

PLEDGE AND COVENANT AGREEMENT

This Pledge and Covenant Agreement, dated as of _____ 1, 2013 (this “Agreement”), is made by PACT Charter School, a Minnesota nonprofit corporation and public (charter) school (the “School”), for the benefit of Wells Fargo Bank, National Association, as trustee under that certain Indenture of Trust, dated as of _____ 1, 2013, between the Trustee and the Issuer (as hereinafter defined, the “Trustee”).

WHEREAS, the City of Ramsey, Minnesota, a municipal corporation (the “Issuer”), has determined to issue and sell its Lease Revenue Refunding Bonds (PACT Charter School Project), Series 2013A, and its Taxable Lease Revenue Refunding Bonds (PACT Charter School Project), Series 2013B (collectively, the “Bonds”), to: (i) advance refund the Issuer’s Lease Revenue Bonds (PACT Charter School Project) Series 2004A (the “Prior Bonds”), the proceeds of which were used to finance the acquisition, construction, and equipping of an approximately 75,000 square foot public elementary and secondary schoolhouse located at 7250 Ramsey Parkway East Northwest in the City of Ramsey, Minnesota (the “City”), owned by PCS Building Company (the “Company”) and leased to the School; (ii) fund a debt service reserve fund; and (iii) pay the costs of issuing the Bonds; and

WHEREAS, the Issuer has loaned the proceeds derived from the sale of the Bonds to the Company pursuant to the provisions of a Loan Agreement, of even date herewith, between the Issuer and the Company (the “Loan Agreement”); and

WHEREAS, the Company and the School have entered into an Amended and Restated Lease Agreement, of even date herewith (the “Lease”), pursuant to which the School has agreed to make lease payments in the amounts and at such times as shall be necessary to pay the amounts due from the Company under the Loan Agreement, which amounts are calculated to be sufficient to pay principal and interest when due on the Bonds; and

WHEREAS, the School has agreed to pledge pursuant to this Agreement certain “Adjusted Pledged Revenues” (as hereinafter defined) of the School in order to provide additional security for the timely payments of amounts due under the Lease;

NOW, THEREFORE, for good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Defined Terms. Capitalized terms shall have the meanings defined herein. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Lease or the Loan Agreement.

SECTION 2. Pledge and Assignment.

(A) The School does hereby pledge and assign to the Trustee to secure the payment of lease payments in accordance with the terms and provisions of the Lease, all funds, money, grants, or other distributions received by the School from the State of Minnesota with respect to general student funding, state building lease aid payments, state distributions of federal Title I funds, or any other funding sources, after deduction of all such operating expenses of the School required under State or federal laws to provide

required educational program expenditures (including the current expenses for staff and administrative salaries and benefits) (such net amount hereinafter referred to as “Adjusted Pledged Revenues”), and any other funds or amounts held in any fund or account established by the School. Said pledge shall constitute a lien on and security interest in such Adjusted Pledged Revenues, funds, and accounts, and shall attach and be valid and binding from and after the date of this Agreement, without any physical delivery thereof or further act.

(B) The School hereby transfers, grants a security interest in, and assigns to the Trustee, for the benefit of the Holders from time to time of the Bonds, all of the Adjusted Pledged Revenues and other assets pledged in Subsection (A) of this Section 2 and all right, title, and interest of the School in and to any agreements with the State of Minnesota to provide any such Adjusted Pledged Revenues. The Trustee shall collect and receive all of the Adjusted Pledged Revenues, and any Adjusted Pledged Revenues collected or received by the School shall be deemed to be held, and to have been collected or received, by the School as agent of the Trustee and shall forthwith be paid by the School to the Trustee.

(C) The School shall establish and maintain a depository account (the “State Aid Revenues Account”) with Wells Fargo Bank, National Association, into which all education funding received by the School from the Minnesota Department of Education (including general education funding, building lease aids, other special funds and federal pass-through funding) shall be deposited pursuant to a depository agreement (the “Account Control Agreement”), attached hereto as EXHIBIT A. This State funding is generally disbursed to the School twice monthly on the fifteenth and last day of each month (or the next preceding Business Day). The School will cause all such disbursements from the State to be deposited in the State Aid Revenues Account. Upon any such deposit, in accordance with the Account Control Agreement, the Trustee is authorized to withdraw from the State Aid Revenues Account all amounts therein, and shall withdraw from the State Aid Revenues Account and deposit to the Revenue Fund under the Indenture the payments due from the School under the Lease. The terms of the State Aid Revenues Account shall provide that if deposits from the State are received before 12:00 noon, Minneapolis, Minnesota time, the Trustee shall withdraw the lease payments before the end of that Business Day. If deposits are received after 12:00 noon, the Trustee is required to make its withdrawal from the State Aid Revenues Account before 12:00 noon on the next Business Day. In the event that the first deposit of State funds in any month is insufficient to pay the total lease payment due from the School, the Trustee shall withdraw the amount of any such deficiency from the second (or succeeding) monthly deposits of State funds to the State Aid Revenues Account until such deficiency is cured.

(D) In the event that the deposits and withdrawals from the State Aid Revenues Account are not sufficient to make the School’s payments under the Lease, the Trustee shall be entitled to collect and receive all of the Adjusted Pledged Revenues, and any Adjusted Pledged Revenues collected or received by the School shall be deemed to be held, and to have been collected or received, by the School as agent of the Trustee and shall forthwith be paid by the School to the Trustee.

SECTION 3. Additional Covenants. During the term of the Lease, the School shall take the following actions:

(A) Commencing for the fiscal year ending June 30, 2013, furnish to the Trustee and EMMA (and to the Issuer, upon request), by no later than 150 days after the close of each fiscal year of the School during the term of the Lease, a copy of the audited financial statements required of the School under Minnesota law for the preceding fiscal year, including a balance sheet and operating statements.

(B) Prepare and submit to the Trustee and EMMA (and to the Issuer, upon request) by no later than June 30 of each year, a copy of the proposed budget for the School for the next succeeding fiscal year and projected long-range budget model forecasting the operations of the School for at least 5 years.

(C) On or about the 15th day of each February, May, August, and November, commencing November 15, 2013, submit to the Trustee and EMMA (and to the Issuer, upon request), copies of quarterly student attendance and enrollment, budget and financial reports required by Minnesota law and by the Charter Agreement between the School and its Authorizer, and in addition, reports prepared by the School's Chief Financial Officer or an independent consultant on an unaudited basis that would include at least the following:

- (i) year-to-date actual expenditures compared to year-to-date budgeted expenditures for such period;
- (ii) actual revenues compared to budgeted revenues for such period;
- and
- (iii) a current balance sheet;
- (iv) the current student waiting list;
- (v) projected long range model forecasting the operations of the School for at least five years; and
- (vi) the balance of the Fund Balance Account (as defined below).

(D) On or before June 30 of each year, make all applications or submissions and provide all supporting documentation to the Minnesota Department of Education (or its successor) necessary to receive full funding from the State of Minnesota for all legally available general student aid funds, lease aids, or other funding sources included in the School's annual budgeted operating revenues and, further, provide the Trustee with copies or evidence of such applications or submission as and when they are made or submitted.

(E) Make all necessary applications or submissions, including all supporting documentation, on or before June 30 of each year to the Minnesota Department of Education (or its successor) necessary to receive any Title I federal funding or other

federal money included in the School's annual budgeted operating revenues and provide the Trustee with copies or evidence of such applications or submission as and when they are made or submitted.

(F) Other than the obligation to make additional Lease Payments for the purpose of repaying Additional Bonds, not incur any additional Indebtedness; provided that the foregoing requirements shall not apply to short-term (less than twelve months) working capital borrowings or sales of accounts receivable by the School for cash flow purposes in an amount not to exceed **[\$600,000]** annually.

(G) Maintain unrestricted Cash on Hand in its operation fund such that on each testing date the amount on deposit in such fund shall be equal to or greater than 30 Days Cash on Hand. The School's Cash on Hand shall be tested each year 90 days after the end of the School's Fiscal Year (i.e. on September 28 of each year), commencing the Fiscal Year ending June 30, 2014. The School will provide the Trustee with a certification no later than two weeks after the completion of the School's audit for each Fiscal Year that the Cash on Hand requirement above has been met. The foregoing is subject to the qualification that if applicable state or federal laws or regulations, or the rules and regulations of agencies having jurisdiction (including, without limitation, changes in state or federal funding schedules), shall not permit or enable the School to maintain such level of Cash on Hand, then the School shall, in conformity with the then prevailing laws, rules or regulations, maintain its Cash on Hand equal to the maximum permissible level.

If the School has less than 30 Days Cash on Hand on such testing date, it shall constitute an Event of Default if such non-compliance is not cured within 60 days, unless waived by the Majority Bondholder.

(H) Maintain on its books, a separate, segregated fund balance to be funded on a best efforts basis from accumulated cash surpluses (the "Fund Balance Account") of the School, if any, in an amount equal to 20% of the budgeted annual operating expenses of the School (the "Fund Balance Account Requirement"). The balance of the Fund Balance Account may be reduced below the Fund Balance Account Requirement by the School solely for the payment of ordinary and necessary expenses of the School (excluding salaries and benefits to staff or administrative personnel) which exceed annual budgeted expenditures by an amount not greater than 20% of the annually budgeted amounts for items including repair and replacements, capital improvements, utilities, educational program expenses, and special assessments; provided, however, that a greater percentage shall be permitted if the School has received the prior written consent of the Majority Bondholder. In the event the Fund Balance Account is reduced below the Fund Balance Account Requirement as of the end of the School's Fiscal Year according to the School's annual audit, the School shall provide notice thereof to the Trustee and EMMA and shall use its best efforts to replenish the Fund Balance Account.

(I) [Reserved.]

(J) Make all payments due under the Lease on account of debt service on the Bonds and any Additional Bonds prior to any payments of additional rent due under of the Lease other than operating expenses of the School required under State or federal laws to provide required educational program expenditures (including the current expenses for staff and administrative salaries and benefits). In this regard, the Company hereby agrees that it shall apply all amounts received by or on behalf of the School under the Lease to the amounts payable pursuant to Section 4.2 of this Agreement when due.

(K) Provide notice to the Issuer, Trustee and EMMA of (i) any notices from the School's sponsor to the School of noncompliance with or determination not to renew the Charter Agreement within 10 days of receipt of such notice by the School and (ii) any default under the Lease and the steps to be taken by the School to remedy such default, promptly after such default occurs.

(L) On or before June 30 of each year apply to the Minnesota Department of Education (or its successor) for building lease aid as required by Minnesota Statutes and provide notice to the Trustee and EMMA of such application and approval thereof by the Minnesota Department of Education.

(M) Carry automobile and workers' compensation insurance to the extent required by Minnesota law, and upon request, furnish to the Company certificates evidencing such coverage throughout the Term of the Lease. All such policies of insurance shall be in the forms and amounts required to be provided by the Company under the Loan Agreement and the Mortgage.

(N) The School may, at its own expense and in its own name, in good faith contest any real estate taxes, assessments, utility and other charges and shall notify the Company of such good faith contest and, in the event of any such contest, may permit the taxes, assessments, utility or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom but only if (1) nonpayment of any such items will not materially endanger the interest of the Company in the Premises, nor subject to loss or forfeiture the Premises or any part thereof, and (2) the School files with the Company an opinion of Independent Counsel stating in effect that neither event will occur. If both conditions are not satisfied the School shall promptly pay such taxes, assessments, utility or other charges or provide Company with full security against any loss that may result from nonpayment, in form satisfactory to Company.

(O) Use its best efforts to maintain Income Available for Debt Service of at least 120% of the principal and interest due on the Bonds and any Additional Bonds in each Fiscal Year. In the event the School's Income Available for Debt Service is less than 110% of the principal and interest due on the Bonds and any Additional Bonds in any Fiscal Year, the School shall retain an Independent Consultant to review and analyze the reports required by the Pledge Agreement, to inspect the Project and the School's operation and administration and to make such recommendations as to the operation and administration of the School and the Schoolhouse as such Independent Consultant deems appropriate. Notwithstanding the immediately preceding sentence, regardless of whether the School has retained an Independent Consultant, if at the end of the Fiscal Year 2013

or any subsequent Fiscal Year, the Income Available for Debt Service as of the end of such Fiscal Year is less than 100% of the principal and interest due on the Bonds and any Additional Bonds (as evidenced by the School's audited financial statements for such Fiscal Year), then the Trustee may declare an Event of Default or exercise one or more of the remedies permitted under the Loan Agreement and the Indenture.

Delivery to the Trustee of the information, reports and documents described in this Section 3 is for informational purposes only. The Trustee has no obligation to review or analyze the information, reports and documents and the Trustee's receipt of such information, reports and documents shall not constitute constructive or actual notice of any information contained therein or determinable from information contained therein.

SECTION 4. Defaults and Remedies. Any of the following shall be an Event of Default:

(A) Failure by the School to pay any payment required to be paid under the Rent Schedule in full at the time specified therein, and said failure in payment shall continue for 10 days, but no later than the last Business Day of the month.

(B) Failure by the School to observe and perform any covenant, condition, or agreement herein, other than as referred to in paragraph (i), for a period of 30 business days after written notice specifying such failure and requesting that it be remedied shall have been given to the School by the Company unless the Company shall agree in writing to an extension of such time prior to its expiration; provided, however, if the failure stated in the notice be such that it cannot be corrected within the applicable period, the Company will not unreasonably withhold its consent to an extension of such time (but not more than 90 days) if corrective action is instituted by the School within the applicable period and diligently pursued until the default is corrected.

(C) Any Event of Default on the part of the Company under the Loan Agreement or the Lease.

Upon the occurrence of any Event of Default hereunder, the Trustee shall have, in addition to all other rights and remedies provided herein or by law, the rights and remedies of a secured party under the Minnesota Uniform Commercial Code, Minnesota Statutes, Chapter 336, as amended. In addition, the Trustee may, without demand, and without advertisement or notice, all of which the School hereby waives, at any time or times, appropriate (by set-off or otherwise) or apply all amounts held in the Revenue Fund or otherwise under the Indenture to the payment of amounts due under the Loan Agreement in such order and manner as provided in the Loan Agreement and the Indenture.

SECTION 5. Termination. This Agreement shall terminate and any amounts on deposit in the Revenue Fund shall be delivered or transferred to the School upon the payment in full of amounts due with respect to the Bonds, whether at their stated maturity or by earlier prepayment and redemption.

SECTION 6. Governing Law. The obligations of the parties under this Agreement shall be governed by and construed in accordance with the laws of the State of Minnesota.

SECTION 7. Headings. Section headings in this Agreement are for convenience of reference only and shall not govern, or be used in, the interpretation of any of the provisions of this Agreement.

SECTION 8. Financing Statements. The School agrees to execute and deliver to the Trustee such further agreements and assignments or other instruments and do all such other things to assure the Trustee of its security interest hereunder, including such financing statement or statements or amendments thereof or supplements thereto or other instruments required in order to comply with the Minnesota Uniform Commercial Code, Minnesota Statutes, Chapter 336, as amended, and any successor statute(s) thereto (the "Code"). The School and the Trustee hereby agree that a carbon, photographic, or other reproduction of this Agreement or any such financing statement is sufficient for filing as a financing statement by the Trustee without notice thereof to the School. In the event for any reason the law of any other jurisdiction than the State of Minnesota becomes or is applicable to the Indenture, the Bonds, or this Agreement, the School agrees to execute and deliver all such instruments and do all such other things necessary or appropriate to preserve, protect, and enforce the security interest of the Trustee under the law of such other jurisdiction to at least the same extent as such security interest would be protected under the Code.

SECTION 9. Execution and Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be an original and all of which shall constitute but one and the same document.

SECTION 10. No Waiver; Cumulative Remedies. The Trustee shall not by any act, delay, omission, or otherwise be deemed to have waived any of its rights or remedies hereunder, and no waiver shall be valid unless in writing, signed by the Trustee, and then only to the extent therein set forth. A waiver by the Trustee of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which the Trustee would otherwise have on any further occasion. No failure to exercise nor any delay in exercising by the Agent of any right, power, or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power, or privilege hereunder preclude any other or further exercise thereof or the exercise of any right, power, or privilege. The rights and remedies herein provided are cumulative and may be exercised singly or concurrently and are not exclusive of any rights or remedies provided by law.

SECTION 11. Waivers, Amendments. None of the terms or provisions of this Agreement may be waived, altered, modified, or amended except by an instrument in writing, duly executed by the Trustee and the School.

SECTION 12. Notices. Unless otherwise provided for in this Agreement, any notice required or permitted to be given under this Agreement may be given by certified or registered mail, return receipt requested, or by telex or telecopy, charges prepaid, or by commercial overnight delivery service, prepaid, address:

If to the Trustee:

Wells Fargo Bank, National Association
MAC: N9311-115
625 Marquette Avenue, 11th Floor
Minneapolis, Minnesota 55479
Attn: Corporate Trust Services

If to the School:

PACT Charter School
7250 Ramsey Parkway East Northwest
Ramsey, Minnesota 55303
Attn: Executive Director

The School and the Trustee may designate by writing delivered to the addresses stated in or pursuant to this Section 12, any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have executed this Pledge Agreement as of the date first above written.

PACT CHARTER SCHOOL, a Minnesota
nonprofit corporation and public (charter)
school

By: _____

Its: _____

Execution page of the Trustee to the Pledge and Covenant Agreement, dated as of _____ 1, 2013.

**WELLS FARGO BANK, NATIONAL
ASSOCIATION, as Trustee**

By: _____

Its: _____

EXHIBIT A

ACCOUNT CONTROL AGREEMENT