

**AMENDED AND RESTATED
FACILITY OPERATION AND MANAGEMENT AGREEMENT**

This Amended and Restated Facility Operation and Management Agreement (hereinafter "Agreement") is entered into by and between **KINNEY COUNTY, TEXAS** (hereinafter "County") and **COMMUNITY EDUCATION CENTERS, INC.**, (hereinafter called "Operator") to become effective on October 27, 2010.

WHEREAS, the County is the Owner or equitable owner of that certain Facility known as the "Kinney County Detention Center" (hereinafter "Facility") and;

WHEREAS, the Facility currently includes 384 inmate beds for secure detention and is currently operated under a Facility Operation and Management Agreement; and

WHEREAS, the parties hereto desire to enter into an Amended and Restated Agreement for the continued operation and management of the Facility;

WHEREAS, the entering into this Agreement is found to be in the best interests of the parties, the efficient and safe operation of the Facility, and the public as it will serve the public purpose of providing space for incarceration of law violators and will provide economic development and economic benefits to the local economy; and

WHEREAS, the Facility is being refinanced by the County pursuant to a Lease Agreement between the Kinney County Public Facility Corporation (also referred to as "Issuer") and the County (hereinafter "Lease").

NOW, THEREFORE, in consideration of the mutual rights, benefits and obligations herein exchanged, the parties do covenant, agree and bind themselves as follows:

I. PURPOSES

1.01 Operator agrees to operate, manage and supervise the Facility on behalf of and for the County, and to receive, detain and care for all properly classified prisoners for which the Facility is approved that may be assigned to the Facility from:

- (a) The County Sheriff of the County (the "Sheriff");
- (b) The County Sheriff of any other Texas county, pursuant to an Interlocal Cooperation Contract with the County;
- (c) Any governmental authority outside the state of Texas, pursuant to an Intergovernmental Agreement;

- (d) The Texas Department of Criminal Justice ("T.D.C.J.") pursuant to an agreement between T.D.C.J. and the County; or
- (e) The United States Government or any agency thereof, pursuant to an agreement between the County and the United States or any agency thereof, subject to any limitations of the Lease Agreement under which the County is Lessee of the Facility, but holds equitable title.

Provided, however, that the Operator shall not house prisoners from sources and under circumstances that would cause interest to the Bondholders from the Bonds to become includable in the Gross Income of the holder of the Bonds under the Internal Revenue Code. This includes, but is not limited to, complying with the restrictions imposed on the housing of federal prisoners. The term "Bonds" as used herein means the Kinney County Public Facility Corporation Project Revenue Bonds Series 2010 Bonds and any additional bonds issued by the Issuer for the financing of the Facility.

Operator acknowledges that the County cannot house prisoners of the United States government, or any department or agency thereof, unless the following conditions are met:

- (i) the housing of prisoners for the Federal Government is on a space-available, first-come, first-served basis,
- (ii) the Federal Government will be charged approximately the same amount for each prisoner as other persons that enter into similar transfer agreements,
- (iii) the term of use under the agreement is not longer than 100 days and the Federal Government has no right to renew, and
- (iv) such complies with the terms and conditions of the Lease.

The Facility is intended by the County to house inmates detained or incarcerated by County or the State of Texas or political subdivisions thereof or Federal inmates arrested in Texas under the control of Federal agencies in Texas who are awaiting transfer to other facilities or other disposition under applicable Federal law and is designed for and intended to be operated to incarcerate only such inmates. Operator represents and warrants that it will not detain or incarcerate or accept for incarceration in the Facility any inmates other than those detained or incarcerated by the County or the State of Texas or political subdivisions thereof and Federal inmates arrested in Texas under the control of Federal agencies who are awaiting transfer to other facilities or other disposition under applicable Federal law and such other inmates, if any, to the extent permitted by State law as defined in and supported by an opinion of qualified counsel requested and received by the County. Prior to accepting any inmates from sources outside of the State, Operator will accept inmates, if any, submitted for detention by State agencies and authorities on reasonable terms and costs to be negotiated between County and such State agencies or authorities.

The Facility shall be used only for the public purposes intended, and not for any activity that could make the Bonds "private activity bonds" within the meaning of Section 141 of the Internal Revenue Code.

Operator is acting as an Independent Contractor for the County, and is not a partner or joint venturer of the County. All prisoner housing contracts must be between the County and the jurisdiction or agency seeking the services.

1.02 Operation and management of the Facility must be in accordance with the applicable standards of the Texas Commission on Jail Standards, applicable requirements of the American Corrections Association, and applicable requirements of prisoner housing contracts.

1.03 Operator is an independent operator engaged by the County for the sole public purpose of operating a detention center on behalf of the County. No property interest or right in the Facility or grounds is granted to the Operator by this Agreement, nor is any interest in the revenues there from, including Project Revenues (as defined herein), granted to the Operator.

1.04 The Operator shall operate the Facility in compliance with the terms of the Lease Agreement. The Operator shall provide or cause to be provided all insurance, maintenance, certifications and other matters required of or made the obligation of the County under the Lease. This includes preparation of all reports or disclosures required under the Lease.

II. TERM

2.01 The term of this Agreement shall be three (3) years beginning on the effective date of the agreement and ending three (3) consecutive years thereafter ("Primary Term"), provided, however, that the County shall have the right in its sole discretion, to terminate this Agreement after the second year of the Primary Term, without penalty, liability, cost, or loss based thereon. At the expiration of the Primary Term, the parties may mutually agree to a one (1) year renewal of the Agreement on mutually acceptable terms. At the expiration of said agreed renewal period, the parties may agree to extend the Agreement for an additional one (1) year period on mutually acceptable terms.

2.02 Notwithstanding any renewal option or other term herein, the County or the Operator shall have the right to terminate this Agreement, with or without cause, at the end of the three (3) year Primary Term, or at the end of any renewal period without any liability, cost or penalty for doing so by providing ninety (90) days written notice prior to any such expiring term to the other party.

III. COMPENSATION

3.01 For purposes of this Article, the term "Project Revenues" shall have the meaning and be defined as said term is defined and used in the Lease. Project Revenues shall be paid over to the County from whatever source, and shall be deposited to a special revenues Fund designated as the Kinney County Facility Revenue Fund. All revenue of the Facility is the property of the

County. Notwithstanding the foregoing, revenues from any inmate telephone system shall belong to and be the property of the County or their assigns. Reimbursements for actual third party costs incurred by Operator Specific Services as defined below are not Project Revenues, and as such, shall be reimbursed directly to the Operator. These Specific Services are transportation, off-site security coverage, and program / treatment services. Telephone revenues, inmate commissary, and reimbursement revenues shall not be included in Project Revenues.

3.02 For purposes of this Article, the term "Operating Account" shall have the meaning such term is given in the Lease. The term "Operator's Compensation" shall mean the amount payable to the Operator under Section 3.04 below.

3.03 Anything to the contrary herein notwithstanding, the Operator's Compensation shall be paid solely from and to the extent monies are available therefor in the Operating Account. The Operating Account is funded by Project Revenues as set forth in the Trust Indenture.

3.04 Operator shall be paid a fixed fee per prisoner, per day (actual occupancy) for the operation and management services provided hereunder to be paid on a monthly basis solely from the Operating Account, subject to the prior payment of fees of the Trustee and monthly administrative costs payable to Lessee in the amount of \$7.00 per inmate per day. The compensation to Operator shall be payable solely out of the Operating Account and solely on a fixed per diem basis as available from the Operating Account on a monthly basis:

- (a). A fixed per prisoner, per diem fee of \$35.50.
- (b). In the event that the Operator is not paid its full compensation as set forth in Section 3.04(a) hereof for any calendar month, the deficiency in such payment shall be carried over to the following months and added to the Operator's Compensation due in following months during the term of this Agreement. On the termination of this Agreement, the unpaid compensation due and owing to the Operator shall be paid solely to the extent that monies are available therefor in the Operating Account, but only after all other Operation and Management Costs (as defined in the Trust Indenture), and any Operator Fee (Cost Plus) (as defined in the Trust Indenture) has been paid.
- (c). Direct third party reimbursements to the Operator shall be paid as provided in Section 3.01.

3.05 For the purposes of this Agreement, a "day" shall mean a twenty-four (24) hour time period beginning with twelve (12) o'clock midnight and ending twenty-four (24) hours later.

3.06 Nothing herein shall be a pledge or charge against County tax revenues. The County's obligations under this Agreement are special obligations payable solely from Project Revenues made available for such payment in the Operating Account and to the extent appropriated by the County in accordance with Texas law.

3.07 Upon the effective date of this Agreement, Operator shall pay or cause to be paid to the County one hundred and twenty five thousand dollars (\$125,000.00) reimbursement for the deficiency in revenue experienced by the County and incurred during the months of November 2009, December 2009, January 2010 and half of February 2010 pursuant to the terms of a previous contract in existence between the parties.

3.08 Operator shall earn, invoice and be paid its Operator Fees as described under the previously existing Facility Operation and Management Agreement ("Existing Agreement") for all Operator Fees occurring or associated with services rendered, provided, or delivered prior to the effective date of this Agreement in accordance with the terms of the Existing Agreement. The Operator Fees set forth in 3.04 of this Agreement shall only apply to services rendered, provided, or delivered after the effective date of this Agreement.

IV. DUTIES OF OPERATOR

4.01 Operator shall manage, operate and provide at its sole cost and expense:

- (a) all necessary furniture, fixtures and equipment not currently provided at the Facility including but not limited to computers, fax and copy equipment, radios, televisions, uniforms and linens and basic office furniture and administrative phone systems, which are necessary or prudent for operation and management of the Facility and the housing of prisoners;
- (b) intake facilities and prisoner accounting which shall encompass booking, record-keeping, billing, system of controls, identification systems and records, computerized communication interface with law enforcement agencies, and such statistical records as may be required by law or are generally accepted prisoner-locator practices;
- (c) attendants to control ingress and egress at the Facility, in addition to attendants necessary for the requisite level of security internally within the Facility and those required to monitor the activities of prisoners confined within the Facility;
- (d) food and beverage services;
- (e) clothing and uniforms;
- (f) engineering and maintenance;
- (g) procurement and purchasing;
- (h) recreational, vocational, education and exercise programs, and other program requirements required by law or prisoner housing contracts;

- (i) bookkeeping and financial accounting;
- (j) routine medical care (i.e. sick call);
- (k) training of jailers to be employed at the Facility and all start up costs of operations;
- (l) all repair, upkeep and ordinary maintenance (to the extent set forth below), required for the Facility;
- (m) necessary utilities and refuse services; and
- (n) all other services necessary or proper for the efficient and safe operation of the Facility, and secure custody, care and housing of inmates, in compliance with all applicable federal, state and local laws and regulations, including the applicable standards of the Texas Commission on Jail Standards, and applicable standards of the A.C.A.

In regard to 4.01(l) above, the County agrees to assign to Operator, when necessary and appropriate, any warranties or guarantees it might have or be entitled to with regard to the Facility in order to effect repairs on the Facility, or to give Operator the right to pursue the manufacturer, builder, or other supplier who gave such warranties or guaranties, to seek reimbursement for monies expended by Operator to meet its repair, upkeep and maintenance obligations under this Agreement to the extent that those expenditures relate specifically to work covered by the subject warranty or guaranty. Extraordinary repairs shall generally be paid or reimbursed out of a Operating Reserve Repair Contingency Fund established under the Lease where funds are available in that account therefor, unless such is due to the negligence or intentional acts of Operator's employees, or by inmates due to the Operator's or its employees' negligence, or is covered by insurance or warranty. Seventy-five thousand dollars (\$75,000.00) shall be deposited into the he Operating Reserve Repair Contingency Fund at the commencement of this Agreement. This account amount shall increase annually by five thousand dollars (\$5,000.00). The Operator's responsibility for extraordinary repairs, where funds are not available in a sufficient amount in the Operating Reserve Repair Contingency Fund to pay for the same, is limited to the proceeds of applicable insurance, unless the need for such repairs was created by the negligence or intentional act of its employees, or by inmates due to the Operator's or its employees' negligence with respect to any warranties, County agrees to cooperate and use its best efforts to assist Operator to obtain such warranties.

4.02 Operator shall prepare and furnish such reports as may be required by law to be submitted to the County and the Sheriff with respect to the operation of the Facility or the prisoners detained therein and, in addition, such other reports as may be required by a Texas state agency or any agency of the United States Government, or by any state or political subdivision thereof from which prisoners have been assigned to the Facility.

4.03 Operator shall obtain, and thereafter maintain, the proper certification(s) necessary for the Facility to incarcerate federal, state and local prisoners, and shall maintain such certification(s)

at all times. After such certifications have been obtained, if Operator is required, by the laws of the State of Texas, other applicable law or the rules and procedures promulgated by the Jail Commission, to implement operational modifications to maintain such certificates, the County and Operator may agree upon temporary increases in the Operator's Per Diem sufficient over a reasonable period of time to reimburse Operator for the cost of such operational modifications.

4.04 Operator will properly incarcerate all prisoners assigned to the Facility for whom there is space available at the Facility within the statutory and regulatory limits of the Facility.

4.05 Notwithstanding anything contained herein to the contrary, the County, Lessor (or financing entity) (or its assignee), and/or the Trustee as defined in the Trust Indenture dated October 1, 2010 ("Trust Indenture") shall have no liability whatsoever for any employees of Operator, Operator hereby agrees to indemnify and hold County and Lessor (or financing entity) (or its assignee) harmless from all costs, claims, expenses, and liabilities (including attorney's fees) whatsoever which may be incurred by County and Lessor (or financing entity) (or its assignee) and the Trustee arising from any and all acts done or omitted to be done by Operator, or the employees, agents and assigns of Operator, in connection with services performed or to be performed under this Agreement.

4.06 The interviewing, hiring, training, assignment, control, management, compensation, promotion and termination of all members of the Facility's administration and staff shall be the responsibility and obligation of Operator. Operator will use its best efforts to hire and train local personnel.

4.07 Operator shall use its best efforts to purchase goods and professional services locally when economically feasible.

4.08 Operator shall provide all balance sheets, income statements, inmate rolls, accounting records or reports, audits and other such matters required of the County or the Lessor under the Lease for the Facility, including, without limitation, those found in the Lease; and all Project operation information necessary to carry out the Lessor's and the County's continuing disclosure obligations under the Lease and Trust Indenture. All operational responsibilities placed on the Lessor or the County under the Lease or the Trust Indenture are to be provided by the Operator. Operator warrants that it has read the Lease and understands and agrees that to the extent of conflict between the Lease and this Agreement, the Lease controls.

V. MEDICAL CARE

5.01 The Operator shall provide access to medical, optical, dental and emergency health care services. Basic medical care will be made available by Operator at Operator's cost to all prisoners detained at the Facility. Operator shall provide on-site nurses and medical technicians to handle sick-call and medical assessment and care that does not require a physician or specialist. The Operator shall also contract with a medical doctor to serve as medical consultant for the Facility.

5.02 The cost of hospitalization, prescription drugs, surgical, optical, dental care and all other non-basic medical services for which costs are incurred or charges made (and transportation costs to obtain such care) for a prisoner shall be the obligation of the jurisdiction or agency from which that prisoner was assigned to the Facility. The County shall have no obligation for such costs except to the extent the County was the jurisdiction from which the prisoner was assigned.

VI. COMPLIANCE WITH STANDARDS

6.01 Operator shall prepare and adopt a Procedures Manual for the operation of the Facility so as to assure that the Facility is operated fully in accordance with Texas state law, other applicable law, and rules and procedures promulgated by the Jail Commission. Operator shall make such modifications and corrections in the said Procedures Manual necessary to keep the Facility in compliance with Texas state law, other applicable law, and the rules and procedures promulgated by the Jail Commission.

6.02 Operator shall assure that all employees at the Facility are adequately trained to perform at standards required by Texas state law, other applicable law, and the rules and procedures promulgated by the Jail Commission.

6.03 Operator shall comply with all standards and requirements of the prisoner housing contracts entered into with other jurisdictions and agencies by the County, and provide all services to be provided by the County under such contracts and pursuant to the terms of such contracts.

6.04 All jailers must be certified by Texas Commission on Law Enforcement Officers Standards and Education ("TCLEOSE") within their first year of employment.

VII. DUTIES OF THE COUNTY

7.01 The County hereby covenants and agrees to transfer to the Facility all prisoners under the jurisdiction of the County from eligible third party transfer sources, and the County covenants and will insure that all incarceration agreements between the County and the third party sources set forth in Section 1.01 of this Agreement will permit such transfer to the Facility.

7.02 The County and the Sheriff shall be solely responsible for the housing, care and control of prisoners, if any, in the existing Kinney County Jail.

7.03 The County and the Sheriff shall cooperate with Operator in all matters of law enforcement, security and communications.

7.04 The County and the Sheriff shall assist Operator in the training, at Operator's expense, of Operator employees to operate the Facility.

7.05 The County and the Sheriff shall assist and cooperate with Operator in providing information needed by Operator in the screening of candidates for employment.

7.06 The County and Operator agree it shall be to their mutual benefit and interest that the Facility be fully utilized by maintaining the maximum prisoner population within statutory or regulatory limits. To this end, and throughout the term of this Agreement, the County and the Operator agree to cooperate in their efforts to obtain maximum prisoner population from the sources set forth in Section 1.01 of this Agreement (i.e. County will enter into reasonable and advisable prisoner housing contracts or related agreements, Operator will assist in identifying potential prisoner sources, etc.). It shall be the responsibility of Operator to assist the County in seeking out sources of prisoners for incarceration at the Facility, and to assist in negotiation and presentation for acceptance by the County contracts for the incarceration of prisoners from sources listed in Section 1.01 of this Agreement.

VIII. LIABILITY AND INDEMNITY

8.01 Operator hereby agrees to defend, hold harmless and indemnify the County, Lessor (or its assignee) and/or the Trustee, their officers, directors, employees, agents, and representatives (including the County Judge, the County Commissioners, and the Sheriff), from and against any and all claims, damages, demands, losses, costs and expenses, including attorney's fees, incurred or suffered by the County, Lessor (or its assignee), and/or the Trustee, their officers, directors, employees, agents, or representatives, arising out of or resulting from any negligent or wrongful act or failure to act by Operator pursuant to the provisions of this Agreement.

IX. INSURANCE

9.01 Operator shall obtain and maintain in force, at its sole cost, risk and expense during the term of this Agreement a policy or policies of liability insurance in an aggregate amount of no less than One Million Dollars (\$1,000,000.00) in coverage for any single claim thereunder. Such insurance shall insure against all claims, including claims based on violations of civil rights, arising from services performed by Operator pursuant to this Agreement.

9.02 Said policy or policies of insurance shall, from the date of this agreement, name the County, the County Judge, the County Commissioners, the Sheriff and Lessor and/or assignee and for a period of two (2) years from the date of this Agreement RIATA Texas, Ltd, the prior lessor, as "additional named insureds".

9.03 Operator shall provide and continue in force property insurance coverage in the name of the County and the Lessor and/or its assignee in amounts equal to the cost of replacement of all of the Facility, and shall maintain and continue fire, boiler and machinery coverage on the Facility, and shall maintain auto liability coverage on all vehicles used in the operation of the Facility. Operator agrees that its negotiated per diem, per prisoner fee has taken this operational expense in to account.

9.04 Operator shall provide to the County insurance certificates as proof of the insurance policies obtained in accordance with this Article IX. All policies shall provide that coverage shall

not be cancelled without thirty (30) days prior written notice to the Certificate Holder and all additional named insureds. Operator shall obtain, as soon as possible and at its sole cost, replacement insurance policies.

9.05 Operator shall provide workers compensation insurance for its employees at the Facility.

9.06 Notwithstanding anything to the contrary in the foregoing sections, Operator shall provide all insurance required of the operator or the Lessee under the Lease in the form and naming the insureds and loss payees as required in that Lease as described in the attached Appendix A. Operator agrees that the negotiated per prison fee has taken this operational expense into account.

X. APPROVAL AND MONITORING BY COUNTY SHERIFF

10.01 The Sheriff signs this Agreement to evidence his approval as required by §351.102, *Local Government Code*.

10.02 The Sheriff shall periodically monitor the operation of the Facility, and, to this end, the Sheriff shall assign one (1) full time sheriff's department employee to serve as a monitor of the operations of the Facility. The Operator shall reimburse the County for the actual costs of such monitor's salary and employee benefits (FICA, County retirement, unemployment, employee health care) not to exceed \$37,500.00 annually. Such reimbursement, at the election of County if not paid monthly when due, may be deducted from the Operator's fixed per diem fee as a first priority.

XI. MAINTENANCE, UPKEEP AND REPAIR

11.01 All ordinary maintenance, upkeep and repair costs for the Facility shall be paid by Operator pursuant to subsection 4.01(l) of this Agreement except as otherwise provided therein. Operator agrees that it's negotiated per diem, per prisoner fee has taken this operational expense into account.

XII. TAXES AND GOVERNMENTAL CHARGES

12.01 Operator shall be responsible for any taxes or governmental charges of any kind assessed or incurred after the effective date of this Agreement which are levied or imposed on the Facility and related property. To the extent that such taxes are chargeable against the Facility and found by a final non-appealable judgment of a court of competent jurisdiction to be due and owing, they shall be paid out of the Operating Account or any reserve accounts available for payment thereof as amounts due or payable under the Lease. Such amounts are not a responsibility or debt of the County. This Facility is intended to be, and under current law, should be exempt from property taxation.

XIII. ADDITIONAL PROVISIONS

13.01 Notwithstanding anything to the contrary contained herein, in the event that the Lease is in default or notice of default or termination has been given prior to the County's exercise of its option to purchase the Facility pursuant to the Lease and, as a result thereof, the County surrenders possession of the Facility to the Lessor or its assigns, this Agreement shall be immediately terminated and canceled, and the County and Operator shall have no future duties, obligations or liabilities to each other in connection with this Agreement or in connection with the termination and cancellation of this Agreement. Thereafter, Operator may be selected by Lessor or its assigns to provide operation, maintenance and supervision of the Facility.

13.02 Notwithstanding anything to the contrary contained herein, in the event any bankruptcy, reorganization debt arrangement, moratorium, proceeding under any bankruptcy or insolvency law or dissolution or liquidation proceeding is instituted by Operator, or if instituted against Operator, is consented to or acquiesced in by Operator and is not dismissed within sixty (60) days, the Agreement shall be immediately terminated and canceled, and the County shall immediately assume responsibility for the operation, management and supervision of the Facility.

13.03 Either party may terminate this agreement for the failure of the other party to comply with a material provision hereof after sixty (60) days written notice and opportunity to cure.

XIV. APPLICABLE LAW AND VENUE; LEGAL CONSTRUCTION

14.01 This Agreement shall be construed under and in accordance with the laws of the State of Texas, and all obligations of the parties created hereunder are performable in Kinney County, Texas, and venue of any action or dispute shall be in a court of competent jurisdiction in Kinney County, Texas.

14.02 In case any one or more of the provisions contained in this Agreement shall, for any reason, be held to be invalid, illegal, or unenforceable, such invalidity, illegality, or unenforceability shall not affect any other provision hereof, and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

14.03 If for any reason this Agreement shall be held void or voidable, or otherwise be held unlawful, this Agreement shall immediately terminate, and Operator shall have no claim or right of action against the County, its officials, its employees, its agents or its attorneys for any such termination or alleged act or omission related to the same.

XV. NOTICES

15.01 Notices required to be given hereunder by any party to the other shall be in writing and shall be valid if actually received by the party to whom such notice is given or if deposited in the United States Mail, postage prepaid and addressed to the party as herein below specified. Notices to the County shall be delivered or sent as follows:

Kinney County, Texas
Attention: County Judge
Kinney County Courthouse
P.O. Box 348
501 Ann Street
Brackettville, Texas 78832

Notices to Operator shall be delivered or sent as follows:

Community Education Centers, Inc.
Attention: Chairman/CEO
35 Fairfield Place
West Caldwell, New Jersey 07006

XVI. EXECUTION AUTHORITY

16.01 By his or her signature below, each signatory individual certifies that he or she is the properly authorized agent or officer of the applicable party hereto, and has the necessary authority to execute this Agreement on behalf of such party, and each party hereby certifies to the other that any resolutions necessary to create such authority have been duly passed and are now in full force and effect.

XVII. AMENDMENT

17.01 This Agreement may be amended only by a written instrument specifically purporting to amend this Agreement and executed by all parties hereto.

XVIII. ENTIRE AGREEMENT

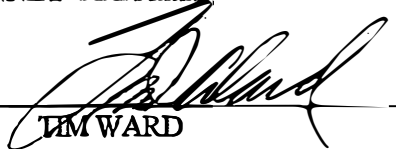
18.01 This Agreement constitutes the sole and only Operation and Management Agreement of the parties hereto and supersedes any prior understandings or written or oral agreements between the parties respecting the within subject matter.

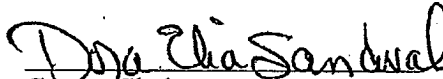
SIGNED this 27th day of October, 2010.

KINNEY COUNTY TEXAS

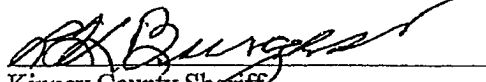
ATTEST:

By


TIM WARD
County Judge


County Clerk

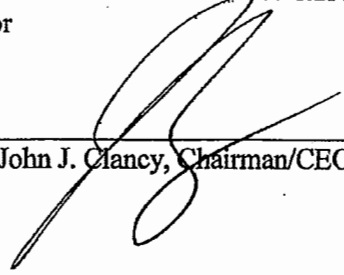
APPROVED:


Kinney County Sheriff

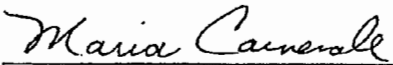
COMMUNITY EDUCATION CENTERS, INC.

Operator

By: _____


John J. Clancy, Chairman/CEO

ATTEST:



Corporate Secretary

APPENDIX "A"

**(INSURANCE REQUIRED TO BE PROVIDED BY OPERATOR
FOR BENEFIT OF COUNTY UNDER LEASE AGREEMENT)**

7.3 Liability Insurance. From and after the Completion Date, during the Term of this Lease and as Operation and Maintenance Costs. County shall procure and maintain continuously in effect, with respect to the Project, insurance against any liability for injuries to or death of any person or injury to or loss of property arising out of or in any way relating to the maintenance, use or operation of the Project or any part thereof in a minimum amount of \$5,000,000. Issuer will, before the Completion Date, cause the Design/Developer to maintain similar or cause to be maintained insurance against all similar liabilities on their part and to furnish certificates evidencing such coverage. If funds to obtain such insurance are not available as stated in the immediately preceding sentence, County shall notify Trustee of same prior to the expiration of existing insurance coverage.

7.5 Property Insurance. During the Term of this Lease and as Operation and Maintenance Costs, County shall have and assume and shall bear the risk of loss with respect to the Project and shall, from and after the Completion Date, procure and maintain, or cause to be procured and maintained, continuously in effect with respect to the Project, in a minimum amount equal at least to the principal amount of Bonds Outstanding, all-risk insurance, including coverage for riots, subject only to the standard exclusions contained in the policy. County also shall obtain business interruption insurance protecting County, Issuer and Trustee against the loss of Project Revenues sufficient to pay Operation and Maintenance Costs and Rental Payments otherwise due hereunder for a period of one year. The proceeds of such business interruption insurance shall be paid to the Project Fund and applied as provided therein if and to the extent that other moneys (other than moneys held in the Reserve Fund) are not available to pay Operation and Maintenance Costs and make Rental Payments. All policies (or endorsements or riders) evidencing insurance required by this Section 7.5 shall be carried in the names of County, Issuer and Trustee as their respective interests may appear and shall name Trustee as mortgagee and loss payee. Before the Completion Date, Issuer will cause the Design/Developer to maintain the all-risk insurance required by this Section 7.5 and furnish certificates evidencing such coverage. The Net Proceeds of insurance required by this Section 7.5 shall be applied as provided in this Section 7.5 and Section 8.1 hereof.

7.6 Workers' Compensation Insurance. From and after the Completion Date, during the Term of this Lease and as Operation and Maintenance Costs, if required by State Law, County shall either (i) carry, or cause to be carried, Workers' Compensation Insurance, or lawful alternative, covering all employees on, in, near or about the Project, or (ii) be self-insured to cover risks typically covered by Workers' Compensation Insurance. Upon request, County shall furnish to Issuer certificates evidencing such coverage or self-insurance throughout the Term of this Lease. Before the Completion Date, Issuer will cause the Design/Developer to maintain the insurance required by this Section 7.6 and furnish certificates evidencing such coverage.

7.7 Other Insurance and Requirements for Insurance. All insurance required by this Article VII may be carried under a separate policy or a rider or endorsement; shall be taken out and maintained with responsible insurance companies organized under the laws of one of the states of the United States, qualified to do business in the State and having a rating from A. M. Best of A- or higher; shall contain a provision that the insurer shall not cancel or revise coverage thereunder without giving written notice to both parties and Trustee at least thirty (30) days before the cancellation or revision becomes effective; and (except for Worker's Compensation Insurance) shall name County, Issuer and Trustee as insured parties and name Trustee as mortgagee and loss payee. County and Issuer shall deposit with Trustee policies evidencing any such insurance procured by it or the Design/Developer, or a certificate or certificates of the respective insurers stating that such insurance is in full force and effect. Thirty (30) days before the expiration of any such policy, County shall furnish to Issuer and Trustee evidence that the policy has been renewed or replaced by another policy conforming to the provisions of this Article VII, unless such insurance is no longer obtainable, in which event such party shall notify the other party of this fact. The Trustee shall have no responsibility for the monitoring, renewing, or receiving the insurance or documents pertaining thereto, except provided in this Article VII. The parties understand that the Trustee makes no representations and shall have no responsibility for the sufficiency of the insurance policies herein required.