (1) such Holder has previously given written notice to the Master Trustee of a continuing Event of Default;
- (2) the Holders of not less than 25% in principal amount of the Outstanding Notes shall have made written request to the Master Trustee to institute proceedings in respect of such Event of Default in its own name as Master Trustee hereunder;
- (3) such Holder or Holders have provided to the Master Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request;
- (4) the Master Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and
- (5) no direction inconsistent with such written request has been given to the Master Trustee during such 60-day period by the Holders of a majority in principal amount of the Outstanding Notes;

it being understood and intended that no one or more Holders of Notes shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Master Indenture to affect, disturb or prejudice the rights of any other Holders of Notes, or to obtain or to seek to obtain priority or preference over any other Holders, or to enforce any right under this Master Indenture, except in the manner herein provided and for the equal and ratable benefit of all the Holders of Notes.

Section 608. Unconditional Right of Holders of Notes to Receive Principal, Premium and Interest. Notwithstanding any other provision in this Master Indenture, the Holder of any Note shall have the right which is absolute and unconditional to receive payment

of the principal of (and premium, if any) and interest on such Note, but (without waiving or impairing any rights such Holder may have under any other instrument or agreement) solely from the sources provided in this Master Indenture, on the respective Stated Maturities expressed in such Note (or, in the case of redemption, on the redemption date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

Section 609. Restoration of Rights and Remedies. If the Master Trustee or any Holder of Notes has instituted any proceeding to enforce any right or remedy under this Master Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Master Trustee or to such Holder of Notes, then and in every such case the Company, the Master Trustee and the Holders of Notes shall, subject to any determination in such proceeding, be restored severally and respectively to their former positions hereunder, and thereafter all rights and remedies of the Master Trustee and the Holders of Notes shall continue as though no such proceeding had been instituted.

Section 610. Rights and Remedies Cumulative. No right or remedy herein conferred upon or reserved to the Master Trustee or to the Holders of Notes is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 611. Delay or Omission Not Waiver. No delay or omission of the Master Trustee or of any Holder of any Note to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Master Trustee or to the Holders of Notes may be exercised from time to time, and as often as may be deemed expedient, by the Master Trustee or by the Holders of Notes, as the case may be.

Section 612. Control by Holders of Notes. The Holders of a majority in principal amount of the Outstanding Notes shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Master Trustee or exercising any trust or power conferred on the Master Trustee, provided that such direction shall not be in conflict with any rule of law or with this Master Indenture, and provided further that the Master Trustee shall have the right to decline to comply with any such request in accordance with Section 703(e) hereof or if the Master Trustee shall be advised by counsel (who may be its own counsel) that the action so directed may not lawfully be taken or the Master Trustee in good faith shall determine that such action would be unjustly prejudicial to the Holders of the Notes not parties to such direction. The Master Trustee may take any other action deemed proper by the Master Trustee which is not inconsistent with such direction.

Section 613. Waiver of Past Defaults.

(a) The Holders of not less than a majority in principal amount of the Outstanding Notes may on behalf of the Holders of all the Notes waive any past default hereunder and its consequences, except:

(1) a default in the payment of the principal of (or premium, if any) or interest or any other amount on any Note; or

(2) a default in respect of a covenant or provision hereof which under Article VIII cannot be modified or amended without the consent of the Holder of each Outstanding Note affected.

(b) Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Master Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

Section 614. Undertaking for Costs. All parties to this Master Indenture agree, and each Holder of any Note by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Master Indenture, or in any suit against the Master Trustee for any action taken or omitted by it as Master Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section shall not apply to any suit instituted by the Master Trustee, to any suit instituted by any Holder of Notes, or group of Holders of Notes, holding in the aggregate more than 10% in principal amount of the Outstanding Notes, or to any suit instituted by any Holder of Notes for the enforcement of the payment of the principal of (or premium, if any) or interest on any Note on or after the respective Stated Maturities expressed in such Note (or, in the case of redemption, on or after the redemption date).

Section 615. Waiver of Stay or Extension Laws. The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Master Indenture; and the Company (to the extent that it may lawfully do so), hereby expressly waives all benefit or advantage of any such law, and covenants (to the extent that it may lawfully do so) that it will not hinder, delay or impede the execution of any power herein granted to the Master Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

Section 616. No Recourse Against Others. No recourse under or upon any obligation, covenant or agreement contained in this Master Indenture or any indenture supplemental hereto, or in any Note, or for any claim based thereon or otherwise in respect thereof, shall be had against any incorporator, or against any past, present or future director, officer or employee, as such, of the Master Trustee or the Company or of any successor corporation, either directly or through the Company, whether by virtue of any constitution or statute or rule of law, or by the

enforcement of any assessment or penalty or otherwise; it being expressly understood that this Master Indenture and the Notes are solely corporate obligations, and that no such personal liability whatever shall attach to, or is or shall be incurred by, the incorporators, directors, officers or employees, as such, of the Master Trustee or the Company or any successor corporation, or any of them, because of the creation of indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in this Master Indenture or in any of the Notes or implied therefrom; and that any and all such personal liability, either at common law or in equity or by constitution or statute, of, and any and all such rights and claims against, every such incorporator, director, officer or employee, as such, are hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Master Indenture and the issue of such Notes.

ARTICLE VII

CONCERNING THE MASTER TRUSTEE

Section 701. Duties and Liabilities of Master Trustee.

(a) The Master Trustee accepts and agrees to execute the trusts imposed upon it by this Master Indenture, but only upon the terms and conditions set forth herein, and no implied covenants or obligations shall be read into this Master Indenture against the Master Trustee.

(b) In case any Event of Default has occurred and is continuing (of which a Responsible Officer of the Master Trustee has actual knowledge or is deemed to have actual knowledge under Section 703(h) hereof), the Master Trustee shall exercise such of the rights and powers vested in it by this Master Indenture, and use the same degree of care and skill in their exercise, as a reasonably prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(c) No provision of this Master Indenture shall be construed to relieve the Master Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except, that:

(1) this Subsection shall not be construed to limit the effect of Subsection (a) of this Section or Section 703 hereof;

(2) the Master Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Master Trustee was negligent in ascertaining the pertinent facts;

(3) the Master Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with Section 602(a) hereof or otherwise with the direction of the Holders of not less than a majority in aggregate principal amount of the Notes then Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Master Trustee, or exercising any trust or power conferred upon the Master Trustee, under this Master Indenture; and

(4) no provision of this Master Indenture shall require the Master Trustee to expend or risk its funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that the repayment of such funds or adequate indemnity against such risk or liability or the payment of its fees and expenses is not reasonably assured to it.

(d) Whether or not therein expressly so provided, every provision of this Master Indenture relating to the conduct or affecting the liability of or affording protection to the Master Trustee shall be subject to the provisions of this Section and Section 703.

Section 702. Notice of Defaults. Within 60 days after the occurrence of any default of which the Master Trustee is deemed to have knowledge hereunder, the Master Trustee shall transmit by personal delivery, facsimile, electronic mail (email), registered or certified mail, return receipt requested, or overnight delivery to all Holders of Notes and Capital One notice of such default, unless such default shall have been cured or waived or unless corrective action to cure such default has been instituted and is being pursued such that such default does not constitute an Event of Default; provided, however, that except in the case of a default in the payment of the principal of (or premium, if any) or interest on any Notes or in the payment of any sinking or purchase fund installment, the Master Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee or a trust committee of directors and/or Responsible Officers of the Master Trustee in good faith determine that the withholding of such notice from the Holders of the Notes is in the interest of the Holders of Notes; and provided, further, that in the case of any default of the character specified in Section 601(b), no such notice to Holders of Notes shall be given until at least 30 days after the notice described in Section 601(b) is given and a cure is not forthcoming. For the purpose of this Section, the term “default” means any event which is, or after notice or lapse of time or both would become, an Event of Default.

Section 703. Certain Rights of Master Trustee.

(a) The Master Trustee may conclusively rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties and shall not be required to verify the accuracy of any information or calculations required to be included therein or attached thereto.

(b) Any request or direction of the Company shall be sufficiently evidenced by a Request; and any resolution of the Governing Body may be evidenced to the Master Trustee by a Board Resolution.

(c) Whenever in the administration of this Master Indenture the Master Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Master Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officer’s Certificate.

(d) The Master Trustee may consult with counsel and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(e) The Master Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Master Indenture at the request or direction of any of the Holders of the Notes pursuant to the provisions of this Master Indenture, unless such Holders shall have offered to the Master Trustee reasonable security or indemnity satisfactory to it against the costs, expenses and liabilities which might be incurred by it in connection with such request or direction and for the payment of the Master Trustee's fees in connection therewith.

(f) The Master Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document, but the Master Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Master Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney and to take such memoranda from and in regard thereto as may be reasonably desired. The Master Trustee shall have no obligation to perform any of the duties of the Company under this Master Indenture.

(g) The Master Trustee may execute any of the trusts or powers hereunder either directly or by or through agents or attorneys or may act or refrain from acting in reliance upon the opinion or advice of such agents or attorney, but the Master Trustee shall not be held liable for any negligence or misconduct of any such agent or attorney appointed by it with due care. The Master Trustee may act upon the opinion or advice of an attorney or agent selected by it in the exercise of reasonable care and upon the opinion or advice of an attorney or agent retained by the Company. The Master Trustee shall not be responsible for any loss or damage resulting from any action or nonaction based on its good faith reliance upon such opinion or advice. The Master Trustee may in all cases pay reasonable compensation to any attorney or agent retained or employed by it in connection herewith.

(h) The Master Trustee shall not be required to take notice or be deemed to have notice of any Event of Default hereunder unless the Master Trustee shall be specifically notified of such Event of Default in writing by the Company or by the Holder of an Outstanding Note, and in the absence of such notice the Master Trustee may conclusively assume that no Event of Default exists; provided, however, that the Master Trustee shall be required to take and be deemed to have notice of its failure to receive the moneys necessary to make payments when due of principal, premium, if any, or interest on any Note.

(i) The Master Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with any direction of the Holders of the Outstanding Notes permitted to be given by them under this Master Indenture.

(j) The permissive right of the Master Trustee to do things enumerated in this Master Indenture shall not be construed as a duty and the Master Trustee shall not be answerable for

other than its negligence or willful misconduct in accordance with the terms of this Master Indenture.

(k) The Master Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises.

(l) The Master Trustee shall not be responsible for monitoring the existence of or determining whether any lien or encumbrance or other charge including without limitation any Permitted Encumbrance (as defined in the Deed of Trust) exists against the Project or the Trust Estate.

(m) The 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 704. Not Responsible For Recitals or Issuance of Notes. The recitals contained herein and in the Notes (other than the certificate of authentication on such Notes) shall be taken as the statements of the Company and the Master Trustee assumes no responsibility for their correctness. The Master Trustee makes no representations as to the validity or sufficiency of this Master Indenture or of the Notes. The Master Trustee shall not be accountable for the use or application by the Company of any of the Notes or of the proceeds of such Notes, for the use or application of any money paid over by the Master Trustee in accordance with the provisions of this Master Indenture or for the use and application of money received by any Paying Agent.

Section 705. Master Trustee May Own Notes. The Master Trustee or other agent of the Company, in its individual or any other capacity, may become the owner or pledgee of Notes and may otherwise deal with the Company with the same rights it would have if it were not Master Trustee or such other agent.

Section 706. Moneys to Be Held in Trust. All moneys received by the Master Trustee shall, until used or applied as herein provided (including payment of moneys to the Company under the next to last paragraph of Section 404), be held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by law. The Master Trustee shall be under no liability for interest on any moneys received by it hereunder other than such interest as it expressly agrees to pay.

Section 707. Compensation and Expenses of Master Trustee.

(a) The Company hereby agrees:

(1) to pay to the Master Trustee from time to time reasonable compensation for all services rendered by it hereunder (which compensation shall not be limited by any law limiting the compensation of the trustee of an express trust), whether as Master Trustee or as Paying Agent;

(2) except as otherwise expressly provided in this Section 707(a), to reimburse the Master Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Master Trustee in accordance with any provision of this Master Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel); and

(3) to indemnify the Master Trustee, its directors, employees, agents and affiliates (including without limitation, the Master Trustee as Paying Agent hereunder) (collectively, the "Indemnitees") for, and to defend and hold them harmless against, loss, liability, claims, proceedings, suits, demands, penalties, costs and expenses, including without limitation, the costs and expenses of outside and in house counsel and experts and their staffs and all expenses of document location, duplication and shipment and of preparation to defend and defending any of the foregoing ("Losses"), that may be imposed on, incurred by or asserted against any Indemnatee in respect of (i) any loss, or damage to any property, or injury to or death of any person, asserted by or on behalf of any Person arising out of, resulting from, or in any way connected with the Project, or the conditions, occupancy, use, possession, conduct or management of, or any work done in or about the Project or from the planning, design, acquisition or construction of any Project facilities or any part thereof, (ii) the issuance of any Notes or Related Bonds, or the Company's or the Issuer's, as the case may be, authority therefor; (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 Indemnatee to the extent such Indemnatee's negligence or bad faith caused such the Loss, and (v) compliance with or attempted compliance with or reliance on any instruction or other direction upon which the Master Trustee may rely under the Master Indenture or any instrument related thereto. The Company further agrees to indemnify the Indemnitees and Capital One against any Losses as a result of (1) any untrue statement or alleged untrue statement of any material fact or the omission or alleged omission to state a materially fact necessary to make the statements made not misleading in any statement, information or material furnished by the Company to the Master Trustee, Capital One or the Holder of any Note, including, but not limited to, any disclosure document utilized in connection with the sale of any Related Bonds; or (2) the inaccuracy of the statement contained in any section of any Related Bond Indenture relating to environmental representations and warranties. The foregoing indemnification shall include, without limitation, indemnification for any statement or information concerning the Company or its officer and members or its Property contained in any official statement or other offering document furnished to the Master Trustee, Capital One or the purchaser of any Notes or Related Bonds that is untrue or incorrect in any material respect, and any omission from such official statement or other offering document of any statement or information which should be contained therein for the purpose for which the same is to be used or which is necessary to make the statements therein concerning the Company, its officers and members and its Property not misleading in any material respect. The foregoing is in addition to any other rights, including rights to indemnification, to which the Master Trustee or Capital One may otherwise be entitled, including without limitation, pursuant to the Deed of Trust. The provisions of this Section 707(a)(3) will survive the satisfaction and discharge of this Master Indenture and the payment of all Notes hereunder.

(b) As such security for the performance of the obligations of the Company under this Section the Master Trustee shall have a lien prior to the Notes upon all property and funds held or collected by the Master Trustee as such. The payment obligations set forth above shall include all such fees and expenses of the Master Trustee and its agents under any Supplemental Master Indenture.

Section 708. Corporate Master Trustee Required; Eligibility. There shall at all times be a Master Trustee hereunder which shall be a corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$50,000,000, subject to supervision or examination by Federal or state authority. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Master Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

Section 709. Resignation and Removal; Appointment of Successor.

(a) No resignation or removal of the Master Trustee and no appointment of a successor Master Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Master Trustee under Section 710.

(b) The Master Trustee may resign at any time by giving written notice thereof to the Company and Capital One. If an instrument of acceptance by a successor Master Trustee shall not have been delivered to the Master Trustee within 30 days after the giving of such notice of resignation, the resigning Master Trustee may petition any court of competent jurisdiction for the appointment of a successor Master Trustee.

(c) The Master Trustee may be removed at any time by act of Capital One delivered to the Master Trustee and the Company.

(d) If at any time:

(1) the Master Trustee shall cease to be eligible under Section 708 and shall fail to resign after written request therefor by the Company or by any Holder of Notes; or

(2) the Master Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or conservator or a receiver of the Master Trustee or of its property shall be appointed or any public officer shall take charge or control of the Master Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation;

then, in any such case, (i) the Company by a Request may remove the Master Trustee, or (ii) subject to Section 614, any Holder of Notes who has been a bona fide Holder of a Note for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Master Trustee and the appointment of a successor Master Trustee.

(e) If the Master Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Master Trustee for any cause, the Company shall promptly appoint a successor Master Trustee. If, within six months after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Master Trustee shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Notes delivered to the Company and the retiring Master Trustee, the successor Master Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Master Trustee and supersede the successor Master Trustee appointed by the Company. If no successor Master Trustee shall have been so appointed by the Company or the Holders of Notes and accepted appointment in the manner hereinafter provided, the Master Trustee or any Holder of Notes who has been a bona fide Holder of a Note for at least 6 months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Master Trustee.

(f) The Company shall give notice of each resignation and each removal of the Master Trustee and each appointment of a successor Master Trustee by personal delivery, facsimile, electronic mail (email), registered or certified mail, return receipt requested, or overnight delivery to the Holders of Notes at their addresses as shown in the Note Register. Each notice shall include the name and address of the designated corporate trust office of the successor Master Trustee.

Section 710. Acceptance of Appointment by Successor.

(a) Every successor Master Trustee appointed hereunder shall execute, acknowledge and deliver to the Company and to the retiring Master Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Master Trustee shall become effective and such successor Master Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Master Trustee; but, on Request of the Company or the successor Master Trustee, such retiring Master Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Master Trustee all the rights, powers and trusts of the retiring Master Trustee, and shall duly assign, transfer and deliver to the successor Master Trustee all property and money held by such retiring Master Trustee hereunder. Upon request of any such successor Master Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Master Trustee all such rights, powers and trusts.

(b) No successor Master Trustee shall accept its appointment unless at the time of such acceptance such successor Master Trustee shall be qualified and eligible under this Article.

Section 711. Merger or Consolidation. Any corporation into which the Master Trustee may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the Master Trustee shall be a party, or any corporation acquiring and succeeding to all or substantially all of the municipal corporate trust business of the Master Trustee, shall be the successor Master Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, to the extent operative, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Notes shall have been authenticated, but not delivered, by the Master Trustee then in office,

any successor by merger or consolidation to such authenticating Master Trustee may adopt such authentication and deliver the Notes so authenticated with the same effect as if such successor Master Trustee had itself authenticated such Notes.

Section 712. Junior Creditors. The Master Trustee shall have no direct or indirect obligation to Subordinate Lender of any kind regarding the exercise or nonexercise of any of Master Trustee's rights or remedies, any of which may be exercised from time to time by the Master Trustee without notice to or consent of Subordinate Lender. The Master Trustee has no obligation to disclose to any Subordinate Lender any information about the Company.

Section 713. Partial Release or Substitution or Addition of Real Property Included in Deed of Trust. The Master Trustee shall consent to the substitution or release of portions of the real property included in the Deed of Trust or the addition of real property to the Deed of Trust upon receipt of a written Request for such release or substitution or addition and a Certificate of an Authorized Representative providing:

(1) a Certificate of an Authorized Representative requesting the release or substitution or addition and certifying that no Event of Default is then existing under this Master Indenture or with respect to any Debt Outstanding (including but not limited to any Related Bonds) or any agreement entered into in conjunction with such Debt (including but not limited to any Related Bond Documents);

(2) the identification of the facility and land requested for release, if any (the "Released Facility");

(3) if applicable, the identification of the facility and land requested to be substituted or added, if any (the "Substitute Facility");

(4) an independent Appraisal of the Collateral that will remain subject to the Deed of Trust after such release or substitution or addition (the "Retained Facilities");

(5) evidence satisfactory to the Master Trustee that the Collateral Value following the substitution or release or addition of property will be greater than or equal to the aggregate principal amount of all Notes that will be Outstanding hereunder following the release or substitution or addition;

(6) a Supplemental Master Indenture, pursuant to Section 801(n) permitting the substitution or release or addition of such property in the Trust Estate; and

(7) evidence of all real estate related requirements set forth under Section 404(d) of the Trust Indenture and evidence of recording of amendment to Deed of Trust, title insurance policy, survey with respect to the Substitute Facility, environmental survey or surveys with respect to the Substitute Facility, and other documents that Master Trustee may reasonable require; provided, however, if the environmental studies have recommended that remedial action be taken with respect to the Substitute Facility so that it will be in compliance with applicable environmental laws, the Master Trustee does not have an obligation or duty to accept the Substitute Facility into the Trust Estate until such time as the remedial action has been completed and the Master Trustee has received

assurances to its satisfaction that the Substitute Facility is in compliance with applicable environmental laws.

(8) evidence that the Company has provided at least thirty (30) days prior to executing such release or substitution or addition, written notice to Capital One and the Holders of the Notes of the proposed release or substitution or addition, including the anticipated date thereof and an address for filing any objections thereto, in the manner required for the delivery of notices of optional redemptions under the Related Bond Indenture, and that neither the Company nor the Master Trustee received written objections to such release or substitution or addition from a majority of the Holders of the Notes within the time period specified.

(9) Receipt of an opinion of nationally recognized bond counsel that the requested release or substitution or addition of real property will not constitute a reissuance of any Related Bonds for federal tax purposes.

Upon the satisfaction of all of the conditions set forth in this Section 713, the Master Trustee shall take the necessary steps to release or substitute or add such portions of the real property subject to the Deed of Trust at the expense of the Company.

ARTICLE VIII

SUPPLEMENTS

Section 801. Supplemental Master Indentures Without Consent of Holders of Notes. Without the consent of the Holders of any Notes but with the consent of Capital One, the Company when authorized by a Board Resolution, and the Master Trustee at any time may enter into or consent to one or more indentures supplemental hereto, subject to Section 803 hereof, for any of the following purposes:

(a) to cure any ambiguity or to correct or supplement any provision herein or therein which may be inconsistent with any other provision herein or therein, or to make any other provisions with respect to matters or questions arising under this Master Indenture which shall not be inconsistent with this Master Indenture, provided such action shall not adversely affect the interests of the Holder of any Notes;

(b) to grant to or confer upon the Master Trustee for the benefit of the Holders of the Notes any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Holders of the Notes and the Master Trustee, or either of them, to add to the covenants of the Company for the benefit of the Holders of the Notes or to surrender any right or power conferred hereunder upon the Company;

(c) to assign and pledge under this Master Indenture additional revenues, properties or collateral;

(d) to evidence the succession of another corporation to the agreements of the Master Trustee, or a successor thereof hereunder;

(e) to evidence the succession of another Person to the Company, or successive successions, and the assumption by the successor Person of the covenants, agreements and obligations of the Company as permitted by this Master Indenture;

(f) to modify or supplement this Master Indenture in such manner as may be necessary or appropriate to qualify this Master Indenture under the Trust Indenture Act of 1939 as then amended, or under any similar federal or state statute or regulation, including provisions whereby the Master Trustee accepts such powers, duties, conditions and restrictions hereunder and the Company undertakes such covenants, conditions or restrictions additional to those contained in this Master Indenture as would be necessary or appropriate so to qualify this Master Indenture; provided, however, that nothing herein contained shall be deemed to authorize inclusion in this Master Indenture or in any indenture supplemental hereto, provisions referred to in Section 316(a)(2) of the said Trust Indenture Act or any corresponding provision provided for in any similar statute hereafter in effect;

(g) to the extent permitted under the Related Bond Documents, to provide for the refunding or advance refunding of any Note, in whole or in part as permitted hereunder;

(h) to provide for the issuance of the Notes or any additional series of Notes as permitted hereunder;

(i) to permit a Note to be secured by new security which may or may not be extended to all Note Holders or to establish special funds or accounts under this Master Indenture;

(j) to allow for the issuance of any series of Notes in uncertificated form;

(k) to make any other change which does not materially adversely affect the Holders of any of the Notes and, in the opinion of each Related Bond Trustee, does not materially adversely affect the owners of the Related Bonds with respect to which it acts as trustee, including without limitation any modification, amendment or supplement to this Master Indenture or any indenture supplemental hereto or any amendment thereto in such a manner as (i) to establish or maintain exemption of interest from federal income taxation, (ii) the right to receive tax credits or (iii) the qualification as “qualified school construction bonds” or “qualified zone academy bonds” on any Related Bonds under a Related Bond Indenture under applicable provisions of the Code;

(l) so long as no Event of Default has occurred and is continuing under this Master Indenture and so long as no event which with notice or the passage of time or both would become an Event of Default under this Master Indenture has occurred and is continuing, to make any other change herein or therein which, in the judgment of an Independent Management Consultant, a copy of whose report shall be filed with the Master Trustee:

(1) is in the best interest of the Company;

(2) does not materially adversely affect the Holder of any Note;

(3) provided that, with respect to each applicable series of Related Bonds, a Favorable Opinion of Bond Counsel acceptable to the Master Trustee, and on which the

Master Trustee may conclusively rely, to the effect that the amendment proposed to be adopted by such Supplemental Master Indenture will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on such Related Bonds otherwise entitled to such exclusion, or the qualification as “qualified school construction bonds” or “qualified zone academy bonds”; and

(4) provided that, no such amendment, directly or indirectly, shall (A) change the provisions of this clause (l), (B) make any modification of the type described in Section 802 hereof, or (C) make a modification intended to subordinate the right to payment of a Holder of any Note to the right of payment of any Holder of any other Note or any other Debt;

(m) to make any amendment to any provision of this Master Indenture or to any supplemental master indenture which is only applicable to Notes issued thereafter or which will not apply so long as any Notes then Outstanding remains Outstanding;

(n) subject to the provisions of Section 713 hereof modify, alter, amend or supplement the Deed of Trust to effect the sale of certain real property securing the Deed of Trust and the substitution of such property securing the Notes; and

(o) to modify, eliminate or add to the provisions of this Master Indenture if the Master Trustee shall have received (1) written confirmation from each Rating Service that such change will not result in a withdrawal or reduction of its credit rating assigned to any series of Notes or Related Bonds, as the case may be, and (2) a Board Resolution to the effect that, in the judgment of the Company, such change is necessary to permit the Company to affiliate or merge with one or more other charter schools on acceptable terms and such change and affirmation are in the best interests of the Holders of the Outstanding Notes and (3) a Favorable Opinion of Bond Counsel.

Section 802. Supplemental Master Indentures With Consent of Holders of Notes.

(a) With the consent of the Capital One and if Capital One is no longer the owner of any Related Bond, then with the consent of the Holders of not less than a majority in principal amount of the Outstanding Notes, by Act of said Holders delivered to the Company and the Master Trustee, the Company, when authorized by a Board Resolution, and the Master Trustee may enter into or consent to an indenture or indentures supplemental hereto (subject to Section 803 hereof) for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Master Indenture or of modifying in any manner the rights of the Holders of the Notes under this Master Indenture; provided, however, that no such Supplemental Master Indenture shall, without the consent of the Holder of each Outstanding Note affected thereby:

(1) change the Stated Maturity of the principal of, or any installment of interest on, any Notes or any date for mandatory redemption thereof, or reduce the principal amount thereof or the interest thereon or any premium payable upon the redemption thereof, or change the coin or currency in which, any Notes or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such

payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the redemption date); or

(2) reduce the percentage in principal amount of the Outstanding Notes, the consent of whose Holders is required for any such supplemental master indenture, or the consent of whose Holders is required for any waiver (of compliance with certain provisions of this Master Indenture or certain defaults hereunder and their consequences) provided for in this Master Indenture; or

(3) modify any of the provisions of this Section or Section 613, except to increase any such percentage or to provide that certain other provisions of this Master Indenture cannot be modified or waived without the consent of the Holder of each Note affected thereby; or

(4) effect any modification or amendment, or permit the creation of any lien on Adjusted Revenues or other assets pledged under this Master Indenture prior to or on a parity with the senior lien created by this Master Indenture, or deprive the Holders of the Notes of the senior lien created by this Master Indenture on such Adjusted Revenues and other assets (except as expressly provided in this Master Indenture); or

(5) modify the subordination of the Subordinate Debt to the Notes while the Notes are Outstanding or the prohibition against securing any Subordinate Debt with a lien on any Collateral under any Deed of Trust.

(b) It shall not be necessary for any Act of Holders of Notes under this Section to approve the particular form of any proposed Supplemental Master Indenture, but it shall be sufficient if such Act of Holders of Notes shall approve the substance thereof, as presented in written form to the Holders of the Notes by the Company.

Section 803. Execution of Supplemental Master Indentures. In executing, or accepting the additional trusts created by, any Supplemental Master Indenture permitted by this Article or the modifications thereby of the trusts created by this Master Indenture, the Master Trustee shall receive, and (subject to Section 701) shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such Supplemental Master Indenture or consent is authorized or permitted by this Master Indenture. The Master Trustee may, but shall not (except to the extent required in the case of a Supplemental Master Indenture entered into under Section 801(d)) be obligated to, enter into any such Supplemental Master Indenture or consent which affects the Master Trustee's own rights, duties or immunities under this Master Indenture or otherwise.

Section 804. Effect of Supplemental Master Indentures. Upon the execution of any Supplemental Master Indenture under this Article, this Master Indenture shall, with respect to each series of Notes to which such Supplemental Master Indenture applies, be modified in accordance therewith, and such Supplemental Master Indenture shall form a part of this Master Indenture for all purposes, and every Holder of Notes thereafter or theretofore authenticated and delivered hereunder shall be bound thereby.

Section 805. Notes May Bear Notation of Changes. Notes authenticated and delivered after the execution of any Supplemental Master Indenture pursuant to this Article may bear a notation in form approved by the Master Trustee as to any matter provided for in such Supplemental Master Indenture. If the Company or the Master Trustee shall so determine, new Notes so modified as to conform, in the opinion of the Master Trustee and the Company, to any such Supplemental Master Indenture may be prepared and executed by the Company and authenticated and delivered by the Master Trustee in exchange for Notes then Outstanding.

Section 806. Reserved.

ARTICLE IX

SATISFACTION AND DISCHARGE OF MASTER INDENTURE

Section 901. Satisfaction and Discharge of Master Indenture.

(a) If at any time the Company shall have paid or caused to be paid the principal of (and premium, if any) and interest and all other amounts due and owing on all the Notes Outstanding hereunder, as and when the same shall have become due and payable, and if the Company shall also pay or provide for the payment of all other sums payable hereunder by the Company and shall have paid all of the Master Trustee's fees and expenses pursuant to Section 707 hereof, then this Master Indenture shall cease to be of further effect (except as to (i) rights of registration of transfer and exchange, (ii) substitution of mutilated, defaced, or apparently destroyed, lost or stolen Notes, (iii) rights of Holders to receive payments of principal thereof (and premium, if any) and interest thereon and remaining obligations of the Company to make mandatory sinking fund payments, (iv) the rights, remaining obligations, if any, and immunities of the Master Trustee hereunder and (v) the rights of the Holders as beneficiaries hereof with respect to the property so deposited with the Master Trustee payable to all or any of them) and the Master Trustee, on the Request accompanied by an Officer's Certificate and an Opinion of Counsel to the effect that the conditions precedent to the satisfaction and discharge of this Master Indenture have been fulfilled and at the cost and expense of the Company, shall execute proper instruments acknowledging satisfaction of and discharging this Master Indenture; *provided however* that notwithstanding any of the foregoing or anything herein to the contrary, this Master Indenture shall not be discharged or defeased so long as any Related Bonds or Related Indentures remain outstanding pursuant to the terms thereof.

(b) Notwithstanding the satisfaction and discharge of this Master Indenture, the obligations of the Company to the Master Trustee under Section 707 and, if funds shall have been deposited with the Master Trustee pursuant to Section 902, the obligations of the Master Trustee under Section 903 and Section 404(f) shall survive.

Section 902. Notes Deemed Paid. Unless otherwise provided in the supplemental master indenture establishing any such series of Notes, Notes of any series shall be deemed to have been paid if:

(a) in case said Notes are to be redeemed on any date prior to their Stated Maturity, the Company by Request shall have given to the Master Trustee in form satisfactory to it irrevocable instructions to give notice of redemption of such Notes on said redemption date;

(b) there shall have been deposited with the Master Trustee either money sufficient, or Defeasance Obligations the principal of and the interest on which will provide money sufficient without reinvestment (as established by an Officer's Certificate delivered to the Master Trustee accompanied by a report of an Independent Accountant setting forth the calculations upon which such Officer's Certificate is based), to pay when due the principal of (and premium, if any) and interest due and to become due on said Notes on and prior to the Maturity thereof;

(c) in the event said Notes are not by their terms subject to redemption within the next 45 days, the Company by Request shall have given the Master Trustee in form satisfactory to it irrevocable instructions to give a notice to the Holders of such Notes that the deposit required by clause (b) of this Section 902 above has been made with the Master Trustee and that said Notes are deemed to have been paid in accordance with this Section and stating such Maturity date upon which moneys are to be available for the payment of the principal of (and premium, if any) and interest on said Notes.

Notwithstanding anything in this Section 902 to the contrary, Notes of a series under this Master Indenture shall not be deemed to be paid so long as the Related Bonds or the Related Indentures remain outstanding pursuant to the terms thereof.


Section 903. Application of Trust Money. The Defeasance Obligations and money deposited with the Master Trustee pursuant to Section 902 and principal or interest payments on any such Defeasance Obligations shall be held in trust, shall not be sold or reinvested, and shall be applied by it, in accordance with the provisions of the Notes and this Master Indenture, to the payment, either directly or through any Paying Agent as the Master Trustee may determine, to the Persons entitled thereto, of the principal (and premium, if any) and interest for whose payment such money or Defeasance Obligations were deposited; provided that, upon delivery to the Master Trustee of an Officer's Certificate (accompanied by the report of an Independent Accountant setting forth the calculations upon which such Officer's Certificate is based) establishing that the money and Defeasance Obligations on deposit following the taking of the proposed action will be sufficient for the purposes described in subsection (b) of Section 902, any money received from principal or interest payments on Defeasance Obligations deposited with the Master Trustee or the proceeds of any sale of such Defeasance Obligations, if not then needed for such purpose, shall, upon Request be reinvested in other Defeasance Obligations or disposed of as requested by the Company. For purposes of any calculation required by this Article, any Defeasance Obligation which is subject to redemption at the option of its issuer, the redemption date for which has not been irrevocably established as of the date of such calculation, shall be assumed to cease to bear interest at the earliest date on which such obligation may be redeemed at the option of the issuer thereof and the principal of such obligation shall be assumed to be received at its Stated Maturity.

Notwithstanding anything in this Article IX to the contrary, neither this Master Indenture nor any Notes shall be discharged, defeased or deemed to be paid so long as the Related Bonds or the Related Indentures remain outstanding pursuant to the terms thereof.

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.

YES PREP PUBLIC SCHOOLS INC.

By: 

Robert McBurnett
Chief Financial Officer

CAPITAL ONE, N.A., as Master Trustee


By: 
Colleen McCarthy
Assistant Vice President and Trust Officer

EXHIBIT A

| Debt Service Coverage Ratio for [Fiscal Year][Fiscal Quarter] ended | | |
|--|--|--------------|
| _____ , 20__ | | |
| | | |
| | Unrestricted Revenues | \$ |
| | Capital Campaign | \$ |
| | | |
| | Adjusted Revenues | \$ |
| | | |
| | Less: <i>Unrestricted Expenses</i> | \$ |
| | Plus: <i>Interest Expense</i> | \$ |
| | <i>Rental and Operating Leases</i> | \$ |
| | <i>Depreciation</i> | \$ |
| | | |
| | Cash Available for Debt Service | \$ |
| | | |
| Annual Debt Service Requirement as Defined by the MTI | | |
| | <i>Current Maturity of Debt</i> | \$ |
| | <i>Interest Expense</i> | \$ |
| | <i>Debt Service Charges</i> | \$ |
| | <i>Sinking Fund</i> | \$ |
| | <i>Installment Purchase Price</i> | \$ |
| | <i>Rental and Operating Leases</i> | \$ |
| | | |
| | Total Annual Debt Service Requirement | \$ |
| | | |
| Debt Service Coverage Ratio: | | |
| | <i>Cash Available for Debt Service</i> | \$ |
| | <i>Total Annual Debt Service Requirement</i> | \$ |
| | | |
| | | |
| | Requirement | 1.20x |
| | IN COMPLIANCE | [YES][NO] |

EXHIBIT B

PRO FORMA FINANCIAL TEST COMPLIANCE CERTIFICATE:

| | |
|---|--|
| <p>Capital One, N.A. 5444 Westheimer, Suite 700 Houston, Texas 77056 Attention: Scott Miller, Vice President Phone: (713) 212-5251 Fax: (855) 735-8388 E-mail: S.Miller@capitalone.com</p> | <p>Capital One, N.A. 201 St. Charles Avenue, 23rd Floor New Orleans, LA 70170 Attention: Colleen McCarthy, Assistant Vice President & Trust Officer 504-533-3406 (telephone) 504-533-3447 (fax) E-mail: colleen.mccarthy@capitalone.com</p> |
| <p>Capital One, N.A. 5444 Westheimer Rd., Suite 700 Houston, TX 77056 Attention: Sallye Cielencki, Senior Vice President Phone: (713) 212-5849 Fax: (855) 735-8388 E-mail: sallye.cielencki@capitalone.com</p> | |

Ladies and Gentlemen,

Reference is made to that certain **[DESCRIBE SUBORDINATION AGREEMENT]** dated _____, 20__ by and among **[SUBORDINATE LENDER]** (the “Subordinate Lender”), YES Prep Public Schools Inc. (“Company”) and Capital One, N.A. (the “Master Trustee”) dated as of June 1, 2015 (the “Subordination Agreement”) and the Amended and Restated Master Trust Indenture and Security Agreement between the Company and the Master Trustee dated as of June 1, 2015, as amended and supplemented (the “Master Indenture”).

All terms used in this certificate have the meanings given in the Subordination Agreement and the Master Indenture unless otherwise defined in this certificate.

Pursuant to the Subordination Agreement and the Master Indenture, the Company hereby provides the Master Trustee and Capital One (as defined in the Master Indenture) with:

(i) written notice that on _____, 20 (the “Proposed Date”) which date is not less than 30 days from the date hereof, the Company intends to make a **[Subordinate Debt Payment][Material Subordinate Payment][Material Change to Subordinate Debt]** with respect to the Subordinate Debt subject to the Subordination Agreement which is described as follows:

**[DESCRIBE [SUBORDINATE DEBT PAYMENT]
 [MATERIAL SUBORDINATE PAYMENT]
 [MATERIAL CHANGE TO SUBORDINATE DEBT]**

(ii) copies of the Subordinate Loan Agreement attached hereto as Attachment I are describing the relevant provisions of the **[Subordinate Debt Payment][Material Subordinate Payment][Material Change to Subordinate Debt]** and the details as to such **[Subordinate Debt Payment][Material Subordinate Payment][Material Change to Subordinate Debt]** (including sources and uses of funds therefor, if applicable or the terms of the Material Change to Subordinate Debt);

(iii) 1-year historical pro forma financial information of the Company attached hereto as Attachment II giving effect to the proposed **[Subordinate Debt Payment][Material Subordinate Payment][Material Change to Subordinate Debt]**; and

(iv) the financial statements of the Company, of and for the period ending on the Proposed Date, required to be delivered pursuant to Subordination Agreement and the Master Indenture (the “Current Financials”).

I, _____ of Company hereby certify on behalf of the Company that the following is true and correct:

1. No Event of Default or condition or event which after notice and/or lapse of time would constitute an Event of Default has occurred and is continuing under the Master Indenture.

2. All representations and warranties of the Company in the Master Indenture are true and correct and are deemed to be made on the date hereof.

3. The Current Financials are true, correct and complete as of the date and for the periods covered thereby and have been prepared in accordance with GAAP, and fairly present in all material respects the financial condition of the Company as of the date thereof and in a manner consistent with prior periods after giving effect to the proposed **[Subordinate Debt Payment][Material Subordinate Payment][Material Change to Subordinate Debt]** as of such date.

2. The Company is in full compliance with the Pro Forma Financial Tests calculated as of the Proposed Date, after giving effect to the proposed **[Subordinate Debt Payment][Material Subordinate Payment][Material Change to Subordinate Debt]**.

3. As of the Proposed Date above, the Company’s Debt Service Coverage Ratio after giving effect to the proposed **[Subordinate Debt Payment][Material Subordinate Payment][Material Change to Subordinate Debt]** is _____ to 1.00 which (select appropriate box)

satisfies

does not satisfy

the requirement that such ratio be greater than or equal to 1.20 to 1.00, measured as of the Proposed Date above for the immediately preceding consecutive twelve (12) months after giving effect to the proposed **[Subordinate Debt Payment][Material Subordinate Payment][Material Change to Subordinate Debt]**

Payment][Material Change to Subordinate Debt]. The calculations supporting such determination are set forth on Attachment III hereto and are true, correct and complete.

| FINANCIAL COVENANT | REQUIRED RATIO OR AMOUNT | ACTUAL RATIO OR AMOUNT |
|-----------------------------|-----------------------------|---------------------------|
| Debt Service Coverage Ratio | $\geq 1.20x$ | _____ |

4. As of the Proposed Date, the Company's Liquidity Ratio was _____ to 1.00 which (select appropriate box)

satisfies

does not satisfy

the requirement that such ratio be greater than or equal to 0.20 to 1.00, measured as of the Proposed Date for the immediately preceding consecutive twelve (12) months after giving effect to the proposed **[Subordinate Debt Payment][Material Subordinate Payment][Material Change to Subordinate Debt]**. The calculations supporting such determination are set forth on Attachment III hereto and are true, correct and complete.

| FINANCIAL COVENANT | REQUIRED RATIO OR AMOUNT | ACTUAL RATIO OR AMOUNT |
|--------------------|-----------------------------|---------------------------|
| Liquidity Ratio | $\geq 0.20x$ | _____ |

YES PREP PUBLIC SCHOOLS INC.

By: _____
Name: _____
Title: _____

Attachment III to Compliance Certificate

| A. Debt Service Coverage Ratio for [Fiscal Year][Fiscal Quarters] | | |
|---|--|--------------|
| ended _____, 20__ | | |
| | | |
| | Unrestricted Revenues | \$ |
| | Capital Campaign | \$ |
| | | |
| | Adjusted Revenues | \$ |
| | <i>Less: Unrestricted Expenses</i> | \$ |
| | <i>Plus: Interest Expense</i> | \$ |
| | <i>Rental and Operating Leases</i> | \$ |
| | <i>Depreciation</i> | \$ |
| | | |
| | Cash Available for Debt Service | \$ |
| | | |
| Annual Debt Service Requirement as Defined by the MASTER INDENTURE | | |
| | <i>Current Maturity of Debt</i> | \$ |
| | <i>Interest Expense</i> | \$ |
| | <i>Debt Service Charges</i> | \$ |
| | <i>Sinking Fund</i> | \$ |
| | <i>Installment Purchase Price</i> | \$ |
| | <i>Rental and Operating Leases</i> | \$ |
| | | |
| | Total Annual Debt Service Requirement | \$ |
| | | |
| Debt Service Coverage Ratio: | | |
| | <i>Cash Available for Debt Service</i> | \$ |
| | <i>Total Annual Debt Service Requirement</i> | \$ |
| | | |
| | | |
| | Requirement | 1.20x |
| | IN COMPLIANCE | [YES][NO] |

B. Liquidity Ratio

1. Aggregate amount of Operating Cash \$ _____
2. Aggregate amount of Bond Sinking Funds \$ _____
3. Aggregate amount of Investments \$ _____
4. Sum of Line B1 plus Line B2 plus Line B3 \$ _____

- | | | |
|----|---|--------|
| 5. | Aggregate amount of outstanding Funded Debt | _____ |
| 6. | Quotient of Line B4 divided by Line B5 | _____ |
| 7. | Line B7 must not be less than | 0.20 |
| 8. | The Company is in compliance (circle one) | Yes/No |

EXHIBIT C
FORM OF SUBORDINATION AGREEMENT

SUPPLEMENTAL MASTER TRUST INDENTURE NO. 19

Dated as of August 1, 2023

Between

YES PREP PUBLIC SCHOOLS INC.

and

HANCOCK WHITNEY BANK,
as Master Trustee

Supplemental to:

Master Trust Indenture
Dated as of June 1, 2015

In connection with the issuance of
Series 2023 Note

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Certificate of Authentication and Registration

SUPPLEMENTAL MASTER TRUST INDENTURE NO. 19

THIS SUPPLEMENTAL MASTER TRUST INDENTURE NO. 19, dated as of August 1, 2023 (this “*Supplemental Master Indenture*”), is between HANCOCK WHITNEY BANK, successor to Capital One, N.A., having a corporate trust office in Baton Rouge, Louisiana, as master trustee (the “*Master Trustee*”), and YES PREP PUBLIC SCHOOLS INC., a non-profit corporation organized and existing under the laws of the State of Texas (the “*Company*”), amending and supplementing the hereinafter referenced Original Master Indenture.

RECITALS:

WHEREAS, the Company entered into an Amended and Restated Master Trust Indenture, dated as of June 1, 2015 (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 has previously issued and there remain Outstanding its (i) Taxable Master Indenture Note (YES Prep Public Schools Inc.) Series 2010Q, dated March 23, 2010; (ii) Taxable Master Indenture Note (YES Prep Public Schools Inc.) Series 2010Z, dated March 23, 2010; (iii) Taxable Master Indenture Note (YES Prep Public Schools Inc.) Series 2011Z, dated July 28, 2011; (iv) Taxable Master Indenture Note (YES Prep Public Schools Inc.) Series 2012Z, dated October 10, 2012; (v) Tax-Exempt Master Indenture Note (YES Prep Public Schools Inc.) Series 2013, dated September 4, 2013; (vi) Qualified Zone Academy Bond Master Indenture Note (YES Prep Public Schools Inc.) Series 2015Z, dated June 15, 2015; (vii) Tax-Exempt Master Indenture Note (YES Prep Public Schools Inc.) Series 2015, dated December 7, 2015; (viii) Qualified Zone Academy Bond Master Indenture Note (YES Prep Public Schools Inc.) Series 2017Z, dated February 7, 2017; (ix) Tax-Exempt Master Indenture Note (YES Prep Public Schools Inc.) Series 2017A dated October 26, 2017; (x) Master Indenture Note (YES Prep Public Schools Inc.) Series 2017Z-1, dated October 26, 2017; (xi) Master Indenture Note (YES Prep Public Schools Inc.) Capital One Series 2018A dated July 31, 2018; (xii) Master Indenture Note (YES Prep Public Schools Inc.) Regions Series 2018B dated December 6, 2018; and (xiii) Master Indenture Note (YES Prep Public Schools Inc.) Regions Series 2019, dated July 23, 2019 (collectively, the “*Pre-Amendment Notes*”);

WHEREAS, the Company and the Master Trustee are authorized under Sections 201 and 801(h) of the Original Master Indenture, to amend or supplement the Original Master Indenture, subject to the terms and provisions contained therein, and to provide for the issuance of a series of Notes;

WHEREAS, the Company desires to enter into this Supplemental Master Indenture in order to provide for the issuance of a certain Note, as hereinafter described, to be secured under the Original Master Indenture, as previously amended and supplemented and as amended and supplemented hereby (as so amended and supplemented, the “*Master Indenture*”) and to make certain amendments to the Original Master Indenture; and

WHEREAS, the Company deems it desirable to issue its Tax-Exempt Master Indenture Note (YES Prep Public Schools Inc.) Series 2023 (the “**Series 2023 Note**”) entitled to the security of the Master Indenture in the original principal amount of \$83,220,000, and to deliver such Series 2023 Note to the Clifton Higher Education Finance Corporation (the “**Issuer**”) in order to evidence and secure the obligations of the Company under the Loan Agreement (the “**Agreement**”) between the Company and the Issuer, dated as of August 1, 2023, relating to the Issuer’s Education Revenue Bonds (YES Prep Public Schools Inc.) Series 2023 (the “**Series 2023 Bonds**”), issued pursuant to a Trust Indenture and Security Agreement (the “**Bond Indenture**), dated as of August 1, 2023, between the Issuer and Hancock Whitney Bank, as trustee (in such capacity, the “**Bond Trustee**”); and

WHEREAS, all acts and things necessary to make the Series 2023 Note authorized by this Supplemental Master Indenture, when executed by the Company and authenticated and delivered by the Master Trustee as provided in the Original Master Indenture and this Supplemental Master Indenture, the valid, binding and legal obligations of the Company and to constitute these presents, together with the Original Master Indenture, a valid indenture and agreement according to its terms, have been done and performed, and the execution of this Supplemental Master Indenture and the issuance of the Series 2023 Note authorized by this Supplemental Master Indenture have in all respects been duly authorized;

WHEREAS, pursuant to Section 801(m) of the Original Master Indenture, the Company desires to amend the Original Master Indenture to eliminate the Collateral Value and corresponding appraisal requirements of Section 212(a)(8) of the Original Master Indenture, effective the date the Pre-Amendment Notes are no longer Outstanding;

NOW, THEREFORE, in order to declare the terms and conditions upon which the Series 2023 Note authorized hereby are authenticated, issued and delivered, and in consideration of the premises and the acquisition and acceptance of the Series 2023 Note by the Holders thereof, and in consideration of the mutual covenants, conditions and agreements which follow, the Company covenants and agrees with the Master Trustee as follows:

ARTICLE I

DEFINITIONS

Section 101. Definitions of Words and Terms. Words and terms used in this Supplemental Master Indenture and not otherwise defined herein shall, except as otherwise stated, have the meanings assigned to them in the Original Master Indenture. The following terms have the meanings assigned to them below whenever they are used in this Supplemental Master Indenture:

“**Pre-Amendment Notes**” means the Outstanding Notes of the Company as of the date of the Series 2023 Note, including, particularly, the Company’s Taxable Master Indenture Note (YES Prep Public Schools Inc.) Series 2010Q, dated March 23, 2010; (ii) Taxable Master Indenture Note (YES Prep Public Schools Inc.) Series 2010Z, dated March 23, 2010; (iii) Taxable Master Indenture Note (YES Prep Public Schools Inc.) Series 2011Z, dated July 28, 2011; (iv) Taxable Master Indenture Note (YES Prep Public Schools Inc.) Series 2012Z, dated October 10, 2012; (v)

Tax-Exempt Master Indenture Note (YES Prep Public Schools Inc.) Series 2013, dated September 4, 2013; (vi) Qualified Zone Academy Bond Master Indenture Note (YES Prep Public Schools Inc.) Series 2015Z, dated June 15, 2015; (vii) Tax-Exempt Master Indenture Note (YES Prep Public Schools Inc.) Series 2015, dated December 7, 2015; (viii) Qualified Zone Academy Bond Master Indenture Note (YES Prep Public Schools Inc.) Series 2017Z, dated February 7, 2017; (ix) Tax-Exempt Master Indenture Note (YES Prep Public Schools Inc.) Series 2017A dated October 26, 2017; (x) Master Indenture Note (YES Prep Public Schools Inc.) Series 2017Z-1, dated October 26, 2017; (xi) Master Indenture Note (YES Prep Public Schools Inc.) Capital One Series 2018A dated July 31, 2018; (xii) Master Indenture Note (YES Prep Public Schools Inc.) Regions Series 2018B dated December 6, 2018; and (xiii) Master Indenture Note (YES Prep Public Schools Inc.) Regions Series 2019, dated July 23, 2019.

ARTICLE II

THE SERIES 2023 NOTE

Section 201. Authorization of Series 2023 Note. There is hereby created and authorized to be issued hereunder a Note, described as follows: “Tax-Exempt Master Indenture Note (YES Prep Public Schools Inc.) Series 2023” in the aggregate original principal amount of \$83,220,000 dated August 1, 2023, issued by the Company to the Issuer. The Master Indenture Note (YES Prep Public Schools Inc.) Series 2023 Note shall initially be issued and registered in the name of the Issuer, and then endorsed by the Issuer to the order of and registered in the name of the Bond Trustee, or its successors or assigns, and shall be executed, authenticated and delivered in accordance with Article II of the Original Master Indenture.

Section 202. Form of Series 2023 Note. The Series 2023 Note shall be issued as single, fully-registered promissory note, in substantially the form set forth in Exhibit “A” hereto.

Section 203. Payments on Series 2023 Note. The principal of the Series 2023 Note shall be payable in the amounts and on the dates, and each of the unpaid installments of principal shall bear interest from the date of such Series 2023 Note at the rate, and such Series 2023 Note shall have such other terms and provisions as are set forth in or incorporated by reference from the Agreement.

Section 204. Credits on Series 2023 Note.

(a) The Company shall receive a credit against amounts due on the Series 2023 Note on any payment date equal to the amounts paid as principal of (and premium, if any) or interest on the Series 2023 Bonds on such payment date, including a credit against any mandatory sinking fund redemption payments.

(b) Notwithstanding the provisions of subsection (a) above or any other provision herein or in the Original Master Indenture, if any payment on or with respect to the Series 2023 Bonds shall have been made by or on behalf of the Company and, by reason of bankruptcy or other act of insolvency, such payment shall be deemed to be a preferential payment, and the Bond Trustee shall be required by a court of competent jurisdiction to surrender such payment, any credit on the Series 2023 Note that may have been given as a result of such payment shall be rescinded,

and the amount owing on the Series 2023 Note shall be calculated as if such payment shall not have been made.

Section 205. Interest on Overdue Installments. The Series 2023 Note shall bear interest on overdue installments of principal (premium, if any), and interest, to the extent permitted by law, at a rate equal to the applicable interest rate or rates borne by the Series 2023 Bonds.

Section 206. Registration, Transfer and Exchange. The Series 2023 Note shall be transferred or exchanged pursuant to Section 205 of the Original Master Indenture.

Section 207. Related Deed of Trust. The Fifteenth Supplement to Deed of Trust and Security Agreement (With Assignment of Rents and Leases) dated as of August 9, 2023 filed in the Official Public Records of Harris County, as amended, restated, supplemented and/or otherwise modified, is made subject to the Trust Estate of the Master Indenture and secures all Notes under the Master Indenture, including the Series 2023 Note and is deemed a Deed of Trust and a Related Deed of Trust under the Master Indenture.

ARTICLE III

REDEMPTION OR REDUCTION OF SERIES 2023 NOTE; SATISFACTION AND RELEASE

Section 301. Redemption. The Series 2023 Note shall be subject to redemption prior to Stated Maturity, to the extent and with respect to the corresponding redemption of the Series 2023 Bonds 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 Series 2023 Note and the same shall thereby become due and payable on the redemption date of the Bonds or at such earlier time as payment is required with respect thereto pursuant to the terms of the Bond Indenture.

Section 302. Partial Redemption or Reduction. In the event of a partial redemption of the Series 2023 Note pursuant to Section 301 hereof, the amount of the principal and interest on such Series 2023 Note becoming due after such redemption shall, to the extent appropriate, be adjusted so that the installments of principal and interest thereafter due on the Series 2023 Note correspond to the payments of the principal of and interest on the Outstanding Series 2023 Bonds.

Section 303. Effect of Call for Prepayment or Redemption. On the date designated for prepayment or redemption by notice as herein provided, the Series 2023 Note or the portion thereof so called for prepayment or redemption shall become and be due and payable at the prepayment or redemption price provided for prepayments or redemption of such Series 2023 Note or portion thereof on such date. If on the date fixed for prepayment or redemption, moneys for payment of the prepayment or redemption price and accrued interest on the Series 2023 Note are held by the Master Trustee or the Bond Trustee, (i) interest on the Series 2023 Note or portion thereof so called for prepayment or redemption shall cease to accrue, (ii) such Series 2023 Note or portion thereof shall cease to be entitled to any benefit or security hereunder except the right to receive payment from the money held by the Master Trustee or the Bond Trustee and (iii) the amount of such Series

2023 Note or portion thereof so called for prepayment or redemption shall be deemed paid and no longer outstanding.

Section 304. Satisfaction and Release. The Company's obligations with respect to the Series 2023 Note shall be considered satisfied, and the Master Trustee shall release this Supplemental Master Indenture with respect thereto, when all amounts due and owing on the Series 2023 Bonds have been paid or deemed paid under the Bond Indenture.

ARTICLE IV

REPRESENTATIONS, WARRANTIES AND COVENANTS

Section 401. Representations and Warranties. The Company represents and warrants that (a) it is duly authorized under the laws of the State of Texas and all other applicable provisions of law to execute this Supplemental Master Indenture and to issue the Series 2023 Note, (b) all corporate action on the part of the Company required by its organizational documents and the Original Master Indenture to establish this Supplemental Master Indenture as the binding obligation of the Company has been duly and effectively taken, and (c) all such action so required for the authorization and issuance of the Series 2023 Note has been duly and effectively taken.

Section 402. Covenants under the Original Master Indenture and Related Bond Documents. The Company covenants and agrees that so long as any portion of the Series 2023 Note remains 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 Series 2023 Note, and the Company hereby confirms its covenants and agrees with its undertakings in the Master Indenture.

ARTICLE V

AMENDMENTS TO ORIGINAL MASTER INDENTURE

Section 501. Amendments to Original Master Indenture.

(a) Pursuant to Section 801(m) of the Original Master Indenture, effective upon the date the Pre-Amendment Notes are no longer Outstanding, the Original Master Indenture is hereby amended as follows:

(1) Section 101 of the Original Master Indenture is hereby amended to delete the definitions of the following terms: "Cash Collateral" and "Collateral Value".

(2) Section 212(a)(8) of the Original Master Indenture is hereby deleted in its entirety.

(3) Section 408(b) of the Original Master Indenture is hereby amended as follows:

“(b) Immediately upon receipt of any payments to the Master Trustee for deposit into the Insurance and Condemnation Fund, the Master Trustee shall transfer such amounts to the Related Bond Trustee in accordance with the Related Indenture and Related Loan Documents to which such insurance or condemnation proceeds relate for use pursuant to such Related Loan Documents for such Related Project or the redemption of Related Bonds as set forth in any Related Indenture and Related Loan Documents.”

(4) Section 713(5) of the Original Master Indenture is hereby amended as follows:

“(5) evidence satisfactory to the Master Trustee that the Appraised Value of the Collateral following the substitution or release or addition of property will be greater than or equal to the aggregate principal amount of all Notes that will be Outstanding hereunder following the release or substitution or addition;”

Section 502. Consent to Amendments. The Holder of the Series 2023 Note and 100% of the Bondholders by their purchase of the Bonds consent to and accept the amendments to the Original Master Indenture set forth in this Article.

ARTICLE VI

MISCELLANEOUS PROVISIONS

Section 601. 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 Master Trustee at the following address:

Hancock Whitney Bank
445 North Blvd, Suite 201
Baton Rouge, Louisiana 70802
Attention: Corporate Trust

The Master Trustee will be deemed to have received notice upon receipt of such notice by the Responsible Officer of the Master Trustee.

Section 602. 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 603. Limitation of Rights. Nothing in this Supplemental Master Indenture or in the Series 2023 Note, express or implied, shall give or be construed to give any Person other than

the Company, the Master Trustee and the respective registered Holders of the Series 2023 Note or their assigns, any legal or equitable right, remedy or claim under or in respect of this Supplemental Master Indenture, or under any covenant, condition and provision herein contained, all its covenants, conditions and provisions being for the sole benefit of the Company, the Master Trustee and of the respective Holders of the Series 2023 Note.

Section 604. 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 605. 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 606. Execution in Counterparts. This Supplemental Master Indenture may be executed in any number of counterparts, each of which shall be an original; and all of which shall together constitute but one and the same instrument.

Section 607. 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 608. Texas Education Code Section 12.128. Property purchased or leased by the Company with State Revenues is subject to Section 12.128, Texas Education Code.

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.

YES PREP PUBLIC SCHOOLS INC.

By: _____
Chief Financial Officer

HANCOCK WHITNEY BANK,
as Master Trustee

By: _____
Name:
Title:

EXHIBIT A

FORM OF TAX-EXEMPT MASTER INDENTURE NOTE

THIS NOTE HAS NOT BEEN REGISTERED UNDER
THE SECURITIES ACT OF 1933, AS AMENDED

| | | |
|-------------------------|--|----------------------------|
| Registered No. MRA-1 | UNITED STATES OF AMERICA STATE OF TEXAS | Registered \$83,220,000 |
|-------------------------|--|----------------------------|

Interest Rate: AS SET FORTH HEREIN

Maturity Date: April 1, 2053

Issue Date: August 9, 2023

Registered Holder: CLIFTON HIGHER EDUCATION FINANCE CORPORATION

Principal Amount: EIGHTY THREE MILLION TWO HUNDRED TWENTY THOUSAND
DOLLARS]

YES Prep Public Schools Inc., a Texas non-profit corporation (the “*Company*”), for value received, hereby promises to pay to the Holder named above, or registered assigns, the Principal Amount set forth above. The Company also promises to pay interest hereon from the Issue Date set forth above, or from the Interest Payment Date (as defined in the Indenture) to which interest has been paid or duly provided for, and on such other dates as may be required by the Loan Agreement referenced below until the principal hereof is paid or made available for payment. Principal of (and premium, if any) and interest on this Note are payable at the times and in the amounts described in Article IV of the Loan Agreement referred to below. The Company also promises to pay to the Holder hereof the obligations of the Company described in Section 4.1 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 (YES Prep Public Schools Inc.) Series 2023” (this Note, together with all other Note issued and secured under the Master Indenture, referred to collectively as the “*Notes*”) issued under and pursuant to the Amended and Restated Master Trust Indenture and Security Agreement, dated as of June 1, 2015, between the Company, acting in its own behalf, and Capital One, N.A., predecessor to Hancock Whitney Bank, as master trustee (the “*Master Trustee*”), as supplemented, including the Supplemental Master Trust Indenture No. 19, dated as of August 1, 2023, 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 August 1, 2023 (the “*Loan Agreement*”), entered into between the Company and the Clifton Higher Education Finance Corporation (the “*Issuer*”) in connection with the issuance and sale of revenue bonds of the Issuer in the principal amount of \$83,220,000 designated Education Revenue Bonds (YES Prep Public Schools Inc.) Series 2023 (the “*Series 2023 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 August 1, 2023 (the “*Indenture*”), between the Issuer and Hancock Whitney Bank, as trustee (the “*Bond Trustee*”).

It is provided in the Master Indenture that the Company has and may hereafter issue additional Notes from time to time, and if issued, such additional Notes will rank pari passu with this Note and all other Notes heretofore or hereafter issued under the Master Indenture, except as otherwise provided in the Supplemental Master Indenture authorizing such Note and Master Indenture.

Copies of the Master Indenture, the Indenture and the Loan Agreement are on file at the Corporate Trust Office of the Master Trustee and reference is hereby made to the Master Indenture, the Indenture and the Loan Agreement for the provisions, among others, with respect to the nature and extent of the security for and the rights of the registered Holders of this Note, the terms and conditions on which, and purposes for which, this Note is issued and the rights, duties and obligations of the Company and the Master Trustee under the Master Indenture, to all of which the Holder hereof, by acceptance of this Note assents. The Master Indenture may be modified, amended or supplemented only to the extent and under the circumstances permitted by, and subject to the terms and conditions of, the Master Indenture.

2. Payment. Interest on this Note which is payable, and is to be punctually paid or duly provided for, on each 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 of this Note 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 Holder of this Note not less than 10 days prior to such special record date.

Interest on this Note shall be paid to the Holder of this Note at its address as it appears on the registration books of the Master Trustee by wire transfer of immediately available funds or in such other manner as may be mutually acceptable to the Master 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 Baton Rouge, Louisiana (the “*Place of Payment*”) upon the surrender for cancellation of this Note.

If the specified date for any such payment shall be a Saturday, a Sunday or a legal holiday or the equivalent for banking institutions generally (other than legal moratorium) at the place where payment thereof is to be made, then such payment may be made on the next succeeding day which is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payment. All such payments shall be made in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts.

3. Redemption. This Note is subject to redemption only in connection with the redemption of a related amount of Series 2023 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 designated payment office of the Master Trustee, but only to a successor Bond Trustee for the Bondholders (as defined in the Bond Indenture) 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 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 2023 Bonds.

With the consent of the Holders of not less than a majority in principal amount of the Outstanding Notes (as defined in the Master Indenture), by Act of said Holders delivered to the Company and the Master Trustee, the Company, when authorized by a Board Resolution, and the Master Trustee may enter into or consent to an indenture or indentures supplemental to the Master Indenture (subject to Section 802 of the Master Indenture) for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Master Indenture or of modifying in any manner the rights of the Holders of the Notes under the Master Indenture; provided, however, that no such supplemental 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 the Master Indenture; or

(iii) modify any of the provisions of Section 801 or Section 613 of the Master Indenture, except to increase any such percentage or to provide that certain other provisions of the Master Indenture cannot be modified or waived without the consent of the Holder of each Note affected thereby.

No reference herein to the Master Indenture and no provision of this Note or of the Master Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of this Note at the times, place, and rate, and in the coin or currency, herein prescribed from the sources herein described.

8. Usury. In no event shall the amount of interest (as defined and calculated in accordance with applicable law) contracted for, charged, reserved, received or taken in connection with the loan exceed the amount of interest which could have been contracted for, charged, reserved, received or taken at the Highest Lawful Rate as defined in the Loan Agreement. If the applicable law is ever judicially interpreted so as to render usurious any amount contracted for, charged, reserved, received or taken in connection with the loan, or if the exercise of the option contained in the Master Indenture or otherwise to accelerate the maturity of the loan or if any prepayment of the loan by the Company results in there having been paid or received any interest in excess of that permitted by applicable law, then notwithstanding anything to the contrary contained in the Bond Documents, the Loan Agreement 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 Loan Agreement 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.

YES PREP PUBLIC SCHOOLS INC.

By: _____
Chief Financial Officer

ASSIGNMENT

For value received, the undersigned hereby assigns to Hancock Whitney Bank, as Bond Trustee (the “*Trustee*”) under a Trust Indenture and Security Agreement dated as of August 1, 2023 between the Bond Trustee and the undersigned, the within Note and all its rights thereunder without recourse or warranty, except warranty of good title and warranty that the Issuer has not assigned this Note to a person other than the Bond Trustee and that the principal amount remains unpaid under this Note.

CLIFTON HIGHER EDUCATION FINANCE
CORPORATION

By: _____
Vice President, 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:

HANCOCK WHITNEY BANK,
as Master Trustee

By: _____
Authorized Signature

Consent of Capital One

The undersigned, an authorized representative of Capital One, N.A., and Capital One Municipal Funding, Inc., the Holders of certain Outstanding Notes, hereby consent to the provisions of this Supplemental Master Indenture.

CAPITAL ONE, N.A.

By: _____

Name: _____

Title: _____

APPENDIX G

SUBSTANTIALLY FINAL FORM OF THE BOND INDENTURE

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TRUST INDENTURE AND SECURITY AGREEMENT

between

CLIFTON HIGHER EDUCATION FINANCE CORPORATION

and

HANCOCK WHITNEY BANK,
as Trustee

relating to

\$83,220,000
CLIFTON HIGHER EDUCATION FINANCE CORPORATION
EDUCATION REVENUE BONDS
(YES PREP PUBLIC SCHOOLS INC.)
SERIES 2023

Dated as of

August 1, 2023

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TRUST INDENTURE AND SECURITY AGREEMENT

THIS TRUST INDENTURE AND SECURITY AGREEMENT (this “Indenture”), dated as of August 1, 2023, is between the **CLIFTON HIGHER EDUCATION FINANCE CORPORATION**, a non-profit corporation created and existing under the Act (the “Issuer”), and **HANCOCK WHITNEY BANK**, with a corporate trust office in Baton Rouge, Louisiana, not in its individual capacity but solely as Trustee (the “Trustee”).

WITNESSETH:

WHEREAS, the City of Clifton, Texas (the “City”), a political subdivision of the State of Texas (the “State”), has, pursuant to Chapter 53 of the Texas Education 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 of the City (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 City, is empowered to issue its revenue bonds in order to enable an accredited or authorized charter school to finance or refinance the acquisition, construction, enlargement, extension, repair, renovation, or other improvements to an educational or housing facility or any facilities incidental, subordinate, or related thereto or appropriate in connection therewith, or for acquiring land to be used for those purposes, or to create operating and debt service reserves for and to pay issuance costs related to such bonds;

WHEREAS, in furtherance of the purposes of the Act, the Issuer proposes to issue its revenue bonds pursuant to a Board Resolution of the Issuer authorizing the issuance of the Bonds and this Indenture, which will be designated “\$83,220,000 Clifton Higher Education Finance Corporation Education Revenue Bonds (YES Prep Public Schools Inc.) Series 2023” (the “Bonds”) the proceeds of which will be loaned to the YES Prep Public Schools Inc. (the “Company”) to be used to (i) finance and refinance the costs of acquiring, constructing, equipping and renovating certain “educational facilities” (as that term is defined in the Act) and facilities incidental, subordinate or related thereto or appropriate in connection therewith and (ii) pay the costs of issuing the Bonds;

WHEREAS, the Issuer and the Company have entered into a Loan Agreement, dated as of even date herewith (the “Agreement”), providing for (i) a loan from the Issuer to the Company (as defined herein) of the proceeds of the sale of the Bonds, and (ii) the repayment of such loan by the Company;

WHEREAS, contemporaneously with the execution and delivery of this Indenture, the parties to the Bond Documents (as defined herein) have executed and delivered the other Bond Documents for the purposes of effecting the issuance of the Bonds, furthering the public purposes of the Act, and securing to the Bondholders the payment of the Bond Obligations (as defined herein);

WHEREAS, all things necessary to make the Bonds, when issued, executed and delivered by the Issuer and authenticated by the Trustee pursuant to this Indenture, the valid, legal and binding limited obligations of the Issuer, and to constitute this Indenture a valid pledge of certain income, revenues and assets derived from the proceeds of the Bonds and from the Agreement for the payment of the Bond Obligations have been performed, and the execution and delivery of this Indenture, and the creation, execution and issuance of the Bonds subject to the terms hereof, have in all respects been duly authorized; and

NOW THEREFORE, in consideration of the premises and other good and valuable consideration and the mutual benefits, covenants and agreements set forth below, the parties agree as follows:

GRANTING CLAUSES

NOW, THEREFORE, THIS INDENTURE WITNESSETH, that to secure the payment of the Bond Obligations and the performance of the covenants herein contained and to declare the terms and conditions on which the Outstanding Bonds are secured, and in consideration of the premises, of the purchase of the Bonds by the Bondholders thereof, and for other good and valuable consideration, the receipt and sufficiency of all of which are hereby acknowledged, the Issuer by these presents does grant, bargain, sell, alien, remise, release, convey, assign, transfer, mortgage, hypothecate, pledge, set over, and confirm to the Trustee, forever, all and singular the following described properties, and 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 Series 2023 Note, any and all security heretofore or hereafter granted or held for the payment thereof, and the present and continuing right to bring actions and proceedings under the Agreement or for the enforcement thereof and to do any and all things which the Issuer is or may become entitled to do thereunder, but excluding the amounts agreed to be paid by the Company pursuant to Sections 4.6, 5.1 and 5.6 of the Agreement (the “Issuer’s Unassigned Rights”); and

GRANTING CLAUSE SECOND

All right, title, and interest of the Issuer in and to all money and investments held for the credit of the funds and accounts established by or under this Indenture (except the Rebate Fund) as hereinafter described; and

GRANTING CLAUSE THIRD

Any and all property that may, from time to time hereafter, by delivery or by writing of any kind, be subjected to the lien and security interest hereof by the Issuer or by anyone on its behalf (and the Trustee is hereby authorized to receive the same at any time as additional security hereunder), which subjection to the lien and security interest hereof of any such property as additional security may be made subject to any reservations,

limitations, or conditions that shall be set forth in a written instrument executed by the Issuer or the Person so acting 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 Bondholders from time to time of the Outstanding Bonds without any priority of any such Bonds over any other such Bonds except as herein otherwise expressly provided;

UPON CONDITION that, if the Issuer, or its successors or assigns shall well and truly pay, or cause to be paid, the principal of (and premium, if any) and interest on the Bonds according to the true intent and meaning thereof, or there shall be deposited with the Trustee such amounts in such form in order that no Bonds shall remain Outstanding as herein defined and provided, and shall pay or cause to be paid to the Trustee all sums of money due or to become due to it in accordance with the terms and provisions of the Bond Documents, then upon the full and final payment of all such sums and amounts secured hereby or upon such deposit, this Indenture and the rights, titles, liens, security interests, and assignments herein granted shall cease, determine, and be void and this grant shall be released by the Trustee in due form at the expense of the Issuer, except only as herein provided; otherwise this grant to be and shall remain in full force and effect;

AND IT IS HEREBY COVENANTED AND DECLARED that all Bonds are to be authenticated and delivered and the Trust Estate is to be held and applied by the Trustee, subject to the further covenants, conditions, and trusts hereinafter set forth, and the Issuer does hereby covenant and agree to and with the Trustee, for the equal and proportionate benefit of all Bondholders, except as herein otherwise expressly provided, as follows:

ARTICLE I

DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

Section 101. Construction of Terms; Definitions.

(a) For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

(1) “Indenture” means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof.

(2) All references in this instrument to designated “Articles”, “Sections” and other subdivisions are to the designated Articles, Sections and other subdivisions of this instrument as originally executed. The words “herein”, “hereof” and “hereunder” and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

(3) The terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular. Terms used herein but defined only in the Agreement have the meanings assigned to them in the Agreement. Reference to any Bond Document means that Bond Document as amended or supplemented from time to time. Reference to any party to a Bond Document means that party and its successors and assigns.

(b) The following terms have the meanings assigned to them below whenever they are used in this Indenture except to the extent otherwise defined in Exhibits A or B hereto:

“Act” means Chapter 53 of the Texas Education Code, including particularly Sections 53.35(b) and Section 53.48 of such Chapter.

“Agreement” means the Loan Agreement, dated as of the date of this Indenture, between the Issuer and the Company relating to the loan of the proceeds of the Bonds.

“Authenticating Agent” means the Person designated pursuant to Section 812 hereof to perform the duties of such set forth in this Indenture, initially the Trustee.

“Authorized Denominations” means, with respect to the Bonds, \$5,000 and any integral multiple thereof.

“Authorized Representative” means the Chair of the Board of Directors of the Company, the Chief Executive Officer, the Chief Financial Officer, or any other person duly appointed by the Governing Body of the Company to act on behalf of the Company.

“Bankruptcy Code” means Title 11 of the United States Code, as amended from time to time.

“Board Resolution” of any specified Person means a copy of a resolution certified by the Person responsible for maintaining the records of the Governing Body of such Person to have been duly adopted by the Governing Body of such Person and to be in full force and effect on the date of such certification and delivered to the Trustee.

“Bond Counsel” means an attorney or firm of attorneys nationally recognized as having expertise in the practice of tax exempt municipal finance law as approved by the Company.

“Bond Documents” means the Agreement, this Indenture, the Series 2023 Note, the Bonds, the Master Indenture, the Supplemental Master Indenture, the Bond Purchase Agreement, the Deed of Trust, 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 which may be owed by the Company to, or on behalf of, the Issuer or the Trustee under the Bond Documents.

“Bond Purchase Agreement” means the Bond Purchase Agreement among the Issuer, the Company, and the Underwriters relating to the Bonds.

“Bond Register” and “Bond Registrar” have the respective meanings specified in Section 204.

“Bond Year” has the meaning given to such term in the Agreement.

“Bondholder” means a Person in whose name a Bond is registered in the Bond Register; provided, however, that, so long as the Bonds are guaranteed by the Permanent School Fund, upon the occurrence and during the continuance of a default or Event of Default under the Bond Documents, TEA shall be deemed to be the sole holder of the Bonds for all purposes of exercising remedies and approving amendments..

“Bonds” means the Clifton Higher Education Finance Corporation Education Revenue Bonds (YES Prep Public Schools Inc.) Series 2023 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 Bondholder, with the physical bond certificates held in the custody of the Depository.

“Business Day” means any day which is not a Saturday, Sunday, legal holiday, or a day on which banking institutions in the City of New York, New York or in the cities where the Corporate Trust Office of the Trustee or its payment office are located or are authorized by law or executive order to close.

“City” means the City of Clifton, Texas.

“Closing Date” means the date on which the Bonds are first authenticated and delivered to the initial purchasers thereof against payment therefor.

“Commissioner of Education” means the Commissioner of Education of the State of Texas.

“Company” means YES Prep Public Schools Inc., a Texas non-profit corporation, its permitted successors and assigns, and any resulting, surviving or transferee Person permitted hereunder.

“Comptroller” means the Texas Comptroller of Public Accounts, or any successor thereto.

“Computation Date” has the meaning given to such term in the Agreement.

“Consent,” “Order,” and “Request” of any specified Person mean, respectively, a written consent, order, or request signed in the name of such Person and delivered to the Trustee by (i) an authorized officer of the Issuer or (ii) an Authorized Representative of the Issuer or (iii) the Commissioner or designee, as the case may be.

“Corporate Trust Office” means the address or addresses of the Trustee designated from time to time pursuant to Section 105.

“Costs of Issuance” means the cost of financing, legal, printing and other costs attributable to the issuance of the Bonds within the meaning of Section 147(g) of the Code.

“Debt Service” means as of any particular date of computation, with respect to the Bonds and with respect to any period, the aggregate of the amounts to be paid or set aside by the Issuer as of such date or in such period for the payment of the principal of, premium, if any, and interest (to the extent not capitalized) on the Bonds; assuming in the case of Bonds required to be redeemed or prepaid as to principal prior to Maturity that the principal amounts thereof will be redeemed prior to Maturity in accordance with the mandatory redemption provisions applicable thereto.

“Debt Service Fund” means the special trust fund created pursuant to Section 403 of this Indenture.

“Deed of Trust” has the meaning assigned to such term in the Master Indenture.

“Defeasance Obligations” means obligations now or hereafter authorized in Section 1207.062(b), Texas Government Code.

“Depository” means any securities depository that is a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended, operating and maintaining, with its participants or otherwise, a Book-Entry-Only System to record ownership of beneficial interests in the 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 211 hereof. DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended.

“Eligible Securities” means, to the extent permitted by law, obligations or securities now or hereafter authorized as investments under the Public Funds Investment Act, Chapter 2256, Texas Government Code, maturing or redeemable at the option of the Trustee, or marketable, prior to the maturities thereof, at such time or times as to enable disbursements to be made from the Debt Service Fund, the Project 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 an unqualified opinion of Bond Counsel delivered to and in form and substance satisfactory to the Issuer and the Trustee to the effect that such action does not violate the laws of the State (including the Act), the Code and this Indenture and will not adversely affect the exclusion of interest on the Bonds from gross income for purposes of federal income taxation.

“Governing Body” of any specified Person means the board of directors or board of trustees of such Person or any duly authorized committee of that board, or if there be no board of trustees or board of directors, then the person or body which pursuant to law or the organizational documents of such Person is vested with powers similar to those vested in a board of trustees or a board of directors.

“Guarantee” means the PSF Certificate issued by TEA pursuant to Article 7 Section 5 of the Texas Constitution and Subchapter C of Chapter 45 of the Texas Education Code, that guarantees the scheduled payment of principal of and interest on the Bonds when due.

“Independent” when used with respect to any specified Person means such a Person who (i) is in fact independent, (ii) does not have any direct financial interest or any material indirect financial interest in the Company, and (iii) is not connected with the Company as an officer, employee, promoter, trustee, partner, director or person performing similar functions. Whenever it is herein provided that any Independent Person’s opinion or certificate shall be furnished to the Trustee, such Person shall be appointed by Company Order and such opinion or certificate shall state that the signer has read this definition and that the signer is Independent within the meaning hereof.

“Initial Bond” means the initial Series 2023 Bond authorized in Section 210 herein.

“Interest Payment Date” means each April 1 and October 1, commencing October 1, 2023.

“Interest Rates” means interest rates as set forth in Section 202 of this Indenture.

“Issuer” means Clifton Higher Education Finance Corporation, a non-stock, non-profit corporation organized under the Act.

“Loan” means the loan made by the Issuer to the Company pursuant to the Agreement.

“Management Consultant” means a firm of Independent professional management consultants, or an Independent school management organization, knowledgeable in the operation of public or private schools and having a favorable reputation for skill and experience in the field of public or private school management consultation.

“Master Indenture” means that certain Master Trust Indenture and Security Agreement, dated as of June 1, 2015, between the Company and the Master Trustee, as heretofore or hereafter amended or supplemented from time to time in accordance with its terms.

“Master Trustee” means Hancock Whitney Bank, serving as master trustee pursuant to the Master Indenture or any successor thereto pursuant to the provisions of the Master Indenture.

“Maturity” when used with respect to any Bond means the date on which the principal of such Bond becomes due and payable as therein or herein provided, whether at the Stated Maturity thereof or by call for redemption or otherwise.

“Officer’s Certificate” of any specified Person means a certificate signed by the chairman of the Governing Body or an Authorized Representative of the Company or any other Person designated to execute an Officer’s Certificate as evidenced by a certificate of any such Person delivered to the Trustee.

“Outstanding” when used with respect to any Bonds means, as of the date of determination, all Bonds theretofore authenticated and delivered under this Indenture, except:

(i) Bonds theretofore canceled by the Trustee or delivered to the Trustee for cancellation;

(ii) Bonds for whose payment or redemption money (or Defeasance Obligations to the extent permitted by Section 1002 of this Indenture) in the necessary amount has been theretofore deposited with the Trustee or any paying agent for such Bonds in trust for the Bondholders pursuant to this Indenture; provided, that, if such Bonds are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or irrevocable provision therefor satisfactory to the Trustee has been made;

(iii) Bonds upon transfer of or in exchange for or in lieu of which other Bonds have been authenticated and delivered pursuant to this Indenture; and

(iv) Bonds alleged to have been destroyed, lost, or stolen which have been paid as provided in Section 205.

provided, however, that in determining whether the holders of the requisite principal amount of Outstanding Bonds have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Bonds owned of record or beneficially by the Company or any other obligor upon the Bonds or the Series 2023 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 Series 2023 Note or such other obligor.

“Paying Agent” means initially the Trustee, and any other Person authorized by the Issuer to pay the principal of (and premium, if any) or interest on any Bonds on behalf of the Issuer.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, or government or any agency or political subdivision thereof.

“Place of Payment” for the Bonds means a city or any political subdivision thereof designated as such in the Bonds.

“Proceeds Fund” means the special fund created pursuant to Section 402 of this Indenture.

“Project” means the Project described in Exhibit A to the Agreement.

“Project Fund” means the special trust fund created in Section 404 of this Indenture.

“Rating Service” means each nationally recognized securities rating service which at the time has a credit rating assigned to the Bonds.

“Rebate Fund” means the special trust fund created in Section 405 of this Indenture.

“Record Date” means the close of business for the Trustee on the fifteenth day of the calendar month immediately preceding the month in which any Interest Payment Date occurs, regardless of whether such day is a Business Day.

“Regulations” means the applicable proposed, temporary or final Income Tax Regulations promulgated under the Code or, to the extent applicable to the Code, under the Internal Revenue Code of 1954, as such regulations may be amended or supplemented from time to time.

“Requisition Certificate” means any Requisition Certificate in substantially the form attached as Exhibit B to this Indenture.

“Responsible Officer” when used with respect to the Trustee means the officer in the Corporate Trust Office of the Trustee having direct responsibility for administration of this Indenture.

“Series 2023 Note” means the promissory note in the form attached to the Supplemental Master 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 Bonds.

“Special Record Date” has the meaning set forth in Section 206 hereof.

“State” means the State of Texas.

“Stated Maturity” when used with respect to any Bond or any installment of interest thereon means the date specified in such Bond as the fixed date on which the principal of such Bond or such installment of interest is due and payable.

“Supplemental Master Indenture” means the Supplemental Master Indenture No. 19 dated as of August 1, 2023, between the Company and Master Trustee.

“TEA” means the Texas Education Agency, or any successor thereto.

“TEA Default” means (a) TEA has failed to make any payment under the Guarantee when due and owing in accordance with the Guarantee’s terms and as provided by law; or (b) any state or federal agency or instrumentality shall order the suspension of payments on the Guarantee

“Trust Estate” is defined in the Granting Clauses of this Indenture.

“Trustee” means Hancock Whitney Bank, serving as Trustee pursuant to this Indenture or any successor thereto pursuant to the provisions of this Indenture.

“Underwriters” means PNC Capital Markets LLC and RBC Capital Markets, LLC.

Section 102. Effect of Headings and Table of Contents. The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

Section 103. Form of Documents Delivered to Trustee. Every certificate and every Opinion of Counsel with respect to compliance with a condition or covenant provided for in this Indenture shall include a statement that the Person making such certification or opinion has read such covenant or condition and the definitions relating thereto, has made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether such covenant or condition has been complied with, and a statement whether such condition or covenant has been complied with. In any case where several matters are required to be certified by or covered by an opinion of any specified Person, it is not necessary that all such matters be certified by or covered by the opinion of only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion

with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of any officer of a Person may be based, insofar as it relates to legal matters, upon a certificate or opinion of or representations by counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or Opinion of Counsel may be based, in so far as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of a specified Person stating that the information with respect to such factual matters is in the possession of such Person, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

Section 104. Acts of Bondholders.

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Bondholders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Bondholders in person or by its agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee, and, where it is hereby expressly required, to the Issuer. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Bondholders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Section 801) conclusive in favor of the Trustee and the Issuer, if made in the manner provided in this Section.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by the certificate of any notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by an officer of a corporation or a member of a partnership on behalf of such corporation or partnership, such certificate or affidavit shall also constitute sufficient proof of his authority. The fact and date of the execution of any such instrument or writing, or the authority of the person executing the same, may also be proved in any other manner which the Trustee deems sufficient.

(c) The ownership of Bonds shall be proved by the Bond Register.

(d) Any request, demand, authorization, direction, notice, consent, waiver or other Act by any Bondholder shall bind every Bondholder issued upon the transfer thereof or in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Issuer in reliance thereon, whether or not notation of such action is made upon such Bond.

Section 105. Notice Addresses. Any request, demand, authorization, direction, notice, consent, waiver or Act of Bondholders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with,

(1) the Trustee by any Bondholder or by any specified Person shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with and actually received by a Responsible Officer of the Trustee at its Corporate Trust Office located at 445 North Blvd, Suite 201 Baton Rouge, LA 70802, Attention: Corporate Trust, or at any other address subsequently furnished in writing to the Bondholders and the other parties to the Bond Documents by the Trustee;

(2) the Issuer by any Bondholder or by any specified Person shall be sufficient for every purpose hereunder if in writing and mailed, first-class postage prepaid, to the Issuer addressed to it at 505 W. 5th Street, Suite 280, Clifton, Texas 76634 c/o Hilltop Securities, or at any other address subsequently furnished in writing to the Trustee and the Company by the Issuer;

(3) the Company by any Bondholder or by any specified Person shall be sufficient for every purpose hereunder if in writing and mailed, first-class postage prepaid, to the Company addressed to it at YES Prep Public Schools Inc., 5515 South Loop East, Suite B, Houston, Texas 77033, Attention: Chief Financial Officer, or at any other address subsequently furnished in writing to the Trustee and the Issuer by the Company;

(4) the Rating Service shall be sufficient for every purpose hereunder if in writing and mailed, first-class postage prepaid, to Moody's Investors Service, 100 North Riverside Plaza, Suite 2220, Chicago, Illinois 60606, or at such other address subsequently furnished in writing to the Trustee by such Rating Service.

(5) the Texas Education Agency shall be sufficient for every purpose hereunder if in writing and delivered mailed to 1701 N. Congress Avenue, Austin, Texas 78701, Attention: Commissioner of Education, Re: Guarantee No. 2023-02-Yes Prep Public Schools Inc.-1 or email at commissioner@tea.texas.gov. In each case in which notice or other communication refers to an Event of Default or a claim on the Permanent School Fund Guarantee, then a copy of such notice or other communication shall also be sent to the attention of the General Counsel at the same address and at tealegal@tea.texas.gov and psfbgp@tea.texas.gov and shall be marked to indicate "URGENT MATERIAL ENCLOSED." All notices, waivers, consents and other information required to be provided to TEA shall be provided directly to the Commissioner or designee thereof.

Section 106. Notices to Bondholders; Waiver. Where this Indenture provides for notice to Bondholders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to each Bondholder affected by such event, at his address as it appears on the Bond Register, not later than the latest date, and not earlier than the earliest date, prescribed for the delivery of such notice. In any case

where notice to Bondholders is given as provided herein, neither the failure to send such notice, nor any default in any notice so sent to any particular Bondholder shall affect the sufficiency of such notice with respect to other Bondholders. Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Bondholders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Section 107. Successors and Assigns. All covenants and agreements in this Indenture by the Issuer and the Trustee shall bind their respective successors and assigns, whether so expressed or not.

Section 108. Severability Clause. In case any provision in this Indenture or in the Bonds or any application thereof shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions and applications shall not in any way be affected or impaired thereby.

Section 109. Benefits of Indenture. Nothing in this Indenture or in the Bonds, express or implied, shall give to any Person, other than the parties hereto, their successors hereunder, any separate trustee or co-trustee appointed hereunder, the Company, TEA and the Bondholders, any benefit or any legal or equitable right, remedy or claim under this Indenture.

Section 110. Governing Law. This Indenture shall be governed, in all respects including validity, interpretation and effect by, and shall be enforceable in accordance with, the laws of the State.

Section 111. Directors, Officers, Employees, and Agents Exempt from Personal Liability. No recourse under or upon any obligation, covenant, or agreement contained in this Indenture, or in any Bond, or for any claim based thereon or otherwise in respect thereof, shall be had against any incorporator, or against any past, present, or future director, officer, or employee, as such, of the Issuer or the Trustee, or of any successor corporation, either directly or through the Issuer or the Trustee, whether by virtue of any constitution or statute or rule of law, or by the enforcement of any assessment, judgment, or penalty, or otherwise; it being expressly understood that this Indenture and the Bonds are solely corporate obligations, and that no such personal liability whatever shall attach to, or is or shall be incurred by, the incorporators, directors, officers, or employees, as such, of the Issuer, the Trustee, or any other successor corporation, or any of them, because of the creation of indebtedness hereby authorized, or under or by reason of the obligations, covenants, or agreements contained in this Indenture or the Bonds or implied therefrom, and that any and all such personal liability either at common law or equity or by constitution or statute, of, and any and all such rights and claims against, every such incorporator, director, officer, or employee, as such, are hereby expressly waived and released as a condition of, and in consideration for, the execution of this Indenture and the issuance of the Bonds.

ARTICLE II

AUTHORIZATION AND TERMS OF BONDS; ISSUANCE AND FORM OF BONDS

Section 201. Authorization and Form of Bonds.

(a) The Bonds shall be designated “Clifton Higher Education Finance Corporation Education Revenue Bonds (YES Prep Public Schools Inc.) Series 2023.” The aggregate principal amount of Bonds is \$83,220,000. The Bonds shall be numbered separately from RA-1 upwards and shall be registered as set forth in the Company Order delivered to the Trustee as provided in Section 203. The Bonds shall be issued only in fully registered form in Authorized Denominations. The Bonds and the Guarantee Endorsement of the Commissioner, respectively, shall be substantially in the form set forth in Exhibit A attached hereto, with such appropriate variations, omissions, and insertions as are permitted or required by this Indenture and may have endorsed thereon such legends or text as may be necessary or appropriate to conform to any applicable rules and regulations of any governmental authority or any usage or requirement of law with respect thereto. The Bonds may be typewritten, printed, lithographed, engraved or produced in similar manner. If any Bond is printed, any portion of the text of the Bond may be printed on the back of the Bond with an appropriate reference placed on the front of the Bond.

Section 202. Terms of Bonds.

(a) The Bonds shall be dated as of August 1, 2023, shall mature on April 1 in the years and in the amounts set forth below, and shall bear interest at the following rates from the later of (i) the date of delivery of the Bonds or (ii) the most recent Interest Payment Date to which interest has been paid or provided for:

| <u>Year of Maturity</u> <u>(April 1)</u> | <u>Principal</u> <u>Amount</u> | <u>Interest</u> <u>Rate</u> |
|---|---|--|
| 2025 | \$1,395,000 | 5.000% |
| 2026 | \$1,465,000 | 5.000% |
| 2027 | \$1,540,000 | 5.000% |
| 2028 | \$1,615,000 | 5.000% |
| 2029 | \$1,700,000 | 5.000% |
| 2030 | \$1,785,000 | 5.000% |
| 2031 | \$1,870,000 | 5.000% |
| 2032 | \$1,965,000 | 5.000% |
| 2033 | \$2,065,000 | 5.000% |
| 2034 | \$2,165,000 | 5.000% |
| 2035 | \$2,275,000 | 5.000% |
| 2036 | \$2,390,000 | 5.000% |
| 2037 | \$2,510,000 | 5.000% |
| 2038 | \$2,635,000 | 5.000% |
| 2039 | \$2,765,000 | 4.000% |

| | | |
|------|--------------|--------|
| 2040 | \$2,875,000 | 4.000% |
| *** | *** | *** |
| 2043 | \$9,335,000 | 4.000% |
| *** | *** | *** |
| 2048 | \$18,315,000 | 4.250% |
| *** | *** | *** |
| 2053 | \$22,555,000 | 4.250% |

(b) The Bonds shall be subject to optional and mandatory redemption prior to maturity in the manner provided in the form of Bond set forth in Exhibit A, attached hereto.

(c) Interest on the Bonds shall be paid on each Interest Payment Date until the principal thereof shall have been paid or provided for. Interest shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.

(d) Amounts due with respect to the Bonds shall be payable in lawful money of the United States. Payment of principal, premium, if any, and interest on the Bonds shall be paid by check mailed to the registered holder thereof at his or her address as it appears on the Bond Register on the Record Date. Upon written request of a registered Bondholder of at least \$1,000,000 in principal amount of Bonds or all of any series of the Bonds, all payments of principal, premium, if any, and interest on the Bonds shall be paid by wire transfer (at the risk and expense of such registered Bondholder) in immediately available funds to an account in the United States designated by such registered Bondholder upon fifteen (15) days prior written notice before a Record Date to the Trustee. CUSIP number identification with appropriate dollar amounts for each CUSIP number must accompany all payments of principal, premium, if any, and interest, whether by check or by wire transfer. Principal, premium, if any, and interest on Bonds that are in Book-Entry-Form will be paid in immediately available funds to DTC or its nominee, as the case may be, as Bondholder.

Section 203. Execution, Authentication and Delivery. The Bonds shall be executed on behalf of the Issuer by its President or its Vice President and attested to by its Secretary or one of its Assistant Secretaries. The signature of any of these officers on the Bonds may be manual or facsimile.

Bonds bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Issuer shall bind the Issuer, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Bonds or did not hold such offices at the date of such Bonds.

The Initial Bond issued hereunder shall be registered by the Comptroller 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 upon direction of the Issuer; 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 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 Company Order;

(c) the Series 2023 Note, duly executed by the Company on behalf of itself and duly authenticated by the Master Trustee, payable to the Trustee or properly endorsed or assigned to the Trustee;

(d) executed counterparts of each of the Bond Documents;

(e) an Opinion of Counsel to each party to this Indenture, the Agreement and the Supplemental Master Indenture to the effect that each such document has been duly authorized, executed and delivered by that party and that each such document as amended or supplemented constitutes a legal, valid, binding and enforceable obligation of that party subject to customary exceptions; provided, however, that the opinion of Trustee's counsel will address due authorization and execution only;

(f) the Opinion of Counsel specified in Section 202(c) of the Master Indenture;

(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, and this Indenture is exempt from qualification as an indenture pursuant to the Trust Indenture Act of 1939, and (iv) interest on the Bonds is excludable from gross income of the holders of the Bonds for federal income tax purposes; and

(h) the Initial Bond, 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.

Section 204. Registration, Transfer and Exchange. The Trustee is hereby appointed as Bond Registrar (the "Bond Registrar") for the purpose of registering Bonds and transfers of Bonds as herein provided. The Issuer shall cause to be kept at a corporate trust office or the principal payment office of the Bond Registrar or Bond Registrars for the Bonds, a register or registers (sometimes herein referred to as the "Bond Register") in which, subject to such reasonable regulations as it may prescribe, the Issuer shall provide for the registration of Bonds and of

transfers of Bonds. The Bond Registrar shall keep the Bond Register with respect to the Bonds, at its principal payment office in Baton Rouge, Louisiana.

Upon surrender for transfer of any Bond at the office or agency of the Trustee in a Place of Payment, the Issuer shall execute, the Authenticating Agent shall authenticate, and the Bond Registrar shall register and deliver, in the name of the designated transferee, one or more new Bonds of any Authorized Denomination, of a like aggregate principal amount, maturity and interest rate.

At the option of the Bondholder, Bonds may be exchanged for Bonds of any Authorized Denomination, of a like aggregate principal amount, series, Stated Maturity and interest rate, upon the surrender of the Bonds to be exchanged at such office or agency. Whenever any Bonds are so surrendered for exchange, the Issuer shall execute, and the Bond Registrar shall authenticate and deliver, the Bonds that the Bondholder making the exchange is entitled to receive.

All Bonds issued upon any transfer or exchange of Bonds shall be the valid obligations of the Issuer, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Bonds surrendered upon such transfer or exchange.

Every Bond presented or surrendered for transfer or exchange shall (if so required by the Issuer or the Bond Registrar) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Issuer and the Bond Registrar duly executed by the holder thereof or his attorney duly authorized in writing.

No service charge shall be made for any transfer or exchange of Bonds, but the Issuer and the Bond Registrar may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any transfer or exchange of Bonds, other than exchanges expressly provided in this Indenture to be made without expense or without charge to Bondholders.

The Issuer and the Bond Registrar shall not be required (1) to issue, transfer or exchange any Bonds during a period beginning at the opening of business fifteen (15) days before the day a notice of redemption of Bonds selected for redemption under Section 303 is sent and ending at the close of business on the day such notice is sent or (2) to transfer or exchange any Bond selected for redemption in whole or in part.

Section 205. Mutilated, Destroyed, Lost and Stolen Bonds. If (a) any mutilated Bond is surrendered to the Bond Registrar, or the Bond Registrar receives evidence to its satisfaction of the destruction, loss or theft of any Bond, and (b) there is delivered to the Bond Registrar such security or indemnity as may be required by it to save each of the Issuer and the Bond Registrar harmless, then, in the absence of notice to the Issuer or the Bond Registrar that such Bond has been acquired by a bona fide purchaser, the Issuer shall execute and upon its request the Bond Registrar shall authenticate and deliver in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Bond, a new Bond of like tenor, series, interest rate and principal amount, bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Bond has become or is about to become due and payable, the Issuer in its discretion may (and upon Company Order shall), instead of issuing a new Bond, pay such Bond.

Upon the issuance of any new Bond under this Section, the Issuer and the Bond Registrar may require the payment by the Bondholder of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Bond Registrar) connected therewith.

Every new Bond issued pursuant to this Section in lieu of any destroyed, lost or stolen Bond shall constitute an original additional contractual obligation of the Issuer, whether or not the destroyed, lost or stolen Bond shall be at any time enforceable by anyone, and shall be entitled to all the benefits and security of this Indenture equally and proportionately with any and all other Bonds duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Bonds.

Section 206. Payment of Interest on Bonds; Interest Rights Preserved. Interest on any Bond that is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Bond is registered at the close of business on the Record Date for such interest.

Any interest on any Bond that is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the holder thereof on the relevant Record Date by virtue of having been such Bondholder; and such Defaulted Interest shall be paid by the Issuer (but only from the sources provided herein), to the Persons in whose names the 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 for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of Persons entitled to such Defaulted Interest. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 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 sent, 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 sent as aforesaid, such Defaulted Interest shall be paid to the Persons in whose names the Bonds are registered on such Special Record Date.

Subject to the foregoing provisions of this Section, each Bond delivered under this Indenture upon transfer of or in exchange for or in lieu of any other Bond shall carry the rights to interest accrued and unpaid, and to accrue, that were carried by such other Bonds.

Section 207. Persons Deemed Owners. The Issuer, the Trustee, the Authenticating Agent, the Bond Registrar, TEA and any of their respective agents may treat the Person in whose name any Bond is registered as the owner of such Bond for the purpose of receiving payment of principal of (and premium, if any), and (subject to Section 206) interest on, such Bond and for all other purposes whatsoever whether or not such Bond be overdue, and except as otherwise provided in this Indenture, none of the Issuer, the Trustee, or any agent of the Issuer or the Trustee shall be affected by notice to the contrary.

Section 208. Cancellation. All Bonds surrendered for payment, redemption, transfer or exchange shall, if delivered to any Person other than the Bond Registrar be delivered to the Bond Registrar and, if not already canceled, shall be promptly canceled by it. The Issuer or the Company may at any time deliver to the Bond Registrar for cancellation any Bonds previously authenticated and delivered hereunder that the Issuer or the Company may have acquired in any lawful manner whatsoever, and all Bonds so delivered shall be promptly canceled by the Bond Registrar. No Bonds shall be authenticated in lieu of or in exchange for any Bonds canceled as provided in this Section, except as expressly permitted by this Indenture. All canceled Bonds held by the Bond Registrar shall be maintained or disposed of according to the retention policies of the Bond Registrar in effect from time to time.

Section 209. Limited Liability of Issuer. NONE OF THE CITY, THE STATE, A STATE AGENCY, OR 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 CITY, 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. HOWEVER, THE BONDS WILL BE GUARANTEED BY THE CORPUS OF THE PERMANENT SCHOOL FUND OF THE STATE OF TEXAS PURSUANT TO THE BOND GUARANTEE PROGRAM ADMINISTERED BY THE TEXAS EDUCATION AGENCY. SUCH GUARANTEE IS SUBJECT TO THE RULES AND REGULATIONS OF THE TEXAS EDUCATION AGENCY AND SHALL BE REMOVED IN ITS ENTIRETY UPON DEFEASANCE OF THE BONDS. THE ISSUER HAS NO TAXING POWER.

All obligations of the Issuer hereunder are limited, and are payable solely from and to the extent of money provided by or for the account of the Company, and it is a condition of each undertaking of the Issuer contained herein that, all such undertakings shall be performed at the expense of the Company. The Issuer shall not be required to advance its own funds in connection with the performance of any duty under this Indenture.

Section 210. Initial Bond. Pending the preparation of definitive Bonds, the Issuer will execute and upon Company Order, the Bond Registrar shall deliver the Initial Bond, which may be printed, lithographed, typewritten, mimeographed or otherwise produced, substantially of the tenor of the definitive Bonds in lieu of which it is issued and with such appropriate insertions,

omissions, substitutions and other variations as the officers executing such Initial Bond may determine, as evidenced by their execution of such Initial Bond.

Upon the issuance of the Initial Bond, the Issuer will cause definitive Bonds to be prepared without unreasonable delay. After the preparation of definitive Bonds, the Initial Bond shall be exchangeable for definitive Bonds upon surrender of the Initial Bond at the office of the Trustee in a Place of Payment, without charge to the Bondholder. Upon surrender for cancellation of the Initial Bond, the Issuer shall execute and the Bond Registrar shall authenticate and deliver in exchange therefor a like principal amount of definitive Bonds of Authorized Denominations. Until so exchanged, the Initial Bond shall in all respects be entitled to the same benefits under this Indenture as definitive Bonds so long as it shall have attached to it an executed registration certificate of the Comptroller in the form set forth in Exhibit A.

Section 211. Book-Entry-Only System.

(a) The Bonds may and initially shall be registered under a Book-Entry-Only System maintained by a Depository. Notwithstanding any inconsistent provisions in this Indenture to the contrary, the provisions of this Section 211 shall govern at any time the Bonds are issued and Outstanding in Book-Entry-Only Form.

(b) Under the Book-Entry-Only System, the Bonds shall be issued in the form of a separate, single, fully registered and immobilized bond certificate representing the aggregate principal amount of the Bonds. Except as provided herein, the ownership of such Bonds shall be registered in the Bond Register in the name of Cede & Co., as nominee of The Depository Trust Company, which will serve as initial Depository for the Bonds. Ownership of beneficial interests in the Bonds shall be shown by book-entry on the system maintained and operated by the Depository and its participants and indirect participants (such participants and indirect participants being collectively referred to as the “Participants”), and transfers of ownership of beneficial interests shall be made only by the Depository and its Participants by book-entry, and the Issuer, the Company and the Trustee shall have no responsibility therefor. The Depository will be required to maintain records of the positions of Participants in the Bonds, and the Participants and persons acting through Participants will be required to maintain records of the purchasers of beneficial interests in the Bonds (the “Beneficial Owners”). Except as provided in subsection (i) of this Section 211, the Bonds shall not be transferable or exchangeable, except for transfer to another Depository or to another nominee of a Depository.

(c) With respect to Bonds registered in the Bond Register in the name of the Depository or its nominee, the Issuer, the Company, the Bond Registrar 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. NONE OF THE ISSUER, THE COMPANY, THE BOND REGISTRAR OR 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. NONE OF THE ISSUER, THE COMPANY, THE BOND REGISTRAR OR 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 which have been redeemed. The Issuer, the Company and the Trustee shall not be liable for the failure of the Depository to properly indicate on the Bonds the payment of such principal or redemption price.

(e) All transfers of beneficial ownership interests in the Bonds when issued in Book-Entry-Only Form shall be effected by procedures promulgated by the Depository with its Participants for recording and transferring the ownership of beneficial interest in each of such Bonds.

(f) The Issuer, the Company, the Bond Registrar, and the Trustee and any of their respective agents may treat the Depository (or its nominee) as the sole and exclusive Bondholder of the Bonds registered in its name for the purposes of payment of the principal of (premium, if any) or interest on the Bonds or redemption price with respect to the Bonds, selecting the Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Bondholders under this Indenture, registering the transfer of Bonds, obtaining any consent or other action to be taken by Bondholders and for all other purposes whatsoever; and the Issuer, the Company, 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 Bondholders pursuant to this Indenture by the Issuer, the Company or the Trustee with respect to any consent or other action to be taken by Bondholders, the Depository shall consider the date of receipt of notice requesting such consent or other action as the record date for such consent or other action, provided that the Issuer or the Trustee may establish a special record date for such consent or other action. The Issuer or the Trustee shall give the Depository notice of such special record date not less than 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 211(i), after which no successor Depository willing to undertake the functions of the Depository hereunder can be found that, in the opinion of the Company, is willing and able to undertake such functions upon reasonable and customary terms, the Bonds shall no longer be restricted to being registered in the Bond Register in the name of the nominee of the Depository, but may be registered in the name or names and in such maturities and principal amounts as the Depository shall designate in writing to the Bond Registrar in accordance with the provisions elsewhere in Article II of this Indenture, but without any liability on the part of the Issuer or the Bond Registrar for the accuracy of such designation. Upon the termination of the services of the Depository with respect to the Bonds for any reason and the appointment of a successor Depository, all references in this Indenture to the Depository shall refer to such successor Depository. Whenever the Depository requests the Issuer, the Company and the Trustee to do so, the Issuer, the Company and the Trustee shall cooperate with the Depository in taking appropriate action after reasonable notice to arrange for another Depository to maintain custody of certificates evidencing the Bonds.

(j) So long as any Bonds are registered in the name of the nominee of the Depository, a legend prescribed by the Depository to that effect may be printed on such Bond certificate.

ARTICLE III

REDEMPTION OF BONDS

Section 301. Redemption. The Bonds shall be subject to redemption as set forth in the form of Bond in Exhibit A hereto.

Section 302. Election to Redeem; Notice to Trustee. The election of the Company to redeem any Bonds shall be evidenced by a Board Resolution delivered to the Issuer. In case of any redemption at the election of the Company, the Company shall, at least thirty-five (35) days prior to the redemption date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee in writing of such redemption date and of the principal amount of Bonds of each Stated Maturity to be redeemed.

Section 303. Selection by Trustee of Bonds to be Redeemed. If less than all of the Bonds of a particular Stated Maturity are called for redemption, the particular Bonds or portions thereof to be redeemed shall be redeemed by the Trustee in accordance with the written direction of the Company; provided, however, that if the Bonds are registered in the Book-Entry System, the method of redemption shall be in accordance with the procedures of the Depository, and 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. Absent direction of the Company, the Trustee may select the Bonds to be redeemed by lot or other customary method.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Bonds shall relate, in the case of any Bond redeemed or to be redeemed only in part, to the portion of the principal of such Bond that has been or is to be redeemed.

Section 304. Notice of Redemption.

(a) Not less than 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, to the holders of each Bond to be redeemed at the address shown on the Bond Register on the date such notices are sent. Any notice sent as provided in this Section shall be conclusively presumed to have been duly given, irrespective of whether received.

(b) Each notice of redemption shall state at a minimum, the complete official name of the issue, including series designation, CUSIP number, amounts called of each Stated Maturity (for partial calls), date of the notice, the date of issue, interest rate, maturity date of the Bonds called for redemption, the redemption date, the redemption price, the place or places of redemption, and appropriate address or addresses with name of contact person and telephone number. Unless moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed shall have been received by the Trustee prior to the giving of such notice of redemption, such notice shall state that said redemption shall be conditional upon the receipt of such moneys by the Trustee on or prior to the date fixed for such redemption. If sufficient moneys are not received, such notice shall be of no force and effect, the Issuer shall not redeem such Bonds and

the Trustee shall give notice, in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

(c) If any of the Bonds are redeemed pursuant to an advance refunding, notice of such advance refunding and redemption shall be given in the same manner as above provided, and within the same time period with respect to the actual redemption date.

Section 305. Deposit of Redemption Price. Subject to any condition to such redemption, on or prior to any redemption date, the Company shall deposit with the Trustee or with a Paying Agent an amount of money sufficient to pay the redemption price, premium, if any, and interest accrued thereon to the date fixed for redemption of all the Bonds which are to be redeemed on such date.

Section 306. Bonds Payable on Redemption Date. Notice of redemption having been given as aforesaid, and the deposit described in Section 305 having been made, and all conditions to such redemption having been fulfilled, the Bonds so to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified and from and after such date such Bonds shall cease to bear interest. If, however, funds available to pay the redemption price have not been so deposited on the redemption date, the redemption will be cancelled. Upon surrender of any such Bond for redemption in accordance with said notice, such Bond shall be paid by the Issuer at the redemption price. Installments of interest whose Stated Maturity is on or prior to the redemption date shall be payable to the holders of such Bonds registered as such on the relevant Record Dates according to their terms.

If any Bond called for redemption shall not be so paid upon surrender thereof for redemption, the principal shall, until paid, bear interest from the redemption date at the rate borne by the Bond.

Section 307. Bonds Redeemed in Part. Any Bond which is to be redeemed only in part shall be surrendered at a Place of Payment (with, if the Issuer or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Issuer and the Trustee duly executed by, the holder of such Bond or his attorney duly authorized in writing) and the Issuer shall execute and the Trustee shall authenticate and deliver to the holder of such Bond without service charge, a new Bond or Bonds of the same interest rate and Stated Maturity and of any Authorized Denomination as requested by such Bondholder in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Bond so surrendered.

ARTICLE IV

FUNDS AND INVESTMENTS

Section 401. Establishment of Funds; Source of Payment of the Bonds.

(a) The Issuer hereby establishes with the Trustee the Proceeds Fund, the Debt Service Fund, the Project Fund and the Rebate Fund (collectively, the "Funds"). The Issuer reserves the right to establish additional trust funds, accounts or subaccounts 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 out of the Trust Estate and other payments made by the Company under the Agreement. Loan Payments made pursuant to the Agreement by the Company are to be made directly to the Trustee for the account of the Issuer and shall be deposited pursuant to the provisions of Section 4.1 of the Agreement. No covenant or agreement contained in the Bonds or in this Indenture shall be deemed to be the covenant or agreement of any officer, director, agent, or employee of the Issuer in his or her individual capacity and neither the members of the Board of Directors of the Issuer nor any official executing or authenticating the Bonds shall be liable personally on the Bonds or be subject to any personal liability or accountability, by reason of the issuance or authentication thereof.

Section 402. Proceeds Fund. There is hereby created by the Issuer and established with the Trustee the special fund of the Issuer designated its “YES Prep Public Schools Inc. Education Revenue Bonds Series 2023 Proceeds Fund” (herein referred to as the “Proceeds Fund”). The proceeds of the sale of the Bonds shall be deposited into the Proceeds Fund and immediately transferred by the Trustee to the Debt Service Fund and Project Fund, all in the amounts and as specified in the Company Order to authenticate and deliver the Bonds.

Section 403. Debt Service Fund.

(a) There is hereby created by the Issuer and established with the Trustee the special fund of the Issuer designated its “YES Prep Public Schools Inc. Education Revenue Bonds Series 2023 Debt Service Fund” (herein referred to as the “Debt Service Fund”). The money deposited to the Debt Service Fund, together with all investments thereof and investment income therefrom, shall be held in trust and applied solely as provided in this Section and Section 707.

(b) The Trustee shall deposit to the credit of the Debt Service Fund immediately upon receipt (1) amounts due and payable by the Company pursuant to Section 4.1(a) or (b) of the Agreement and the terms of the Series 2023 Note and (2) any other amounts delivered to the Trustee specifically for deposit thereto.

(c) On each Interest Payment Date, the Trustee shall withdraw money from the Debt Service Fund in an amount sufficient to pay the Bondholders principal and interest on the Bonds.

(d) The Trustee shall notify the Company, Master Trustee, and the Commissioner by 12:00 noon (Central Time) ten (10) Business Days prior to any Interest Payment Date if funds within the Debt Service Fund are or will be insufficient to pay debt service on the Bonds on the Interest Payment Date.

Section 404. Project Fund.

(a) There is hereby created by the Issuer and established with the Trustee the special fund of the Issuer designated its “YES Prep Public Schools Inc. Education Revenue Bonds Series 2023 Project Fund” (herein referred to as the “Project Fund”). The money deposited in the Project Fund, including all money therein and all investments thereof, shall be held in trust and applied solely as provided in this Section. The Project Fund shall contain a Project Account, a Costs of Issuance Account, and an Insurance Proceeds Account; provided, however, the Trustee shall have

no duty to establish the Insurance Proceeds Account prior to receipt of insurance or condemnation proceeds pursuant to Section 3.6 of the Agreement. The Trustee shall have the authority to create subaccounts within the Project Account of the Project Fund as is necessary and convenient for the administration of such Account. The Trustee may transfer funds between subaccounts in the Project Account as needed to fund all or any portion of the Project.

(b) The Trustee shall deposit to the credit of the Project 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 Project Fund and the proceeds of the Bonds to the extent specified by a Company Order.

(c) On the Closing Date the Trustee shall disburse amounts in the Project Fund or any account or subaccount therein following receipt of and in accordance with a Requisition Certificate in substantially the form of Exhibit B to this Indenture. After the Closing Date, the Trustee shall disburse amounts in the Project Fund to pay or reimburse the Company for all other Project Costs no later than three (3) Business Days following receipt of and in accordance with a Requisition Certificate.

(d) 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 Project Fund. Upon final disbursement and/or transfer, the Trustee shall close the Costs of Issuance Account.

(e) The Trustee may rely fully on any Requisition Certificate in substantially the form of Exhibit B to this Indenture, and shall not be required to make any investigation in connection therewith.

(f) On the earlier of the end of the fifth Bond Year or receipt of the Completion Certificate required by Section 3.4 of the Agreement, the Trustee shall transfer any amount then on deposit in the Project 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.

(g) In furtherance and not in limitation of this Section, all payments made from the Project Account, the Costs of Issuance Account or the Insurance Proceeds Account pursuant to a written requisition from the Company in the form required hereunder shall be presumed to be made properly and the Trustee shall not be required to see the application of any payments made from the Project Account, the Costs of Issuance Account or the Insurance Proceeds Account, or to inquire into the purposes for which withdrawals are being made from such Accounts.

(h) Notwithstanding any other provision contained herein, no disbursement of moneys from the Project Account of the Project Fund shall be made unless the conditions specified in Section 3.2 of the Agreement have been satisfied.

Section 405. Rebate Fund.

(a) There is hereby created by the Issuer and established with the Trustee the special fund of the Issuer designated as its “YES Prep Public Schools Inc. Education Revenue Bonds Series 2023 Rebate Fund” (herein referred to as the “Rebate Fund”). The money deposited to the Rebate Fund, together with all investments thereof and investment income therefrom shall be held in trust and applied solely as provided in this Section 405.

(b) The Trustee shall deposit or transfer to the credit of the Rebate Fund each amount delivered to the Trustee by the Company for deposit thereto and each amount directed by the Company to be transferred thereto.

(c) (i) Within five (5) days after each receipt or transfer of funds to the Rebate Fund in accordance with Section 5.3(n)(i)(B) of the Agreement (and in any event within 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 5.3(n)(i)(B) of the Agreement, the Trustee shall withdraw such amount from the Rebate Fund and pay such amount to the United States of America.

(iii) All payments to the United States of America pursuant to this Section shall be made by the Trustee for the account and in the name of the Issuer and shall be paid by draft posted by registered United States Mail (return receipt requested), addressed to the appropriate IRS address accompanied by the relevant IRS Form 8038-T (or to such other applicable successor information return specified by the IRS) described in Section 5.3(n)(i)(B) or Section 5.3(n)(i)(C) of the Agreement, as the case may be.

(d) The Trustee shall preserve copies of all statements and forms received from the Company pursuant to Section 5.3(n) of the Agreement and all records maintained by it of transactions in the Rebate Fund and shall deliver such materials to the Company and, if requested, shall deliver copies thereof to the Issuer within 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 which would otherwise be prohibited by the terms of this Section, such Person shall be permitted to take such action if it shall first obtain and provide to the other Persons named herein a Favorable Opinion of Bond Counsel.

Section 406. 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 Goldman Financial Square Government Money Market Fund #466. 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) All income and profits on investments in the Debt Service Fund, the Project Fund and the Rebate Fund shall be credited to those respective Funds. All losses on investments shall be charged against the fund and account to which such investments are credited. The Trustee may make any investment through its own trust department. As amounts invested are needed for disbursement from any fund or account, the Trustee shall cause a sufficient amount of the investments credited to that fund to be redeemed or sold and converted into cash to the credit of that fund. The Trustee may rely on the written instructions of the Company in investing money in any Fund or account, and shall not be accountable for any depreciation in the value of the investments made in accordance with the provisions of this Article IV or for any losses incurred upon any authorized disposition thereof.

(c) The Company by its execution of the Agreement covenants to restrict the investment of money in the Funds in such manner and to such extent, if any, as may be necessary so that the Bonds will not constitute arbitrage bonds under Section 148 of the Code and the Regulations.

(d) The Issuer and the Company (by 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 407. Trustee and Issuer Relieved From Responsibility. The Trustee and the Issuer shall be fully protected in relying upon any Company Order relating to investments and disbursements from any Fund, and shall not be liable for any losses or for interest on the Bonds becoming includable in gross income for federal income tax purposes as a result of complying with any such Company Order, and shall not be required to ascertain any facts with respect to any such Company Order.

ARTICLE V

COVENANTS OF THE ISSUER

Section 501. Payment of Debt Service; Limited Obligations. The Issuer will duly and punctually pay the principal of (and premium, if any) and interest on the Bonds in accordance with the terms of the Bonds and this Indenture; provided, however, that the Bonds and the other obligations of the Issuer provided for herein shall be limited obligations of the Issuer and shall be

payable by the Issuer solely out of the Trust Estate and the revenues derived therefrom or in connection with the Bond Documents. The Bonds and the other expense reimbursement obligations of the Issuer provided for herein shall never be payable out of any other funds of the Issuer except the Trust Estate and such revenues.

If the specified date for any such payment shall be a Saturday, a Sunday or a legal holiday or the equivalent for banking institutions generally (other than a moratorium) at the place where payment thereof is to be made, then such payment may be made on the next succeeding day which is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payment.

Section 502. Money for Bond Payments to be Held in Trust; Appointment of Paying Agents. The Issuer shall appoint a Paying Agent in each Place of Payment for the Bonds. Each such Paying Agent appointed by the Issuer shall be a corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$10,000,000 and subject to supervision or examination by federal or state authority. The Issuer will, prior to each due date of the principal of (and premium, if any) or interest on any Bonds, deposit or cause to be deposited (but only from the sources provided herein) with a Paying Agent a sum sufficient to pay the principal (and premium, if any) or interest so becoming due, such sum to be held in trust for the benefit of the holders of such Bonds. Each Paying Agent for the Bonds shall provide the CUSIP number for the Bond with each payment of interest on and the principal or the redemption price of any Bond, specifying the amount paid in respect of each CUSIP number. The Paying Agents shall make payment of interest or the redemption price of any Bond, upon written request of a registered Bondholder of at least \$1,000,000 in principal amount of Bonds, by wire transfer (at the risk and expense of such registered Bondholder) in immediately available funds to an account in the United States designated by such registered Bondholder upon fifteen (15) days written notice to the Trustee prior to the Record Date.

The Issuer hereby appoints the Trustee as the initial Paying Agent for the Bonds. The Trustee hereby accepts 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 anniversary of the Stated Maturity of the Bond or the installment of interest for the payment of which such money is held or (ii) two years after such principal (and premium, if any) or interest has become due and payable shall be paid to the Company on Company Request (which Request shall include the Company's representation that it is entitled to such funds under applicable escheatment laws and its agreement to comply with such laws) and the holder of such Bond shall thereafter, to the extent of any legal right or claim, be deemed to be an unsecured general creditor, and shall look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Issuer, shall thereupon cease; provided, however, notwithstanding the foregoing, the Trustee shall be entitled to deliver any such funds to any escheatment authority in accordance with the Trustee's customary procedures. The Trustee shall hold any such funds in trust uninvested (without liability for interest accrued from the date deposited) for the benefit of Bondholders entitled thereto.

Any bank or trust company with or into which any Paying Agent may be merged or consolidated, or to which the assets and business of such Paying Agent may be sold, shall be deemed the successor of such Paying Agent for the purposes of this Indenture, with prior written notice of such name change being provided to TEA. TEA shall also receive prior written notice of the resignation or removal of the Paying Agent. 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 TEA and 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, acceptable to TEA, shall be appointed. Notice of the designation of a successor Paying Agent shall be sent by the Trustee by first-class mail to TEA and each Bondholder.

Section 503. Instruments of Further Assurance. The Issuer covenants that to the extent of its power to do so, it will do, execute, acknowledge and deliver or cause to be done, executed, acknowledged and delivered, such indentures supplemental hereto and such further acts, instruments and transfers as the Trustee may reasonably require for the better assigning, pledging and confirming unto the Trustee of the Trust Estate assigned and the revenues pledged hereunder all at the expense of the Company. The Issuer has not heretofore made a pledge of, granted a lien on or security interest in, or made an assignment or sale of the collateral granted hereunder that

ranks on a parity with or prior to the lien granted hereunder. The Issuer has not described such collateral in a UCC financing statement that will remain effective on the Closing Date. The Issuer will not hereafter make or suffer to exist any pledge or assignment of, lien on, or security interest in the collateral described hereunder that ranks prior to or on parity with the lien granted hereunder, or file any financing statement describing any such pledge, assignment, lien or security interest, except as expressly permitted by the Bond Documents. The security interest granted hereunder is and shall be prior to any judicial lien hereafter imposed on such collateral to enforce a judgment against the Issuer on a simple contract.

Section 504. Maintenance of Rights. The Issuer will use its best efforts to perform and observe all obligations to be performed by it under the Bond Documents. The Issuer will maintain the validity and effectiveness of the Bond Documents and, except as permitted hereby, take no action, and not knowingly omit to take any reasonable action, the taking or omission of which might release any party from its liabilities or obligations under the Bond Documents, or result in the surrender, termination, amendment, or modification of, or impair the validity of, any Bond Document. The Issuer agrees that the Trustee, subject to the conditions thereof, may enforce for and on behalf of the Bondholders all of the covenants and agreements of the parties to the Bond Documents (other than the Trustee) as set forth in the Bond Documents, whether or not the Issuer is in default hereunder. The Trustee shall either (i) file continuation statements as may be required to maintain the perfection and priority of the security interests granted hereby and by the Bond Documents, or (ii) confirm, on an annual basis, the filing of continuation statements required to maintain the perfection and priority of the security interests granted hereby and by the Bond Documents and, if necessary, make such filings as may be required to maintain the perfection and priority of the security interests granted hereby and by the Bond Documents. The Trustee is hereby authorized to make such filings. Notwithstanding the foregoing, the Trustee shall not be responsible for the sufficiency of or the proper recording or indexing of any financing or continuation statements.

Section 505. Corporate Existence. Subject to Article VI hereof, the Issuer will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence and rights (charter and statutory); provided, however, that the Issuer shall not be required to preserve any right if its Governing Body shall determine that the preservation thereof is no longer desirable in the conduct of the affairs of the Issuer and that the loss thereof is not disadvantageous in any material respect to the Bondholders.

Section 506. Limitations on Liens, Debt and Disposition of Assets. Except as permitted or contemplated in this Indenture, the Issuer covenants that it will not: (i) create any mortgage, lien, encumbrance, pledge, charge or other exception to title (other than those created by this Indenture) upon or against any of the properties or assets constituting the Trust Estate, or any revenues derived therefrom or any other funds held by the Trustee for the benefit of the Bondholders superior to or ranking on parity with the lien created by this Indenture; (ii) sell, lease, transfer, convey or otherwise dispose of all or any part of the Trust Estate or its interest therein except subject to the interests of the Trustee created by this Indenture; (iii) create, incur or assume any debt secured by the Trust Estate or the Issuer's interest therein or the revenues pledged herein; or (iv) knowingly take any other action that will impair the lien of this Indenture on the Trust Estate.

Section 507. Tax Covenants.

(a) The Issuer will not knowingly take any action, or omit to take any action, which action or omission, will adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds, and in the event of such action or omission will promptly, upon receiving knowledge thereof, take all lawful actions, based on advice of counsel and at the expense of the Company, as may rescind or otherwise negate such action or omission.

(b) The Issuer will not knowingly use or direct the use of any portion of the proceeds of the Bonds, including any investment income earned on such proceeds, directly or indirectly, to make or finance loans to Persons who are not Exempt Persons. For purposes of the preceding sentence, a loan to an organization described in Section 501(c)(3) of the Code for use with respect to an unrelated trade or business, determined according to Section 513(a) of the Code, constitutes a loan to a person who is not an Exempt Person.

(c) The Issuer agrees that until the final Maturity of the 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 Bonds, whether or not such money was derived from the proceeds of the sale of the Bonds or from any other source, in a manner that would cause the 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 Bonds being considered arbitrage bonds, the Issuer at the direction of the Company shall instruct the Trustee to take such action as is necessary to restrict or limit the yield on such investment or to use such moneys in accordance with such written direction.

(d) The Issuer will not knowingly take any action which would result in all or any portion of the Bonds being treated as “federally guaranteed” within the meaning of Section 149(b)(2) of the Code.

(e) The Issuer shall file, or cause to be filed, all information returns required to be filed with respect to the Bonds pursuant to Section 149(e) of the Code.

(f) For purposes of this Section 507, the Issuer’s compliance shall be based solely on acts or omissions by the Issuer and no acts or omissions of, or directed by, the Company, the Trustee or any other Persons shall be attributed to the Issuer.

All officers, employees and agents of the Issuer are authorized and directed to provide certifications of facts and estimates that are material to the reasonable expectations of the Issuer as of the date of delivery of the Bonds. In complying with the foregoing covenants, the Issuer may rely from time to time upon a Favorable Opinion of Bond Counsel.

Section 508. Change in Law. To the extent that published rulings of the IRS, or amendments to the Code or the Regulations modify the covenants of the Issuer or the Trustee which are set forth in this Indenture or which are necessary for interest on any issue of the Bonds to be excludable from gross income for federal income tax purposes, the Trustee and the Issuer

will comply with such modifications, as described in an Opinion of Counsel delivered to the Issuer and the Trustee.

ARTICLE VI

CONSOLIDATION, MERGER, CONVEYANCE OR TRANSFER

Section 601. Consolidation, Merger, Conveyance, or Transfer Only on Certain Terms. The Issuer shall not consolidate with or merge into any other corporation or convey or transfer the Trust Estate substantially as an entirety to any Person, unless:

(a) such consolidation, merger, conveyance, or transfer shall be on such terms as shall fully preserve the lien and security hereof and the rights and powers of the Trustee and the Bondholders hereunder;

(b) the corporation formed by such consolidation or into which the Issuer is merged or the Person which acquires by conveyance or transfer the Trust Estate substantially as an entirety shall be organized and existing under the laws of the United States of America or any state or the District of Columbia and shall execute and deliver to the Trustee an indenture supplemental hereto in form satisfactory to the Trustee, meeting the requirements of Section 602 and containing:

(1) an assumption by such surviving or successor corporation or such transferee of the due and punctual payment of the principal of (and premium, if any) and interest on all the Bonds and the performance and observance of every covenant and condition of this Indenture to be performed or observed by the Issuer, subject, however, to the same limitations and conditions as are herein or in the Bonds provided, and

(2) a grant, conveyance and transfer complying with Section 602;

(c) immediately after giving effect to such transaction, no Event of Default hereunder (nor any event which, with the giving of notice or the elapse of time or both, would become an Event of Default as a result of such transaction) shall have occurred and be continuing;

(d) the Trustee and TEA 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 and TEA an Officers' Certificate and an Opinion of Counsel, each of which shall state that such consolidation, merger, conveyance, or transfer and such supplemental indenture comply with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

Section 602. Successor Issuer Substituted. Upon any consolidation or merger or any conveyance or transfer of the Trust Estate substantially as an entirety in accordance with Section 601, the successor corporation formed by such consolidation or into which the Issuer is merged or the Person to which such conveyance or transfer is made shall succeed to, and be substituted for, and may exercise every right and power of, the Issuer under this Indenture with the

same effect as if such successor had been named as the Issuer herein. If the supplemental indenture required by Section 601 shall contain a grant, conveyance and transfer, in terms sufficient to include and subject to the lien of this Indenture all and singular the properties described in the granting clauses hereof, whereupon such successor may cause to be executed, in its own name or in the name of the Issuer prior to such succession, and delivered to the Trustee for authentication, any Bonds issuable hereunder; and upon request of such successor, and subject to all the terms of this Indenture, the Trustee shall authenticate and deliver any Bonds which shall have been previously executed and delivered by the Issuer to the Trustee for authentication, and any Bonds which such successor shall thereafter, in accordance with this Indenture, cause to be executed and delivered to the Trustee for such purpose. Such changes in phraseology and form (but not in substance) may be made in such Bonds as may be appropriate in view of such consolidation, merger, conveyance, or transfer.

ARTICLE VII

REMEDIES OF THE TRUSTEE AND HOLDERS OF BONDS IN EVENT OF DEFAULT

Section 701. Events of Default. “Event of Default,” whenever used herein means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(1) default in the payment of (i) the principal of (and premium, if any) any Bond at its Maturity or (ii) an installment of interest on any Bond at the Stated Maturity for such installment; or

(2) default in the performance, or breach, of any covenant or agreement on the part of the Issuer contained in this Indenture (other than a covenant or agreement whose performance or observance is elsewhere in this Section specifically dealt with) and continuance of such default or breach for a period of thirty (30) days after there has been given, by registered or certified mail, to the Issuer, TEA and the Company by the Trustee, or to the Issuer, the TEA, the Company and the Trustee by the holders of at least 25% in principal amount of Bonds then Outstanding, a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a “Notice of Default” hereunder; provided that if such default can be cured by the Issuer but cannot be cured within the 30-day curative period described above, it shall not constitute an Event of Default if corrective action is instituted by the Issuer within such 30-day period and diligently pursued until the default is corrected, provided, however, if such default or breach shall last longer than 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 federal Bankruptcy Code or any other similar applicable federal or state

law, and such decree or order shall have continued undischarged and unstayed for a period of 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 bankruptcy, or shall consent to the institution of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization or arrangement under the federal Bankruptcy Code or any other similar applicable federal or state law, or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver or trustee or assignee in bankruptcy or insolvency of it or of its property, or shall make assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or corporate action shall be taken by the Company in furtherance of any of the aforesaid purposes; or

(5) the maturity of any Note issued under the Master Indenture shall be accelerated unless such acceleration has been rescinded and annulled pursuant to the Master Indenture; or

(6) an event of default occurs under any agreement pursuant to which any bonds, loans, certificates, installment or lease payments or similar obligations of the Company that are payable or secured on a parity or subordinate basis to the Bonds has been incurred or issued and that permits the holder of such obligation or trustee to accelerate the obligation or otherwise exercise rights or remedies that affect the Trust Estate or materially impairs the ability of the Company to timely pay principal and interest on the Bonds; or

(7) an "Event of Default" has occurred under any of the Bond Documents as the term "Event of Default" is therein defined.

If any portion of a Loan Payment shall not be paid at the time therein specified, the Trustee shall reasonably promptly give telephonic or facsimile notice to the Master Trustee and any Person that may execute an Officer's Certificate on behalf of the Company of such failure and shall reasonably promptly thereafter confirm such notice by telex, facsimile or letter to the other parties to the Bond Documents and TEA unless such amount is immediately thereafter paid.

Section 702. Acceleration. So long as the Bonds are guaranteed by the Permanent School Fund, the Bonds may not be accelerated.

Section 703. Collection of Indebtedness. The Issuer covenants that if

(1) default is made in the payment of any installment of interest on any Bond when such interest becomes due and payable, or

(2) default is made in the payment of the principal of (or premium, if any, on) any Bond when such principal becomes due and payable,

the Issuer will, upon demand of the Trustee, pay (but solely from the Trust Estate and the revenues pledged by this Indenture to such payment) to the Trustee, for the benefit of the Bondholders, the whole amount then due and payable on such Bonds for principal (and premium, if any) and interest, with interest upon the overdue principal (and premium, if any); and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

If the Issuer fails to pay any of the foregoing amounts forthwith upon demand, the Trustee, in its own name and as trustee of an express trust, may, with the consent of TEA and shall, upon direction of TEA, 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.

Section 704. Suits for Enforcement by Trustee. If an Event of Default occurs and is continuing, the Trustee may, with the consent of TEA and shall, upon the direction of TEA, proceed to protect and enforce its rights and the rights of the Bondholders by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

Section 705. Trustee May File Proofs of Claim.

(a) 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 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, with the consent of TEA, be entitled and empowered, by intervention in such proceeding or otherwise

(1) to file and prove a claim for the whole amount of principal (and premium, if any) and interest 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 Bondholders allowed in such judicial proceeding, and

(2) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any receiver, assignee, trustee, liquidator, sequestrator (or other similar official) in any such judicial proceeding is hereby authorized by each Bondholder to make such payments to the Trustee, and in the event that the Trustee shall consent to the making of such payments directly to the Bondholders, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under this Indenture.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Bondholder any plan of reorganization, arrangement, adjustment or composition affecting the Bonds or the rights of any Bondholder thereof, or to authorize the Trustee to vote in respect of the claim of any Bondholder in any such proceeding.

(b) Notwithstanding the foregoing, any reorganization or liquidation plan with respect to the Company must be acceptable to TEA. The Trustee and each Bondholder hereby appoints TEA as their agent and attorney-in-fact with respect to the Bonds and agree that TEA may at any time during the continuation of any proceeding by or against the Company under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding") direct all matters relating to such Insolvency Proceeding, including without limitation, (i) all matters relating to any claim or enforcement proceeding in connection with an Insolvency Proceeding (a "Claim"), (ii) the direction of any appeal of any order relating to any Claim, (iii) the posting of any surety, supersedeas or performance bond pending any such appeal, and (iv) the right to vote to accept or reject any plan of adjustment. In addition, the Trustee and each Bondholder delegate and assign to TEA, to the fullest extent permitted by law, the rights of the Trustee and each Bondholder with respect to the Bonds in the conduct of any Insolvency Proceeding, including, without limitation, all rights of any party to an adversary proceeding or action with respect to any court order issued in connection with any such Insolvency Proceeding.

Section 706. 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 Bondholders and TEA in respect of which such judgment has been recovered to the extent of the obligations then owing to such Persons.

Section 707. Application of Money Collected.

(a) Any money collected by the Trustee pursuant to this Article and any other sums then held by the Trustee as part of the Trust Estate shall be applied in the following order, at the

date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal (or premium, if any) or interest, upon presentation of the Bonds and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

(1) First: To the payment of all amounts due the Trustee under this Indenture;

(2) Second: To the payment of the amounts then due and unpaid upon the Bonds, for interest, in respect of which or for the benefit of which such money has been collected; ratably without preference or priority of any kind, according to the amounts due and payable on such Bonds for interest;

(3) Third: To the payment of the amounts then due and unpaid upon the 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);

(4) Fourth: To the Debt Service Fund, any remaining amounts of money so collected.

(b) If the Master Trustee has accelerated the Series 2023 Note, the portion of the master trust estate allocable to the Bonds under Section 405(c)(2) of the Master Indenture shall be applied to purchase Defeasance Obligations for deposit with the Trustee to defease all or a portion of the Bonds in inverse order of maturity through the earlier of their Maturity or first Optional Redemption date as set forth in the form of Bond attached hereto as Exhibit A.

Section 708. Limitation on Suits. Subject to Section 713(a) hereof, no Bondholder shall have the right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

(a) such Bondholder has previously given written notice to the Trustee of a continuing Event of Default;

(b) the holders of not less than 25 percent in principal amount of the Outstanding Bonds or TEA shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(c) the Bondholders have provided 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 offer of indemnity has failed to institute any such proceeding; and

(e) no direction inconsistent with such written request of Bondholders has been given to the Trustee during such 60-day period by TEA;

it being understood and intended that no one or more holders of the Bonds shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other holders of the Bonds, or to obtain or to seek to obtain priority or preference over any other holders of the Bonds, to take any action that would affect the validity of the lien of this Indenture on the Trust Estate, or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all the Bondholders and TEA to the extent of the amounts then owing to such Persons.

Section 709. Unconditional Right of Bondholders to Receive Principal, Premium and Interest. Notwithstanding any other provision in this Indenture, any Bondholder shall have the right which is absolute and unconditional to receive payment of the principal of (and premium, if any) and interest on such Bond, but solely from the sources provided in this Indenture, on the respective Stated Maturities expressed in such Bond (or, in the case of redemption, on the redemption date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Bondholder.

Section 710. Restoration of Rights and Remedies. If the Trustee, TEA or any Bondholder 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, TEA, or such Bondholder, then and in every such case the Issuer, the Trustee, TEA, the Company, and the Bondholders shall, subject to any determination in such proceeding, be restored severally and respectively to their former positions hereunder, and thereafter all rights and remedies of the Trustee, TEA and the Bondholders shall continue as though no such proceeding had been instituted.

Section 711. Rights and Remedies Cumulative. No right or remedy herein conferred upon or reserved to the Trustee, TEA or the Bondholders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 712. Delay or Omission Not Waiver. No delay or omission of the Trustee, TEA, or any Bondholder to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Indenture or by law to the Trustee, TEA or the Bondholders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee, TEA or the Bondholders, as the case may be.

Section 713. Control by TEA and Bondholders. (a) Anything to the contrary in this Indenture notwithstanding, subject to Section 1101(f) of this Indenture, so long as the Bonds are guaranteed by the Permanent School Fund, upon the occurrence and during the continuance of a default or an event of default under any Bond Document that is not remedied or cured pursuant to the corrective actions required or permitted under the Bond Documents, TEA shall be entitled to control and direct the enforcement of all rights and remedies granted to the Bondholders or the Trustee or Paying Agent for the benefit of the holders of the Bonds under any Bond Document.

(b) Subject to subsection (a) above, the holders of a majority in principal amount of the Outstanding Bonds, with the consent of TEA, 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,

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

(iii) the Trustee shall have been provided with an indemnity satisfactory to it.

Section 714. Waiver of Past Defaults. The holders of not less than a majority in principal amount of the Outstanding Bonds, with the prior written consent of TEA, and TEA may waive any past default hereunder and its consequences, except:

(a) a default in the payment of the principal of (or premium, if any) or interest on any Bond, or

(b) a default in respect of a covenant or provision hereof which under Article IX cannot be modified or amended without the consent of the holder of each Outstanding Bond affected.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

Section 715. Undertaking for Costs. All parties to this Indenture agree, and each Bondholder by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section shall not apply to any suit instituted by the Trustee, to any suit instituted by any Bondholder, or group of Bondholders, holding in the aggregate more than 10% in principal amount of the Outstanding Bonds, or to any suit instituted by any Bondholder for the enforcement of the payment of the principal of (or premium, if any) or interest on any Bond on or after the respective Stated Maturities expressed in such Bond (or, in the case of redemption, on or after the redemption date).

Section 716. Waiver of Stay or Extension Laws. The Issuer covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Issuer (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants (to the extent it may lawfully do so) that it will not

hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

Section 717. No Recourse Against Others. No recourse under or upon any obligation, covenant or agreement contained in this Indenture or any indenture supplemental hereto, or in the Agreement, or in any Bond or any Note, or for any claim based thereon or otherwise in respect thereof, shall be had against any incorporator, or against any past, present or future director, officer or employee, as such, of the Issuer, the Company or the City or of any successor corporation, either directly or through the Issuer, the Company or the City, 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 Series 2023 Note 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 City 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 the Series 2023 Note 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 the Series 2023 Note.

Section 718. Expenses Payable under Indenture. All expenses incurred in carrying out this Indenture shall be payable solely from funds derived by the Issuer from the Company. Anything in this Indenture to the contrary notwithstanding, the performance by the Issuer of all duties and obligations imposed upon it hereby, the exercise by it of all powers granted to it hereunder, the carrying out of all covenants, agreements and promises made by it hereunder, and liability of the Issuer for all warranties and other covenants herein shall be limited solely to the Trust Estate; and the Issuer shall not be required to effectuate any of its duties, obligations, powers or covenants except from, and to the extent of, such moneys, revenues, proceeds, and payments.

Section 719. Termination of Default. Once an Event of Default has been cured in accordance with the provisions of this Indenture, such Event of Default will be deemed to no longer exist and the Trustee shall notify the Company in writing that such Event of Default has been cured and all corrective actions under this Indenture shall immediately cease unless or until another Event of Default shall occur.

ARTICLE VIII

CONCERNING THE TRUSTEE

Section 801. Duties and Liabilities of Trustee.

(a) The Trustee accepts and agrees to execute the specific trusts imposed upon it by this Indenture, but only upon the terms and conditions set forth herein, and no implied covenants or obligations shall be read into this Indenture against the Trustee.

(b) In case any Event of Default (of which the Responsible Officer has actual knowledge or is deemed to have actual knowledge under Section 803(h) hereof) has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a reasonably prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(c) No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except, that:

(1) this subsection shall not be construed to limit the effect of subsection (a) of this Section or Section 803;

(2) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts;

(3) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with any direction given to the Trustee at the direction of the holders of not less than a majority in aggregate principal amount of Bonds then Outstanding or TEA relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture; and

(4) no provision of this Indenture shall require the Trustee to expend or risk its funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that the repayment of such funds or adequate indemnity against such risk or liability or the payment of its fees and expenses is not reasonably assured to it.

(d) Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section and Sections 803 and 813.

Section 802. Notice of Defaults. Within sixty (60) days after the occurrence of any default hereunder of which the Trustee has actual knowledge, the Trustee shall send to TEA and all Bondholders, notice of such default, unless such default shall have been cured or waived or unless corrective action to cure such default has been instituted and is being pursued such that such default does not constitute an Event of Default; provided, however, that except in the case of a default in the payment of the principal of (or premium, if any) or interest on any Bonds or in the payment of any sinking or purchase fund installment, the Trustee shall be protected in withholding such notice from the Bondholders if and so long as the board of directors, the executive committee or a trust committee of directors and/or Responsible Officers of the Trustee in good faith determine that the withholding of such notice is in the interest of the Bondholders; provided, further, that in the case of any default of the character specified in Section 701(2) hereof no such notice to Bondholders shall be given until at least thirty (30) days after the occurrence thereof. For the

purpose of this Section, the term “default” means any event which is, or after notice or lapse of time or both would become, an Event of Default.

The Trustee shall mail, first-class postage prepaid, to each Rating Service then rating the Bonds notice of any of the following events, whenever:

(a) the Trustee, pursuant to this Indenture, has resigned or been removed and a successor Trustee has been appointed, such notice to be mailed within ten Business Days after the appointment of such successor Trustee;

(b) an amendment or supplement to the Bond Documents executed or consented to by the Trustee or of which the Trustee has received written notice is to be entered into, such notice and a copy of such amendment or supplement to such Rating Service to be mailed at least ten Business Days prior to the effective date of such amendment or supplement and within three Business Days after the receipt of such written notice by the Trustee;

(c) the Trustee receives a Company Request pursuant to Section 302 which directs the Trustee to redeem all the Outstanding Bonds, such notice to be mailed within ten Business Days after the receipt of such Company Request (and to specify the Redemption Date requested thereby); or

(d) all Bonds shall be deemed to have been paid or defeased as provided in Article X hereof.

Section 803. Certain Rights of Trustee.

(a) The Trustee may conclusively rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties and shall not be required to verify the accuracy of any information or calculations required to be included therein or attached thereto;

(b) Any request or direction of any Person mentioned herein shall be sufficiently evidenced by a Request of such Person; and any resolution of the Governing Body of any Person may be evidenced to the Trustee by a Board Resolution of such Person;

(c) Whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officer’s Certificate;

(d) The Trustee may consult with counsel selected with due care and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(e) The Trustee shall be under no obligation to exercise any of the discretionary rights or powers vested in it by this Indenture at the request or direction of any of the Bondholders or TEA pursuant to the provisions of this Indenture, unless such Bondholders or TEA shall have provided to the Trustee reasonable security or indemnity satisfactory to it against the costs, expenses and liabilities which might be incurred by it in connection with such request or direction and for the payment of the Trustee's fees in connection therewith;

(f) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Issuer, personally or by agent or attorney and to take copies of such memoranda from and in regard thereto as may be reasonably be desired; provided that, the Trustee shall have no obligation to perform any of the duties of the Issuer under this Indenture or of the Company under any of the Bond Documents;

(g) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys, but the Trustee shall not be held liable for any negligence or misconduct of any such agent or attorney appointed with due care;

(h) The Trustee shall not be required to take notice or be deemed to have notice of any default hereunder unless the Responsible Officer shall be specifically notified of such default in writing by the Issuer, TEA, or the Company or by a Bondholder, and in the absence of such notice the Trustee may conclusively assume that no default exists; provided, however, that the Trustee shall be required to take and be deemed to have notice of its failure to receive the moneys necessary to make payments when due of Debt Service;

(i) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with any direction of the Bondholders of the applicable percentage of the holders of Outstanding Bonds permitted to be given by them under this Indenture;

(j) The Trustee may seek the approval of the Bondholders or TEA by any means it deems appropriate and not inconsistent with the terms of this Indenture or the Master Indenture in connection with the giving of any consent or taking of any action in its capacity as holder of any Note;

(k) The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty to take such action;

(l) The Trustee shall not be required to give any bond or surety in respect of the execution of the trusts and powers established by this Indenture;

(m) The Trustee shall not be responsible for monitoring the existence of or determining whether any lien or encumbrance or other charge including without limitation any Permitted Encumbrance (as defined in any Deed of Trust) exists against the Project or the Trust Estate;

(n) The Trustee shall not be bound to ascertain or inquire as to the performance or observance of any covenants, conditions or agreements on the part of the Issuer herein except as may be expressly provided for herein or therein. The Trustee may require of the Issuer full information and advice as to the performance of the aforesaid covenants, conditions and agreements; and

(o) The Trustee's rights to immunities and protection from liability hereunder will survive its resignation or removal and final payment or defeasance of the Bonds.

Notwithstanding the aforesaid, the Trustee shall be required to pay the Bondholders at the times required under this Indenture so long as moneys are available therefor.

Section 804. Not Responsible For Recitals or Issuance of Bonds. The recitals contained herein and in the 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 connection with the offer or sale of the Bonds. The Trustee shall not be accountable for the use or application by the Issuer or the Company of any of the Bonds or of the proceeds of such Bonds.

Section 805. Trustee May Own Bonds. The Trustee or any other agent appointed hereunder, in its individual or any other capacity, may become the owner or pledgee of Bonds and may otherwise deal with the Issuer with the same rights it would have if it were not Trustee or such other agent.

Section 806. Moneys to Be Held in Trust. All moneys received by the Trustee shall, until used or applied as herein provided (including payment of moneys to the Company under Section 1001), be held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any moneys received by it hereunder other than such interest as it expressly agrees in writing with the Issuer or the Company to pay.

Section 807. Compensation and Expenses of Trustee and Paying Agent. The Issuer agrees, but solely from the Trust Estate and the revenues pledged by this Indenture to such payment,

(1) to pay to the Trustee, Bond Registrar, Authenticating Agent, and Paying Agent from time to time, when due, reasonable compensation for all services rendered by them hereunder, including extraordinary services during the

existence of a default, which shall not be limited by any law limiting the compensation of the trustee of an express trust; and

(2) except as otherwise expressly provided herein, to reimburse the Trustee and the Paying Agent in a timely manner 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 determined by a non-appealable court of competent jurisdiction to have been the result of the negligence or bad faith of such Person.

Nothing in this Section 807 shall affect or otherwise diminish the obligations of the Company to pay compensation and indemnification to the Trustee in accordance with the Agreement as security for the performance of the obligations of the Issuer under this Section and the obligations of the Company under Sections 4.7(b) and 5.1(h) of the Agreement. As such security for the performance of the obligations of the Issuer under this Section the Trustee shall have a lien prior to the Bonds upon all property and funds held or collected by the Trustee as such.

When the Trustee incurs expenses or renders services in connection with any bankruptcy or insolvency proceeding, such expenses (including the fees and expenses of its counsel) and the compensation for such services are intended to constitute expenses of administration under any bankruptcy law or law relating to creditors' rights generally.

Section 808. Corporate Trustee Required; Eligibility. There shall at all times be a Trustee hereunder authorized which shall be (i) a national banking association that is supervised by the Office of the Comptroller of the Currency and has at least \$250,000,000 of assets, (ii) a state-chartered commercial bank that is a member of the Federal Reserve System and has at least \$1,000,000,000 of assets, or (iii) a corporation otherwise approved by TEA in writing in its sole and exclusive discretion, authorized to exercise corporate trust powers. 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 assets of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

Section 809. Resignation and Removal; Appointment of Successor.

(a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee under Section 810.

(b) The Trustee may resign at any time by giving sixty (60) days written notice thereof to the Issuer and the Company. If an instrument of acceptance by a successor Trustee shall not

have been delivered to the Trustee within 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 by an act of the holders of a majority in principal amount of the Outstanding Bonds, in each case delivered to the Trustee and the Issuer.

(d) If at any time:

(1) the Trustee shall cease to be eligible under Section 808 and shall fail to resign after written request by the Issuer or by any such Bondholder, or

(2) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (i) the Issuer, by an Issuer Request, or the Company, by Company Request, may remove the Trustee and (ii) if neither the Issuer nor the Company has acted within sixty (60) days subject to Section 714, any Bondholder 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, or the Company, by Company Request, shall promptly appoint a successor Trustee. If, within 3 months after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee shall be appointed by Act of the holders of a majority in principal amount of the Outstanding Bonds delivered to the Issuer and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee and supersede the successor Trustee appointed by the Issuer or the Company. If no successor Trustee shall have been so appointed by the Issuer, the Company or the Bondholders and accepted appointment in the manner hereinafter provided, any Bondholder who has been a bona fide Bondholder for at least 6 months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee.

(f) So long as no default or Event of Default has occurred and is continuing hereunder, the Company at any time may remove the Trustee and appoint a substitute Trustee and notify the Issuer promptly of such an occurrence.

(g) The Company shall give, or cause to be given, notice of each resignation and each removal of the Trustee and each appointment of a successor Trustee by mailing written notice of such event by first-class mail, postage prepaid, to the Bondholders at their addresses as shown in the Bond Register. Each notice shall include the name and address of the applicable corporate trust office or payment office of the successor Trustee.

Section 810. Acceptance of Appointment by Successor. Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to the Issuer and to the retiring

Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on request of the Issuer or the successor Trustee, such retiring Trustee shall execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee, and shall duly assign, transfer and deliver to the successor Trustee, any and all property and money held by such retiring Trustee hereunder. Upon request of any such successor Trustee, the Issuer shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts.

No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article.

Section 811. Merger or Consolidation. Any corporation into which the Trustee may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all of the municipal corporate trust business of the Trustee, shall be the successor Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, to the extent operative, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Bonds shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger or consolidation to such authenticating Trustee may adopt such authentication and deliver the Bonds so authenticated with the same effect as if such successor Trustee had itself authenticated such Bonds.

Section 812. Authenticating Agent. There may (and whenever the Trustee shall not maintain an office or agent in each Place of Payment there shall) be an Authenticating Agent appointed by the Trustee with power to act on its behalf and subject to its direction in the authentication and delivery of the Bonds in connection with delivery of Bonds pursuant to Section 203 and transfers and exchanges under Sections 204, 205 and 307, as fully to all intents and purposes as though the Authenticating Agent had been expressly authorized by those Sections to authenticate and deliver the Bonds. For all purposes of this Indenture, the authentication and delivery of the Bonds by the Authenticating Agent pursuant to this Section shall be deemed to be the authentication and delivery of the Bonds “by the Trustee”.

The Trustee is hereby appointed as Authenticating Agent with respect to the Bonds.

Each Authenticating Agent shall at all times be a bank or trust company having an office or agent in a Place of Payment, and shall at all times be a corporation organized and doing business under the laws of the United States or of any state with a combined capital and surplus of at least \$50,000,000 and authorized under such laws to exercise corporate trust powers and subject to supervision or examination by federal or state authority. If such corporation publishes reports of condition at least annually pursuant to law or the requirements of such authority, then for the purposes of this Section the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

Any corporation into which any Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, consolidation, or

conversion to which any Authenticating Agent shall be a party, or any corporation succeeding to the corporate trust business of any Authenticating Agent, shall be the successor of the Authenticating Agent hereunder, if such successor corporation is otherwise eligible under this Section, without the execution or filing of any further act on the part of the parties hereto or the Authenticating Agent or such successor corporation.

Any Authenticating Agent may at any time resign by giving written notice of resignation to the Trustee, the Issuer and the Company. The Trustee may at any time terminate the agency of any Authenticating Agent by giving written notice of termination to such Authenticating Agent and to the Issuer and the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time any Authenticating Agent shall cease to be eligible under this Section, the Trustee shall promptly appoint a successor Authenticating Agent and shall give written notice of such appointment to the Issuer and the Company.

The Trustee shall be entitled to be reimbursed for any reasonable compensation paid by the Trustee to the Authenticating Agent for its service subject to Sections 803 and 807. The provisions of Sections 207, 803, 804, and 805 of this Indenture shall be applicable to any Authenticating Agent.

Section 813. Trustee Liability for Agents. Notwithstanding anything contained herein to the contrary, the Trustee shall not be liable for any failure of the Paying Agent, the Bond Registrar or the Authenticating Agent to perform in accordance with this Indenture any duty required or authorized herein to be performed by such Person or for any other acts or omissions of such Person.

Section 814. Facsimile and Electronic Transmissions. The Trustee agrees to accept and act upon instructions or directions pursuant to this Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that: (a) subsequent to such transmission of written instructions and/or directions the Trustee shall forthwith receive the originally executed instructions and/or directions in a timely manner, (b) such originally executed instructions and/or directions shall be signed by a person as may be designated and authorized to sign for the party signing such instructions and/or directions, and (c) the Trustee shall have received an incumbency certificate listing such designated persons and containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and replaced whenever a person is to be added or deleted from the listing. If the Issuer or the Company elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions shall be deemed controlling. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The Issuer and the Company agree to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

ARTICLE IX

SUPPLEMENTS AND AMENDMENTS

Section 901. Supplemental Indentures and Amendatory Agreements Without Consent of Bondholders. Without the consent of the Bondholders, the Issuer, when authorized by a Board Resolution, and the Trustee at any time upon receipt of Company Consent, may enter into or consent to one or more indentures supplemental hereto, subject to Section 903 hereof, or amendments to the Agreement for any of the following purposes:

(1) to evidence the succession of another Person to the Issuer or the Company, or successive successions, and the assumption by the successor Person of the covenants, agreements and obligations of the Issuer as permitted by this Indenture or the Company as permitted by the Agreement;

(2) to add to the covenants of the Issuer or the Company for the benefit of the Bondholders, or to surrender any right or power herein or therein conferred upon the Issuer or the Company;

(3) to cure any ambiguity or to correct or supplement any provision herein or therein which may be inconsistent with any other provision herein or therein, or to make any other provisions with respect to matters or questions arising under this Indenture or the Agreement which shall not be inconsistent with this Indenture, provided such action shall not adversely affect the interests of the Bondholders;

(4) to modify or supplement this Indenture in such manner as may be necessary to qualify this Indenture under the Trust Indenture Act of 1939 as then amended, or under any similar federal or state statute or regulation, including provisions whereby the Trustee accepts such powers, duties, conditions and restrictions hereunder and the Issuer or the Company undertakes such covenants, conditions or restrictions additional to those contained in this Indenture as would be necessary or appropriate so to qualify this Indenture; provided, however, that nothing herein contained shall be deemed to authorize inclusion in this Indenture or in any indenture supplemental hereto, provisions referred to in Section 316(a)(2) of the said Trust Indenture Act or any corresponding provision provided for in any similar statute hereafter in effect;

(5) in connection with any other change herein or therein which, in the judgment of a Management Consultant, a copy of whose report shall be filed with the Trustee, (a) is in the best interest of the Company and (b) does not materially adversely affect any Bondholder; provided that no such change shall be made if within 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 902. Supplemental Indentures and Amendatory Agreements With Consent of Bondholders. With the consent of TEA and the holders of not less than a majority in principal amount of the Outstanding Bonds affected by such supplemental indenture, by Act of such Bondholders delivered to the Issuer, the Company, the Trustee and the Rating Service, the Issuer, when authorized by a Board Resolution, and the Trustee may, upon receipt of a Company Consent, enter into or consent to an indenture or indentures supplemental hereto (subject to Section 903 hereof), amendments to the Agreement for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or the Agreement or of modifying in any manner the rights of the Bondholders under this Indenture or the Agreement; provided, however, that no such supplemental indenture or amendment shall, without the consent of each Bondholder affected thereby:

(1) change the Stated Maturity of the principal of, or any installment of interest on, any Bonds or any date for mandatory redemption thereof, or reduce the principal amount thereof or the interest thereon or any premium payable upon the redemption thereof, or change the coin or currency in which, any Bonds or the interest thereon is payable, or impair or subordinate the lien of this Indenture on the Trust Estate or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the redemption date), or

(2) reduce the percentage in principal amount of the Outstanding Bonds, the consent of whose holders is required for any such supplemental indenture, or the consent of whose holders is required for any waiver (of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences) provided for in this Indenture, or

(3) modify any of the provisions of this Section or Section 713, except to increase any such percentage or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of each Bondholder affected thereby.

It shall not be necessary for any act of Bondholders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such act of Bondholders shall approve the substance thereof.

Section 903. Execution of Supplemental Indentures. In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by this Indenture and in consenting to any amendment to the Agreement or to any indenture supplemental to this Indenture, the Trustee shall be entitled to receive, and (subject to Section 801) shall be fully protected in relying upon, a Favorable Opinion of Bond Counsel and an Opinion of Counsel stating that the execution of such

supplemental indenture or consent is authorized or permitted by this Indenture. The Trustee may, but shall not (except to the extent required in the case of a supplemental indenture entered into under Section 901(4)) be obligated to, enter into any such supplemental indenture or consent which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise. The Trustee shall not execute any supplemental indenture without the Consent of the Company.

Section 904. Effect of Supplemental Indentures. Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes, and every Bondholder thereafter or theretofore authenticated and delivered hereunder shall be bound thereby.

Section 905. Bonds May Bear Notation of Changes. Bonds authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Issuer or the Trustee shall so determine, new Bonds so modified as to conform, in the opinion of the Trustee and the Issuer, to any such supplemental indenture may be prepared and executed by the Issuer and authenticated and delivered by the Trustee in exchange for Bonds then Outstanding.

ARTICLE X

SATISFACTION AND DISCHARGE OF INDENTURE; UNCLAIMED MONEYS

Section 1001. Satisfaction and Discharge of Indenture. Whenever the following conditions shall exist, namely:

(a) all Bonds theretofore authenticated and delivered have been cancelled by the Trustee or delivered to the Trustee for cancellation, excluding, however:

(1) Bonds alleged to have been destroyed, lost, or stolen which have been replaced or paid as provided in Section 205, except for any such Bond which, prior to the satisfaction and discharge of this Indenture, has been presented to the Trustee with a claim of ownership and enforceability by the holder thereof and where enforceability has not been determined adversely against such Bondholder by a court of competent jurisdiction,

(2) Bonds, other than those referred to in paragraph (1) above, for the payment or redemption of which the Issuer or the Company has deposited or caused to be deposited with the Trustee at the Maturity thereof in trust for such purpose funds (which shall be immediately available for payment) in an amount sufficient to pay and discharge the entire indebtedness on such Bonds for principal (and premium, if any) and interest to such Maturity, and

(3) Bonds deemed no longer Outstanding as a result of the deposit or escrow of money or Defeasance Obligations or both as described in Section 1002;

(b) the Issuer or the Company has paid or caused to be paid all other sums payable by the Issuer or the Company, if any, hereunder and under the Agreement (in addition to amounts due and payable by the Company pursuant to Section 4.1(a) or (b) of the Agreement and the terms of the Series 2023 Note); and

(c) there has been delivered to the Trustee an Opinion of Counsel stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with;

then, upon Company Request, this Indenture and the lien, rights, and interests created hereby shall cease, determine, and become null and void (except as to any surviving rights of transfer, exchange, or tender of Bonds herein or therein provided for) and the Trustee and each co-trustee and separate trustee, if any, then acting as such hereunder shall, at the expense of the Company, execute and deliver a termination statement and such instruments of satisfaction and discharge as may be necessary (in form and substance satisfactory to Company) and pay, assign, transfer, and deliver to the Company or upon Company Order all cash, securities, and other property then held by it hereunder as a part of the Trust Estate.

In the absence of a Company Request as aforesaid, the payment of all Outstanding Bonds shall not render this Indenture inoperative.

Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Issuer and the Company to the Trustee under Section 807 shall survive unless otherwise agreed by the Trustee in writing.

Section 1002. Payment of Bonds.

(a) Bonds shall be deemed to have been paid for purposes of this Indenture if (a) there has been deposited with the Trustee in trust in a segregated account either (i) moneys in an amount, or (ii) Defeasance Obligations, the principal of and interest on which will, when due, without further investment or reinvestment of either the principal amount thereof or the interest earnings thereon (as established by a report of an Independent certified public accountant setting forth the calculations upon which such report is based), provide moneys in an amount, which, together with any moneys deposited with or held by the Trustee at the same time and available for such purpose pursuant to this Indenture, will be sufficient to pay when due and payable the principal, premium, if any, and interest due and payable and to become due and payable on and prior to the respective redemption dates or Maturity dates of such Bonds, or (iii) a combination of (i) and (ii), and (b) in case any of such Bonds are to be redeemed on any date prior to their Stated Maturity, the Company (1) has given to the Trustee irrevocable written instructions instructing the Trustee to effect the redemption of such Bonds on such date and to give notice of such redemption to Bondholders prior to said date as provided in Exhibit A to this Indenture, or (2) 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 Company has given irrevocable written instructions to the Trustee to give notice to the Bondholders 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 (ii) or (iii) during the continuance of an Event of Default. For purposes of this Section, Defeasance Obligations issued or held in the name of the Trustee in book-entry form on the books of the Department of Treasury of the United States of America shall be deemed to be deposited with the Trustee.

Any Defeasance Obligations deposited with the Trustee pursuant to this Section shall mature on such dates as shall be required for the aforesaid purpose. Such Defeasance Obligations shall not contain provisions permitting the redemption thereof at the option of the issuer thereof. If the Bonds are defeased as provided for herein, the Guarantee of the Bonds shall automatically be removed in its entirety.

(b) Any release under this Section shall be without prejudice to the right of the Trustee to be paid reasonable compensation for all services rendered by it under this Indenture and all its reasonable expenses, charges and other disbursements and those of its attorneys, agents and employees, incurred on and about the administration of trusts created by this Indenture and the performance of its powers and duties under this Indenture.

Section 1003. Application of Trust Money. The Defeasance Obligations and money deposited with the Trustee pursuant to Section 1002 and principal or interest payments on any such Defeasance Obligations shall be held in trust, shall not be sold or reinvested, and shall be applied by it, in accordance with the provisions of the Bonds and this Indenture, to the payment, either directly or through any Paying Agent, to the Persons entitled thereto, of the principal (and premium, if any) and interest for whose payment such money or Defeasance Obligations were deposited; provided that, upon delivery to the Trustee of an Officer's Certificate (accompanied by the report of an Independent certified public accountant setting forth the calculations upon which such Officer's Certificate is based) establishing that the money and Defeasance Obligations on deposit following the taking of the proposed action will be sufficient for the purposes described in Section 1002(a), any money received from principal or interest payments on Defeasance Obligations deposited with the Trustee or the proceeds of any sale of such Defeasance Obligations, if not then needed for such purpose, shall, upon Company Request be reinvested in other Defeasance Obligations or disposed of as requested by the Company. For purposes of any calculation required by this Article, any Defeasance Obligation which is subject to redemption at the option of its issuer, the redemption date for which has not been irrevocably established as of the date of such calculation, shall be assumed to cease to bear interest at the earliest date on which such obligation may be redeemed at the option of the issuer thereof and the principal of such obligation shall be assumed to be received at its stated maturity.

Section 1004. Payments Made Under the Guarantee. In the event that principal and/or interest due on the Bonds shall be paid by TEA pursuant to the Guarantee, the Bonds shall remain outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Issuer or Company, the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the Issuer to the Bondholders shall continue to exist and shall run to the benefit of TEA, and TEA shall be subrogated to the rights of such Bondholders.

ARTICLE XI

PERMANENT SCHOOL FUND GUARANTEE

Section 1101. General Provisions Relating to TEA

(a) The parties hereto expressly recognize that TEA is a third party beneficiaries to this Indenture and may enforce any right, remedy, or claim conferred, given or granted hereunder.

(b) Any provision under any Bond Document which requires the consent of the Bondholders shall also require TEA's prior written consent and any provision of the Master Indenture that requires the consent of the Trustee as Holder of the Series 2023 Note shall also require TEA's consent.

(c) The Company, as the Issuer or on behalf of the Issuer, will provide TEA with all notices and other information that the Company is obligated to provide (a) under its Continuing Disclosure Agreement and (b) to the Bondholders or the Trustee under the Bond Documents.

(d) Any amendment, supplement, modification to, or waiver of, any of the Bond Documents that requires the consent of Bondholders or adversely affects the rights or interests of TEA shall be subject to the prior written consent of TEA.

(e) The rights granted to TEA under the Bond Documents to request, consent to or direct any action are rights granted to TEA in consideration of its issuance of the Guarantee. Any exercise by TEA of such rights is merely an exercise of the TEA's contractual rights and shall not be construed or deemed to be taken for the benefit, or on behalf, of the Bondholders and such action does not evidence any position of TEA, affirmative or negative, as to whether the consent of the Bondholders or any other person is required in addition to the consent of TEA.

(f) In the event of a TEA Default, notwithstanding anything in this Indenture to the contrary, (i) if at any time prior to or following a TEA Default, TEA has made payment under the Guarantee, to the extent of such payment TEA shall be treated like any other Bondholder for all purposes, including giving of consents, and (ii) if TEA has not made any payment under the Guarantee, TEA shall have no further consent rights until the particular TEA Default is no longer continuing or TEA makes a payment under the Guarantee, in which event, the foregoing clause (i) shall control.

Section 1102. Payment Procedure Under the Guarantee. (a) In the event that on the tenth (10th) Business Day (or such shorter period as may be agreed to in writing by TEA) prior to any payment date on the Bonds, the Paying Agent or Trustee has not received sufficient moneys to pay all principal of and interest on the Bonds due on such payment date, the Paying Agent or Trustee

shall immediately notify the Commissioner on the same business day by telephone or electronic mail, of the amount of the deficiency.

(a) If any deficiency is made up in whole or in part prior to or on the payment date, the Paying Agent or Trustee shall so notify the Commissioner.

(b) In addition, if the Paying Agent or Trustee has notice that any Bondholder has been required to disgorge payments of principal of or interest on the Bonds pursuant to a final, non-appealable order by a court of competent jurisdiction that such payment constitutes an avoidable preference to such holder within the meaning of any applicable bankruptcy law, then the Paying Agent or Trustee shall notify TEA or its designee of such fact by telephone or electronic mail, or by overnight or other delivery service as to which a delivery receipt is signed by a person authorized to accept delivery on behalf of TEA.

(c) The Trustee shall irrevocably be designated, appointed, directed and authorized to act as attorney-in-fact for holders of the Bonds as follows:

(1) Deficiency in Interest. If there is a deficiency in amounts required to pay interest on the Bonds, the Trustee shall (i) execute and deliver to TEA, in form satisfactory to TEA, an instrument appointing TEA as agent and attorney-in-fact for such holders of the Bonds in any legal proceeding related to the payment and assignment to TEA of the claims for interest on the Bonds, (ii) receive as designee of the respective holders (and not as Paying Agent) in accordance with the tenor of the Guarantee payment from TEA with respect to the claims for interest so assigned, (iii) segregate all such payments in a separate account (the "TEA Guarantee Payment Account") to only be used to make scheduled payments of principal of and interest on the Bonds, and (iv) disburse the same to such respective holders; and

(2) Deficiency in Principal. If there is a deficiency in amounts required to pay principal of the Bonds, the Trustee shall (i) execute and deliver to TEA, in form satisfactory to TEA, an instrument appointing TEA as agent and attorney-in-fact for such holder of the Bonds in any legal proceeding related to the payment of such principal and an assignment to TEA of the Bonds surrendered to TEA, (ii) receive as designee of the respective holders (and not as Paying Agent) in accordance with the tenor of the Guarantee payment therefore from TEA, (iii) segregate all such payments in the TEA Guarantee Payment Account to only be used to make scheduled payments of principal of and interest on the Bonds, and (iv) disburse the same to such respective holders. The Trustee shall designate any portion of payment of principal on Bonds paid by the Comptroller on behalf of TEA, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Bonds registered to the then current holder, whether DTC or its nominee or otherwise; provided that the Trustee's failure to so designate any payment shall have no effect on the amount of principal or interest payable by the Issuer on any Bonds or the subrogation or assignment rights of TEA.

(d) Payments with respect to claims for interest on and principal of the Bonds disbursed by the Paying Agent or Trustee from proceeds of the Guarantee shall not be considered to discharge the obligation of the Issuer with respect to such Bonds, and TEA shall become the holder of such unpaid Bonds and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of the preceding paragraphs or otherwise. The Bond Documents shall not be discharged or terminated unless all amounts due or to become due to TEA have been paid in full or duly provided for.

(e) Irrespective of whether any such assignment is executed and delivered, the Issuer, Company and the Paying Agent and Trustee agree for the benefit of TEA that: (i) to the extent that the Comptroller makes payment on behalf of TEA on account of principal of or interest on the Bonds, TEA will be subrogated to the rights of such holders to receive the amount of such principal and interest from the Issuer or Company, with interest thereon, as provided and solely from the sources stated in the Bond Documents and the Bonds or as provided by law; and (ii) they will accordingly pay to TEA the amount of such principal and interest, with interest thereon as provided in the transaction documents and the Bonds, but only from the sources and in the manner provided therein for the payment of principal and interest on the Bonds to holders or as provided by law, and will otherwise treat TEA as the holder of such rights to the amount of such principal and interest.

(f) The TEA shall be entitled to pay principal or interest on the Bonds that shall become due for payment but shall be unpaid by reason of nonpayment only upon TEA's receipt of the requisite notice specified in this section.

Section 1103. Consent Required for Release, Sale, Disposition, or Substitution of Property. (a) During the pendency of any Event of Default and so long as the Bonds are outstanding or any amounts are due and payable to TEA, no complete or partial release, sale, disposition or substitution of any property subject to any mortgage, deed of trust or other document evidencing a security interest in, or otherwise pledged, directly or indirectly, to secure the Bonds (the "Property"), shall occur without the prior written consent of TEA. Notwithstanding the foregoing, and at any time other than the during the pendency of an Event of Default, and so long as the Bonds are outstanding, any complete or partial release, sale, disposition or substitution of any Property shall only occur in accordance with the applicable provisions of the Bond Documents.

With respect to substitution or replacement of any Property, or the subsequent acquisition of additional real property by the Company that is intended to become part of the Trust Estate, the Bond Documents shall contain covenants requiring that the Company (i) provide at least thirty (30) days' prior written notice to the Trustee and TEA, which notice shall include (1) a reasonably detailed summary of the conveyances that are subject to the proposed substitution, replacement, and/or acquisition, (2) valid legal description of the after-acquired real property, and (3) a supplemental Deed of Trust in favor of the Master Trustee evidencing lien priority on property resultant from such substitution, replacement or acquisition of the same (or superior) priority to the lien required by TEA at the time the Deed of Trust originally granting TEA its security interest in the Property was recorded, and (ii) execution and recordation of such supplemental Deed of Trust in in favor of the Master Trustee

Section 1104. Conflicting Provisions. So long as the Guarantee is effective, the Guarantee shall be in addition to and, to the extent possible, reconciled with other provisions in the Bond Documents; provided, however, that, if there has been any draw upon the Guarantee, then the Guarantee provisions, including those set forth in Sections 701, 702, 703, 705, 713, 714, 1101, 1102 and 1103 of this Indenture and Sections 4.6, 6.1, 6.2 and 6.3 of the Agreement, shall supersede any conflicting or inconsistent provisions in the Bond Documents.

ARTICLE XII

MISCELLANEOUS

Section 1201. 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 1202. Final Agreement. This written Indenture represents the final agreement between the parties and may not be contradicted by evidence of prior, contemporaneous, or subsequent oral agreements of the parties. There are no unwritten oral agreements between the parties.

IN WITNESS WHEREOF, the Issuer and the Trustee have caused this Indenture to be signed on their behalf by their duly authorized representatives as of the date first written above.

CLIFTON HIGHER EDUCATION FINANCE
CORPORATION

By: _____
Vice President, Board of Directors

HANCOCK WHITNEY BANK,
as Trustee

By: _____
Name:
Title:

ACCEPTED AND AGREED TO BY:

HANCOCK WHITNEY BANK,
as Paying Agent and Bond Registrar

By: _____
Name:
Title:

EXHIBIT A

FORM OF DEFINITIVE BONDS

EXCEPT AS MAY OTHERWISE BE PROVIDED HEREIN, THIS BOND OR ANY PORTION HEREOF MAY BE TRANSFERRED ONLY IN MINIMUM DENOMINATIONS OF \$5,000 OR ANY INTEGRAL MULTIPLE THEREOF (“AUTHORIZED DENOMINATIONS”).

1. Form of Definitive Bonds.

NO. RA- _____ REGISTERED
\$ _____

UNITED STATES OF AMERICA
STATE OF TEXAS
CLIFTON HIGHER EDUCATION FINANCE CORPORATION
EDUCATION REVENUE BOND (YES PREP PUBLIC SCHOOLS INC.)
SERIES 2023

Interest Rate **Maturity Date** **Issue Date** **CUSIP NO.**
% April 1, ____ August 9, 2023

CLIFTON HIGHER EDUCATION FINANCE CORPORATION (the “Issuer”), a nonstock, nonprofit higher education finance corporation organized and existing pursuant to the laws of the State of Texas (the “State”), including Chapter 53, Texas Education Code, and particularly Sections 53.35(b) and 53.48 thereof (the “Act”), hereby promises to pay to the order of CEDE & CO., or registered assigns, at the principal payment office of Hancock Whitney Bank, in Baton Rouge, Louisiana (the “Place of Payment”), the aggregate principal amount of _____ 00/100 DOLLARS (\$ _____) on the Maturity Date set forth above (or earlier as hereinafter provided) and to pay interest thereon, calculated on the basis of a 360-day year of twelve 30-day months at the per annum rate set forth above, from 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 date of this Bond is August 1, 2023.

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 Series 2023 Note, the Agreement (all as defined herein), and this Bond. The Bonds are special and limited obligations payable solely as provided herein. NONE OF THE CITY OF CLIFTON, 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 CITY OF CLIFTON, TEXAS, 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 Hancock Whitney Bank (in its capacity as the “Trustee,” “Paying Agent” and “Bond Registrar” for this series of Bonds) and mailed to the holder hereof at its address as it appears on the bond registration books of the Issuer, kept by the Bond Registrar (the “Bond Register”) at the close of business for the Trustee on the fifteenth day of the calendar month immediately preceding the month in which such payment date occurs regardless of whether such day is a business day (the “Record Date”). Upon written request of a registered owner of at least \$1,000,000 in principal amount of Bonds or all of the Bonds, all payments of principal, premium and interest on the Bonds shall be paid by wire transfer at the risk and expense of such registered owner in immediately available funds to an account in the United States designated by such registered owner upon fifteen (15) days prior written notice before a Record Date to the Trustee. Principal of, premium, if any, and interest on this Bond that is in Book-Entry Form shall be paid in immediately available funds to DTC or its nominee, as the case may be, as the Bondholder.

THE INTEREST on this Bond shall be paid on each April 1 and October 1, commencing October 1, 2023, 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 \$83,220,000 for the purpose of (i) financing and refinancing the cost of certain educational facilities (as that term is defined in the Act) for YES Prep Public Schools Inc. (the “Company”) and (ii) paying 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 August 1, 2023 (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 August 1, 2023 (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 “Series 2023 Note”), dated as of the date of delivery of the Bonds, in an amount equal to the aggregate principal amount of the Bonds. The Series 2023 Note is a “Note” as defined in and is entitled to the security of an Amended and Restated Master Trust Indenture and Security Agreement, dated as of June 1, 2015 (the “Master Indenture”), as supplemented through Supplemental Master Indenture No. 19 dated as of August 1, 2023, between the Company on behalf of itself and Hancock Whitney Bank, Master Trustee.

THE TRANSFER of this Bond may be registered by the owner hereof in person or by his attorney or legal representative at the corporate trust office or principal payment office of the Bond Registrar as set forth in the Indenture, but only in the manner and subject to the limitations and conditions provided in the Indenture and upon surrender and cancellation of this Bond and execution of the Assignment hereon. Upon any such surrender for transfer of the Bond at the office or agency of the Trustee in a Place of Payment, the Issuer shall execute, the Trustee shall authenticate, and the Bond Registrar shall register and deliver, in the name of the designated

transferee, one or more new Bonds of any Authorized Denomination, of a like aggregate principal amount, maturity and interest rate. The Issuer and the Bond 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 Series 2023 Note and all other Master Notes except as set forth in any supplemental master indenture authorizing issuance of any Master Note.

PURSUANT TO THE INDENTURE, so long as this Bond is guaranteed by the Permanent School Fund, this Bond is not subject to acceleration.

Mandatory Redemption. The Bonds maturing on April 1 in the years 2043, 2048, and 2053 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 April 1 in each of the years, and in the principal amounts, respectively, as set forth in the following schedule:

\$9,335,000 Series 2023 Bonds Maturing April 1, 2043

| Mandatory Redemption Date (April 1) | Principal Amount to be Mandatorily Redeemed |
|--|--|
| 2041 | \$2,990,000 |
| 2042 | \$3,110,000 |
| 2043* | \$3,235,000 |

\$18,315,000 Series 2023 Bonds Maturing April 1, 2048

| Mandatory Redemption Date (April 1) | Principal Amount to be Mandatorily Redeemed |
|--|--|
| 2044 | \$3,365,000 |
| 2045 | \$3,510,000 |
| 2046 | \$3,655,000 |
| 2047 | \$3,810,000 |
| 2048* | \$3,975,000 |

\$22,555,000 Series 2023 Bonds Maturing April 1, 2053

| Mandatory Redemption Date (April 1) | Principal Amount to be Mandatorily Redeemed |
|--|--|
| 2049 | \$4,145,000 |
| 2050 | \$4,320,000 |
| 2051 | \$4,500,000 |
| 2052 | \$4,695,000 |
| 2053* | \$4,895,000 |

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 (a) shall have been purchased and delivered to the Trustee for cancellation, (b) shall have been purchased and canceled by the Trustee with funds furnished for such purpose, in each case at a purchase price not exceeding the principal amount of such Bonds plus accrued interest to the date of purchase thereof or (c) shall have been redeemed pursuant to the optional redemption provision described below.

Optional Redemption. The Bonds maturing on or after April 1, 2032 are subject to optional redemption, prior to scheduled maturity, in whole or in part, on April 1, 2031, or on any date thereafter, at the option of the Company, at a price of par plus interest accrued thereon to the redemption date, upon written notice of the exercise of the option to redeem Bonds delivered to the Trustee by the Company not later than the 35th day prior to the date of redemption.

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

As used herein “Determination of Taxability” means a determination that the interest income on any of the Bonds does not qualify as interest excluded from gross income of the recipient thereof for the purpose of federal income taxation (“exempt interest”) under Section 103 of the Code (in the case of a private activity bond, for a reason other than that a registered owner is or a former registered owner was a substantial user within the meaning of Section 147 of the Code), which determination shall be deemed to have been made upon the first to occur of any of the following: (a) the date on which the Trustee is notified that an opinion of counsel is unable to be delivered to the effect that the interest on the Bonds qualifies as such exempt interest; or (b) the date on which the Trustee is notified by or on behalf of the Issuer that a change in law or regulation has become effective or that the Internal Revenue Service has issued any public or private ruling, technical advice memorandum or any other written communication or that there has occurred a ruling or decision of a court of competent jurisdiction with or to the effect that the interest income on any of the Bonds does not qualify as such exempt interest; or (c) the date on which the Company

shall receive notice from the Trustee in writing that the Trustee has been notified by the Internal Revenue Service, or has been advised by the Issuer, the Company or any owner or former owner of a Bond that the Internal Revenue Service has issued a final determination (after the Issuer has exhausted all administrative appeal remedies and has determined not to pursue any remedies in a court of competent jurisdiction) which asserts that the interest on any of the Bonds does not qualify as such exempt interest.

Extraordinary Optional Redemption. The Bonds are subject to extraordinary redemption, at the option of the Issuer upon 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 Project 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 Project 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 sent to each Bondholder to be redeemed, at the address appearing on the Bond Register on the date such notice is sent by the Trustee. Any notice mailed as provided herein shall be conclusively presumed to have been given, irrespective of whether received. By the date fixed for any such redemption, due provision shall be made with the Trustee and the Paying Agent for the payment of the appropriate redemption price, premium, if any, and interest accrued hereon. If such written notice of redemption is made, due provision for payment of the redemption price is made and all conditions to the redemption have been fulfilled, all as provided above and in the Indenture, the Bonds which are to be redeemed shall become due and payable at the redemption price and from and after such date shall cease to bear interest. If any Bond shall not be paid upon the surrender thereof for redemption, the principal shall, until paid, bear interest at the rate borne by this Bond.

IF THE DATE for any such payment on this Bond shall be a Saturday, a Sunday or a legal holiday or the equivalent for banking institutions generally (other than a moratorium) at the place where payment thereof is to be made, then such payment may be made on the next succeeding day which is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payment.

IT IS HEREBY CERTIFIED AND COVENANTED that this Bond has been duly and validly authorized, issued, and delivered; that all acts, conditions, and things required or proper to be performed, exist, and be done precedent to or in the authorization, issuance, and delivery of this Bond have been performed, exist, and been done in accordance with law; that this Bond is a special limited revenue obligation of the Issuer, and that the principal of, premium, if any, and interest on this Bond are payable from and secured by a lien on and pledge of Trust Estate with the payments designated as Loan Payments (the “Loan Payments”) to be paid, or caused to be paid, to the Trustee, pursuant to the Agreement, as evidenced by the Series 2023 Note issued by the Company to the Issuer pursuant to the Supplemental Indenture and the Agreement, as evidenced by an assignment by the Issuer to the Trustee of the Series 2023 Note to evidence the Company’s obligations to make Loan Payments under 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 Series 2023 Note, and the Indenture.

THE BONDS are secured by the Indenture whereunder the Trustee is custodian of the Debt Service Fund and is obligated to enforce the rights of the owners of the Bonds and to perform other duties in the manner and under the conditions stated in the Indenture. In case an “Event of Default,” as defined in the Indenture, shall occur, the principal of the Bonds then Outstanding may be declared to be due and payable immediately upon the conditions and in the manner provided in the Indenture. The Trustee shall, upon written request of the owners of at least a majority in principal amount of the Bonds then Outstanding, waive, as permitted by the Indenture, any Event of Default and its consequences except a default in the payment of the principal of (or premium, if any) or interest on any Bond or a default in respect of a covenant or provision of the Indenture which under the Indenture cannot be modified or amended without the consent of the holder of each Outstanding Bond affected. The holder of this Bond shall have no right to institute any action, suit, or proceeding at law or in equity to enforce the Indenture except as provided in the Indenture; provided that nothing in the Indenture shall affect or impair the rights of the owner hereof to enforce the payment of the principal of, premium, if any, and interest on this Bond from the source and in the manner herein expressed. Reference is hereby made to the Indenture for additional provisions with respect to the nature and extent of the security for the Bonds; the rights, duties, and obligations of the Company, the Issuer, the Trustee, and the Bondholders; 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 Bond only]

This Bond shall not be valid or obligatory for any purpose or be entitled to any benefit under the Indenture until the certificate of registration hereon shall have been manually executed by the Comptroller of Public Accounts of the State of Texas (or his duly authorized deputy), as provided by the Indenture.

[To appear on each exchange or replacement Bond]

This Bond shall not be valid or obligatory for any purpose or be entitled to any benefit under the Indenture until the certificate of authentication hereon shall have been executed by the Trustee.

IN WITNESS WHEREOF, Clifton Higher Education Finance Corporation has caused this Bond to be executed with the manual or facsimile signatures of its duly authorized officers, all as of the date first set forth above.

CLIFTON HIGHER EDUCATION FINANCE
CORPORATION

By: _____
Vice 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.

Hancock Whitney Bank, as Trustee

By: _____
Authorized Signature

Date of authentication:

3. Form of Assignment.

ASSIGNMENT

For value received, the undersigned hereby sells, assigns and transfers unto _____

Please insert Social Security or Taxpayer Identification number of Transferee _____

(Please print or typewrite name and address, including zip code of Transferee)

the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints _____,

attorney, to register the transfer of the within Bonds on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____

Signature Guaranteed: _____

NOTICE: Signature(s) must be guaranteed by a member firm of the New York Stock Exchange or a commercial bank or trust company that is a medallion guarantor. The assignor's signature to this assignment must correspond with the name as it appears upon the face of the within Bond in every particular, without alteration or any change 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 Bond.

The Initial Bond shall be in the form set forth in "Form of Bond" above except for the following alterations:

(a) 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;

(b) in the first paragraph of the 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 "has been paid or provided for" ",with such principal to be paid in installments on April 1 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:"

6. Form of Guarantee Endorsement.

PSF CERTIFICATE

Under the authority granted by Article 7, Section 5 of the Texas Constitution and Subchapter C of Chapter 45 of the Texas Education Code, the payment, when due, of the principal of and interest on the issuance by the Clifton Higher Education Finance Corporation of its Education Revenue Bonds (YES Prep Public Schools Inc.), Series 2023 dated August 1, 2023, in the principal amount of \$83,220,000 is guaranteed by the corpus of the Permanent School Fund of the State of Texas pursuant to the bond guarantee program administered by the Texas Education Agency. This guarantee shall be removed in its entirety upon defeasance of such bonds.

Reference is hereby made to the continuing disclosure agreement of the Texas Education Agency, set forth in Section I of the Agency's Investment Procedure Manual and the Agency's commitment letter for the guarantee. Such disclosure agreement has been made with respect to the bond guarantee program, in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission, for the benefit of the holders and beneficial owners of the Series 2023 Bonds.

In witness thereof I have caused my signature to be placed in facsimile on this bond.

Mike Morath
Commissioner of Education

EXHIBIT B

FORM OF REQUISITION CERTIFICATE

Date _____

Requisition No. _____

Hancock Whitney Bank
445 North Blvd, Suite 201
Baton Rouge, LA 70802
Attention: Corporate Trust

REQUISITION CERTIFICATE

Ladies and Gentlemen:

This certificate is provided pursuant Section 404 of the Trust Indenture and Security Agreement, dated as of August 1, 2023 (the “Indenture”) by and between Clifton Higher Education Finance Corporation (the “Issuer”) and Hancock Whitney Bank (the “Trustee”) for requesting payment of a certain amount as provided herein.

On behalf of the YES Prep Public Schools Inc. (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 Agreement] [Costs of Issuance, as defined in the 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 Bonds requested that will be used to pay Costs of Issuance plus all previous amounts requested for Costs of Issuance does not exceed 2 percent of the proceeds of the Bonds deposited into the Proceeds Fund;]

[(v) The portion of the amount representing Proceeds of the Bonds requested to pay Project Costs which are Qualifying Costs (as such term is defined in Section 5.3 of the Agreement) plus all previous amounts requested for Project Costs which are Qualifying Costs is not less than 95 percent of the Net Proceeds of the Bonds deposited into the Project Fund requested to date; and]

[You are hereby directed to pay the amount of \$_____ from the Project Account of the Project Fund in the amounts and to the parties as set forth in the attached schedule.]

[You are hereby directed to pay the amount of \$ _____ from the Costs of Issuance Account of the Project 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 Project 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 Project Fund in the amounts and to the parties as set forth in the attached schedule.]

YES PREP PUBLIC SCHOOLS INC.

By: _____
Authorized Representative

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APPENDIX H

SUBSTANTIALLY FINAL FORM OF THE LOAN AGREEMENT

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LOAN AGREEMENT

between

CLIFTON HIGHER EDUCATION FINANCE CORPORATION

and

YES PREP PUBLIC SCHOOLS INC.

relating to

\$83,220,000
CLIFTON HIGHER EDUCATION FINANCE CORPORATION
EDUCATION REVENUE BONDS
(YES PREP PUBLIC SCHOOLS INC.)
SERIES 2023

dated as of

August 1, 2023

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Exhibit "A" - Description of Project

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LOAN AGREEMENT

THIS LOAN AGREEMENT (this “Agreement”), dated as of August 1, 2023, is between the **CLIFTON HIGHER EDUCATION FINANCE CORPORATION**, a non-profit, corporation created and existing under the Act (the “Issuer”), and **YES PREP PUBLIC SCHOOLS INC.**, a Texas non-profit corporation (the “Company”).

WITNESSETH:

WHEREAS, the City of Clifton, Texas (the “City”), a political subdivision of the State of Texas (the “State”), has, pursuant to Section 53.35(b) of the Texas Education Code, as amended (the “Act”), approved and created the Issuer as a nonstock, nonprofit corporation;

WHEREAS, the Issuer is a constituted authority and instrumentality (within the meaning of those terms in the Regulations of the Department of the Treasury and the rulings of the Internal Revenue Service (the “IRS”) prescribed and promulgated pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”));

WHEREAS, the Issuer, on behalf of the City, is empowered to issue its revenue bonds in order to enable an accredited or authorized charter school to finance or refinance the acquisition, construction, enlargement, extension, repair, renovation, or other improvements to an educational or housing facility or any facilities incidental, subordinate, or related thereto or appropriate in connection therewith, or for acquiring land to be used for those purposes, or to create operating and debt service reserves for and to pay issuance costs related to such bonds;

WHEREAS, in furtherance of the purposes of the Act, the Issuer proposes to issue its revenue bonds pursuant to a Board Resolution of the Issuer authorizing the issuance of the Bonds and this Agreement, which will be designated “Clifton Higher Education Finance Corporation Education Revenue Bonds (YES Prep Public Schools Inc.) Series 2023” in the aggregate principal amount of \$83,220,000 (the “Bonds”) the proceeds of which will be loaned to the Company to be used to (i) finance and refinance the costs of acquiring, constructing, equipping and renovating certain “educational facilities” (as that term is defined in the Act) and facilities incidental, subordinate or related thereto or appropriate in connection therewith and (ii) pay the costs of issuing 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 August 1, 2023, between the Issuer and Hancock Whitney Bank, as trustee (in such capacity, the “Trustee”) for the purposes of effecting the issuance of the Bonds, furthering the public purposes of the Act and securing to the Bondholders the payment of the Bonds;

WHEREAS, the Company is a party to that certain Master Trust Indenture and Security Agreement dated June 1, 2015 (the “Master Indenture”), between the Company, on behalf of itself and Hancock Whitney Bank, as Master Trustee (the “Master Trustee”), as supplemented by and through the Supplemental Master Trust Indenture No. 19 dated as of August 1, 2023 (the “Supplemental Master Indenture”), which secures payment of certain Debt (as defined in the Master Indenture) of the Company including the Series 2023 Note (as hereinafter defined) which

evidences the Loan made hereby (the “Loan”) by the Issuer to the Company of the proceeds of the Bonds;

WHEREAS, the Issuer shall issue the Bonds in order to loan the proceeds thereof to the Company and the Company agrees to repay the Loan on the terms set forth herein;

WHEREAS, pursuant to the provisions of this Agreement, the Company is executing and delivering to the Issuer the Series 2023 Note to evidence the loan of the proceeds of the Bonds, to the Company and the obligation of the Company under this Agreement to repay the same, which note is a “Master Note” under the Master Indenture;

WHEREAS, pursuant to the provisions of this Agreement, the Issuer is collaterally assigning to the Trustee all of the Issuer’s right, title and interest in the Series 2023 Note and the Loan Payments (as hereinafter defined) to be made by the Company pursuant to this Agreement; and

NOW THEREFORE, in consideration of the premises and other good and valuable consideration and the mutual benefits, covenants and agreements set forth below, the parties agree as follows:

ARTICLE I

DEFINITIONS AND INTERPRETATIONS

Section 1.1 Construction of Terms; Definitions.

(a) For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires:

(1) “Agreement” means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more agreements supplemental hereto entered into pursuant to the applicable provisions hereof.

(2) All references in this instrument to designated “Articles”, “Sections” and other subdivisions are to the designated Articles, Sections and other subdivisions of this instrument as originally executed. The words “herein”, “hereof” and “hereunder” and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or other subdivision.

(3) The terms defined in this Article have the meanings assigned to them in this Article, and include the plural as well as the singular. The terms used herein but defined in the Indenture and not defined herein have the meanings assigned to them in the Indenture and the Master Indenture. Reference to any Bond Document means that Bond Document as amended or supplemented from time to time. Reference to any party to a Bond Document means that party and its permitted successors and assigns.

(4) All accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles.

(b) The following terms have the meanings assigned to them below whenever they are used in this Agreement:

“Additions” means any and all real or personal property or any interest therein wherever located or used (i) which is desirable in the business of the Company; (ii) the cost of construction, acquisition or development of which is properly chargeable to the property accounts of the Company, in accordance with generally accepted accounting principles; and (iii) which is deemed for federal income tax purposes to be owned by the Company.

“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 Hunton Andrews Kurth LLP or any other attorney or firm of attorneys nationally recognized as having expertise in the practice of tax exempt municipal finance law as approved by the Company and satisfactory to the Trustee.

“Bond Documents” means this Agreement, the Indenture, the Series 2023 Note, the Bonds, the Master Indenture, the Supplemental Master Indenture, the Bond Purchase Agreement, the Supplemental Deed of Trust, and all other agreements, documents and instruments ever delivered pursuant to any of the foregoing and any and all future renewals and extensions or restatements of any of the foregoing.

“Bond Year” has the meaning set forth in Section 5.3 hereof.

“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, and the corresponding provisions, if any, of any successor internal revenue laws of the United States.

“Commissioner” means the Commissioner of Education of the State of Texas, or any successor thereto.

“Computation Date” has the meaning set forth in Section 5.3 herein.

“Construction Consultant” means the construction consultant selected by the Company in connection with the casualty or condemnation of any part of the Project pursuant to Section 3.6.

“Debt” shall have the meaning assigned to such term in the Master Indenture.

“Debt Service Coverage Ratio” means the ratio determined by dividing Cash Available for Debt Service (as defined in the Master Indenture) as of the end of each fiscal year of the Company for the immediately preceding consecutive 12 months by the Annual Debt Service Requirements (as defined in the Master Indenture) for such fiscal year.”

“Extraordinary Optional Redemption” shall have the meaning assigned to such term in Exhibit A to the Indenture.

“Fiscal Year” means any twelve-month period beginning on July 1 of any calendar year and ending on June 30 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.

“Guarantee” means the PSF Certificate issued by TEA pursuant to Article 7 Section 5 of the Texas Constitution and Subchapter C of Chapter 45 of the Texas Education Code, that guarantees the scheduled payment of principal of and interest on the Bonds when due.

“Highest Lawful Rate” means the maximum rate of nonusurious interest (determined as provided in this Agreement) applicable to each loan made to the Company under this Agreement allowed from time to time by applicable law as is now in effect or, to the extent allowed by applicable law, such higher rate as may hereafter be in effect.

“Indemnified Party” shall mean one or more of the Issuer, the Governing Body of the Issuer, the City and any of their successors, officers, directors or commissioners.

“Indenture” has the meaning ascribed to such term in the fifth recital hereof.

“Independent” when used with respect to any specified Person means such a Person who (i) is in fact independent, (ii) does not have any direct financial interest or any material indirect financial interest in the Company, and (iii) is not connected with the Company as an officer, employee, promoter, trustee, partner, director or person performing similar functions. Whenever it is herein or in the Indenture provided that any Independent Person’s opinion or certificate shall be furnished to the Trustee, such Person shall be appointed by Order and such opinion or certificate shall state that the signer has read this definition and that the signer is Independent within the meaning hereof.

“Liquidity Ratio” means the ratio of (i) the sum of Operating Cash *plus* Bond Sinking Funds *plus* Investments to (ii) Funded Debt (each as defined in the Master Indenture).

“Loan Payments” means the amounts described in Sections 4.1(a) and (b) of this Agreement.

“Losses” means losses, costs, damages, expenses, judgments, and liabilities of whatever nature (including, but not limited to, reasonable attorney’s, accountant’s and other professional’s fees, litigation and court costs and expenses, amounts paid in settlement and amounts paid to discharge judgments and amounts payable by an Indemnified Party to any other Person under any arrangement providing for indemnification of that Person) directly or indirectly resulting from arising out of or relating to one or more Claims.

“Opinion of Counsel” means a written opinion of counsel, who may (except as otherwise expressly provided) be counsel to any party to a Bond Document, and shall be satisfactory to the Trustee.

“Organizational Documents” of any corporation means the articles of incorporation, certificate of incorporation, corporate charter or other document pursuant to which such corporation was organized, and its bylaws, each as amended from time to time, and as to any other Person, means the instruments pursuant to which it was created and which govern its powers and the authority of its representatives to act on its behalf.

“Permanent School Fund” shall mean the Permanent School Fund of the State of Texas administered pursuant to Subchapter C, Chapter 45, Texas Education Code.

“Plans and Specifications” means the plans and specifications for the Project, as the same may be prepared or amended from time to time as provided in Section 3.1 hereof, on file at the principal business office of the Company and available at all times for inspection by the Issuer.

“Project” means the Project described in Exhibit ”A” hereto.

“Project Costs” means costs permitted to be paid out of proceeds of the Bonds by the Act and by the Code including costs related to the Project (excluding the Costs of Issuance).

“Regulated Chemical” means any substance, the presence of which requires investigation, permitting, control or remediation under any federal, state or local statute, regulation, ordinance or order, including without limitation:

(a) any substance defined as “hazardous waste” under the Resource Conservation and Recovery Act (42 U.S.C. §6901 et seq.);

(b) any substance defined as a “hazardous substance” under the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. §9601 et seq.);

(c) any substance defined as a “hazardous material” under the Hazardous Materials Transportation Act (49 U.S.C. §1800 et seq.);

(d) any substance defined under any Texas statute analogous to (a), (b) or (c), to the extent that said statute defines any term more expansively;

(e) asbestos;

(f) urea formaldehyde;

(g) polychlorinated biphenyls;

(h) petroleum, or any distillate or fraction thereof;

(i) any hazardous or toxic substance designated pursuant to the laws of the State; and

(j) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority.

“Series 2023 Note” means the tax-exempt master indenture note in the form attached to the Supplemental Master 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 Bonds.

“State” means the State of Texas

“TEA” means the Texas Education Agency, or any successor thereto.

(c) Certain terms used primarily in Section 5.3 are defined in that Section.

Section 1.2 Form of Documents Delivered to Trustee. Every certificate and every Opinion of Counsel with respect to compliance with a condition or covenant provided for in this Agreement shall include a statement that the Person making such certification or opinion has read such covenant or condition and the definitions relating thereto, has made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether such covenant or condition has been complied with, and a statement whether such condition or covenant has been complied with. In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so

certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company may be based, in so far as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or Opinion of Counsel may be based, in so far as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company stating that the information with respect to such factual matters is in the possession of the Company, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments hereunder, they may, but need not, be consolidated and form one instrument.

Section 1.3 Communications. All notices, demands, certificates, requests, consents, submissions or other communications hereunder shall be given as provided in the Indenture.

Section 1.4 Term of Agreement. This Agreement shall remain in full force and effect from the date of execution and delivery hereof until the Indenture has been discharged in accordance with the provisions thereof; provided, however, that (a) the provisions of this Section and of Section 3.9, Section 4.6, Section 5.1, Section 5.3, and Section 5.6 of this Agreement shall survive any expiration or termination of this Agreement and (b) in addition, if the Indenture is discharged prior to the final Maturity of the Bonds, the provisions of Section 3.6, Section 3.9, Section 4.1, Section 5.3, Section 5.6 and Section 5.7 of this Agreement shall continue until the final Maturity of the Bonds.

Section 1.5 Company's Approval of Bond Documents. The Bond Documents have been submitted to the Company for examination, and the Company acknowledges that, by execution of this Agreement, it has approved the Bond Documents and will perform the obligations imposed upon it under the Bond Documents.

Section 1.6 Effect of Headings and Table of Contents. The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

Section 1.7 Successors and Assigns. All covenants and agreements in this Agreement by the Issuer and the Company shall bind their respective successors and assigns, whether so expressed or not. No assignment by the Issuer or the Company of this Agreement shall relieve them of their obligations hereunder.

Section 1.8 Separability Clause. In case any provision in this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 1.9 Benefits of Agreement. Subject to Section 8.9 hereof, nothing in this Agreement or in the Bonds, express or implied, shall give to any Person, other than the parties to the Bond Documents and their successors and assigns hereunder, the Indemnified Parties and the Bondholders, any benefit or any legal or equitable right, remedy or claim under this Agreement.

Section 1.10 Governing Law. This Agreement shall be construed in accordance with and governed by the laws of the State.

Section 1.11 Amendments. This Agreement may be amended only as provided in the Indenture.

ARTICLE II

REPRESENTATIONS, WARRANTIES AND COVENANTS

Section 2.1 Representations, Warranties and Covenants of the Issuer. The Issuer represents, warrants and covenants that:

(a) Corporate Existence; Good Standing. The Issuer is a non-profit higher education finance corporation duly incorporated, organized, validly existing and in good standing under the Act and is empowered to act on behalf of the City.

(b) Power. The Issuer has full corporate power and authority under the Constitution and laws of the State and its Organizational Documents to adopt the resolution authorizing the issuance of the Bonds, to issue the Bonds, to execute and deliver the Bond Documents to be executed and delivered by it and to perform its obligations under such Bond Documents.

(c) Due Authorization. The Issuer has duly adopted the resolution authorizing the issuance of the Bonds and has duly authorized the execution and delivery of the Bond Documents to be executed and delivered by it.

(d) Enforceability. The Bond Documents to which the Issuer is a party and the Bonds constitute valid and binding obligations of the Issuer, enforceable against the Issuer in accordance with their terms (except that (i) the enforceability of such Bond Documents may be limited by bankruptcy, reorganization, insolvency, fraudulent transfer, moratorium or other similar laws of general application relating to the enforcement of creditors' rights, (ii) certain equitable remedies, including specific performance, may be unavailable and (iii) the indemnification provisions contained therein may be limited by applicable securities laws and public policy).

(e) No Litigation. There is no action, suit, proceeding or investigation at law or in equity before or by any court, either State or federal, or public board or body pending or, to the Issuer's knowledge, threatened calling into question the creation or existence of the Issuer, the validity of the Bond Documents to be executed and delivered by it, the authority of the Issuer to execute and deliver the Bond Documents to be executed and delivered by it and to perform its obligations under the Bond Documents or the title of any Person to the office held by that Person with the Issuer.

(f) Non-Contravention. The execution and delivery by the Issuer of the Bond Documents to be executed and delivered by it, and the performance of its obligations under such Bond Documents, will not violate in any respect any provision of law or regulation, or of any judgment, decree, writ, order or injunction, or of the Organizational Documents of the Issuer, and to the Issuer's knowledge, will not contravene the provisions of, or constitute a default under, or result in the creation of a lien, charge or encumbrance under, any agreement (other than the Indenture) to which the Issuer is a party or by which any of its properties constituting a part of the Trust Estate under the Indenture are bound.

(g) No Default. To the Issuer's knowledge, no event has occurred, and no condition currently exists, which constitutes or may, with the passage of time or the giving of notice, or both, constitute an Event of Default on the part of the Issuer.

(h) Amendments. The Issuer covenants that it will perform each of the covenants set forth in Article V of the Indenture for the benefit of the Company, and unless an Event of Default exists, will not join in any amendment of any Bond Document without the consent of the Company.

Each of the foregoing representations, warranties and covenants shall be deemed to have been made as of the date of this Agreement and again as of the Closing Date.

Section 2.2 Representations and Warranties of the Company. In addition to any other representation and warranty of the Company herein, the Company represents and warrants as follows:

(a) Corporate Existence; Good Standing; Power. The Company is a non-profit corporation duly organized, validly existing and in good standing under the laws of the State; 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 which, with notice or lapse of time or both, would constitute an event of default or a default under any agreement or instrument to which the Company is a party or by which the Company is or may be bound or to which any of the property or assets of the Company is or may be subject, and which would have a material adverse effect on the Company or which would impair its ability to carry out its obligations under the Bond Documents has occurred and is continuing; neither the execution nor the delivery by the Company of the Bond Documents to which it is party, nor the consummation of any of the transactions herein and therein contemplated nor the fulfillment of, or compliance with, the terms and provisions hereof or thereof, will contravene the Organizational Documents of the Company or will conflict with, in any way which is material to the Company, or result in a

breach of, any of the terms, conditions or provisions of, or constitute a default under, any corporate or limited partnership restriction or any bond, debenture, note, mortgage, indenture, agreement or other instrument to which the Company is a party or by which the Company is or may be bound or to which any of the property or assets of the Company is or may be subject, or any law or any order, rule or regulation (applicable as of the date hereof to the Company) of any court, or regulatory body, administrative agency or other governmental body having jurisdiction over the Company or its properties or operations, or will result in the creation or imposition of a prohibited lien, charge or other security interest or encumbrance of any nature upon any property or asset of the Company under the terms of any such restriction, bond, debenture, note, mortgage, indenture, agreement, instrument, law, order, rule or regulation.

(d) No Litigation. Except as disclosed in writing in connection with the offering of the Bonds, there is no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or threatened, wherein an adverse decision, ruling or finding (i) would result in any material adverse change in the condition (financial or otherwise), results of operations, business or prospects of the Company or which would materially and adversely affect the properties of the Company, or (ii) would materially and adversely affect the transactions contemplated by, or the validity or enforceability of, the Bond Documents to which it is a party.

(e) 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, including federal tax related approvals, authorizations or any other actions by any governmental or regulatory authority that have not been obtained or taken are or will be required for the issuance and sale of the 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 City 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 City. 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 Project 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:

(A) The Company is an organization exempt from federal income taxation as provided in Section 501(a) of the Code by virtue of being described in Section 501(c)(3) of the Code;

(B) The purposes, character, activities and methods of operation of the Company are not materially different from the purposes, character, activities and methods of operation at the time of its determination by the IRS as an organization described in Section 501(c)(3) of the Code (the "Determination") or otherwise at the time of its organization as an exempt organization within the meaning of Section 501(c)(3) of the Code, or have been disclosed to the IRS and the Company has received confirmation that such activities or methods of operation do not materially adversely affect the status of the Determination;

(C) The Company has not diverted a substantial part of its corpus or income for a purpose or purposes other than the purpose or purposes (a) for which it is organized or operated or (b) disclosed to the IRS in connection with the Determination;

(D) The Company has not operated during its five most recent fiscal years or the current fiscal year, as of the date hereof, in a manner that would result in it being classified as an "action" organization within the meaning of Section 1.501(c)(3)-(1)(c)(3) of the Regulations including, but not limited to, promoting or attempting to influence legislation by propaganda or otherwise as a substantial part of its activities;

(E) With the exception of the payment of compensation (and the payment or reimbursement of expenses) which is not excessive and is for personal services which are reasonable and necessary to carrying out the purposes of the Company, no individual who would be a "foundation manager" within the meaning of Section 4946(b) of the Code with

respect to the Company, nor any Person controlled by any such individual or individuals or any of their Affiliates, nor any Person having a personal or private interest in the activities of the Company has acquired or received, directly or indirectly, any income or assets, regardless of form, of the Company during the current Fiscal Year and the five Fiscal Years preceding the current Fiscal Year, other than as reported to the IRS by the Company;

(F) The Company is not a “private foundation” within the meaning of Section 509(a) of the Code;

(G) The Company has not received any indication or notice whatsoever to the effect that its exemption under Section 501(a) of the Code by virtue of being an organization described under Section 501(c)(3) of the Code has been revoked or modified, or that the IRS is considering revoking or modifying such exemption, and such exemption is still in full force and effect;

(H) The Company has timely filed with the IRS all requests for determination, reports and returns required to be filed by it and such requests for determination, reports and returns have not omitted or misstated any material fact, and the Company has timely notified the IRS of any changes in its organization and operation since the date of the application for the Determination;

(I) The Company has not devoted more than an insubstantial part of its activities in furtherance of a purpose other than an exempt purpose within the meaning of Section 501(c)(3) of the Code;

(J) The Company has not taken any action, nor does it know of any action that any other Person has taken, nor does it know of the existence of any condition that would cause the Company to lose its exemption from taxation under Section 501(a) of the Code or cause interest on the Bonds to be includable in the income of the recipients thereof for federal income tax purposes;

(K) All of the documents, instruments and written information supplied by or on behalf of the Company, which have been reasonably relied upon by Bond Counsel in rendering its opinion with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes or Bond Counsel in rendering an opinion with respect to the status of the Company under Section 501(c)(3) of the Code, are true and correct in all material respects, do not contain any untrue statement of a material fact and do not omit to state any material fact necessary to be stated therein to make the information provided therein, in light of the circumstances under which such information was provided, not misleading.

(j) Indenture. The Indenture has been submitted to the Company for its examination, and the Company acknowledges, by execution of this Agreement, that it has reviewed the Indenture and that it accepts each of its obligations expressed or implied thereunder.

(k) Security Interests. The Company has not heretofore made a pledge of, granted a lien on or security interest in, or made an assignment or sale of the collateral granted hereunder

and described in Section 4.3 that ranks on a parity with or prior to the lien granted hereunder that will remain outstanding on the Closing Date. The Company has not described the collateral in a UCC financing statement that will remain effective on the Closing Date. The Company will not hereafter make or suffer to exist any pledge or assignment of, lien on, or security interest in the collateral that ranks prior to or on a parity with the lien granted hereunder, or file any financing statement describing any such pledge assignment, lien or security interest, except as expressly permitted by the Bond Documents.

(l) Other Representations and Warranties. Any certificate with respect to factual or financial matters signed by an officer of the Company and delivered to the Issuer shall be deemed a representation and warranty by the Company as to the statements made therein.

Each of the foregoing representations and warranties shall be deemed to have been made as of the date of this Agreement and again as of the Closing Date.

ARTICLE III

THE PROJECT

Section 3.1 Acquisition and Construction of the Project. (a) The Company agrees to utilize the amounts in the Project Account of the Project 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 educational facilities as defined in the Act and in furtherance of the public purposes of the Act.

(b) The Plans and Specifications for the part of the Project on each campus shall be approved prior to the commencement of construction of that part of the Project, by a duly authorized officer of the Company. The Company may make insubstantial changes in, additions to, or deletions from the Plans and Specifications and may make substantial changes in, additions to, or deletions from the Plans and Specifications only if the Project shall continue to constitute facilities of the type which may be financed or refinanced by the Issuer under the Act and any required approvals of such changes, additions, or deletions have been obtained from any governmental bodies or agencies having jurisdiction.

Section 3.2 Disbursements of Bond Proceeds.

(a) Disbursements from Project Account of the Project Fund. Pursuant to the provisions of the Indenture, there shall be deposited into the Project Account of the Project Fund a portion of the proceeds received from the sale of the Bonds. Subject to Section 404 of the Indenture, the Trustee is authorized and directed to make payments to the Company, or at the direction of the Company, from the Project Account of the Project Fund, as requested by the Company (by signing at the bottom of a Requisition Certificate) for the Company to pay third parties for amounts due and owing to such third parties with respect to any Project Costs and to reimburse the Company for any Project Costs paid directly by the Company upon receipt of a Requisition Certificate substantially in the form attached as Exhibit "B" to the Indenture. The Company shall retain copies of all Project Cost Requisition Certificates, as defined in the Indenture, until the date that is six years from the first date on which no Bonds are Outstanding.

(b) Disbursements from the Costs of Issuance Account of the Project Fund. Subject to Section 404 of the Indenture, the Trustee is authorized and directed to disburse funds on or after the Closing Date for the Costs of Issuance of the Bonds upon receipt of a Requisition Certificate. The Company shall retain copies of all Requisition Certificates until the date that is six years from the first date on which no Bonds are Outstanding. Ninety (90) days following the Closing Date, the Costs of Issuance Account for the Bonds shall be closed and any funds remaining therein shall be transferred to the Project Account of the Project Fund and made available to pay any Project Costs relating to the Project for which such specific series of Bonds was issued.

(c) The Trustee may rely fully on an Requisition Certificate delivered pursuant to this Section 3.2 and shall not be required to make any investigation in connection therewith.

Section 3.3 Completion of Project if Bond Proceeds Insufficient. The Company agrees to pay all Project Costs which are not, or cannot be, paid or reimbursed from the proceeds of the Bonds. The Company agrees that if, after exhaustion of the moneys in the Project Fund established pursuant to the Indenture, the Company should pay any portion of the Project Costs, it shall not be entitled to any reimbursement therefor from the Issuer, the Trustee or from any Bondholder, nor shall it be entitled, as a consequence of such unreimbursed payment, to any abatement, postponement or diminution of the amounts payable under this Agreement.

Section 3.4 Completion. Upon completion of the Project, but not later than the end of the fifth Bond Year, the Company shall deliver to the Trustee a Completion Certificate in substantially the form of Exhibit B hereto.

Section 3.5 Modification of the Project. The Project may be altered or added to by the Company; provided, however, that the Company shall make no revision to the Project that results in the Project ceasing to (i) constitute educational facilities, as defined in the Act, or (ii) be substantially similar to the Project as approved by the Issuer; provided, further, that no revision to the Project may be made unless the Company has delivered a Favorable Opinion of Bond Counsel to the Trustee.

Section 3.6 Casualty and Condemnation. (a) In the event of any damage, destruction, condemnation or taking under the threat of condemnation with respect to the Project, the Company shall promptly engage the services of the Construction Consultant, which shall make a determination as to the amount of insurance or condemnation proceeds anticipated to result therefrom within fifteen (15) days of the occurrence of such damage, destruction, condemnation or taking.

(b) If the insurance or condemnation proceeds of any damage, destruction, condemnation or taking under the threat of condemnation with respect to the Project as determined by the Construction Consultant pursuant to paragraph (a) above are equal to or less than \$250,000, such proceeds shall be transferred to the Trustee for deposit in the Insurance Proceeds Account of the Project 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 Project 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 substantially 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 or other Related Bonds issued to finance the repaired, restored or replaced Project at the earliest practical date.

(c) If the insurance or condemnation proceeds of any damage, destruction, condemnation or taking under the threat of condemnation with respect to the Project as determined by the Construction Consultant pursuant to paragraph (a) above are greater than \$250,000, such insurance or condemnation proceeds shall be transferred to the Trustee for deposit into the Insurance Proceeds Account of the Project Fund, and:

(1) The Company shall immediately request that the Construction Consultant prepare a report to determine (A) if the repair, reconstruction, restoration or replacement of the Project or a portion thereof damaged or taken is economically feasible and will restore the Project to the physical and operating condition as existed before and (B) if the Company will have sufficient funds from the insurance proceeds, business interruption insurance proceeds and other available funds to make the payments required hereunder when due, to pay the cost of repairing, reconstructing, restoring or replacing the portion of the Project affected by such loss, damage or condemnation (including without limitation architects’ and attorneys’ fees and expenses), to pay the Company’s operating costs until completion of the repair, construction or replacement of such portion of the Project which report shall be delivered to the Trustee and any holder owning at least ten percent (10%) in aggregate principal amount of any series of Outstanding Bonds, within thirty (30) days of the occurrence of such damage, destruction, condemnation or taking. If the report determines the foregoing conditions are satisfied, then within thirty (30) days after delivery thereof, the Company shall deliver to the Trustee:

(A) cash in an amount equal to the funds, if any, in excess of insurance proceeds and business interruption insurance proceeds required by the report delivered under clause (1) above for deposit in a special separate account of the Project Fund; and

(B) such other documents and information as the holders of a majority in aggregate principal amount of the Outstanding Bonds may reasonably require; and

the Company shall promptly proceed to repair, reconstruct and replace the affected portion of the Project, including all fixtures, furniture and equipment and effects, to its original condition to the extent possible. Each request for payment shall comply with the requirements of the Indenture in Section 404 for payments from the Project Fund.

(2) If the Construction Consultant’s report does not determine that the conditions are satisfied or fails to meet the requirements relating to repair or reconstruction or replacement in clause (1) above, the Company shall prepay the Loan and the Bonds shall be redeemed as set forth in paragraph (e) below.

(d) Under the circumstances set forth in subsection (c)(1) hereof, if the insurance or condemnation proceeds are insufficient to pay in full the cost of any repair, restoration, modification or improvement undertaken pursuant to this Section, the Company will nonetheless complete the work and will pay any cost in excess of the amount of the insurance or condemnation proceeds held by the Trustee. The Company agrees that if by reason of any such insufficiency of the insurance or condemnation proceeds, the Company shall make any payments pursuant to the provisions of this Section, the Company shall not be entitled to any reimbursement therefor from the Trustee or any Bondholder, nor shall the Company be entitled to any diminution of the amount payable hereunder.

(e) Under the circumstances set forth in subsection (c)(2) hereof, the Loan shall be paid and the Bonds redeemed in full without premium and the insurance proceeds shall be transferred by the Trustee from the applicable account in the Project Fund to the applicable account in the Debt Service Fund for such purpose. If the insurance proceeds are insufficient to redeem the Bonds in full, the Company shall provide to the Trustee for deposit into the Debt Service Fund moneys which, together with the insurance proceeds, will be sufficient to redeem all of the Bonds pursuant to the Extraordinary Optional Redemption provisions of the Bonds. In the event that the Company has completed any repair, reconstruction or replacement of the Project after the occurrence of any damage, destruction or condemnation and there are excess insurance proceeds, such excess shall be deposited in the Debt Service Fund and applied to the redemption of all or a portion of the Bonds pursuant to the Extraordinary Optional Redemption provision of the Bonds.

Section 3.7 Inspection of the Project. The Company agrees that the Issuer and its duly authorized agents, including the Trustee, may, but have no obligation to at reasonable times as determined by the Company, enter upon the Project site and examine and inspect the Project and, upon the occurrence of an Event of Default, the books and records of the Company that relate to the Project.

Section 3.8 Maintenance and Operation. The Company undertakes to cause each item of its buildings and other facilities, including the Project, to be maintained and operated so long as the operation of each such item, in the sole judgment of the Company, is economical, lawful, and feasible and in accordance with good operating practice. The Company agrees that during the term of this Agreement it will pay all costs of operating, maintaining, and repairing its buildings and other facilities, including the Project, and that the Issuer shall have no responsibility or liability whatsoever for operating, maintaining, or repairing its buildings and other facilities, including the Project. The Company agrees that it shall not enter into a contract for the management of the Project by a third party service provider unless it receives a Favorable Opinion of Bond Counsel.

Section 3.9 No Establishment and No Impairment of Religion. The Company and the Issuer intend that the Loan and all other transactions provided for in this Agreement be made in strict compliance with all applicable laws and constitutional provisions of the United States and the State. Accordingly, the Company agrees that to the full extent required from time to time by applicable laws and constitutional provisions of the United States and the State in order for the Loan to the Company and all other transactions provided for in this Agreement to be made and effected in compliance with such laws and constitutional provisions: (a) no part of the Project financed or refinanced in whole or in part with proceeds of the Bonds shall be used for sectarian instruction or as a place of religious worship; (b) notwithstanding the payment in full of the Loan

Payments and the Bonds, and notwithstanding the termination of this Agreement, each such part of the Project will continue to be subject to the restrictions set out in clause (a) of this Section for so long as it is owned by the Company, or any voluntary grantee of the Company, provided the continuance of such restriction is necessary to preserve the exemption from federal income taxation of interest on the Bonds under the Code. Provided, however, that to any extent that a restriction or agreement set out in this Section shall at any time not be required in order for the loan to the Company and all other transactions provided for in this Agreement to be made and effected in compliance with applicable constitutional provisions of the United States and the State, such restriction or agreement shall, to that extent and without necessary action by any party, be without any force or effect; and provided further, that in no event shall such restriction or agreement set out in this Section be more expansive than required by an applicable constitutional provision.

Section 3.10 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.

Section 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.

Section 3.12 Disposition of Project. The Company covenants that the Project will not be sold or otherwise dispose of the Project 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.

Section 3.13 Insurance. So long as the Bonds remain Outstanding, the Company shall at all times keep and maintain the insurance required by Section 213 of the Master Indenture.

ARTICLE IV

PAYMENTS

Section 4.1 Loan Payments.

(a) To repay the Loan of the proceeds of the Bonds evidenced by the Series 2023 Note, the Company shall, subject to the limitations of Section 4.5 of this Agreement, make or cause to be made Loan Payments in immediately available funds in accordance with the Indenture and this Agreement directly to the Trustee as follows:

(i) on or before the earlier of the 15th day of each June, September, December, and March, in equal installments, commencing September 15, 2023, for deposit in the Debt Service Fund, amounts sufficient to provide for the payment of interest which is due on the next ensuing date for payment of such interest with respect to the Bonds;

(ii) on or before the earlier of the 15th day of each June, September, December, and March, in equal quarterly installments, commencing June 15, 2024, for deposit in the Debt Service Fund, amounts sufficient to provide for the payment of the principal of or sinking fund payment on the Bonds which is next due for payment of such principal or for such sinking fund redemption payment; and

(iii) following any draw upon or payment from the Guarantee, TEA Guarantee Payments in the amounts and on the dates set forth in the Guarantee and Section 6.2 of this Agreement.

(b) If, subsequent to a date on which the Company is not obligated to pay the Loan Payments (as a result of defeasance of the Bonds pursuant to Section 1002 of the Indenture), losses (net of gains) shall be incurred in respect of any investments, or any other event or circumstance has occurred causing the amounts in the Debt Service Fund, together with any other amounts then held by the Trustee and available for the purpose, to be less than the amount sufficient at the time of such occurrence or other event or circumstance to pay, in accordance with the provisions of the Indenture, all principal 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 4.5 of this Agreement, shall pay to the Trustee for deposit in the Debt Service Fund the amount of any such deficiency below such sufficient amount.

Section 4.2 Prepayment of Loan; Redemption of Bonds. The Company may at any time deliver money or Defeasance Obligations to the Trustee with instructions to the Trustee to hold such money or Defeasance Obligations pursuant to the Indenture in connection with a deemed payment or redemption of Bonds. The Issuer agrees that, at the request at any time of the Company, it will 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 2023 Note shall be prepayable. Any excess or unclaimed money held by the Trustee under the Indenture shall be paid by the Trustee to the Company in accordance with Article IV or Article X of the Indenture, as applicable.

Section 4.3 Security Interests.

(a) As security for repayment of the Series 2023 Note and performance of the Company's obligations under this Agreement, the Company hereby pledges, sets over, assigns and grants a security interest to the Issuer in all of the Company's right, title and interest in and to all amounts at any time deposited in the funds established pursuant to the Indenture (except the Rebate Fund), including all investments and reinvestments made with such amounts and the proceeds thereof, and in all of its rights to and interests in such amounts, investments, reinvestments and proceeds. The Company hereby authorizes and directs the Trustee to invest and disburse such amounts and proceeds in accordance with the Indenture and this Agreement. The Company represents that, under the laws of the State, (i) this Agreement creates a valid and binding lien in favor of the Issuer as security for the payment of the Series 2023 Note, enforceable in accordance with the terms hereof; and (ii) the lien on the collateral granted hereunder, is and shall be prior to any judicial lien hereafter imposed on such collateral to enforce a judgment against the Company on a simple contract. The Company hereby authorizes the Issuer and the Trustee to file any financing statements or continuation statements necessary to maintain the perfection of the security interest granted hereby.

(b) The Company will (i) upon the execution and delivery of the Bond Documents and thereafter, from time to time cause any Bond Document and each amendment and supplement thereto (or financing statements or a memorandum with respect thereto or to such amendment or supplement) to be filed, registered and recorded and to be refiled, reregistered and rerecorded in such manner and in such places as may be required in order to publish notice of and fully to protect the liens, or to perfect or continue the perfection of the security interests, created thereby and (ii) perform or cause to be performed from time to time any other act as required by law, and execute or cause to be executed any and all instruments of further assurance that may be necessary for such publication, perfection, continuation and protection, including without limitation the execution of any deposit account control agreement and the delivery of legal opinions as to the perfection of any such security interests. The Company will not change or relocate its place of business (or its chief executive office if it has more than one place of business) unless it has taken all actions, and made all filings necessary to continue the effectiveness and perfection of all security interests created by the Bond Documents to which it is a party. The Trustee shall either (i) file continuation statements as may be required to maintain the perfection and priority of the security interests granted hereby and by the Bond Documents, or (ii) confirm, on an annual basis, the filing of continuation statements by the Company required to maintain the perfection and priority of the security interests granted hereby and by the Bond Documents and, if necessary, make such filings as may be required to maintain the perfection and priority of the security interests granted hereby and by the Bond Documents.

(c) Under the Indenture, the Issuer is, as security for the Bonds, pledging, assigning, transferring and granting a security interest in certain of its rights, title and interest under this Agreement to the Trustee. The Company agrees that this Agreement, and all of the rights, interests, powers, privileges and benefits accruing to or vested in the Issuer shall be protected and enforced

in conformity with the Indenture and (except for the Issuer's Unassigned Rights) are being assigned by the Issuer to the Trustee as security for the Bonds and may be exercised, protected and enforced solely by the Trustee for or on behalf of the Bondholders in conformity with this Agreement and the Indenture. The Trustee is hereby given the exclusive right to enforce, as assignee of the Issuer, the performance of the obligations of the Company, and the Company hereby consents to the same and agrees that the Trustee may enforce such rights as provided in this Agreement and in the Indenture. The Issuer and the Company recognize that the Trustee is a third party creditor-beneficiary of this Agreement. The Issuer hereby directs the Company to make all payments (other than payments relating to any money or rights not granted to the Trustee as part of the Trust Estate pursuant to the granting clauses in the Indenture) to the Trustee instead of to the Issuer and the Company hereby agrees to do so. All such payments shall be made in lawful money of the United States of America directly to the Trustee, as assigned by the Issuer, at the location specified by the Trustee, and shall be applied as provided in Section 4.1 of this Agreement. The Company and the Issuer further acknowledge that except for the obligation of the Trustee to credit amounts paid or recovered from this Agreement or the collateral therefor to the Issuer's debt evidenced by the Bonds and except for certain rights not granted to the Trustee as part of the Trust Estate, the Issuer has no further interest in this Agreement and the Trustee shall have the exclusive right (subject to the provisions of the Indenture) to grant consents, extensions, forgiveness, and waivers, make amendments, release collateral and otherwise deal with the Company as the sole owner of this Agreement and the Trustee exclusively may start and prosecute suit hereon or otherwise take action to recover amounts owing under this Agreement without first obtaining the consent of the Issuer or without joining the Issuer as a plaintiff.

Section 4.4 Nature of Obligations of the Company. The Company agrees that its obligations to make payments hereunder shall be absolute and unconditional, irrespective of any rights of set-off, diminution, abatement, recoupment or counterclaim the Company might otherwise have against any Person, and except in connection with a discharge of the Indenture, the Company will perform and observe all its payment obligations and covenants, representations and warranties hereunder without suspension and will not terminate the Bond Documents to which it is a party for any cause. The Company covenants not to seek and hereby waives, to the extent permitted by applicable law, the benefits of any rights which it may have at any time to any stay or extension of time for performance or to terminate, cancel or limit its liability under the Bond Documents to which it is a party except through payment or deemed payment of the Bonds as provided in such Bond Documents. The Bondholders shall be entitled to rely upon the agreements and covenants in this Section regardless of the validity or enforceability of the remainder of this Agreement or any other Bond Document or agreement.

The preceding paragraph shall not be construed to release the Issuer from the performance of any of its agreements contained in this Agreement, or except to the extent provided in this Section and Section 5.1, prevent or restrict the Company from asserting any rights which it may have against the Issuer, the Trustee or any other Person under this Agreement or any of the other Bond Documents to which it is a party or under any provision of law or prevent or restrict the Company, at its own cost and expense, from prosecuting or defending any action or proceeding against or by third parties or taking any other action to secure or protect its rights in connection with the acquisition, construction, improvement, possession and use of the Project and its rights under such Bond Documents.

Section 4.5 Limitation on Interest. Notwithstanding any provision of the Bond Documents to the contrary, it is hereby agreed that in no event shall the amount of interest (as defined and calculated in accordance with applicable law) contracted for, charged, reserved, received or taken in connection with any loan made hereunder exceed the amount of interest which could have been contracted for, charged, reserved, received or taken at the Highest Lawful Rate. If the applicable law is ever judicially interpreted so as to render usurious any amount called for under the Bond Documents or otherwise contracted for, charged, reserved, received or taken in connection with any loan made hereunder, or if the Trustee's exercise of the right to accelerate the Maturity of any loan made hereunder or if any prepayment of any such loan by the Company results in there having been paid or received any interest in excess of that permitted by applicable law, then notwithstanding anything to the contrary contained in the Bond Documents, all excess amounts theretofore paid or received shall be credited on the principal balance of such loan (or, if such loan has been or would thereby be paid in full, refunded), and the provisions of this Agreement and the related Series 2023 Note shall immediately be deemed reformed and the amounts thereafter collectible thereunder reduced, without the necessity of the execution of any new document, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for thereunder. All sums paid or agreed to be paid for the use, forbearance or detention of the indebtedness evidenced by any such loan shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term of such indebtedness until payment in full so that the rate or amount of interest on account of such indebtedness does not exceed the usury ceiling from time to time in effect and applicable to such indebtedness for so long as such indebtedness is outstanding (it being understood that the foregoing provisions permit the rate of interest on such loan to exceed the Highest Lawful Rate for any day as long as the total amount of interest paid on such loan from the date of initial delivery of the Bonds to the date of calculation does not exceed the amount of interest which would have been paid on such loan to the date of calculation if such loan had borne interest for such period at the Highest Lawful Rate).

Section 4.6 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 807 of the Indenture, and (iii) all out-of-pocket expenses (including reasonable fees and expenses of attorneys employed by the Paying Agent and the Trustee) incurred in connection with the enforcement of any rights or remedies or the performance of duties under the Bond Documents.

(c) TEA. The Company agrees unconditionally that it will pay or reimburse TEA on demand any and all reasonable charges, fees, costs, losses, liabilities and expenses that TEA may pay or incur, including, but not limited to, fees and expenses of TEA's agents, attorneys, accountants, consultants, appraisers and auditors and reasonable costs of investigations, in connection with the administration (including waivers and consents, if any), enforcement, defense, exercise or preservation of any rights and remedies in respect of the Bond Documents. For purposes of the foregoing, costs and expenses shall include a reasonable allocation of compensation and overhead attributable to the time of employees of TEA spent in connection with the actions described in the preceding sentence.

ARTICLE V

COVENANTS OF THE COMPANY

Section 5.1 Indemnification.

(a) Agreements to Indemnify. THE COMPANY AGREES THAT IT WILL AT ALL TIMES INDEMNIFY AND HOLD HARMLESS EACH OF THE INDEMNIFIED PARTIES AGAINST ANY AND ALL LOSSES OTHER THAN LOSSES RESULTING FROM FRAUD, WILLFUL MISCONDUCT OR THEFT ON THE PART OF THE INDEMNIFIED PARTY CLAIMING INDEMNIFICATION. IT IS THE EXPRESS INTENTION AND AGREEMENT OF THE PARTIES THAT THE COMPANY WILL INDEMNIFY THE INDEMNIFIED PARTIES AGAINST LOSSES WHICH ARISE FROM THE NEGLIGENCE OF ANY INDEMNIFIED PARTY.

(b) Release. NONE OF THE INDEMNIFIED PARTIES SHALL BE LIABLE TO THE COMPANY FOR, AND THE COMPANY HEREBY RELEASES EACH OF THEM FROM, ALL LIABILITY TO THE COMPANY FOR, ALL INJURIES, DAMAGES OR DESTRUCTION TO ALL OR ANY PART OF ANY PROPERTY OWNED OR CLAIMED BY THE COMPANY THAT DIRECTLY OR INDIRECTLY RESULT FROM, ARISE OUT OF OR RELATE TO THE DESIGN, CONSTRUCTION, OPERATION, USE, OCCUPANCY, MAINTENANCE OR OWNERSHIP OF THE PROJECT OR ANY PART THEREOF, EVEN IF SUCH INJURIES, DAMAGES OR DESTRUCTION DIRECTLY OR INDIRECTLY RESULT FROM, ARISE OUT OF OR RELATE TO, IN WHOLE OR IN PART, ONE OR MORE ACTS OR OMISSIONS OF THE INDEMNIFIED PARTIES INCLUDING ACTS OR OMISSIONS CONSTITUTING NEGLIGENCE ON THE PART OF ANY INDEMNIFIED PARTY (OTHER THAN FRAUD, WILLFUL MISCONDUCT OR THEFT ON THE PART OF THE INDEMNIFIED PARTY CLAIMING RELEASE) IN CONNECTION WITH THE ISSUANCE OF THE BONDS OR IN CONNECTION WITH THE PROJECT.

(c) Subrogation. Each Indemnified Party, as appropriate, shall reimburse the Company for payments made by the Company pursuant to this Section to the extent of any proceeds, net of all expenses of collection, actually received by it from any other source (but not from the proceeds of any claim against any other Indemnified Party) with respect to any Loss to the extent necessary to prevent a multiple recovery by such Indemnified Party with respect to such Loss. At the request and expense of the Company, each Indemnified Party shall claim or prosecute any such rights of recovery from other sources (other than any claim against another Indemnified Party) and such

Indemnified Party shall assign its rights to such rights of recovery from other sources (other than any claim against another Indemnified Party), to the extent of such required reimbursement, to the Company.

(d) Notice. In case any Claim shall be brought or, to the knowledge of any Indemnified Party, threatened against any Indemnified Party in respect of which indemnity may be sought against the Company, such Indemnified Party promptly shall notify the Company in writing; provided, however, that any failure so to notify shall not relieve the Company of its obligations under this Section.

(e) Defense. The Company shall have the right to assume the investigation and defense of all Claims, including the employment of counsel and the payment of all expenses. Each Indemnified Party shall have the right to employ separate counsel in any such action and participate in the investigation and defense thereof, but the fees and expenses of such counsel shall be paid by such Indemnified Party unless (i) the employment of such counsel has been specifically authorized by the Company, in writing, (ii) the Company has failed after receipt of notice of such Claim to assume the defense and to employ counsel, or (iii) the named parties to any such action (including any impleaded parties) include both an Indemnified Party and the Company, and the Indemnified Party shall have been advised by counsel that there may be one or more legal defenses available to it which are different from or additional to those available to the Company (in which case, if such Indemnified Party notifies the Company in writing that it elects to employ separate counsel at the Company's expense, the Company shall not have the right to assume the defense of the action on behalf of such Indemnified Party; provided, however, that the Company shall not, in connection with any one action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegation or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys for the Indemnified Parties, which firm shall be designated in writing by the Indemnified Parties).

(f) Cooperation; Settlement. Each Indemnified Party shall cooperate with the Company in the defense of any action or Claim. The Company shall not be liable for any settlement of any action or Claim without the Company's consent but, if any such action or Claim is settled with the consent of the Company or there be final judgment for the plaintiff in any such action or with respect to any such Claim, the Company shall indemnify and hold harmless the Indemnified Parties from and against any Loss by reason of such settlement or judgment to the extent provided in Subsection (a).

(g) Survival; Right to Enforce. The provisions of this Section shall survive the termination of this Agreement, and the obligations of the Company hereunder shall apply to Losses or Claims under Subsection (a) whether asserted prior to or after the termination of this Agreement. In the event of failure by the Company to observe the covenants, conditions and agreements contained in this Section, any Indemnified Party may take any action at law or in equity to collect amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Company under this Section. The obligations of the Company under this Section shall not be affected by any assignment or other transfer by the Issuer of its rights, titles or interests under this Agreement to the Trustee pursuant to the Indenture and will continue to inure to the benefit of the Indemnified Parties after any such transfer. The

provisions of this Section shall be cumulative with and in addition to any other agreement by the Company to indemnify any Indemnified Party.

(h) Trustee. The Company also agrees to indemnify the Trustee, and any of its officers, directors, employees, agents, affiliates (including without limitation, the Trustee as Paying Agent under the Indenture) or successors (collectively, the “Indemnitees”), for, and to defend and hold them harmless against, any loss, liability, claims, proceedings, suits, demands, penalties, costs and expenses, including without limitation, the costs and expenses of outside and in house counsel and experts and their staffs and all expenses of document location, duplication and shipment and of preparation to defend and defending any of the foregoing (for purposes of this clause (h), “Losses”), that may be imposed on, incurred by or asserted against any Indemnitee in respect of (i) any loss, or damage to any property, or injury to or death of any person, asserted by or on behalf of any Person arising out of, resulting from, or in any way connected with the Project, or the conditions, occupancy, use, possession, conduct or management of, or any work done in or about the Project or from the planning, design, acquisition or construction of any Project facilities or any part thereof, (ii) the issuance of the Bonds or the Issuer’s authority therefore; (iii) the Indenture and any instrument related thereto, (iv) the Trustee’s execution, delivery and performance of the Indenture in respect of any Indemnitee except to the extent such Indemnitee’s negligence or bad faith primarily caused the Loss, and (v) compliance with or attempted compliance with or reliance on any instruction or other direction upon which the Trustee may rely under the Indenture or any instrument related thereto. The Company further agrees to indemnify the Indemnitees against any Losses as a result of (1) any untrue statement or alleged untrue statement of any material fact or the omission or alleged omission to state a material fact necessary to make the statements made not misleading in any statement, information or material furnished by the Company to the Issuer or the Trustee, including, but not limited to any disclosure utilized in connection with the sale of the Bonds or (2) the inaccuracy of the statement contained in any section of any Bond Document relating to environmental representations and warranties. The foregoing indemnification shall include, without limitation, indemnification for any statement or information concerning the Company or its officer and members or its Property contained in any official statement or other offering document furnished to the Trustee or the purchaser of any Bonds that is untrue or incorrect in any material respect, and any omission from such official statement or other offering document of any statement or information which should be contained therein for the purpose for which the same is to be used or which is necessary to make the statements therein concerning the Company, its officers and members and its Property not misleading in any material respect. The foregoing is in addition to any other rights, including rights to indemnification, to which the Trustee may otherwise be entitled.

Section 5.2 Removal of Liens. If any lien, encumbrance or charge of any kind based on any claim of any kind (including, without limitation, any claim for income, franchise or other taxes, whether federal, state or otherwise) shall be asserted or filed against the Trust Estate, or any Loan Payment paid or payable by the Company under or pursuant to this Agreement, or any order (whether or not valid) of any court shall be entered with respect to the Trust Estate, or any such Loan Payment by virtue of any claim of any kind, in any case so as to:

(a) interfere with the due payment of such amount to the Trustee or the due application of such amount by the Trustee or any Paying Agent pursuant to the applicable provisions of the Indenture,

(b) subject the Bondholders to any obligation to refund any money applied to payment of principal (premium, if any) and interest on any Bond, or

(c) result in the refusal of the Trustee or any Paying Agent to make such due application because of its reasonable determination that liability might be incurred if such due application were to be made,

then the Company will promptly take such action (including, but not limited to, the payment of money) as may be necessary to prevent, or to nullify the cause or result of, such interference, obligation or refusal, as the case may be.

Section 5.3 Tax Covenants. The Company will not, through any act or omission, adversely affect the exclusion from gross income of interest paid or payable on the Bonds for federal income tax purposes, and, in the event of such action or omission, it will use all reasonable efforts to cure the effect of such action or omission. Certain terms used in this Section are defined in Section 5.3(r). With the intent not to limit the generality of the foregoing, the Company covenants and agrees that prior to the final Maturity of the Bonds, unless it has received and filed with the Issuer and the Trustee a Favorable Opinion of Bond Counsel:

(a) Maintenance of Exempt Status. The Company will (i) conduct its operations in a manner that will result in its continued qualification as an organization described in Section 501(c)(3) of the Code as represented in Section 2.2(i)(A) through 2.2(i)(K) of this Agreement, and (ii) timely file or cause to be filed all materials, returns, reports and other documents which are required to be filed with the IRS.

(b) Diversion of Funds for Unrelated Purposes. The Company will not divert any substantial part of its corpus or income for a purpose or purposes other than those for which it is organized and operated as represented in Section 2.2(i)(A) through 2.2(i)(J) of this Agreement.

(c) Notification of the Internal Revenue Service. The Company will timely notify the IRS of any changes in its organizational documents or method of operations to the extent that the IRS does not already have knowledge of any such changes.

(d) Ownership of Project. All of the property financed or refinanced with the Net Proceeds of the Bonds will, at all times prior to final Maturity of the Bonds or prior to the expiration of the useful life of such property, be owned for federal income tax purposes by the Company or by another Exempt Person.

(e) Use of Net Proceeds. The Company will not use or permit to be used, directly or indirectly, in any trade or business carried on by any Person who is not an Exempt Person, more than the lesser of (i) 5 percent of the Net Proceeds of the Bonds or (ii) \$15,000,000. For purposes of the preceding sentence, (w) use of Net Proceeds by an organization described in Section 501(c)(3) of the Code with respect to an unrelated trade or business, determined according to Section 513(a) of the Code, does not constitute a use by an Exempt Person; (x) use of any property financed with the Net Proceeds of the 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 Bonds in any manner contrary to the guidelines set forth in Revenue Procedure 2017-13 shall constitute the use of such proceeds in the trade or business of a Person who is not an Exempt

Person; and (z) any use of the Net Proceeds to pay Costs of Issuance shall constitute the use of such proceeds in the trade or business of a Person who is not an Exempt Person.

(f) Loans of Proceeds. The Company will not use or permit the use of any portion of the Sale Proceeds of the Bonds, directly or indirectly, to make or finance loans to persons who are not Exempt Persons. For purposes of the preceding sentence, (i) a loan to an organization described in Section 501(c)(3) of the Code for use with respect to an unrelated trade or business, determined according to Section 513(a) of the Code, does not constitute a loan to an Exempt Person and (ii) any transaction which constructively transfers ownership of property financed with Sale Proceeds of the Bonds for federal income tax purposes constitutes a loan of such Sale Proceeds.

(g) Limit on Nonhospital Bonds. The Company will expend at least 95 percent of the Net Proceeds of Bonds for Capital Expenditures incurred after August 5, 1997. Accordingly, the Bonds are not subject to the \$150,000,000 limit on nonhospital bonds imposed by section 145(b) of the Code.

(h) Project Useful Life. Taking into account the Issue Price (as defined in Section 5.3(r) of this Agreement) of the Stated Maturity of the Bonds, the weighted average maturity of the Bonds will not exceed 120 percent of the average reasonably expected economic life of the Project to be financed or refinanced by the Bonds, weighted in proportion to the respective cost of each item comprising the property the cost of which has been or will be financed, directly or indirectly, with the Net Proceeds (as defined in Section 5.3(r) of this Agreement) of the 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 Bonds or (B) the date on which such property is placed in service (or expected to be placed in service). In addition, land shall not be taken into account in determining the reasonably expected economic life of property, except that, in the event 25 percent or more of the collective Net Proceeds of the Bonds, directly or indirectly, have been expended for land, such land shall be treated as having an economic life of 30 years and shall be taken into account for purposes of determining the reasonably expected economic life of such property.

(i) Prohibited Facilities. None of the Proceeds of the Bonds will be used to provide any airplane, sky-box or other private luxury box, facility primarily used for gambling or store the principal business of which is the sale of alcoholic beverages for consumption off premises.

(j) Public Approval. The Company covenants and agrees that the Proceeds of the 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 Bonds published by the Issuer in the *Houston Chronicle* on May 24, 2023 and the *Clifton Record* on May 24, 2023.

(k) Limit on Costs of Issuance. The Sale Proceeds of the Bonds will be expended for the purposes set forth in this Agreement and in the Indenture and no portion thereof in excess of 2 percent of the Sale Proceeds of the Bonds, within the meaning of Section 147(g) of the Code, will be expended to pay Costs of Issuance with respect to the Bonds.

(l) No Arbitrage. The Company will not use or invest the Proceeds of the Bonds such that the Bonds become “arbitrage bonds” within the meaning of Section 148 of the Code, and as evidence of this intent, a representative of the Company has reviewed the Issuer’s Federal Tax Certificate prepared in connection with the Bonds and the Company understands, and will take (or request the Trustee or the Issuer to take), the actions described therein.

(m) Yield on Investment of Gross Proceeds. The Company will restrict the cumulative, blended Yield on the investment of the Gross Proceeds of the Bonds, to the Yield of such issue, other than amounts (i) not subject to yield restriction due to any applicable temporary period under Section 148(c) of the Code, or as a result of being on deposit in a Reasonably Required Reserve or Replacement Fund, the Rebate Fund, a bona fide debt service fund (including the Debt Service Fund), or as a minor portion, or (ii) invested at a restricted yield by virtue of being invested in obligations described in Section 103(a) of the Code that are not “specified private activity bonds” within the meaning of Section 57(a)(5) of the Code to the extent required by the Code or the Regulations.

(n) Rebate. The Company agrees to take all steps necessary to compute and pay any Rebate Amount in accordance with Section 148(f) of the Code, including:

(i) Delivery of Documents and Money on Computation Dates. The Company shall deliver to the Trustee, within 45 days after each Computation Date for the 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 90 percent of the Rebate Amount in respect of the Bonds as of such Installment Computation Date, less any prior payments of Rebate Amount made to the United States in respect of the Bonds, or (2) if such Computation Date is the Final Computation Date, an amount which, together with any amount then held for the credit of the Rebate Fund in respect of the Bonds, is equal to the Rebate Amount as of such Final Computation Date, less any prior payments of Rebate Amount made to the United States in respect of the Bonds; and

(C) an IRS Form 8038-T completed as of such Computation Date.

(ii) Correction of Underpayment. If the Company shall discover or be notified as of any date that any payment paid to the United States Treasury pursuant to the Indenture of an amount described in Section 5.3(n) above shall have failed to satisfy any requirement of Section 1.148-3 of the Regulations (whether or not such failure shall be due to any default by the Company, the Issuer, or the Trustee), the Company shall (1) pay to the Trustee (for deposit to the Rebate Fund) and cause the Trustee to pay to the United States Treasury from the Rebate Fund the Rebate Amount, together with any penalty and/or interest due, as specified in Section 1.148-3(h) of the Regulations, within 175 days after any discovery or notice and (2) deliver to the Trustee an IRS Form 8038-T completed as of such date. If such Rebate Amount, together with any penalty and/or interest due, is not

paid to the United States Treasury in the amount and manner and by the time specified in the Regulations the Company shall take such steps as are necessary to prevent the Bonds from becoming arbitrage bonds, within the meaning of Section 148 of the Code. Additionally, the Company agrees that if at any point the Rebate Fund incurs losses from investment, the Company will repay amounts equaling such losses into the Rebate Fund.

(iii) Records. The Company shall retain all of its accounting records relating to the Debt Service Fund, the Project Fund, the Rebate Fund and the investment and expenditure of the Proceeds of the Bonds and all calculations made in preparing the statements described in this Section 5.3(n) for at least six years after the later of the final Maturity of the Bonds or the first date on which no Bonds are Outstanding.

(iv) Fees and Expenses. The Company agrees to pay all of the fees and expenses of Bond Counsel, a certified public accountant and any other necessary consultant employed by the Company, the Trustee or the Issuer in connection with computing the Rebate Amount.

(v) No Diversion of Rebate Amount. The Company will not indirectly pay any amount otherwise payable to the United States Treasury pursuant to the foregoing requirements to any Person other than the United States Treasury by entering into any investment arrangement with respect to the Gross Proceeds of the Bonds that is not purchased at fair market value or includes terms that the Company would not have included if the Bonds were not subject to Section 148(f) of the Code.

(vi) Modification of Requirements. If, at any time during the term of this Agreement, the Issuer, the Trustee, or the Company desires to take any action that would otherwise be prohibited by the terms of this Section, such Person shall be permitted to take such action if it shall first obtain and provide to the other Persons named herein a Favorable Opinion of Bond Counsel. The Company will hire a Rebate Analyst to perform the calculations required in this Section 5.3(n); provided, however, this shall not absolve the Company of any of the covenants of this Section 5.3(n).

(o) “Federally Guaranteed” Obligations. The Company will not cause or permit the Bonds to be treated as “federally guaranteed” obligations for purposes of Section 149(b) of the Code.

(p) Information Reporting Requirements. The Company will cause the Issuer to comply with the information reporting requirements of Section 149(e)(2) of the Code requiring certain information regarding the Bonds to be filed with the IRS within prescribed time limits.

(q) Bonds are Not Hedge Bonds. The Company covenants and agrees that not more than 50 percent of the Proceeds of the Bonds will be invested in Nonpurpose Investments having a substantially guaranteed Yield for four years or more within the meaning of Section 149(g)(3)(A)(ii) of the Code, and the Company reasonably expects that at least 85 percent of the spendable proceeds of the Bonds will be used to carry out the governmental purposes of the Bonds within the three-year period beginning on the Closing Date.

(f) Definitions. The following terms have the meanings assigned to them below whenever they are used in this Agreement:

“Bond Year” means, with respect to the Bonds, each one-year period (or shorter period from the Closing Date) that ends at the close of business on the day selected by the Company. The first and last Bond Years may be short periods. If no day is selected by the Company before the earlier of the final Maturity of such issue of Bonds or the date that is five years after the Closing Date, Bond Years end on each anniversary of the Closing Date and on the date of final Maturity. Unless notified in writing to the contrary, the Trustee may conclusively presume that Bond Years end on each anniversary of the Closing Date and the date of final maturity.

“Computation Date” means each Installment Computation Date and the Final Computation Date.

“Costs of Issuance” means issuance costs with respect to the Bonds within the meaning of Section 147(g) of the Code.

“Exempt Person” means a state or local governmental unit or an organization exempt from federal income taxation under Section 501(a) of the Code by reason of being described in Section 501(c)(3) of the Code.

“Final Computation Date” means the final Maturity of the Bonds.

“Gross Proceeds” means any Proceeds and Replacement Proceeds of the Bonds.

“Installment Computation Date” means the last day of the fifth and each succeeding fifth Bond Year.

“Investment Proceeds” means any amounts actually or constructively received from investing Proceeds.

“Investment Property” means (i) any security (within the meaning of Section 165(g)(2)(A) or (B) of the Code), (ii) any obligation, (iii) any annuity contract, (iv) any investment-type property, or (v) in the case of a bond other than a private activity bond, any residential rental property for family units which is not located within the jurisdiction of the issuer and which is not acquired to implement a court ordered or approved housing desegregation plan.

“Issue Price” means, with respect to the Bonds, “issue price” as defined in Sections 1273 and 1274 of the Code, unless otherwise provided in Sections 1.148-0 through 1.148-11 of the Regulations and, generally, is the aggregate initial offering price to the public (excluding bond houses, brokers and other intermediaries acting in the capacity of wholesalers or underwriters) at which a substantial number of each Maturity of the Bonds is sold.

“Net Proceeds” means, any Net Sale Proceeds, Investment Proceeds and Transferred Proceeds of the 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 Bonds.

“Proceeds” means, any Sale Proceeds, Investment Proceeds and Transferred Proceeds of the Bonds.

“Qualifying Costs” means the Project Costs (excluding the costs for funding a debt service reserve fund , if any), that will be used, directly or indirectly in any trade or business carried on by any Person who is an Exempt Person. For purposes of the preceding sentence, (i) use by an organization described in Section 501(c)(3) of the Code with respect to an unrelated trade or business, determined according to Section 513(a) of the Code, does not constitute use by an Exempt Person, and (ii) any use in any manner contrary to the guidelines set forth in Revenue Procedures 2017-13 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 Bonds invested at a Yield materially higher than the Yield on the Bonds does not exceed the least of (i) 10 percent of the stated principal amount of the Bonds; (ii) the maximum annual debt service on the Bonds; or (iii) 125 percent of the average annual debt service on the Bonds, within the meaning of Section 1.148-2(f)(2)(ii) of the Regulations; provided that, if the Bonds are sold with more than a de minimus amount of original issue discount or premium, the issue price will be used to measure the 10 percent limit.

“Rebate Amount” has the meaning ascribed in Section 1.148-3 of the Regulations and generally means the excess as of any date of the future value of all receipts on Nonpurpose Investments over the future value of all payments on Nonpurpose Investments, all as determined in accordance with Section 1.148-3 of the Regulations.

“Rebate Analyst” means an independent certified public accountant, financial analyst or bond counsel, or any firm of the foregoing, or financial institution, experienced in making the arbitrage and rebate calculations required pursuant to Section 148(f) of the Code, selected, retained and compensated by the Company pursuant to this Section 5.3(r) to make the computations and give the directions required under Section 405 of the Indenture.

“Replacement Proceeds” has the meaning set forth in Section 1.148-1(c) of the Regulations.

“Sale Proceeds” means, any amounts actually or constructively received from the sale (or other disposition) of any 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 Bond, as described in Section 1.148-4(b)(4) of the Regulations, and certain amounts received upon termination of certain hedges, as described in Section 1.148-4(h)(5) of the Regulations.

“Transferred Proceeds” means, with respect to the portion of the Bonds that is a refunding issue, proceeds that have ceased to be proceeds of a refunded issue and are transferred proceeds of the refunding issue by reason of section 1.148-9 of the Regulations.

“Yield” means yield as determined in accordance with Section 148(h) of the Code and the Regulations, and generally, is the yield which when used in computing the present worth of all payments of principal and interest to be paid on an obligation produces an amount equal to the Issue Price of such obligation.

To the extent that published rulings of the IRS, or amendments to the Code or the Regulations modify the covenants of the Company which are set forth in this Section 5.3 or which are necessary to preserve the excludability from gross income of interest on the Bonds for federal income tax purposes, the Company and the Issuer will comply with such modifications.

Section 5.4 Financial Reports; No Default Certificates; Notice of Default.

(a) The Company shall cause an annual audit of its books and accounts to be made by independent certified public accountants and delivered to it within six months after the end of each Fiscal Year of the Company. Within thirty (30) days after the time said audit report is delivered to the Company, the Company shall deliver to the TEA a copy thereof and to the Trustee and TEA a certificate signed by an Authorized Representative of the Company stating that such person has reviewed the obligations of the Company under this Agreement, any Deed of Trust, the Series 2023 Note, the Master Indenture and the Indenture and the performance of the Company hereunder and thereunder, and has consulted with such officers and employees of the Company as he or she deemed appropriate and necessary for the purpose of delivering such certificate, and based on such review and consultation, no Event of Default and no event which, with the giving of notice or the passage of time or both, would constitute an Event of Default has occurred and is continuing under the aforementioned documents. Such certificate shall also set forth the Debt Service Coverage Ratio as described in Section 5.9 and the Liquidity Ratio set forth in Section 5.10 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 examine the certificate for compliance with the required statements therein, and shall have no duty to furnish such audits to any third party.

(b) The Company shall also, promptly upon receiving notice thereof, notify the Issuer, TEA and the Trustee in writing upon the occurrence of an Event of Default or any event which with the giving of notice or the passage of time or both would constitute an Event of Default hereunder or under the Series 2023 Note, the Master Indenture or the Indenture.

Section 5.5 Further Assurances and Corrective Instruments; Recordation. The Issuer and the Company agree that they will, from time to time, execute, acknowledge, and deliver, or cause to be executed, acknowledged, and delivered, such supplements hereto and such further instruments as may reasonably be required for carrying out the intention or facilitating the performance of this Agreement, the Master Indenture and the Indenture.

The Company covenants that it will act and cooperate so that this Agreement, the Master Indenture, the Indenture, any financing statements, and all supplements thereto, and any other instruments as may be required from time to time to be kept, will be recorded and filed in such

manner and in such places as may from time to time be required by law in order fully to preserve and protect the security of the Bondholders and the rights of the Trustee under the Indenture.

Section 5.6 Environmental Indemnity. The Company hereby agrees to indemnify and hold harmless the Master Trustee, the Trustee, the Issuer and their successors, assigns, officers, affiliates and employees (collectively referred to in this Section 5.6 as the “Indemnified Parties”) for, from and against any and all loss, costs, damages, exemplary damages, natural resources damages, liens, and expenses (including, but not limited to, attorneys’ fees and any and all other costs incurred in the investigation, defense and settlement of claims) that Indemnified Parties may incur as a result of or in connection with the assertion against Indemnified Parties, of any claim, civil, criminal or administrative, which:

(a) arises out of the actual, alleged or threatened discharge, dispersal, release, storage, treatment, generation, disposal or escape of any Regulated Chemical, including, but not limited to, any solid, liquid, gaseous or thermal irritant or contaminant, including, but not limited to, smoke, vapor, soot, fumes, acids, alkalis, chemicals, medical waste and waste (including materials to be recycled, reconditioned or reclaimed); or

(b) actually or allegedly arises out of the use of any Regulated Chemical, the existence or failure to detect the existence or proportion of any Regulated Chemical in the soil, air, surface water or groundwater, or the performance or failure to perform the abatement or removal of any Regulated Chemical or of any soil, water, surface water or groundwater containing any Regulated Chemical; or

(c) arises out of the actual or alleged existence of any Regulated Chemical on, in, under, or affecting all or a portion of the Project; or

(d) arises out of any misrepresentations of the Company concerning any matter involving Regulated Chemicals; or

(e) arises out of the Company’s failure to provide all information, make all submissions and filings, and take all steps required by appropriate government authority under any applicable environmental law, regulation, statute or program, whether federal, state or local, whether currently existing or hereinafter enacted.

The obligations under this Section 5.6 shall not be affected by any investigation by or on behalf of Indemnified Parties, or by any information which Indemnified Parties may have or obtain with respect thereto.

Notwithstanding anything to the contrary contained in this Section 5.6, no indemnification shall be required for any damages under this Section incurred solely as the result of the gross negligence or willful misconduct of the party seeking indemnification.

The indemnification of the Indemnified Parties as provided in this Section 5.6 shall remain in full force and effect if any such Losses directly or indirectly results from, arises out of, or relates to, or are asserted to have resulted from, arisen out of or related to, the sole or contributory negligence of any of the Indemnified Parties.

Section 5.7 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 5.3) (a) either the Company shall be the surviving corporation in the case of a merger, or the surviving, resulting, or transferee corporation, as the case may be, shall expressly and unconditionally assume, in a written instrument delivered to the Issuer and the Trustee, the punctual performance and observance of all of the covenants and conditions of this Agreement to be performed by the Company; (b) the Company or such surviving, resulting, or transferee corporation, as the case may be, shall not, immediately after such merger or consolidation, or sale or disposition, be in default in the performance of any covenant or condition hereunder; (c) the surviving, resulting, or transferee corporation, as the case may be, shall be duly authorized to transact business in the State; (d) the Company or such surviving, resulting, or transferee corporation, as the case may be, shall have a net worth at least equal to the net worth of the Company immediately preceding such merger or consolidation, or sale or disposition, with net worth being determined in accordance with generally accepted accounting principles; and (e) the Trustee shall have received, to its reasonable satisfaction, such other information, documents, certificates and opinions as the Trustee may reasonably require. Prior to the consummation of any such merger, sale, conveyance or transfer, (y) the Company shall deliver to the Issuer and the Trustee a Favorable Opinion of Bond Counsel and an Opinion of Counsel to the effect that such act does not violate the Act or the Code and (z) the surviving, resulting, or transferee entity's certification to the Issuer and the Trustee to the effect that each of the conditions stated in clauses (a) through (e) of the preceding sentence is and will remain satisfied as of the date of such consummation and that such consummation will not cause any such condition to not be satisfied. Furthermore, the Company or any surviving, resulting or transferee corporation shall, at all times during the term of this Agreement, qualify as an "accredited primary or secondary school" or "authorized charter school" as such terms are defined in Section 53.02, Texas Education Code.

Section 5.8 Continuing Disclosure Undertaking.

(a) The Company hereby agrees to enter into and fully perform its obligations under that certain Continuing Disclosure Agreement dated as of August 9, 2023 between the Company and Masterson Advisors LLC, as dissemination agent; provided, however, that failure of the Company to comply with such requirements shall not constitute an Event of Default hereunder.

(b) The Company will provide to the Texas Education Agency all notices and other information it is obligated to provide under its Continuing Disclosure Agreement at the times and in the circumstances specified therein.

Section 5.9 Debt Service Coverage Ratio. While any of the Bonds remain Outstanding, the Company shall maintain a Debt Service Coverage Ratio for each fiscal year equal to at least 1.20x the Annual Debt Service Requirements (as defined in the Master Indenture) of the Company, tested annually as of the end of the Company's Fiscal Year based upon the audited financial statements of the Company, commencing with the Fiscal Year ending June 30, 2023. Failure to maintain the Debt Service Coverage Ratio as required by this Section will not constitute an Event of Default if the Company timely engages (within thirty (30) days of submittal of the certificate describing such failure 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 (as defined in the Master Indenture) to review and analyze the operations and administration of the Company, and such Independent Management Consultant prepares and delivers within forty-five (45) days a report to the Company and the Trustee with recommendations for meeting the required Debt Service Coverage Ratio. The Company agrees to consider any recommendations by the Management Consultant and, to the fullest extent legally permissible and practicable, to adopt and carry out such recommendations. Notwithstanding the foregoing, if at any time the Debt Service Coverage Ratio falls below 1.0x the Annual Debt Service Requirements of the Company it shall constitute an Event of Default.

Section 5.10 Liquidity Ratio. So long as the Bonds remain Outstanding, the Company shall maintain a Liquidity Ratio of at least 0.20 to 1.00 for each Fiscal Year, tested annually as of the end of the Company's Fiscal Year based upon the audited financial statements of the Company, commencing with the Fiscal Year ending June 30, 2023. If the Company fails to meet the required Liquidity Ratio for any year, the Company will retain, at its sole expense, within thirty (30) days of submittal of the certificate describing such failure 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 (as defined in the Master Indenture) to review and analyze the operations and administration of the Company. The Independent Management Consultant shall deliver its report within forty-five (45) days of its retention to the Company and the Trustee, with recommendations for meeting the required Liquidity Ratio. The Company agrees to consider any recommendations by the Independent Management Consultant and, to the fullest extent legally permissible and practicable, to adopt and carry out such recommendations.

Section 5.11 Negative Pledge. The Company shall not create or allow any liens to exist on any of its plant, property or equipment included in the Deed of Trust, except as permitted by the Deed of Trust.

ARTICLE VI PERMANENT SCHOOL FUND GUARANTEE

Section 6.1 Permanent School Fund Guarantee. The Company has applied for and received approval from the Commissioner of Education, subject to compliance with the Commissioner of Education's rules and regulations, for payment of the principal of and interest on the Bonds to be guaranteed by the Permanent School Fund. If the Bonds are defeased, the Guarantee will be removed in its entirety and, in case of payment default and in accordance with Texas Education Code § 45.061, the Comptroller of Public Accounts will withhold the amount paid, plus interest, from the first state money payable to the Company in the following order: foundation school fund, available school fund. In connection with the Guarantee, the Company, hereby certifies and covenants that:

(a) a certified copy of the Indenture and copies of the Final Official Statement shall be furnished to the Division of State Funding, School Facilities and Transportation, within ten (10) calendar days following the pricing of the Bonds;

(b) following any determination by the Company that it is or will be unable to pay maturing or matured principal or interest on the Bonds, the Company will take all action required

by Subchapter C of Chapter 45 of the Texas Education Code, including, but not limited to, the giving of timely notice of such determination to the Commissioner; and

(c) the Company will notify the Division of State Funding in writing within ten (10) calendar days of the defeasance of any Bonds.

Section 6.2 TEA Reimbursement Amounts. The Company agrees to pay to TEA (i) a sum equal to the total of all amounts paid by TEA under the Guarantee (“TEA Guarantee Payment”); and (ii) interest on such TEA Guarantee Payments payable to TEA at the interest rate on the Bonds as specified in the Indenture (the “TEA Reimbursement Amounts”), with such interest compounded semi-annually. Notwithstanding anything to the contrary, including without limitation the post default application of revenue provisions, TEA Reimbursement Amounts shall be, and the Issuer and Company hereby covenant and agree that the TEA Reimbursement Amounts are, payable from and secured by a lien on and pledge of the Trust Estate.

Section 6.3 Non-Impairment of Rights. No contract shall be entered into or any action taken by the Company by which the rights of TEA or security for or source of payment of the Bonds may be impaired or prejudiced in any material respect except upon obtaining the prior written consent of TEA.

Section 6.4 Conflicting Provisions. So long as the Guarantee is effective, the Guarantee shall be in addition to and, to the extent possible, reconciled with other provisions in the Bond Documents; provided, however, that, if there has been any draw upon the Guarantee, then the Guarantee provisions, including those set forth in Sections 701, 702, 703, 705, 713, 714, 1101, 1102 and 1103 of the Indenture and Sections 4.6, 6.1, 6.2 and 6.3 of this Agreement, shall supersede any conflicting or inconsistent provisions in the Bond Documents.

ARTICLE VII

EVENTS OF DEFAULT; REMEDIES

Section 7.1 Events of Default Defined. The following shall be “Events of Default” under this Agreement and the term “Events of Default” shall mean, whenever used in this Agreement, any one or more of the following events:

(a) Failure by the Company to pay the Loan Payments when due pursuant to Section 4.1 of this Agreement; provided that, such Event of Default shall terminate (i) upon timely receipt of two successive payments of the amounts then required under Section 4.1 and (ii) the balance in the Debt Service Fund must equal the amount that is then required to be on deposit.

(b) Any representation or warranty made or deemed made by the Company under the Bond Documents shall be false, misleading or erroneous in any material respect when made or deemed made, or a failure by the Company to observe and perform any covenant, condition, or agreement on its part to be observed or performed under this Agreement or the Indenture, other than as referred to in subsection (a) of this Section, for a period of 60 days after written notice, specifying such failure and requesting that it be remedied, is given to the Company by the Issuer or the Trustee.

(c) The occurrence and continuance of any “Events of Default” specified in the Bond Documents or the Master Indenture that has not been waived or cured.

The foregoing provisions of this Section (except Subsection (a) of this Section) are subject to the following limitations: If by reason of Force Majeure the Company is unable in whole or in part to carry out its agreements contained herein, other than the obligations on the part of the Company to make Loan Payments, the Company shall not be deemed in default during the continuance of such inability. The Company agrees, however, to remedy with all reasonable dispatch the cause or causes preventing the Company from carrying out its agreements by reason of such Force Majeure.

Section 7.2 Remedies Upon An Event of Default. Whenever any Event of Default shall have happened and be continuing, the Issuer, the Trustee as assignee of the Issuer, or TEA may, subject to Article VIII of the Indenture, take any one or more of the following remedial steps:

(a) From time to time, may take whatever action at law or in equity or under the terms of the Bond Documents as necessary or desirable to collect the amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement, or covenant of the Company under this Agreement or any other Bond Document.

(b) From time to time take whatever actions at law or in equity as necessary or desirable to enforce the obligations of the Company under Section 4.6, Section 5.1 and Section 7.6 hereof.

Section 7.3 No Remedy to be Exclusive. No remedy herein conferred upon or reserved to the Trustee or the Issuer is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Trustee or the Issuer to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice other than such notice as may be herein expressly required.

Section 7.4 No Additional Waiver Implied by One Waiver. In the event any provision, covenant, or agreement contained in this Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

Section 7.5 Remedial Rights Assigned to the Trustee. Such rights and remedies as are given the Issuer hereunder (except the Issuer’s rights under Sections 4.6, 5.1 and 7.6 hereof) shall upon execution and delivery of the Indenture be assigned to the Trustee, and the Trustee shall have the right to exercise such rights and remedies, without the joinder or consent of the Issuer, in the same manner and under the limitations and conditions that the Trustee is entitled to exercise rights and remedies under the Indenture.

Section 7.6 Agreement to Pay Attorney’s Fees and Expenses. If the Company should default under any of the provisions of this Agreement and as a consequence the Issuer and/or the Trustee should employ attorneys or incur other expenses for the collection for amounts payable

hereunder or the enforcement of performance or observance of any obligation or agreement on the part of the Company contained in this Agreement, the Company agrees that it will on demand therefor reimburse the Issuer and/or the Trustee for the reasonable fees of such attorneys and such other reasonable expenses so incurred. When the Trustee or the Issuer incurs expenses, attorneys' fees, or renders services after an Event of Default specified in Section 601(c) or (d) of the Master Indenture occurs that is related to the dissolution or liquidation by the Company or the filing by the Company of a voluntary petition for relief, or the entry of an order or decree for relief in an involuntary case, or the entry of an order or decree for dissolution, liquidation or winding up of the affairs of the Company under any applicable bankruptcy, insolvency, or similar law, the expenses, attorneys' fees and compensation for the services are intended to constitute post-petition expenses of administration under any bankruptcy law.

ARTICLE VIII

MISCELLANEOUS

Section 8.1 Severability of Provisions of this Agreement. In the event any provision of this Agreement shall be held invalid or unenforceable by any court or competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 8.2 Execution of this Agreement in Counterparts. This Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 8.3 Captions and Preambles. The captions or headings in this Agreement are for convenience only and in no way define, limit, or describe the scope or intent of any provisions or sections of this Agreement. The preambles hereto are hereby incorporated herein and made a part of this Agreement for all purposes.

Section 8.4 No Pecuniary Liability of the Issuer. No provision, covenant, or agreement contained in this Agreement or breach thereof shall constitute or give rise to any pecuniary liability on the part of the Issuer or any charge upon its general credit. In making such provisions, covenants, or agreements, the Issuer has not obligated itself, except with respect to the Project and the application of the revenues of this Agreement, as hereinabove provided. It is recognized that the Issuer's only source of funds with which to carry out its commitments under this Agreement will be from the proceeds of the sale of the Bonds and payments to be made by the Company hereunder; and it is expressly agreed that the Issuer shall have no liability, obligation, or responsibility with respect to this Agreement or the Project except to the extent of funds available from such Bond proceeds and payments to be made by the Company hereunder.

Section 8.5 Payment to the Issuer. The Company agrees to pay directly to the Issuer all fees required to be paid by the Company under the Issuer's regulations as in effect as of the date hereof, Costs of Issuance reasonably incurred by the Issuer in connection with the issuance of the Bonds, and other expenses, if any, incurred from time to time by the Issuer in connection with the Project or the Bonds.

Section 8.6 Status of the Parties' Relationship. Nothing in this Agreement shall be construed to make either party the partner or joint venturer of or with the other party.

Section 8.7 Governing Law. The validity, interpretation, and performance of this Agreement shall be governed by the laws of the State.

Section 8.8 Final Agreement. THIS WRITTEN AGREEMENT AND THE OTHER BOND DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

Section 8.9 Third Party Beneficiaries. The parties hereto expressly recognize that the Trustee and the TEA are third party beneficiaries to this Agreement and may enforce any right, remedy, or claim conferred, given or granted hereunder.

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IN WITNESS WHEREOF, the Issuer and the Company have caused this Agreement to be signed in their behalf by their duly authorized representatives as of the date set forth above.

CLIFTON HIGHER EDUCATION FINANCE
CORPORATION

By: _____
Vice President, Board of Directors

[Remainder of page intentionally left blank]

YES PREP PUBLIC SCHOOLS INC.

By: _____
Luis Mena
Chief Financial Officer

EXHIBIT A

The Project

The Project consists of the following “educational facilities” (as defined in Chapter 53, Texas Education Code):

(a) financing and refinancing the costs of acquiring land and the acquisition, constructing, improving and equipping educational facilities of the Company, including:

(i) YES Prep Airline Elementary School, 5815 Airline Drive, Houston, Texas 77076;

(ii) YES Prep Southwest Elementary School, 5212 Anderson Rd., Houston, Texas 77053;

(iii) YES Prep Northline Secondary School, 441 Little York, Houston, Texas 77076;

(iv) YES Prep Hobby Elementary, 8787 Tallyho Street, Houston, Texas 77061;

(v) YES Prep North Rankin Elementary, 12537 Kuykendahl Rd., Houston, Texas 77090; and

(vi) YES Prep East End Elementary, 8329 Lawndale Street, Houston, Texas 77012; and

(b) paying the costs of issuing the Bonds.

EXHIBIT B

FORM OF COMPLETION CERTIFICATE

Hancock Whitney Bank
445 North Blvd, Suite 201
Baton Rouge, LA 70802

Attention: Corporate Trust

Re: \$83,220,000 CLIFTON HIGHER EDUCATION FINANCE CORPORATION
EDUCATION REVENUE BONDS (YES PREP PUBLIC SCHOOLS INC.) SERIES 2023

Ladies and Gentlemen:

The undersigned, being the owner of the Project, as defined in that certain Loan Agreement dated as of August 1, 2023 (the "Loan Agreement") by and among the undersigned and the Issuer hereby certifies to Hancock Whitney Bank, as trustee (the "Trustee") that "Completion" of the Project has been attained as of the date hereof and all conditions relating thereto as set forth below have been satisfied. Capitalized terms used herein and not defined shall have the meanings ascribed thereto in the Loan Agreement.

The undersigned hereby represents and warrants that:

1. that as of that date all Project Costs payable with respect to Project have been paid;
2. the amount from the Project Fund expended for Project Costs relating to the Project totaled \$ _____;
3. the amount from the Project Fund expended for Project Costs which are not Qualifying Costs (as defined in Section 5.3(r) of the Loan Agreement) totaled \$ _____.

4. Not less than 95 percent of the Net Proceeds of the Bonds were used for Qualifying Costs. If less than 95 percent of the Proceeds of the Bonds were used for Qualified Costs, the Company has redeposited amounts into the Project Fund such that the amount of proceeds disbursed for Qualified Costs is equal to at least 95 percent of the Net Proceeds of the Bonds; provided, however, that such redeposit and expenditure did occur not later than 18 months after the later of (i) the date the expenditure to which the redeposited funds are paid, or (ii) the date the asset to which the redeposited funds are placed in service, and in no event later than 60 days after the fifth anniversary of the date of issue of the Bonds or the date 60 days after the retirement of the issue, if earlier. Moreover, not more than 2 percent of the Sale Proceeds of the Bonds were used for Costs of Issuance.

YES PREP PUBLIC SCHOOLS INC.

By: _____
Authorized Representative

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APPENDIX I

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

During the 87th Regular Session of the Texas Legislature (the “87th Regular Session”), which concluded on May 31, 2021, Senate Bill 1232 (“SB 1232” or “the bill”) was enacted, and the bill became effective on September 1, 2021. SB 1232 provides for a variety of changes to the operations and management of the Fund, including the creation of the Permanent School Fund Corporation (the “PSF Corporation”), and the delegation of responsibility to manage the portion of the Fund previously under the management supervision of the State Board of Education (the “SBOE”) to the PSF Corporation. SB 1232 also requires changes with respect to the management of certain investments previously made at the discretion of the Texas School Land Board (the “SLB”), including limiting the types of investments that may be made by the SLB and mandating the transfer of cash and certain other investment properties from the SLB to the PSF Corporation once the PSF Corporation is created. Certain of the authorizations of SB 1232, including the creation of the PSF Corporation have occurred, and other authorized changes are expected to be implemented in phases through the end of calendar year 2023. See “Management Transition to the PSF Corporation” for a summary of SB 1232 and its expected impact on the management and operations of the Fund.

The regular session of the 88th Texas Legislature (the “Legislature”) is scheduled from January 10, 2023 to May 29, 2023. Thereafter, the Texas Governor may call one or more additional special sessions. During this time, the Legislature may enact laws that materially change current law as it relates to the Guarantee Program, the TEA, the SBOE, the Act, the PSF Corporation, and Texas school finance generally. No representation is made regarding any actions the Legislature may take, but the TEA, SBOE, and PSF Corporation intend to monitor proposed legislation for any developments applicable thereto.

History and Purpose

The PSF supports the State’s public school system in two major ways: distributions to the constitutionally established Available School Fund (the “ASF”), as described below, and the guarantee of school district and charter district issued bonds through the Guarantee Program. The PSF was created in 1845 and received its first significant funding with a \$2,000,000 appropriation by the Legislature in 1854 expressly for the benefit of the public schools of Texas, with the sole purpose of assisting in the funding of public education for present and future generations. The Constitution of 1876 described that the PSF would be “permanent,” and stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S.

navigable waters within state boundaries. If the State, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U.S. Supreme Court on May 31, 1960, affirmed Texas' historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund is established and administered, which occurred on September 13, 2003 (the "Total Return Constitutional Amendment"), and which is further described below, only the income produced by the PSF could be used to complement taxes in financing public education, which primarily consisted of income from securities, capital gains from securities transactions and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF.

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

In 2011, legislation was enacted that established the Charter District Bond Guarantee Program as a new component of the Guarantee Program. That legislation authorized the use of the PSF to guarantee revenue bonds issued by or for the benefit of certain open-enrollment charter schools that are designated as "charter districts" by the Education Commissioner. On approval by the Education Commissioner, bonds properly issued by a charter district participating in the Guarantee Program are fully guaranteed by the PSF. The Charter District Bond Guarantee Program became effective on March 3, 2014. See "The Charter District Bond Guarantee Program."

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

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

Audited financial information for the PSF is provided annually through the PSF Comprehensive Annual Financial Report (the "Annual Report"), which is filed with the Municipal Securities Rulemaking Board ("MSRB"). The SLB's land and real assets investment operations, which are part of the PSF as described below, are also included in the annual financial report of the Texas General Land Office (the "GLO") that is included in the comprehensive annual report of the State of Texas. The Annual Report includes the Message of the Executive Administrator of the Fund (the "Message") and the Management's Discussion and Analysis ("MD&A"). The Annual Report for the year ended August 31, 2022, as filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 ("Rule 15c2-12") of the federal Securities and Exchange Commission (the "SEC"), as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended August 31, 2022 is derived from the audited financial statements of the PSF, which are included in the Annual Report as it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2022 and for a description of the financial results of the PSF for the year ended August 31, 2022, the most recent year for which audited financial information regarding the Fund is available. The 2022 Annual Report speaks

only as of its date and the TEA has not obligated itself to update the 2022 Annual Report or any other Annual Report. The TEA posts (i) each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, (ii) the most recent disclosure for the Guarantee Program, (iii) the PSF Corporation's Investment Policy Statement (the "IPS"), and (iv) monthly updates with respect to the capacity of the Guarantee Program (collectively, the "Web Site Materials") on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/ and with the MSRB at www.emma.msrb.org. Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund's holdings of securities specified in Section 13(f), including exchange-traded (e.g., NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at www.sec.gov/edgar. A list of the Fund's equity and fixed income holdings as of August 31 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund's securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes. See "Management Transition to the PSF Corporation" for a discussion of the PSF Corporation audit. At its November 2022 quarterly board meeting, the SBOE considered new regulations for the administration of the Bond Guarantee Program. Two readings and a publication period are required for modifications to the Texas Administrative Code, and such process (the "Regulatory Recodification") was completed in February 2023, with the new regulations becoming effective March 1, 2023. The Regulatory Recodification was taken as an acknowledgment of the new role and powers that are delegated to the PSF Corporation. Among other regulations affecting the Fund that were restructured include the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (recodified in part and replaced in part by the IPS).

Management and Administration of the Fund

The following discussion describes some legal and management aspects of the structure of the Fund prior to full implementation of SB 1232. SB 1232 is being implemented in phases. See "Management Transition to the PSF Corporation" for summaries of certain laws applicable to the Fund pursuant to the Texas Constitution and SB 1232 as well as certain prior actions and the ongoing changes in the management structure of the Fund.

The Texas Constitution and applicable statutes delegate to the SBOE the authority and responsibility for investment of the PSF's financial assets, but SB 1232 authorized the SBOE to delegate management of the Fund to the Corporation, which, as noted above, has been done. The SBOE consists of 15 members who are elected by territorial districts in the State to four year terms of office.

The Texas Constitution provides that the Fund shall be managed though the exercise of the judgment and care under the circumstances then prevailing which persons of ordinary prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income therefrom as well as the probable safety of their capital (the "Prudent Person Standard").

In accordance with the Texas Constitution, the SBOE views the PSF as a perpetual endowment, and the Fund is managed as an endowment fund with a long-term investment horizon. Under the total-return investment objective, the IPS provides that the PSF shall be managed consistently with respect to the following: support for public free schools in Texas, real growth in Fund asset values, protection of Fund capital, and the provision of sustained income distributions to current and future generations of Texas school children. As described below, the Total Return Constitutional Amendment restricts the annual pay-out from the Fund to both (i) 6% of the average of the market value of the Fund, excluding real property, on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium, and (ii) the total-return on all investment assets of the Fund over a rolling ten-year period.

By law, the Education Commissioner is appointed by the Governor, with Senate confirmation, and assists the SBOE, but the Education Commissioner can neither be hired nor dismissed by the SBOE. The PSF Corporation has also engaged outside counsel to advise it as to its duties with respect to the Fund, including specific actions regarding the investment of the PSF to ensure compliance with fiduciary standards, and to provide transactional advice in connection with the investment of Fund assets in non-traditional investments. TEA's General Counsel provides legal advice to the SBOE but will not provide legal advice directly to the PSF Corporation.

The Total Return Constitutional Amendment shifted administrative costs of the Fund from the ASF to the PSF, providing that expenses of managing the PSF are to be paid "by appropriation" from the PSF. In January 2005, the Attorney General issued a legal opinion, Op. Tex. Att'y Gen. No. GA-0293 (2005), stating that the Total Return Constitutional Amendment does not require the SBOE to pay from such appropriated PSF funds the indirect management costs deducted from the assets of a mutual fund or other investment company in which PSF funds have been invested.

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

Prior to the enactment of SB 1232, Texas law assigned to the SLB control of the Fund's land and mineral rights and authority to invest in certain real assets. Administrative duties related to these assets have in the past resided with the GLO, which is under the guidance of the elected commissioner of the GLO (the "Land Commissioner").

In 2019, the Texas Legislature enacted legislation that created a "permanent school fund liquid account" (the "Liquid Account") in the PSF for the purpose of the SBOE receiving, administering, and investing funds transferred from the SLB on a quarterly basis that are not then invested by the SLB or needed within the forthcoming quarter. On January 1, 2023, management of the Liquid Account transferred from the SBOE to the PSF Corporation. The bill grants the PSF Corporation authority and discretion to abolish the Liquid Account when its purpose has been resolved and transfer any remaining balance to the Fund.

Management Transition to the PSF Corporation

In accordance with SB 1232, at its November 2021 board meeting, the SBOE approved the articles of formation of the PSF Corporation. The articles were filed on December 1, 2021, thus effecting the creation of the PSF Corporation. SB 1232 authorizes the SBOE to delegate investment authority over the PSF and the Charter District Reserve Fund to the PSF Corporation. The bill also provides that the PSF Corporation, the SBOE and TEA must coordinate to determine the PSF Corporation's role in the operation and management of the Guarantee Program to ensure the proper and efficient operation of the program.

The description of SB 1232 that follows summarizes some key provisions of the bill. The full text of the bill can be found at <https://capitol.texas.gov/BillLookup/Text.aspx?LegSess=87R&Bill=SB1232>. SB 1232 provides for various transition dates relating to implementation of the bill, with the latest dates generally occurring in calendar year 2023. As noted above, on January 1, 2023 the investment management responsibilities for the Fund transferred to the PSF Corporation and the merger of Fund assets previously managed by the SLB with those previously managed by the SBOE.

As allowed by SB 1232, the PSF Corporation has been created as a special-purpose governmental corporation and instrumentality of the State which is entitled to sovereign immunity. The PSF Corporation is governed by a nine-member board of directors (the "PSFC Board"), which consists of five members of the SBOE, the Land Commissioner, and three appointed members who have substantial background and expertise in investments and asset management; with one of the appointees being appointed by the Land Commissioner and the other two appointed by the Governor (one of which is currently vacant) with confirmation by the Senate.

At the inaugural meeting of the PSFC Board in January 2022, the PSFC Board appointed the Executive Administrator of the Fund as the interim chief executive officer of the PSF Corporation and in April 2022 the Executive Administrator of the Fund was confirmed as the chief executive officer of the PSF Corporation. The PSFC Board adopted bylaws governing how it will manage its affairs and conduct business. The chief executive officer reports to the PSFC Board. Any amendments to the PSF Corporation’s articles of formation and bylaws will be adopted by the PSFC Board but are subject to approval by the SBOE. At its March 2023 meeting, the PSFC Board approved its securities lending policy.

Notwithstanding the management transition for the Fund from the SBOE to the PSF Corporation, the provisions of the Texas Constitution that formerly applied to the SBOE’s management will continue to provide a framework for the management of the Fund. In particular, the Prudent Person Standard is applicable to the PSF Corporation, and the Total Return Constitutional Amendment will govern distributions from the PSF to the ASF by the SBOE. A separate constitutional provision allowing distributions from the PSF to the ASF that is currently used by the SLB was also granted to the PSF Corporation. When determining any amount to distribute, the PSF Corporation may consider distributions made by the SBOE. In addition, the Fund will continue to be managed as a perpetual endowment for the benefit of citizens of the State.

The SLB’s investments in real estate investment funds and real asset investment funds will transfer to the PSF Corporation. Beginning December 31, 2022, the SLB is no longer authorized to make investments into funds; however, the SLB will still be able to invest in land, mineral and royalty interests, and individual real estate holdings; the SLB will also be required to send PSF mineral revenue to the PSF Corporation for investment, subject to designation via the appropriations process to cover GLO expenses of managing the minerals.

Not less than once each year, the PSFC Board must submit an audit report to the Legislative Budget Board (“LBB”) regarding the operations of the PSF Corporation. The PSF Corporation may contract with a certified public accountant or the State Auditor to conduct an independent audit of the operations of the PSF Corporation, but such authorization does not affect the State Auditor’s authority to conduct an audit of the PSF Corporation in accordance with other State laws. The first audit of the PSF Corporation will be conducted following the close of the 2022-2023 fiscal year on August 31, 2023.

As required by State law, during the 87th Regular Session the LBB issued a fiscal note on SB 1232. The fiscal note stated that uncertainty exists regarding the nature of future returns and the effect of the bill on distributions from all components of the PSF to the ASF, such that the financial impact of the bill could not be determined during the legislative session. However, the fiscal note stated that TEA and the GLO projected that the changes effected by the bill will have a positive fiscal impact in terms of growth of the Fund and future Fund distributions. No assurances can be given as to future investment results for the Fund.

With respect to the 2024-2025 State biennium, and for subsequent biennia, the PSF Corporation is required to submit a legislative appropriations request (“LAR”) to the LBB and the Office of the Governor that details a request for appropriation of funds to enable the PSF Corporation to carry out its responsibilities for the investment management of the Fund. The requested funding, budget structure, and riders are sufficient to fully support all operations of the PSF Corporation in state fiscal years 2024 and 2025. As described therein, the LAR is designed to provide the PSF Corporation with the ability to operate as a stand-alone state entity in the State budget while retaining the flexibility to fulfill its fiduciary duty and provide oversight and transparency to the Legislature and Governor.

The Total Return Constitutional Amendment

The Total Return Constitutional Amendment approved a fundamental change in the way that distributions are made to the ASF from the PSF. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividend income produced by Fund investments flowed into the ASF, where they were distributed to local school districts and

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

In determining the Distribution Rate, the SBOE has adopted the goal of maximizing the amount distributed from the Fund in a manner designed to preserve “intergenerational equity.” The definition of intergenerational equity that the SBOE has generally followed is the maintenance of purchasing power to ensure that endowment spending keeps pace with inflation, with the ultimate goal being to ensure that current and future generations are given equal levels of purchasing power in real terms. In making this determination, the SBOE takes into account various considerations, and relies upon PSF Corporation and TEA staff and external investment consultants, which undertake analysis for long-term projection periods that includes certain assumptions. Among the assumptions used in the analysis are a projected rate of growth of student enrollment State-wide, the projected contributions and expenses of the Fund, projected returns in the capital markets and a projected inflation rate.

On November 8, 2011, a referendum was held in the State at which voters of the State approved amendments that effected an increase to the base amount used in calculating the Distribution Rate from the Fund to the ASF and authorized the SLB to make direct transfers to the ASF, as described below.

The November 8, 2011, referendum included an increase to the base used to calculate the Distribution Rate by adding to the calculation base certain discretionary real assets and cash in the Fund that is managed by entities other than the SBOE (at present, by the SLB). The value of those assets was already included in the value of the Fund for purposes of the Guarantee Program, but prior to the amendment had not been included in the calculation base for purposes of making transfers from the Fund to the ASF. While the amendment provided for an increase in the base for the calculation of approximately \$2 billion, no new resources were provided for deposit to the Fund. As described under “The Total Return Constitutional Amendment” the SBOE is prevented from approving a Distribution Rate or making a pay out from the Fund if the amount distributed would exceed 6% of the average of the market value of the Fund, excluding real property in the Fund, but including discretionary real asset investments on the last day of each of the

sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium or if such pay out would exceed the Ten Year Total Return.

The constitutional amendments approved on November 8, 2011, also provided authority to the GLO or another entity (described in statute as the SLB) that has responsibility for the management of revenues derived from land or other properties of the PSF to determine whether to transfer an amount each year to the ASF from the revenue derived during the current year from such land or properties. Prior to November 2019, the amount authorized to be transferred to the ASF from the GLO or SLB was limited to \$300 million per year. On November 5, 2019, a constitutional amendment was approved by State voters that increased the maximum transfer to the ASF to \$600 million each year from the revenue derived during that year from the PSF from the GLO, the SBOE or another entity to the extent such entity has the responsibility for the management of revenues derived from such land or other properties. Any amount transferred to the ASF pursuant to this constitutional provision is excluded from the 6% Distribution Rate limitation applicable to SBOE transfers.

The following table shows amounts distributed to the ASF from the portions of the Fund administered by the SBOE (the “PSF(SBOE)”) and the SLB (the “PSF(SLB)”).

Annual Distributions to the Available School Fund¹

| <u>Fiscal Year Ending</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> |
|----------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | | | | \$1,05 | | | | | | |
| PSF(SBOE) Distribution | \$1,021 | \$839 | \$839 | 6 | \$1,056 | \$1,236 | \$1,236 | \$1,102 | \$1,102 | \$1,731 |
| PSF(SLB) Distribution | \$300 | \$0 | \$0 | \$0 | \$0 | \$0 | \$300 | \$600 | \$600 ² | \$415 |
| Per Student Distribution | \$281 | \$175 | \$173 | \$215 | \$212 | \$247 | \$306 | \$347 | \$341 | \$432 |

¹ In millions of dollars. Source: PSF Annual Report for year ended August 31, 2022.

² In September 2020, the SBOE approved a special, one-time transfer of \$300 million from the portion of the PSF managed by the SBOE to the portion of the PSF managed by the SLB, which amount is to be transferred to the ASF by the SLB in fiscal year 2021. In approving the special transfer, the SBOE determined that the transfer was in the best interest of the PSF due to the historic nature of the public health and economic circumstances resulting from the COVID-19 pandemic and its impact on the school children of Texas.

In November 2022, the SBOE approved a \$3.1 billion distribution to the ASF for State fiscal biennium 2024-2025. In making its determination of the 2024-2025 Distribution Rate, the SBOE took into account the announced planned distribution to the ASF by the SLB of \$1.2 billion for the biennium.

Efforts to achieve the intergenerational equity objective, as described above, result in changes in the Distribution Rate for each biennial period. The following table sets forth the Distribution Rates announced by the SBOE in the fall of each even numbered year to be applicable for the following biennium.

| <u>State Fiscal Biennium</u> | <u>2008-09</u> | <u>2010-11</u> | <u>2012-13</u> | <u>2014-15</u> | <u>2016-17</u> | <u>2018-19</u> | <u>2020-21</u> | <u>2022-23</u> | <u>2024-25</u> |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| <u>SBOE Distribution Rate¹</u> | 3.5% | 2.5% | 4.2% | 3.3% | 3.5% | 3.7% | 2.974% | 4.18% | 3.32% ² |

¹ Includes only distributions made to the ASF by the SBOE; see the immediately preceding table for amounts of direct SLB distributions to the ASF. In addition, the SLB approved transfers of \$600 million per year directly to the ASF for fiscal biennium 2024-25.

² The distribution rate approved by the SBOE for fiscal biennium 2024-25 was based on a number of assumptions, including a mid- to long-term expected return rate for the Fund of 6.35% and a rate of inflation measured by the consumer price index of 2.70% according to the policy adopted by the SBOE in June 2022.

Asset Allocation of Fund Portfolios

With respect to the management of the Fund’s financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE historically reviewed the asset allocations during its summer meeting in even-numbered years. The first asset allocation policy adopted by the SBOE following the Total Return Constitutional Amendment was in February 2004, and the policy was reviewed and modified or reaffirmed in the summers of each even-numbered year, most recently in June 2022. The IPS (effective January 1, 2023) provides for minimum and maximum ranges among the components of each of the asset classifications: equities, fixed income, and alternatives. The alternatives category includes absolute return, private equity, real estate, emerging manager program, real return, natural resources, and infrastructure components. Alternative asset classes diversify the managed assets of the PSF and are not as correlated to traditional asset classes, which is intended to increase investment returns over the long run while reducing risk and return volatility of the portfolio. Given the greater weighting in the overall portfolio of traditional investments, it is expected that the Fund will reflect the general performance returns of the markets in which the Fund is invested.

Prior to the effective date of the IPS, the most recent asset allocation of the PSF(SBOE), was approved by the SBOE in June 2022, and is set forth below, along with the asset allocations of the PSF(SLB) and Liquid Account that were effective June 2022.

PSF 2022 Strategic Asset Allocations

| | <u>PSF(SBOE)</u> | <u>PSF(SLB)</u> | <u>Liquid Account</u> |
|--|------------------|-----------------|-----------------------|
| Equity Total | 55% | 0% | 77% |
| Public Equity Total | 37% | 0% | 77% |
| Large Cap | 14% | 0% | 38% |
| US Equity | | | |
| Small/Mid Cap US Equity | 6% | 0% | 10% |
| International Equities | 14% | 0% | 29% |
| Emerging Markets Equity | 3% | 0% | 0% |
| Private Equity | 18% | 0% | 0% |
| Fixed Income Total | 22% | 0% | 21% |
| Core Bonds | 12% | 0% | 16% |
| Non-Core Bonds (High Yield & Bank Loans) | 4% | 0% | 0% |
| Emerging Markets Debt | 3% | 0% | 0% |
| Treasuries | 3% | 0% | 0% |
| TIPS | 0% | 0% | 5% |
| Short Duration | 0% | 0% | 0% |
| Alternative Investments Total | 22% | 100% | 0% |
| Absolute Return | 7% | 0% | 0% |
| Real Estate | 11% | 33% | 0% |
| Real Return | 4% | 0% | 0% |
| Energy | 0% | 31% | 0% |

| | | | |
|---|----|-----|----|
| Infrastructure | 0% | 36% | 0% |
| Emerging Manager Program | 1% | 0% | 0% |
| Cash | 0% | 0% | 2% |

PSF Corporation 2023 Strategic Asset Allocation

Effective January 1, 2023, the IPS includes a combined asset allocation for all Fund assets (consisting of assets transferred for management to the PSF Corporation from the SBOE, the SLB and the Liquid Account). The IPS provides that the Fund's investment objectives are as follows:

- Generate distributions for the benefit of public schools in Texas;
- Maintain the purchasing power of the Fund, after spending and inflation, in order to maintain intergenerational equity with respect to distributions from the Fund;
- Provide a maximum level of return consistent with prudent risk levels, while maintaining sufficient liquidity needed to support Fund obligations; and
- Maintain a AAA credit rating, as assigned by a nationally recognized securities rating organization.

The table below sets forth the asset allocation of the Fund beginning January 1, 2023.

| Asset Class | Strategic Asset Allocation | Range |
|--|----------------------------|----------|
| Equities | | |
| Large Cap US Equity | 15% | +/- 3.0% |
| Small/Mid-Cap US Equity | 6% | +/- 1.0% |
| Non-US Developed Equity | 10% | +/- 3.0% |
| Emerging Market Equity | 6% | +/- 1.0% |
| <i>Total Equity</i> | 37% | |
| | | |
| Fixed Income | | |
| Core Bonds | 11% | +/- 2.0% |
| Non-Core Bonds (High Yield & Bank Loans) | 3% | +/- 3.0% |
| Emerging Market Debt (Local Currency) | 2% | +/- 2.0% |
| U.S. Treasuries | 2% | +/- 2.0% |
| <i>Total Fixed Income</i> | 18% | |
| | | |
| Cash Equivalents | 0% | |
| | | |
| Alternatives | | |
| Absolute Return | 6% | +/- 1.0% |
| Private Equity | 15% | +/- 4.0% |
| Real Estate | 12% | +/- 4.0% |

| | | |
|---|-----|----------|
| Emerging Manager Program (Private Equity/Real Estate) | 1% | +/- 1.0% |
| Real Return (Commodities & U.S. Treasury Inflation Protected Securities (TIPS)) | 4% | +/- 1.5% |
| Private Real Assets – Natural Resources | 3% | +/- 2.0% |
| Private Real Assets - Infrastructure | 4% | +/- 2.0% |
| <i>Total Alternatives</i> | 45% | |

For a variety of reasons, each change in asset allocation for the Fund has been implemented in phases, and that approach is likely to be carried forward when and if the asset allocation policy is again modified.

The table below sets forth the comparative investments of the PSF(SBOE) for the years ending August 31, 2021 and 2022, as set forth in the PSF Annual Reports for those years. As of January 1, 2023, the assets of the PSF(SBOE) and the PSF (SLB) were generally combined for investment management and accounting purposes.

Comparative Investment Schedule - PSF(SBOE)¹

| Fair Value (in millions) August 31, 2022 and 2021 | | | | |
|---|------------------------|------------------------|--------------------------------------|-----------------------|
| <u>ASSET CLASS</u> | <u>August 31, 2022</u> | <u>August 31, 2021</u> | <u>Amount of Increase (Decrease)</u> | <u>Percent Change</u> |
| EQUITY | | | | |
| Domestic Small Cap | \$ 2,358.4 | \$ 2,597.3 | \$ (238.9) | -9.2% |
| Domestic Large Cap | <u>4,730.4</u> | <u>6,218.7</u> | <u>(1,488.3)</u> | <u>-23.9%</u> |
| Total Domestic Equity | 7,088.8 | 8,816.0 | (1,727.2) | -19.6% |
| International Equity | <u>5,972.5</u> | <u>8,062.1</u> | <u>(2,089.6)</u> | <u>-25.9%</u> |
| TOTAL EQUITY | 13,061.3 | 16,878.1 | (3,816.8) | -22.6% |
| FIXED INCOME | | | | |
| Domestic Fixed Income | 4,563.3 | 4,853.1 | (289.8) | -6.0% |
| U.S. Treasuries | 1,140.2 | 1,243.3 | (103.1) | -8.3% |
| High Yield Bonds | 1,142.5 | - | <u>1,142.5</u> | <u>N/A</u> |
| Emerging Market Debt | <u>1,142.5</u> | <u>2,683.7</u> | <u>(1,492.8)</u> | <u>-55.6%</u> |
| TOTAL FIXED INCOME | 8,036.9 | 8,780.1 | (743.2) | -8.5% |
| ALTERNATIVE INVESTMENTS | | | | |
| Absolute Return | 2,932.3 | 3,546.0 | (613.7) | -17.3% |
| Real Estate | 4,365.7 | 3,706.0 | 659.7 | 17.8% |
| Private Equity | 7,933.1 | 7,724.6 | 208.5 | 2.7% |
| Emerging Manager Program | 29.9 | - | 29.9 | N/A |

| | | | | |
|--------------------------------------|----------------|----------------|----------------|---------------|
| Real Return | <u>1,412.0</u> | <u>1,675.5</u> | <u>(263.5)</u> | <u>-15.7%</u> |
| TOT ALT INVESTMENTS UNALLOCATED CASH | 16,673.0 | 16,652.1 | 20.9 | 0.1% |
| | <u>196.5</u> | <u>262.9</u> | <u>(66.4)</u> | <u>-25.3%</u> |
| TOTAL PSF(SBOE) INVESTMENTS | \$ 37,967.7 | \$ 42,573.2 | \$ (4,605.5) | -10.8% |

Source: PSF Annual Report for year ended August 31, 2022.

¹ The investments shown in the table above at August 31, 2022 do not fully reflect the changes made to the PSF Strategic Asset Allocation in June 2022, as those changes were still being phased in at the end of the fiscal year.

The table below sets forth the investments of the Liquid Account for the year ended August 31, 2022.

Liquid Account Fair Value at August 31, 2022¹

Fair Value (in millions) August 31, 2022 and 2021

| <u>ASSET CLASS</u> | <u>August 31, 2022</u> | <u>August 31, 2021</u> | <u>Amount of Increase (Decrease)</u> | <u>Percent Change</u> |
|----------------------------------|------------------------|------------------------|--------------------------------------|-----------------------|
| Equity | | | | |
| Domestic Small/Mid Cap | \$ 500.0 | \$228.3 | \$271.7 | 119.0% |
| Domestic Large Cap | <u>1,671.7</u> | <u>578.6</u> | <u>1,093.1</u> | 188.9% |
| Total Domestic Equity | 2,171.7 | 806.9 | 1,364.8 | 169.1% |
| International Equity | <u>1,225.5</u> | <u>392.6</u> | <u>832.9</u> | 212.1% |
| TOTAL EQUITY | 3,397.2 | 1,199.5 | 2,197.7 | 183.2% |
| Fixed Income | | | | |
| Short-Term Fixed Income | 797.4 | 1,074.8 | (277.4) | -25.8% |
| Core Bonds | 506.8 | 413.1 | 93.7 | 22.7% |
| TIPS | <u>208.2</u> | <u>213.9</u> | <u>(5.7)</u> | -2.7% |
| TOTAL FIXED INCOME | 1,512.4 | 1,701.8 | (189.4) | -11.1% |
| Unallocated Cash | <u>35.2</u> | <u>1,420.5</u> | <u>(1,385.3)</u> | -97.5% |
| Total Liquid Account Investments | \$4,944.8 | \$4,321.8 | \$623.0 | 14.4% |

¹ In millions of dollars.

Source: PSF Annual Report for year ended August 31, 2022.

The table below sets forth the comparative investments of the PSF(SLB) for the years ending August 31, 2022 and 2021.

Comparative Investment Schedule - PSF(SLB)

Fair Value (in millions) August 31, 2022 and 2021

| Asset Class | As of <u>8-31-22</u> | As of <u>8-31-21</u> | Increase (Decrease) | Percent Change |
|---|-------------------------|-------------------------|------------------------|-------------------|
| Discretionary Real Assets Investments | | | | |
| Externally Managed | | | | |
| Real Assets Investment Funds ¹ | | | | |
| Energy/Minerals | \$2,718.6 | \$1,707.5 | \$1,011.1 | 59.2% |
| Infrastructure | 1,622.7 | 1,652.3 | (29.6) | -1.8% |
| Real Estate | <u>1,921.2</u> | <u>1,276.8</u> | <u>644.4</u> | 50.5% |
| Internally Managed Direct | | | | |
| Real Estate | 271.5 | 223.9 | 47.6 | 21.3% |
| Investments | | | | |
| Total Discretionary | | | | |
| Real Assets Investments | 6,534.0 | 4,860.5 | 1,673.5 | 34.4% |
| Dom. Equity Rec'd as In-Kind Distribution | - | 1.7 | (1.7) | -100.0% |
| Sovereign and Other Lands | 428.3 | 405.4 | 22.9 | 5.6% |
| Mineral Interests | 5,622.2 | 2,720.4 | 2,901.8 | 106.7% |
| Cash at State Treasury ² | <u>1,257.5</u> | <u>699.2</u> | <u>558.3</u> | 79.8% |
| Total PSF(SLB) | | | | |
| Investments | \$13,842.0 | \$8,687.2 | \$5,154.8 | 59.3% |

¹ The fair values of externally managed real assets investment funds, separate accounts, and co-investment vehicles are estimated using the most recent valuations available, adjusted for subsequent contributions and withdrawals.

² Cash at State Treasury represents amounts that have been deposited in the State Treasury and temporarily invested in short-term investments until called for investment by the external real assets investment funds, separate accounts, and co-investment vehicles to which PSF(SLB) has made capital commitments. Prior to September 1, 2019, PSF(SLB) was required by statute to deposit cash designated by the SLB for investment in real assets in the State Treasury until it is drawn for investment. After September 1, 2019, that cash was moved to the Liquid Account to be invested by the SBOE.

The asset allocation of the Fund's financial assets portfolio is subject to change by the PSF Corporation from time to time based upon a number of factors, including recommendations to the PSF Corporation made by internal investment staff and external consultants. Fund performance may also be affected by factors other than asset allocation, including, without limitation, the general performance of the securities markets and other capital markets in the United States and abroad, which may be affected by different levels of economic activity; decisions of political officeholders; significant adverse weather events; development of hostilities in and among nations; cybersecurity threats and events; changes in international trade policies or practices; application of the Prudent Person Standard, which may eliminate certain investment opportunities for the Fund; management fees paid to external managers and embedded management

fees for some fund investments; and, PSF operational limitations impacted by Texas law or legislative appropriation. The Guarantee Program could also be impacted by changes in State or federal law or regulations or the implementation of new accounting standards.

The School District Bond Guarantee Program

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

In the event of default, holders of guaranteed school district bonds will receive all payments due from the corpus of the PSF. Following a determination that a school district will be or is unable to pay maturing or matured principal or interest on any guaranteed bond, the Act requires the school district to notify the Education Commissioner not later than the fifth day before the stated maturity date of such bond or interest payment. Immediately following receipt of such notice, the Education Commissioner must cause to be transferred from the appropriate account in the PSF to the Paying Agent/Registrar an amount necessary to pay the maturing or matured principal and interest. Upon receipt of funds for payment of such principal or interest, the Paying Agent/Registrar must pay the amount due and forward the canceled bond or evidence of payment of the interest to the State Comptroller of Public Accounts (the "Comptroller"). The Education Commissioner will instruct the Comptroller to withhold the amount paid, plus interest, from the first State money payable to the school district. The amount withheld pursuant to this funding "intercept" feature will be deposited to the credit of the PSF. The Comptroller must hold such canceled bond or evidence of payment of the interest on behalf of the PSF. Following full reimbursement of such payment by the school district to the PSF with interest, the Comptroller will cancel the bond or evidence of payment of the interest and forward it to the school district. The Act permits the Education Commissioner to order a school district to set a tax rate sufficient to reimburse the PSF for any payments made with respect to guaranteed bonds, and also sufficient to pay future payments on guaranteed bonds, and provides certain enforcement mechanisms to the Education Commissioner, including the appointment of a board of managers or annexation of a defaulting school district to another school district.

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

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

Generally, the regulations that govern the School District Bond Guarantee Program (the "SDBGP Rules") limit guarantees to certain types of notes and bonds, including, with respect to refunding bonds issued by school districts, a requirement that the bonds produce debt service savings, and that bonds issued for capital facilities of school districts must have been voted as unlimited tax debt of the issuing district. The Guarantee Program Rules include certain accreditation criteria for districts applying for a guarantee of their bonds, and limit guarantees to districts that have less than the amount of annual debt service per average daily attendance that represents the 90th percentile of annual debt service per average daily attendance for all school districts, but such limitation will not apply to school districts

that have enrollment growth of at least 25% over the previous five school years. As noted, above, in connection with the Regulatory Recodification, the SDBGP Rules are now codified in the Texas Administrative Code at 19 TAC section 33.6 and are available at <https://tea.texas.gov/sites/default/files/ch033a.pdf>.

The Charter District Bond Guarantee Program

The Charter District Bond Guarantee Program became effective March 3, 2014. The SBOE published final regulations in the Texas Register that provide for the administration of the Charter District Bond Guarantee Program (the “CDBGP Rules”). As noted, above, in connection with the Regulatory Recodification, the CDBGP Rules are now codified at 19 TAC section 33.7 and are available at <https://tea.texas.gov/sites/default/files/ch033a.pdf>.

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

As of March 2023 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 7.36%. At March 20, 2023, there were 188 active open-enrollment charter schools in the State and there were 1,095 charter school campuses authorized under such charters, though as of such date, 190 of such campuses are not currently serving students for various reasons; therefore, there are 905 charter school campuses actively serving students in Texas. Section 12.101, Texas Education Code, limits the number of charters that the Education Commissioner may grant to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see “Capacity Limits for the Guarantee Program.” The Act provides that the Education Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

In the event of default, holders of guaranteed charter district bonds will receive all payments due from the corpus of the PSF. Following a determination that a charter district will be or is unable to pay maturing or matured principal or interest on any guaranteed bond, the Act requires a charter district to notify the Education Commissioner not later than the fifth day before the stated maturity date of such bond or interest payment and provides that immediately following

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

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

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

From time to time, TEA has limited new guarantees under the Charter District Bond Guarantee Program to conform to capacity limits specified by the Act. Legislation enacted during the Legislature's 2017 regular session modified the manner of calculating the capacity of the Charter District Bond Guarantee Program (the "CDBGP Capacity"), which further increased the amount of the CDBGP Capacity. The CDBGP Capacity is made available from the capacity of the Guarantee Program but is not reserved exclusively for the Charter District Bond Guarantee Program. See "Capacity Limits for the Guarantee Program" and "2017 Legislative Changes to the Charter District Bond Guarantee Program."

Other factors that could increase the CDBGP Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBGP Capacity, as described below, changes in State or federal law or regulations related to the Guarantee Program limit, growth in the relative percentage of students enrolled in open-enrollment charter schools to the total State scholastic census, legislative and administrative changes in funding for charter districts, changes in level of school district or charter district participation in the Guarantee Program, or a combination of such circumstances.

Capacity Limits for the Guarantee Program

The capacity of the Fund to guarantee bonds under the Guarantee Program is limited to the lesser of that imposed by State law (the “State Capacity Limit”) and that imposed by regulations and a notice issued by the IRS (the “IRS Limit”, with the limit in effect at any given time being the “Capacity Limit”). From 2005 through 2009, the Guarantee Program twice reached capacity under the IRS Limit, and in each instance the Guarantee Program was closed to new bond guarantee applications until relief was obtained from the IRS. The most recent closure of the Guarantee Program commenced in March 2009 and the Guarantee Program reopened in February 2010 on the basis of receipt of the IRS Notice.

Prior to 2007, various legislation was enacted modifying the calculation of the State Capacity limit; however, in 2007, Senate Bill 389 (“SB 389”) was enacted, providing for increases in the capacity of the Guarantee Program, and specifically providing that the SBOE may by rule increase the capacity of the Guarantee Program from two and one-half times the cost value of the PSF to an amount not to exceed five times the cost value of the PSF, provided that the increased limit does not violate federal law and regulations and does not prevent bonds guaranteed by the Guarantee Program from receiving the highest available credit rating, as determined by the SBOE. SB 389 further provided that the SBOE shall at least annually consider whether to change the capacity of the Guarantee Program. Additionally, on May 21, 2010, the SBOE modified the SDBGP Rules, and increased the State Capacity Limit to an amount equal to three times the cost value of the PSF. Such modified regulations, including the revised capacity rule, became effective on July 1, 2010. The SDBGP Rules provide that the Education Commissioner may reduce the multiplier to maintain the AAA credit rating of the Guarantee Program but also provide that any changes to the multiplier made by the Education Commissioner are to be ratified or rejected by the SBOE at the next meeting following the change. See “Valuation of the PSF and Guaranteed Bonds” below.

Since September 2015, the SBOE has periodically voted to change the capacity multiplier as shown in the following table.

| <u>Changes in SBOE-determined multiplier for State Capacity Limit</u> | |
|---|-------------------|
| <u>Date</u> | <u>Multiplier</u> |
| Prior to May 2010 | 2.50 |
| May 2010 | 3.00 |
| September 2015 | 3.25 |
| February 2017 | 3.50 |
| September 2017 | 3.75 |
| February 2018 (current) | 3.50 |

Prior to the issuance of the IRS Notice (defined below), the capacity of the program under the IRS Limit was limited to two and one-half times the lower of cost or fair market value of the Fund’s assets adjusted by a factor that excluded additions to the Fund made since May 14, 1989. That limitation was a dynamic number that depended in large part on the market value of the Fund from time to time. On December 16, 2009, the IRS published Notice 2010-5 (the “IRS Notice”) stating that the IRS would issue proposed regulations amending the existing regulations to raise the IRS limit to 500% of the total cost of the assets held by the PSF as of December 16, 2009 (a static number). In accordance with the IRS Notice, the amount of any new bonds to be guaranteed by the PSF, together with the then outstanding amount of bonds previously guaranteed by the PSF, must not exceed the IRS limit on the sale date of the new bonds to be

guaranteed. The IRS Notice further provided that the IRS Notice may be relied upon for bonds sold on or after December 16, 2009, and before the effective date of future regulations or other public administrative guidance affecting funds like the PSF.

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

On July 18, 2016, the IRS issued final regulations enacting the IRS Notice (the “Final IRS Regulations”). The Final IRS Regulations are effective for bonds sold on or after October 17, 2016. The IRS Notice, the Proposed IRS Regulations and the Final IRS Regulations establish a static capacity for the Guarantee Program based upon the cost value of Fund assets on December 16, 2009, multiplied by five. On December 16, 2009, the cost value of the Guarantee Program was \$23,463,730,608 (estimated and unaudited), thereby producing an IRS Limit of approximately \$117.3 billion in principal amount of guaranteed bonds outstanding.

The State Capacity Limit increased from \$135,449,634,408 on August 31, 2021 to \$148,789,725,175 on August 31, 2022 (but at such date the IRS Limit (\$117,318,653,038) remained the lower of the two, so it is the current Capacity Limit for the Fund).

Since July 1991, when the SBOE amended the Guarantee Program Rules to broaden the range of bonds that are eligible for guarantee under the Guarantee Program to encompass most Texas school district bonds, the principal amount of bonds guaranteed under the Guarantee Program has increased sharply. In addition, in recent years a number of factors have caused an increase in the amount of bonds issued by school districts in the State. See the table “Permanent School Fund Guaranteed Bonds” below. Effective March 1, 2023, the Act, as amended through the Regulatory Recodification, provides that the SBOE may establish a percentage of the Capacity Limit to be reserved from use in guaranteeing bonds (the “Capacity Reserve”). The SDBGP Rules provide for a maximum Capacity Reserve for the overall Guarantee Program of 5% and provide that the amount of the Capacity Reserve may be increased or decreased by a majority vote of the SBOE based on changes in the cost value, asset allocation, and risk in the portfolio, or may be increased or decreased by the Education Commissioner as necessary to prudently manage fund capacity and preserve the AAA credit rating of the Guarantee Program (subject to ratification or rejection by the SBOE at the next meeting for which an item can be posted). The CDBGP Rules provide for an additional reserve of CDBGP Capacity determined by calculating an equal percentage as established by the SBOE for the Capacity Reserve, applied to the CDBGP Capacity. Effective March 1, 2023, the Capacity Reserve is 0.25%. The Capacity Reserve is noted in the monthly updates with respect to the capacity of the Guarantee Program on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/, which are also filed with the MSRB.

Based upon historical performance of the Fund, the legal restrictions relating to the amount of bonds that may be guaranteed has generally resulted in a lower ratio of guaranteed bonds to available assets as compared to many other types of credit enhancements that may be available for Texas school district bonds and charter district bonds. However, the ratio of Fund assets to guaranteed bonds and the growth of the Fund in general could be adversely affected by a number of factors, including Fund investment performance, investment objectives of the Fund, an increase in bond issues by school districts in the State or legal restrictions on the Fund, changes in State laws that implement funding decisions for school districts and charter districts, which could adversely affect the credit quality of those districts, the implementation of the Charter District Bond Guarantee Program, or significant changes in distributions to the ASF. The issuance of the IRS Notice and the Final IRS Regulations resulted in a substantial increase in the amount of bonds guaranteed under the Guarantee Program.

As of January 2023, the monthly updates with respect to the capacity of the Guarantee Program on the TEA web site projected a remaining capacity under the IRS Limit of \$194.1 million out of the approximately \$117.3 billion of authorized capacity. Effective March 1, 2023, the change in the Capacity Reserve from 5% to 0.25%, as discussed

above, freed up approximately \$5.9 billion in Guarantee Program capacity. No representation is made as to how quickly the additional capacity from changing the Capacity Reserve will remain available, and the capacity of the Guarantee Program is subject to change due to a number of factors, including changes in bond issuance volume throughout the State and some bonds receiving guarantee approvals may not close. Additional capacity could become available for new applicants from time to time, through, among other measures, the principal retirement of outstanding guaranteed bonds. As the amount of guaranteed bonds approaches the IRS Limit, the SBOE continues to seek changes to the existing federal tax law requirements regarding the Guarantee Program with the objective of obtaining an increase in the IRS Limit. Such changes include regulatory modifications and implementation of federal legislation, and no assurances can be given as to the timing of the foregoing or the SBOE's success in that undertaking.

2017 Legislative Changes to the Charter District Bond Guarantee Program

The CDBG Capacity is established by the Act. During the 85th Texas Legislature, which concluded on May 29, 2017, Senate Bill 1480 ("SB 1480") was enacted. SB 1480 amended the Act to modify how the CDBG Capacity is established effective as of September 1, 2017 and made other substantive changes to the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the CDBG Capacity was calculated as the Capacity Limit less the amount of outstanding bond guarantees under the Guarantee Program multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population. SB 1480 amended the CDBG Capacity calculation so that the Capacity Limit is multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population prior to the subtraction of the outstanding bond guarantees, thereby increasing the CDBG Capacity.

The percentage of the charter district scholastic population to the overall public school scholastic population has grown from 3.53% in September 2012 to 7.36% in March 2023. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

In addition to modifying the manner of determining the CDBG Capacity, SB 1480 provided that the Education Commissioner's investigation of a charter district application for guarantee may include an evaluation of whether the charter district bond security documents provide a security interest in real property pledged as collateral for the bond and the repayment obligation under the proposed guarantee. The Education Commissioner may decline to approve the application if the Education Commissioner determines that sufficient security is not provided. The Act and the CDBG Rules also require the Education Commissioner to make an investigation of the accreditation status and financial status for a charter district applying for a bond guarantee.

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10% of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20% of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to 3.00% of the total amount of outstanding guaranteed bonds issued by charter districts. At March 17, 2023, the Charter District Reserve Fund contained \$85,259,403, which represented approximately 2.18% of the guaranteed charter district bonds. The Reserve Fund is held and invested as a non-commingled fund under the administration of the PSF Corporation staff.

Charter District Risk Factors

Open-enrollment charter schools in the State may not charge tuition and, unlike school districts, charter districts have no taxing power. Funding for charter district operations is largely from amounts appropriated by the Legislature. Additionally, the amount of State payments a charter district receives is based on a variety of factors, including the enrollment at the schools operated by a charter district, and may be affected by the State's economic performance and other budgetary considerations and various political considerations.

Other than credit support for charter district bonds that is provided to qualifying charter districts by the Charter District Bond Guarantee Program, State funding for charter district facilities construction is limited to a program established by the Legislature in 2017, which provides \$60 million per year for eligible charter districts with an acceptable performance rating for a variety of funding purposes, including for lease or purchase payments for instructional facilities. Since State funding for charter facilities is limited, charter schools generally issue revenue bonds to fund facility construction and acquisition, or fund facilities from cash flows of the school. Some charter districts have issued non-guaranteed debt in addition to debt guaranteed under the Charter District Bond Guarantee Program, and such non-guaranteed debt is likely to be secured by a deed of trust covering all or part of the charter district's facilities. In March 2017, the TEA began requiring charter districts to provide the TEA with a lien against charter district property as a condition to receiving a guarantee under the Charter District Bond Guarantee Program. However, charter district bonds issued and guaranteed under the Charter District Bond Guarantee Program prior to the implementation of the new requirement did not have the benefit of a security interest in real property, although other existing debts of such charter districts that are not guaranteed under the Charter District Bond Guarantee Program may be secured by real property that could be foreclosed on in the event of a bond default.

As a general rule, the operation of a charter school involves fewer State requirements and regulations for charter holders as compared to other public schools, but the maintenance of a State-granted charter is dependent upon ongoing compliance with State law and regulations, which are monitored by TEA. TEA has a broad range of enforcement and remedial actions that it can take as corrective measures, and such actions may include the loss of the State charter, the appointment of a new board of directors to govern a charter district, the assignment of operations to another charter operator, or, as a last resort, the dissolution of an open-enrollment charter school. Charter holders are governed by a private board of directors, as compared to the elected boards of trustees that govern school districts.

As described above, the Act includes a funding "intercept" function that applies to both the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. However, school districts are viewed as the "educator of last resort" for students residing in the geographical territory of the district, which makes it unlikely that State funding for those school districts would be discontinued, although the TEA can require the dissolution and merger into another school district if necessary to ensure sound education and financial management of a school district. That is not the case with a charter district, however, and open-enrollment charter schools in the State have been dissolved by TEA from time to time. If a charter district that has bonds outstanding that are guaranteed by the Charter District Bond Guarantee Program should be dissolved, debt service on guaranteed bonds of the district would continue to be paid to bondholders in accordance with the Charter District Bond Guarantee Program, but there would be no funding available for reimbursement of the PSF by the Comptroller for such payments. As described under "The Charter District Bond Guarantee Program," the Act established the Charter District Reserve Fund, to serve as a reimbursement resource for the PSF.

Infectious Disease Outbreak

Since the onset of the COVID-19 pandemic in March 2020, TEA and TEA investment management for the PSF have continued to operate and function pursuant to the TEA continuity of operations plan developed as mandated in accordance with Texas Labor Code Section 412.054. That plan was designed to ensure performance of the Agency's essential missions and functions under such threats and conditions in the event of, among other emergencies, a pandemic event.

Circumstances regarding the COVID-19 pandemic continue to evolve; for additional information on these events in the State, reference is made to the website of the Governor, <https://gov.texas.gov/>, and, with respect to public school events, the website of TEA, <https://tea.texas.gov/texas-schools/safe-and-healthy-schools/coronavirus-covid-19-support-and-guidance>.

TEA cannot predict whether any school or charter district may experience short- or longer-term cash flow emergencies as a direct or indirect effect of COVID-19 that would require a payment from the PSF to be made to a paying agent for a guaranteed bond. However, through the end of February 2023, no school district or charter district had failed to perform with respect to making required payments on their guaranteed bonds. Information regarding the respective financial operations of the issuer of bonds guaranteed, or to be guaranteed, by the PSF is provided by such issuers in their respective bond offering documents and the TEA takes no responsibility for the respective information, as it is provided by the respective issuers.

Ratings of Bonds Guaranteed Under the Guarantee Program

Moody's Investors Service, Inc., S&P Global Ratings and Fitch Ratings, Inc. rate bonds guaranteed by the PSF "Aaa," "AAA" and "AAA," respectively. Not all districts apply for multiple ratings on their bonds, however. See "RATINGS" herein.

Valuation of the PSF and Guaranteed Bonds

| Permanent School Fund Valuations | | |
|---|---------------------------|-----------------------------|
| Fiscal Year Ended 8/31 | Book Value ⁽¹⁾ | Market Value ⁽¹⁾ |
| 2018 | \$ 33,860,358,647 | \$ 44,074,197,940 |
| 2019 | 35,288,344,219 | 46,464,447,981 |
| 2020 | 36,642,000,738 | 46,764,059,745 |
| 2021 | 38,699,895,545 | 55,582,252,097 |
| 2022 ⁽²⁾ | 42,511,350,050 | 56,754,515,757 |

⁽¹⁾ SLB managed assets are included in the market value and book value of the Fund. In determining the market value of the PSF from time to time during a fiscal year, the current, unaudited values for PSF investment portfolios and cash held by the SLB are used. With respect to SLB managed assets shown in the table above, market values of land and mineral interests, internally managed real estate, investments in externally managed real estate funds and cash are based upon information reported to the PSF Corporation by the SLB. The SLB reports that information to the PSF Corporation on a quarterly basis. The valuation of such assets at any point in time is dependent upon a variety of factors, including economic conditions in the State and nation in general, and the values of these assets, and, in particular, the valuation of mineral holdings administered by the SLB, can be volatile and subject to material changes from period to period.

⁽²⁾ At August 31, 2022, mineral assets, sovereign and other lands and discretionary internal investments, investments with external managers, and cash managed by the SLB had book values of approximately \$13.4 million, \$180.6 million, \$5,433.0 million, and \$1,257.5 million, respectively, and market values of approximately \$5,622.2 million, \$699.8 million, \$6,262.5 million, and \$1,257.52 million, respectively.

| Permanent School Fund Guaranteed Bonds | |
|---|---------------------------------|
| At 8/31 | Principal Amount ⁽¹⁾ |
| 2018 | \$79,080,901,069 |
| 2019 | 84,397,900,203 |
| 2020 | 90,336,680,245 |
| 2021 | 95,259,161,922 |
| 2022 | 103,239,495,929 ⁽²⁾ |

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

⁽²⁾ At August 31, 2022 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$156,825,227,335, of which \$53,585,731,406 represents interest to be paid. As shown in the table above, at August 31, 2022, there were \$103,239,495,929 in principal amount of bonds guaranteed under the Guarantee Program. Using the IRS Limit of \$117,318,653,038 (the IRS Limit is currently the Capacity Limit), net of the Capacity Reserve, as of March 17, 2023, 7.36% of the Guarantee Program's capacity was available to the Charter District Bond Guarantee Program. As of March 17, 2023, the amount of outstanding bond guarantees represented 89.46% of the Capacity Limit (which is currently the IRS Limit). March 17, 2023 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

| Fiscal Year Ended <u>8/31</u> | <u>School District Bonds</u> | | <u>Charter District Bonds</u> | | <u>Totals</u> | |
|-------------------------------------|------------------------------|---------------------------------|-------------------------------|--|-------------------------|---------------------------------|
| | No. of <u>Issues</u> | Principal <u>Amount (\$)</u> | No. of <u>Issues</u> | Principal <u>Amount</u> <u>(\$)</u> | No. of <u>Issues</u> | Principal <u>Amount (\$)</u> |
| 2018 | 3,249 | 77,647,966,069 | 44 | 1,432,935,000 | 3,293 | 79,080,901,069 |
| 2019 | 3,297 | 82,537,755,203 | 49 | 1,860,145,000 | 3,346 | 84,397,900,203 |
| 2020 | 3,296 | 87,800,478,245 | 64 | 2,536,202,000 | 3,360 | 90,336,680,245 |
| 2021 | 3,346 | 91,951,175,922 | 83 | 3,307,986,000 | 3,429 | 95,259,161,922 |
| 2022 ⁽²⁾ | 3,348 | 99,528,099,929 | 94 | 3,711,396,000 | 3,442 | 103,239,495,929 |

⁽¹⁾ Represents original principal amount; does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount shown excludes bonds that have been refunded and released from the Guarantee Program.

⁽²⁾ At March 17, 2023 (based on unaudited data, which is subject to adjustment), there were \$104,953,879,666 in principal amount of bonds guaranteed under the Guarantee Program, representing 3,296 school district issues, aggregating \$101,038,728,666 in principal amount and 99 charter district issues, aggregating \$3,915,151,000 in principal amount. At March 17, 2023 the projected guarantee capacity available was \$5,413,975,055 (based on unaudited data, which is subject to adjustment).

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2022

The following discussion is derived from the Annual Report for the year ended August 31, 2022, including the Message of the Executive Administrator of the Fund and the Management’s Discussion and Analysis contained therein. Reference is made to the Annual Report, as filed with the MSRB, for the complete Message and MD&A. Investment assets managed by the fifteen member SBOE are referred to throughout this MD&A as the PSF(SBOE) and, with respect to the Liquid Account, Liquid(SBOE) assets. As of August 31, 2022, the Fund’s land, mineral rights and certain real assets are managed by the five-member SLB and these assets are referred to throughout as the PSF(SLB) assets. The current PSF(SBOE) asset allocation policy includes an allocation for real estate investments, and as such investments are made, and become a part of the PSF(SBOE) investment portfolio, those investments will be managed by the SBOE and not the SLB.

At the end of fiscal 2022, the Fund balance was \$56.8 billion, an increase of \$1.2 billion from the prior year. This increase is primarily due to overall net increases in value of the various asset classes in which the Fund is invested. During the year, the SBOE continued implementing the long-term strategic asset allocation, diversifying the PSF(SBOE) to strengthen the Fund. The asset allocation is projected to increase returns over the long run while reducing risk and portfolio return volatility. The PSF(SBOE) annual rates of return for the one-year, five-year, and ten-year periods ending August 31, 2022, net of fees, were -6.80%, 6.54% and 7.33%, respectively, and the Liquid(SBOE) annual rate of return for the one-year and three-year periods ending August 31, 2022, net of fees, was -10.24% and -1.23% (total return takes into consideration the change in the market value of the Fund during the year as well as the interest and dividend income generated by the Fund’s investments). In addition, the SLB continued its shift into externally managed real asset investment funds, and the one-year, five-year, and ten-year annualized total returns for the PSF(SLB) externally managed real assets, net of fees and including cash, were 32.29%, 8.42%, and 7.40%, respectively.

The Fund is invested in global markets and experiences volatility commensurate with the related indices. The Fund is broadly diversified and benefits from the cost structure of its investment program. Changes continue to be researched, crafted and implemented to make the cost structure more effective and efficient. See “Comparative Investment Schedule - PSF(SBOE)” for the PSF(SBOE) holdings as of August 31, 2022.

As of August 31, 2022, the SBOE has approved, and the Fund made capital commitments to, externally managed real estate investment funds in a total amount of \$7.3 billion and capital commitments to private equity limited partnerships for a total of \$10.1 billion. Unfunded commitments at August 31, 2022, totaled \$2.4 billion in real estate investments and \$2.9 billion in private equity investments.

PSF Returns Fiscal Year Ended 8-31-2022¹

| <u>Portfolio</u> | <u>Return</u> | <u>Benchmark Return²</u> |
|---------------------------------------|---------------|---|
| Total PSF(SBOE) Portfolio | (6.80)% | (6.37)% |
| Domestic Large Cap Equities(SBOE) | (11.08) | (11.23) |
| Domestic Small/Mid Cap Equities(SBOE) | (10.96) | (10.90) |
| International Equities(SBOE) | (19.72) | (19.52) |
| Emerging Market Equity(SBOE) | (22.85) | (21.80) |
| Fixed Income(SBOE) | (12.16) | (11.52) |
| Treasuries | (22.82) | (22.64) |
| Absolute Return(SBOE) | (0.55) | (5.66) |
| Real Estate(SBOE) | 23.31 | 20.56 |
| Private Equity(SBOE) | 3.17 | 8.43 |
| Real Return(SBOE) | 2.98 | 3.09 |
| Emerging Market Debt(SBOE) | (17.95) | (19.43) |
| Liquid Large Cap Equity(SBOE) | (10.39) | (11.23) |
| Liquid Small Cap Equity(SBOE) | (10.63) | (10.90) |
| Liquid International Equity(SBOE) | (19.34) | (19.52) |
| Liquid Short-Term Fixed Income(SBOE) | (4.27) | (4.01) |
| Liquid Core Bonds(SBOE) | (11.30) | (11.52) |
| Liquid TIPS(SBOE) | (5.78) | (5.98) |
| Liquid Transition Cash Reserves(SBOE) | 1.65 | 0.38 |
| Liquid Combined(SBOE) | (10.24) | (10.88) |
| PSF(SLB) | (32.29) | N/A |

¹ Time weighted rates of return adjusted for cash flows for the PSF(SBOE) investment assets. Does not include GLO managed real estate or real assets. Returns are net of fees. Source: PSF Annual Report for year ended August 31, 2022.

² Benchmarks are as set forth in the PSF Annual Report for year ended August 31, 2022.

The PSF(SLB) portfolio is generally characterized by three broad categories: (1) discretionary real assets investments, (2) sovereign and other lands, and (3) mineral interests. Discretionary real assets investments consist of externally managed real estate, infrastructure, and energy/minerals investment funds; internally managed direct real estate investments, and cash. Sovereign and other lands consist primarily of the lands set aside to the PSF when it was created. Mineral interests consist of all of the minerals that are associated with PSF lands. The investment focus of PSF(SLB) discretionary real assets investments has shifted from internally managed direct real estate investments to externally managed real assets investment funds. The PSF(SLB) makes investments in certain limited partnerships that legally commit it to possible future capital contributions. At August 31, 2022, the remaining commitments totaled approximately \$1.94 billion.

For fiscal year 2022, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled \$3.5 billion, a decrease of \$7.3 billion from fiscal year 2021 earnings of \$10.8 billion. The total change in the fair value of the Fund investments is consistent with the change in value of the markets in which those investments were made. In fiscal year 2022, revenues earned by the Fund included gains realized on the sale of land and real estate owned by the Fund; lease payments, bonuses and royalty income received from oil, gas and mineral leases; lease payments from commercial real estate; surface lease and easement revenues; revenues from the resale of natural and liquid gas supplies; dividends, interest, and securities lending revenues; the net change in the fair value of the investment portfolio and externally managed real assets investment funds; and other miscellaneous fees and income.

Expenditures are paid from the Fund before distributions are made under the total return formula. Such expenditures include the costs incurred by the SLB to manage the land endowment, as well as operational costs of the Fund, including external management fees paid from appropriated funds. Total operating expenditures, net of security lending rebates and fees, increased 3.0% for the fiscal year ending August 31, 2022. This increase is primarily

attributable to an increase in PSF(SLB) quantities of purchased gas for resale in the State Energy Management Program, which is administered by the SLB as part of the Fund, as well as increases in operational costs.

The Fund directly supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. For fiscal years 2021 and 2022, the distribution from the SBOE to the ASF totaled \$1.1 billion and \$1.7 billion, respectively. Distributions from the SLB to the ASF for fiscal years 2021 and 2022 totaled \$600 and \$415 million, respectively.

At the end of the 2022 fiscal year, PSF assets guaranteed \$103.2 billion in bonds issued by 898 local school districts and charter districts, the latter of which entered into the Guarantee Program during the 2014 fiscal year. Since its inception in 1983, the Fund has guaranteed 8,554 school district and charter district bond issues totaling \$239.7 billion in principal amount. During the 2022 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program totaled 3,442. The dollar amount of guaranteed school and charter bond issues outstanding increased by \$7.98 billion or 8.4%. The State Capacity Limit increased by \$13.3 billion, or 9.8%, during fiscal year 2022 due to continued growth in the cost basis of the Fund used to calculate that Program capacity limit. The effective capacity of the Guarantee Program did not increase during fiscal year 2022 as the IRS Limit was reached in a prior fiscal year, and it is the lower of the two capacity limits for the Guarantee Program.

Other Events and Disclosures

The State Investment Ethics Code governs the ethics and disclosure requirements for financial advisors and other service providers who advise certain State governmental entities, including the PSF. The SBOE code of ethics provides ethical standards for SBOE members, the Education Commissioner, TEA staff, and persons who provide services to the SBOE relating to the Fund. As part of the Regulatory Recodification, the PSF Corporation developed its own ethics policy as required by SB 1232, which provides basic ethical principles, guidelines, and standards of conduct relating to the management and investment of the Fund in accordance with the requirements of §43.058 of the Texas Education Code, as amended. The SBOE code of ethics is codified in the Texas Administrative Code at 19 TAC sections 33.4 et seq. and is available on the TEA web site at <https://tea.texas.gov/sites/default/files/ch033a.pdf>. The PSF Corporation's ethics policy is posted to the PSF Corporation's website at texaspsf.org.

In addition, the SLB and GLO have established processes and controls over the administration of real estate transactions and are subject to provisions of the Texas Natural Resources Code and internal procedures in administering real estate transactions for Fund assets it manages.

As of August 31, 2022, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property, and other litigation arising in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

PSF Continuing Disclosure Undertaking

The Regulatory Recodification included the codification of the TEA's undertaking pursuant to Rule 15c2-12 (the "TEA Undertaking") pertaining to the PSF and the Guarantee Program. As of March 1, 2023, the TEA Undertaking is codified at 19 TAC 33.8, which relates to the Guarantee Program and is available at [available at https://tea.texas.gov/sites/default/files/ch033a.pdf](https://tea.texas.gov/sites/default/files/ch033a.pdf).

Through the codification of the TEA Undertaking and its commitment to guarantee bonds, the TEA has made the following agreement for the benefit of the issuers, holders and beneficial owners of guaranteed bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an "obligated person," within the meaning of Rule 15c2-12, with respect to guaranteed bonds. Nothing in the TEA Undertaking obligates the TEA to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the TEA under the TEA Undertaking pertain solely to the Guarantee Program. The issuer or an "obligated person" of the guaranteed bonds has assumed the applicable obligation under Rule 15c2-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to

such undertakings. Under the TEA Undertaking, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

The MSRB has established the Electronic Municipal Market Access (“EMMA”) system, and the TEA is required to file its continuing disclosure information using the EMMA system. Investors may access continuing disclosure information filed with the MSRB at www.emma.msrb.org, and the continuing disclosure filings of the TEA with respect to the PSF can be found at <https://emma.msrb.org/IssueView/Details/ER355077> or by searching for “Texas Permanent School Fund Bond Guarantee Program” on EMMA.

Annual Reports

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

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

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

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

Event Notices

The TEA will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes of the Guarantee Program; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is

considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if such event is material within the meaning of the federal securities laws; (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws; (15) the incurrence of a financial obligation of the Guarantee Program, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Guarantee Program, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Guarantee Program, any of which reflect financial difficulties. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA will provide timely notice of any failure by the TEA to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information

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

Limitations and Amendments

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

The continuing disclosure agreement of the TEA is made only with respect to the PSF and the Guarantee Program. The issuer of guaranteed bonds or an obligated person with respect to guaranteed bonds may make a continuing disclosure undertaking in accordance with Rule 15c2-12 with respect to its obligations arising under Rule 15c2-12 pertaining to financial information and operating data concerning such entity and events notices relating to such guaranteed bonds. A description of such undertaking, if any, is included elsewhere in this offering document.

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

or repeal the provisions of its continuing disclosure agreement if the SEC amends or repeals the applicable provision of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling bonds guaranteed by the Guarantee Program in the primary offering of such bonds.

Compliance with Prior Undertakings

Except as stated below, during the last five years, the TEA has not failed to substantially comply with its previous continuing disclosure agreements in accordance with Rule 15c2-12. On April 28, 2022 TEA became aware that it had not timely filed its 2021 Annual Report with EMMA due to an administrative oversight. TEA took corrective action and filed the 2021 Annual Report with EMMA on April 28, 2022, followed by a notice of late filing made with EMMA on April 29, 2022. TEA notes that the 2021 Annual Report was timely filed on the TEA website by the required filing date and that website posting has been incorporated by reference into TEA's Bond Guarantee Program disclosures that are included in school district and charter district offering documents.

SEC Exemptive Relief

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