PRELIMINARY OFFICIAL STATEMENT
Dated August 26, 2008

Ratings:
Fitch: "AAA"
PSF GUARANTEED
See ("OTHER INFORMATION - Ratings" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations.

THE BONDS WILL BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS"
FOR FINANCIAL INSTITUTIONS

$5,400,000*
HIDALGO INDEPENDENT SCHOOL DISTRICT
(Hidalgo County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2008

Dated Date: August 15, 2008 **Due: February 1, as shown on the inside cover**

PAYMENT TERMS . . . Interest on the $5,400,000* Hidalgo Independent School District Unlimited Tax School Building Bonds, Series 2008 (the "Bonds") will accrue from August 15, 2008, (the "Dated Date") and will be payable February 1 and August 1 of each year commencing February 1, 2009, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is U.S. Bank, National Association, Houston, Texas (see "THE BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, (the "State"), including Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, an election held within the District on May 12, 2007, an order adopted by the District authorizing the issuance of the Bonds, and therefore, are direct and voted obligations of the Hidalgo Independent School District (the "District"), payable from an ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District, as provided in the order authorizing the Bonds (the "Order") (see "THE BONDS - Authority for Issuance"). **An application has been filed and the District has received conditional approval for the Bonds to be guaranteed by the Permanent School Fund Guarantee (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").**

PURPOSE . . . Proceeds from the sale of the Bonds will be used to (1) construct instructional facilities, acquire the sites thereof and (2) pay the cost of issuance.

CUSIP PREFIX: 429515
MATURITY SCHEDULE & 9 DIGIT CUSIP
See Schedule on Page 2

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the initial purchaser (the “Underwriter”) and subject to the approving opinion of the Attorney General of Texas and the opinion of Ramirez & Guerrero LLP, McAllen, Texas, Bond Counsel (see Appendix C, "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriter by The Perez Law Firm, PLLC, McAllen, Texas, Counsel for the Underwriter.

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on or about Tuesday, September 23, 2008.

ESTRADA HINOJOSA & CO., INC.

*Preliminary, subject to change.

MATURITY SCHEDULE*

CUSIP Prefix: 429515 (1)

Principal Amount	Maturity (February 1)	Interest Rate	Yield (2)	CUSIP Number (1)	Principal Amount	Maturity (February 1)	Interest Rate	Yield (2)	CUSIP Number (1)
$ 70,000	2009				$ 170,000	2024			
85,000	2010				175,000	2025			
85,000	2011				185,000	2026			
90,000	2012				195,000	2027			
95,000	2013				205,000	2028			
100,000	2014				215,000	2029			
105,000	2015				230,000	2030			
110,000	2016				240,000	2031			
120,000	2017				255,000	2032			
125,000	2018				265,000	2033			
130,000	2019				280,000	2034			
140,000	2020				295,000	2035			
145,000	2021				310,000	2036			
150,000	2022				325,000	2037			
160,000	2023				345,000	2038			

(Accrued Interest from August 15, 2008 to be added)

OPTIONAL REDEMPTION . . . The District reserves the right, at its option, to redeem Bonds having stated maturities on and after ______________, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on ______________, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS - Optional Redemption").

____

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, A Division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services.

*Preliminary, subject to change.

For purposes of compliance with Rule 15c2-12 of the Securities Exchange Commission, this document constitutes a Preliminary Official Statement of the District with respect to the Bonds that has been deemed "final" by the District as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

This Official Statement, which includes the cover page and Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

No dealer, broker, salesperson or other person has been authorized to give information or to make any representation 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 the District, the Financial Advisor or the Underwriter.

Certain information set forth herein has been provided by sources other than the District that the District believes are reliable, but the District makes no representation as to the accuracy of such information. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

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

The cover page contains certain information for general reference only and is not intended as a summary of this offering. Investors should read the entire Official Statement, including all appendices attached hereto, to obtain information essential to making an informed decision.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

NEITHER THE DISTRICT, ITS FINANCIAL ADVISOR NOR THE UNDERWRITER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM OR THE AFFAIRS OF THE TEXAS EDUCATION AGENCY DESCRIBED UNDER "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM."

TABLE OF CONTENTS

APPENDICES

The cover page hereof, this page, the appendices included herein and any addenda, supplement or amendment hereto, are part of the Official Statement.

OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

THE DISTRICT.............................. The District is a political subdivision located in Hidalgo County, Texas. The District is governed by a seven-member board of trustees (the "Board') who serve staggered three-year terms with elections being held in May of each year. Policy-making and district supervision functions are the responsibility of the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who serves as the chief administrative officer of the District. Certain support services are supplied by consultants and advisors. The District is approximately 36 square miles in area (see "INTRODUCTION - Description of District").

THE BONDS................................. The Bonds are issued as $5,400,000* Hidalgo Independent School District Unlimited Tax School Building Bonds, Series 2008. The Bonds are issued serial bonds maturing on February 1, 2009 through February 1, 2038, unless the Underwriter designates one or more maturities as a Term Bond (see "INTRODUCTION – Description of the Bonds").

PAYMENT OF INTEREST .... Interest on the Bonds accrues from August 15, 2008, and is payable February 1, 2009, and each August 1 and February 1 thereafter until maturity or prior redemption (see "THE BONDS - Description of the Bonds" and "THE BONDS - Optional Redemption").

AUTHORITY FOR ISSUANCE.......... The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, and an election held within the District on May 12, 2007, and an Order passed by the Board of Trustees of the District (see "THE BONDS - Authority for Issuance").

SECURITY FOR THE BONDS .... The Bonds constitute direct and voted obligations of the District, payable from a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, on all taxable property within the District. Additionally, the payment of the Bonds is guaranteed by the corpus of the Permanent School Fund of Texas (see "THE BONDS - Security and Source of Payment").

PERMANENT SCHOOL FUND GUARANTEE................................ The District has made application to the Texas Education Agency and has received conditional approval of the Bonds to be guaranteed by the Permanent School Fund (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"). Also see "CURRENT SCHOOL FINANCE SYSTEM" for a discussion of recent developments in State law affecting the financing of school districts in this State.

QUALIFIED TAX-EXEMPT OBLIGATIONS.............................. The District has designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions (see "TAX MATTERS - Qualified Tax-Exempt Obligations").

OPTIONAL REDEMPTION .... The District reserves the right, at its option, to redeem Bonds having stated maturities on and after ___________, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on _________, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS - Optional Redemption").

TAX EXEMPTION.......................... In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income for federal income tax purposes under statues, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under the caption "TAX MATTERS" herein, including the alternative minimum tax on corporations.

USE OF PROCEEDS .... Proceeds from the sale of the Bonds will be used to (1) construct instructional facilities, acquire the sites thereof and (2) pay the cost of issuance.

*Preliminary, subject to change.

RATINGS .... The presently outstanding tax supported debt of the District is rated "A" by Fitch Ratings ("Fitch"). The District also has five issues outstanding which are rated "AAA" by Fitch and two issues outstanding which are rated "AAA" by Moody's Investors Service ("Moody's") by virtue of the guarantee of the Permanent School Fund of the State of Texas (see "OTHER INFORMATION - Ratings").

BOOK-ENTRY-ONLY SYSTEM .... The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System") .

PAYMENT RECORD .... The District has not defaulted on the payment of its unlimited tax bonds since 1938 when bonds were refunded at par with a reduction in interest rates.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 8/31	Estimated District Population(1)	Taxable Assessed Valuation(2)	Per Capita Taxable Assessed Valuation	Tax Supported Net Debt Outstanding at End of Year(3)	Per Capita Tax Debt	Ratio Tax Debt to Taxable Assessed Valuation	% of Total Tax Collections
2004	8,832	$ 199,553,667	$ 22,594	$ 12,402,000	$ 1,404	6.21%	100.85%
2005	8,882	230,389,609	25,939	5,489,100	618	2.38%	97.01%
2006	8,932	254,430,292	28,485	8,420,598	943	3.31%	98.55%
2007	8,982	282,254,520	31,424	10,600,290	1,180	3.76%	101.08%
2008	9,032	354,767,761	39,279	13,992,096 (4)	1,549 (4)	3.94% (4)	94.83% (5)

(1) Source: District Officials
(2) As reported by the Hidalgo County Appraisal District on the District's Annual Certified Totals; subject to change during the ensuing year.
(3) Amount for fiscal Years 2003 through 2005 does include tax supported debt that was funded with Existing Debt Allotment (Tier III) or Instructional Facilities Allotment State Funding.
(4) Projected and excludes approximately 72.71% of the District's Unlimited Tax Bonds which are eligible for a Texas Education Agency's Instruction Facilities Allotment or Existing Debt Allotment (Tier III).
(5) Collections through June 30, 2008.

CHANGES IN NET ASSETS CONSOLIDATED STATEMENT SUMMARY

	Fiscal Year Ended August 31,				
	2007	2006	2005	2004	2003
Beginning Net Assets	$ 16,611,748	$ 15,720,727	$ 14,422,528	$ 13,928,952 (1)	$ 14,136,645
Total Revenue	36,908,822	33,922,312	31,097,290	28,196,989	27,467,835
Total Expenditures	(36,580,126)	(32,788,969)	(29,884,663)	(27,644,614)	(27,675,528)
Prior Period Adjustment	(985,923)	(242,322)	85,603	(58,801)	-
Ending Net Assets	$ 15,954,521	$ 16,611,748	$ 15,720,758	$ 14,422,526	$ 13,928,952

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	Fiscal Year Ended August 31,				
	2007	2006	2005	2004	2003
Beginning Balance	$ 5,521,819	$ 6,359,058	$ 5,181,087	$ 4,047,238	$ 4,229,725
Total Revenue	27,432,367	23,766,906	23,328,243	22,483,063	21,435,543
Total Expenditures	(27,695,484)	(24,361,823)	(22,235,874)	(21,290,412)	(21,618,030)
Other Resources	-	-	-	-	-
Net Funds Available	(263,117)	(594,917)	1,092,369	1,192,651	(182,487)
Increases (Decreases) in Fund Balance	-	(242,322)	85,603	(58,801)	-
Ending Balance	$ 5,258,702	$ 5,521,819	$ 6,359,059	$ 5,181,088	$ 4,047,238

For additional information regarding the District, please contact:

Yvonne Ruiz
Director of Finance
Hidalgo Independent School District
P.O. Box D
Hidalgo, Texas 78557
Telephone: (956) 843-4404
Fax: (956) 843-3317

or

Cris S. Vela
First Southwest Company
400 N McColl
Suite C
McAllen, Texas 78501
Telephone: (956) 686-0991
Fax: (956) 618-4791

DISTRICT OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

Board of Trustees	Length of Service	Term Expires	Occupation
Martin Cepeda, President	19 Years	May, 2010	Tax Office Officer County of Hidalgo
David Badillo, Vice-President	3 Years	May, 2012	School Youth Liason Officer
Sacramento De Hoyos, Secretary	2 Years	May, 2012	School Principal
Carlos Cardoza, Treasurer	12 Years	May, 2012	Aloe Vera of America
Javier Solis, Member	Newly Elected	May, 2010	Self Employed
Blanca Lara, Member	2 Years	May, 2012	Community Volunteer
Joe Rodriguez, Member	1 Year	May, 2010	Teller Supervisor – Chase Bank

SELECTED ADMINISTRATIVE STAFF

Name	Position	Length of Service to the District
Eduardo Cancino	Superintendent	8 Years
Alvin Samano	Assistant Superintendent for Human Resources/Leadership Development	18 Years
Yvonne Ruiz	Director of Finance	10 Years

CONSULTANTS AND ADVISORS

Auditors .... Reyna & Garza, PLLC, Edinburg, Texas

Bond Counsel .... Ramirez & Guerrero LLP McAllen, Texas

Financial Advisor .... First Southwest Company McAllen, Texas

PRELIMINARY OFFICIAL STATEMENT

RELATING TO

$5,400,000*
HIDALGO INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2008

INTRODUCTION

This Preliminary Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of $5,400,000* Hidalgo Independent School District Unlimited Tax School Building Bonds, Series 2008 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Order to be adopted on the date of sale of the Bonds which will authorize the issuance of the Bonds, except as otherwise indicated herein.

All financial and other information in this Official Statement has been provided by the District from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information, and is not intended to indicate future or continuing trends in the financial position or other affairs of the District. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue or be repeated in the future.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District's Financial Advisor, First Southwest Company, Dallas, Texas.

DESCRIPTION OF THE DISTRICT . . . The Hidalgo Independent School District (the "District") is a political subdivision located in Hidalgo County, Texas. The District is governed by a seven-member Board of Trustees (the "Board") who serve staggered three-year terms with elections being held in May of each year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. The District covers approximately 36 square miles in Hidalgo County, encompasses the City of Hidalgo.

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds are dated August 15, 2008 and mature on February 1 in each of the years and in the amounts shown on the inside cover page hereof. Interest will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 1 and August 1, commencing February 1, 2009. The definitive Bonds will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC"), New York, New York pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Bonds are issued and the tax levied for their payment pursuant to authority conferred by the Constitution and the laws of the State of Texas, including Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended; and an election approving the Bonds held on May 12, 2007 by a majority of the participating voters; and the Order.

SECURITY AND SOURCE OF PAYMENT . . . All taxable property within the District is subject to a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, sufficient to provide for the payment of principal of and interest on all Bonds. Additionally, the payment of the Bonds is guaranteed by the corpus of the Permanent School Fund of Texas.

PERMANENT SCHOOL FUND GUARANTEE . . . In connection with the sale of the Bonds, the District has submitted an application to the Texas Education Agency for approval from the Commissioner of Education for guarantee of the Bonds under the Permanent School Fund Guarantee Program (Chapter 45, Subchapter C of the Texas Education Code). Subject to satisfying certain conditions discussed under the heading "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein, the Bonds will be absolutely and unconditionally guaranteed by the corpus of the Permanent School Fund of the State of Texas. In the event of default in the payment of principal of interest on theBonds, registered owners will receive all payments due on the Bonds from the corpus of the Permanent School Fund.

---

*Preliminary, subject to change.

TAX RATE LIMITATION . . . For debt service of unlimited tax debt there is no limitation on the tax rate (Sections 45.001 and 45.003(b)(1) Texas Education Code, as amended); provided, however, that the District must demonstrate to the Attorney General of Texas that it has the ability to pay all "new debt" with a debt service tax not to exceed $0.50 per $100 assessed valuation in compliance with Section 45.0031, Texas Education Code, as amended. For a more detailed description of the $0.50 test, see "TAX INFORMATION – Tax Rate Limitations" herein. The Bonds constitute new debt.

OPTIONAL REDEMPTION . . . The District reserves the right, at its option, to redeem Bonds having stated maturities on and after ________________, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on __________________, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

NOTICE OF REDEMPTION . . . Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

DEFEASANCE . . . The Order provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment or (2) Defeasance Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds. The Order provides that "Defeasance Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. Provided, however, the District has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Bonds which have been defeased to their maturity date, if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

BOOK-ENTRY-ONLY SYSTEM . . . *This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and accredited by DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

The District cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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). One fully registered certificate will be issued for each maturity of the Bonds in the aggregate principal amount of each 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 instrument (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 Bonds 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, the National Securities Clearing Corporation and Fixed Income Clearing Corporation all of which are registered clearing aencies. 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 Standard & Poor's highest rating: AAA. 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 and www.dtc.org.

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, but Beneficial Owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owners entered into the transaction. Transfers of ownership interest in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 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 Participant to whose account such Bonds are credited, which may or may not be the Beneficial Owners. The 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.

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

Neither DTC nor Cede & Co. will consent or vote with respect to the 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 District 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar on payable dates 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 in the case with securities 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 Paying Agent/Registrar or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest to DTC is the responsibility of the District, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the District and the Paying Agent/Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered.

Use of Certain Terms in Other Sections of this Official Statement . . . In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Order will be given only to DTC.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the District, the Financial Advisor or the Underwriter.

Effect of Termination of Book-Entry-Only System. . . In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the District, printed Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under "THE BONDS - Transfer, Exchange and Registration" below.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is U.S. Bank, National Association, Houston, Texas. In the Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Principal of the Bonds will be payable to the registered owner at maturity or prior redemption upon presentation at the principal office of the Paying Agent/Registrar. Interest on the Bonds will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar on the Record Date (see "THE BONDS - Record Date for Interest Payment" herein), or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

If the event the Book-Entry-Only System should be discontinued, interest on the Bonds will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest will be paid (i) by check sent by United States mail, first class postage-prepaid, to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of the registered owner. Principal of the Bonds will be paid to the registered owner at the stated maturity or earlier redemption upon presentation to the designated payment/transfer office of the Paying/Agent Registrar. If the date for the payment of the principal of or interest on the Bonds is a Saturday, Sunday or legal holiday or a day when banking institutions are authorized to close, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due. So long as Cede & Co. is the registered owner of the Bonds, payments of principal and interest on the Bonds will be made as described in “THE BONDS – Book-Entry-Only System” above.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the District nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the 15th day of the preceding month.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Holder of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

BONDHOLDERS' REMEDIES… The Order does not establish specific events of default with respect to the Bonds. If the District defaults in any payment due the Bonds, and the State of Texas should fail to honor the Permanent School Fund Guarantee as herein discussed, or should the District default in the observance or performance of any of the covenants, conditions, or obligations set forth in the Order, any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenant, obligation, or condition, as well as enforce right of payment of principal or interest under the Permanent School Fund Guarantee. Such right is in addition to any other rights the registered owners of the Bonds may be provided by the laws of the State of Texas. Under Texas law there is no right to the acceleration of maturity of the Bonds upon the failure of the District to make due payment of principal or interest on the Bonds or to observe the any covenant under the Order. Although a registered owner of Bonds could presumably obtain a judgment against the District if a default occurred in the payment of principal of or interest on any such Bonds, such judgment could not be satisfied by execution against any property of the District. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. The Order also does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition. The Texas Supreme Court has ruled that a waiver of a political subdivision's sovereign immunity in a contractual agreement must be provided by statute in "clear and unambiguous" language. Because it is unclear whether the Texas Legislature has effectively waived the District's sovereign immunity from suit for money damages, bondholders may not be able to bring such a suit against the district for breach of the Bonds or breach of any covenants set out in the Order. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

USE OF BOND PROCEEDS . . . Proceeds from the sale of the Bonds are expected to be expended as follows:

Sources of Funds:		
Par Amount of Bonds	$	-
Reoffering Premium		-
Accrued Interest		-
Original Issue Discount		-
Total Sources of Funds	$	-
Uses of Funds:		
Deposit to Construction Fund	$	-
Total Underwriters' Discount		-
Costs of Issuance		-
Deposit to Debt Service Fund		-
Total Uses of Funds	$	-

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

The District has made application to the Texas Education Agency (the "TEA") for a Permanent School Fund guarantee of the Bonds and has received conditional approval for the Bonds to be guaranteed under the Guarantee Program (as defined and described below).

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

History and Purpose

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

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

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

The sole purpose of the PSF is to assist in the funding of public education for present and future generations. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividends produced by Fund investments flowed into the Available School Fund (the "ASF"), where they are distributed to local school districts based on average daily attendance. Any net gains from investments of the Fund accrue to the corpus of the PSF. Prior to the approval by the voters of the State of the Total Return Constitutional Amendment, costs of administering the PSF were allocated to the ASF. With the approval of the Total Return Constitutional Amendment, the administrative costs of the Fund have shifted from the ASF to the PSF. In fiscal year 2007, distributions to the ASF amounted to $196.30 per student and the total amount distributed to the ASF was $843.14 million.

Audited financial information for the PSF is provided annually through the PSF Annual Report (the "Annual Report"), which is filed with each designated nationally recognized municipal securities information repository ("NRMSIR") and the Texas Municipal Advisory Council (the "Texas MAC") as a State Information Depository ("SID"). The Annual Report includes the Message of the Executive Administrator of the Fund (the "Message") and the Management's Discussion and Analysis ("MD&A"). Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2007 and for a description of the financial results of the PSF for the year ended August 31, 2007, the most recent year for which audited financial information regarding the Fund is available. The 2007 Annual Report is incorporated herein and made a part hereof for all purposes, but the 2007 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2007 Annual Report or any other Annual Report. The TEA posts each Annual Report, which includes statistical data regarding Fund values, and Fund equity and fixed income holdings as of the close of each fiscal year, the most recent disclosure for the Guarantee Program, the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (the "Investment Policy"), monthly updates with respect to the capacity of the Guarantee Program (collectively, the "Web Site Materials") on the TEA web site at www.tea.state.tx.us/psf. 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 Securities and Exchange Commission ("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, AMEX) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at www.sec.gov/edgar.shtml.

The Total Return Constitutional Amendment

The Total Return Constitutional Amendment approved a fundamental change in the way that distributions are made to the ASF from the PSF. The Total Return Constitutional Amendment requires that PSF distributions to the ASF be determined using a total-return-based formula instead of the current-income-based formula, which was used from 1964 to the end of the 2003 fiscal year. The Total Return Constitutional Amendment provides that the total amount distributed from the Fund to the ASF: (1) in each year of a State fiscal biennium must be an amount that is not more than six percent 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 (the "Distribution Measurement Period"), in accordance with the rate adopted by: (a) a vote of two-thirds of the total membership of the State Board of Education ("SBOE"), taken before the Regular Session of the Legislature convenes or (b) the Legislature by general law or appropriation, if the SBOE does not adopt a rate as provided by clause (a); and (2) over the ten-year period consisting of the current State fiscal year and the nine preceding state fiscal years may not exceed the total return on all investment assets of the Fund over the same ten-year period.

In determining the distribution rate, the SBOE has adopted the goal of maximizing the amount distributed from the Fund in a manner designed to preserve "intergenerational equity." Intergenerational equity is the maintenance of endowment purchasing power to ensure that endowment spending keeps pace with inflation, with the ultimate goal being to ensure that current and future generations are given equal levels of purchasing power. In making this determination, the SBOE takes into account various considerations, and relies particularly upon its external investment consultant, which undertakes a probability analysis for long term projection periods that includes certain assumptions. Among the assumptions used in the analysis are a projected rate of growth of the average daily scholastic attendance State-wide, the projected contributions and expenses of the Fund, and a projected inflation rate. In September 2006, the SBOE established the distribution rate from the Fund to the ASF for fiscal years 2008 and 2009 at 3.5% of the average of the PSF market value during the Distribution Measurement Period. The decision of the SBOE regarding the distribution rate for 2008 and 2009 took into account a commitment by the SLB to transfer at least $100 million per year for each year of the biennium commencing September 1, 2007. For a discussion of legislation enacted during the 80th Regular Session of the Legislature that concluded on May 28, 2007 (the "2007 Legislative Session"), which pertains to the distribution of money from the Fund to the ASF, among other aspects of management of the Fund, see "Other Events and Disclosures." Since the enactment of a prior amendment to the Texas Constitution in 1964, the investment of the Fund has been managed with the dual objectives of producing current income for transfer to the ASF and growing the Fund for the benefit of future generations. As a result of this prior constitutional framework, the investment of the Fund has historically included a significant amount of fixed income investments and dividend-yielding equity investments, to produce income for transfer to the ASF.

With respect to the management of the Fund's investment portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted by the SBOE in February 2004 and in July 2006, which have significantly altered the asset allocations of the Fund. In February 2004, the SBOE adopted a new asset allocation for the Fund, which decreased the fixed income target from 45% to 25% of Fund investment assets and increased the allocation for equities from 55% to 75% of investment assets. In the first quarter of fiscal year 2006, a new investment advisor for the Fund was engaged by the SBOE and tasked with recommending a new asset allocation mix for the Fund. In July 2006, the SBOE adopted a revised asset allocation (the "2006 Asset Allocation Policy"), and the Investment Policy was modified in accordance with the 2006 Asset Allocation Policy. The 2006 Asset Allocation Policy includes an equity allocation, including both domestic and foreign equity portfolios, of 53%; a fixed income allocation of 19%; and an alternative asset allocation, which includes real estate, real return, absolute return and private equity components, totaling 28% of the Fund's asset target. The Fund's investment policy provides for minimum and maximum ranges among the components of each of the three general asset classifications.

The Fund's investment advisor has been further tasked with advising the SBOE with respect to the implementation of the 2006 Asset Allocation Policy, including the timing and manner of the selection of any external managers and other consultants. For a variety of reasons, including the requirement that the SBOE obtain additional appropriations from the Legislature to pay administrative costs associated with certain types of investments included in the 2006 Asset Allocation Policy, the 2006 Asset Allocation Policy is being implemented in phases. During the 2007 Legislative Session, the TEA requested an increase of $18 million over the amount appropriated during the prior biennium by the Legislature to cover the external management costs related to the implementation of the 2006 Asset Allocation Policy during the biennium. However, that portion of the PSF management appropriation was funded at 50% of the requested amount, which may slow the implementation of the 2006 Asset Allocation Policy, although it will enable the SBOE to implement some phases of the new asset allocation during the biennium. At March 31, 2008, the Fund was invested as follows: 68.30% in equity investments; 25.67% in fixed income investments; 5.68% in alternative assets; and .35% in cash.

In accordance with the Texas Constitution, the SBOE views the PSF as a perpetual institution. Consistent with its perpetual nature, the PSF is managed as an endowment fund with a long-term investment horizon. Under the total-return investment objective, the Investment Policy provides that the PSF shall be managed consistently with respect to the following: generating income for the benefit of the public free schools of Texas, the real growth of the corpus of the PSF, protecting capital, and balancing the needs of present and future generations of Texas school children. As described above, the Total Return Constitutional Amendment restricts the annual pay out from the Fund to the total-return on all investment assets of the Fund over a rolling ten-year period. State law provides that each transfer of funds from the PSF to the ASF is made monthly, with each transfer to be in the amount of one-twelfth of the annual distribution. It should be noted that the heavier weighting of equity securities relative to fixed income investments could result in greater volatility of the value of the Fund. Given the greater weighting in the overall portfolio of passively managed investments, it is more likely in the future that the Fund will reflect the general performance returns of the markets in which the Fund is invested. Moreover, while the SBOE may continue to change allocations within the various asset categories of the investment portfolios, and the 2006 Asset Allocation Policy includes an allotment for a portion of Fund assets to investment classes other than fixed income and equities, including hedge funds and real estate and other alternative asset classes, it is assumed that the new distribution formula will result in fewer large-scale reallocations of Fund assets than have occurred in recent years as the SBOE modified Fund asset allocations on a regular basis to produce income for distribution in light of changes in the financial markets.

Notwithstanding the assumption that asset allocations for the Fund will be more consistent after the changes made to implement the Total Return Constitutional Amendment have occurred, the asset allocation of the Fund is subject to change by the SBOE from time to time based upon a number of factors, including recommendations to the SBOE made by internal investment staff and external consultants, changes made by the SBOE without regard to such recommendations and directives of the Legislature. Fund performance may also be affected by factors other than asset allocation, including, without limitation, the general performance of the securities markets in the United States and abroad; political and investment considerations including those relating to socially responsible investing; application of the prudent person investment standard, which may eliminate certain investment opportunities for the Fund; and limitations on the number and compensation of internal and external investment staff, which is subject to Legislative oversight. The Guarantee Program could also be impacted by changes in State or federal law or the implementation of new accounting standards.

Management and Administration of the Fund

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

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

Texas law assigns control of the Fund's land and mineral rights to the three-member SLB, which consists of the elected Commissioner of the General Land Office ("GLO"), an appointee of the Governor, and an appointee of the Attorney General. Administrative duties related to the land and mineral rights reside with the GLO, which is under the guidance of the Commissioner of the GLO.

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

As noted above, the Texas Constitution and applicable statutes make the SBOE responsible for investment of the PSF's financial assets. By law, the Commissioner is appointed by the Governor, with Senate confirmation, and assists the SBOE, but the Commissioner can neither be hired nor dismissed by the SBOE. The Executive Administrator of the Fund is also hired by and reports to the Commissioner. Moreover, although the Fund's Executive Administrator and his staff implement the decisions of and provide information to the School Finance/PSF Committee of the SBOE and the full SBOE, the SBOE can neither select nor dismiss the Executive Administrator. TEA's General Counsel provides legal advice to the Executive Administrator and to the SBOE.

Prior to June 1995, the PSF was invested exclusively by the internal staff of the TEA's Investments Office, under the direction of the Executive Administrator of the Fund. The portion of the Fund that is managed by external managers has declined from 39% at August 31, 2002 to 20.24% at August 31, 2007, in large part due to legislative appropriations riders that have reduced the appropriation for the administrative costs of managing the Fund, including, in particular, the payment of fees of external managers. However, in connection with the implementation of the 2006 Asset Allocation Policy, the SBOE has requested a larger legislative appropriation for Fund administration than in the prior State fiscal biennium. See "Other Events and Disclosures."

The Guarantee Program

The Guarantee Program for School District Bonds (the "Guarantee Program") was authorized by an amendment to the Texas Constitution in 1983 and by Subchapter C of Chapter 45 of the Texas Education Code (the "Act"). If the conditions for the Guarantee Program are satisfied, the guarantee becomes effective upon approval of the Bonds by the Attorney General and remains in effect until the Bonds are paid or defeased, by a refunding or otherwise.

In the event of default, holders of the Bonds will receive all payments due from the corpus of the PSF. Following a determination that the District will be or is unable to pay maturing or matured principal or interest on any Bond, the Act requires the District to notify the Commissioner not later than the fifth day before the stated maturity date of such Bond or interest payment. Immediately following receipt of such notice, the Commissioner must cause to be transferred from the appropriate account in the PSF to the Paying Agent/Registrar an amount necessary to pay the maturing or matured principal and interest. Upon receipt of funds for payment of such principal or interest, the Paying Agent/Registrar must pay the amount due and forward the canceled Bond or evidence of payment of the interest to the State Comptroller of Public Accounts (the "Comptroller"). The Commissioner will instruct the Comptroller of Public Accounts to withhold the amount paid, plus interest, from the first State money payable to the District. The amount withheld will be deposited to the credit of the PSF. The Comptroller must hold such canceled Bond or evidence of payment of the interest on behalf of the PSF. Following full reimbursement of such payment by the District to the PSF with interest, the Comptroller will cancel the Bond or evidence of payment of the interest and forward it to the District.

If the 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 Guarantee Program does not apply to the payment of principal and interest upon redemption of the 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 the Bonds.

In the event that two or more payments are made from the PSF on behalf of the District, the Commissioner may 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 the Bonds.

The capacity of the Fund to guarantee bonds under the Guarantee Program is limited in two ways: by State law (the "State Capacity Limit") and by an Internal Revenue Service ("IRS") private letter ruling received by the TEA (the "IRS Limit"). Prior to May 20, 2003, the State Capacity Limit was equal to two times the lower of cost or fair market value of the Fund's assets, exclusive of real estate. During the 78th Regular Session of the Legislature in 2003, legislation was enacted that increased the State Capacity Limit by 25%, to two and one half times the lower of cost or fair market value of the Fund's assets as estimated by the SBOE and certified by the State Auditor, and eliminated the real estate exclusion from the calculation. Prior to the receipt of the 2005 IRS Letter (defined below), the capacity of the program under the IRS Limit was limited to two and one-half times the lower of cost or fair market value of the Fund's assets adjusted by a factor that excluded additions to the Fund made since May 14, 1989. During the 2007 Texas Legislature, Senate Bill 389 ("SB 389") was enacted and signed into law, providing for additional increases in the capacity of the Guarantee Program. SB 389 provides that the SBOE may by rule increase the capacity of the Guarantee Program from two and one-half times the cost value of the PSF to an amount not to exceed five times the cost value of the PSF, provided that the increased limit does not violate federal law and regulations and does not prevent bonds guaranteed by the Guarantee Program from receiving the highest available credit rating, as determined by the SBOE. SB 389 further provides that the SBOE shall at least annually consider whether to change the capacity of the Guarantee Program.

In November 2004, the TEA and a Texas school district, as an issuer of proposed bonds, formally requested a ruling from the IRS that would have the effect of increasing the capacity of the Fund under the IRS Limit to approximately equal the State Capacity Limit. On March 31, 2005, the IRS released a private letter ruling addressed to the school district (the "2005 IRS Letter") that, among other matters, does not require an adjustment to the capacity of the Guarantee Program relating to certain deposits to the Fund made since May 14, 1989. As a result of the receipt of the 2005 IRS Letter, the TEA has concluded that the State Capacity Limit and the IRS Limit are approximately the same. At March 31, 2008, that amount was $55,597,302,305 (unaudited; including the 5% Capacity Reserve, defined below). Prior to any increase in the capacity of the Guarantee Program as provided by SB 389, the TEA will need to obtain regulatory changes from the IRS and the Treasury Department for any such increase. The TEA is seeking such approval from the IRS, but cannot predict when or if such regulatory changes will be obtained. Until there is a change in the federal regulations and the other conditions to the increase of Guarantee Program capacity that are included in SB 389 are met, if ever, TEA will continue to apply to apply a limitation of 250% of the lower of cost or fair market value of the PSF even though SB 389 immediately establishes a State law limitation of 250% of the cost value of the PSF.

Since July 1991, when the SBOE amended the regulations that govern the Guarantee Program to broaden the range of bonds that can be guaranteed 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, which reflects the trend of growth of guaranteed bonds for the last five fiscal years. In November 2004 and again in November 2005, the SBOE modified its regulations to restrict access to the Guarantee Program. Generally, the new regulations limit Guarantee Program guarantees to certain types of bonds, including, with respect to refunding bonds a requirement that the bonds produce debt service savings for the school district and bonds issued for capital facilities must have been voted as unlimited tax debt of the issuing district. Also, Guarantee Program guarantees are limited to districts with less than $1,250 of annual debt service per student in average daily attendance. The new regulations also provide that guarantees will be awarded until the PSF reaches 95% of its capacity to guarantee bonds. The remaining 5% of capacity (the "5% Capacity Reserve") is to be held in reserve for districts that experience unforeseen catastrophes or emergencies that require the renovation or replacement of school facilities.

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. However, changes in the value of the Fund due to changes in securities markets, investment objectives of the Fund, an increase in bond issues by school districts in the State or legal restrictions on the Fund, among other factors, could adversely affect the ratio of Fund assets to guaranteed bonds and the growth of the Fund in general.

The Act requires that the Commissioner prepare, and the SBOE approve, an annual report on the status of the Guarantee Program (the Annual Report). For the years ending on and after August 31, 1998, the State Auditor has separately audited the financial statements of the PSF. The TEA has filed the audited annual report of the PSF for the year ended August 31, 2006 with each NRMSIR and the Texas SID (as such terms are defined above), and such report and audit, which speak only as of the respective dates thereof, are incorporated herein by reference.

Ratings of Bonds Guaranteed Under the Guarantee Program

Moody's Investors Service, Standard & Poor's, a division of The McGraw-Hill Companies, Inc., and Fitch Ratings rate bonds guaranteed by the PSF "Aaa," "AAA" and "AAA," respectively. Not all issuers 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]
2003	$16,938,054,363	$18,037,320,374
2004	17,596,760,145	19,261,799,285
2005	18,497,507,739	25,994,480,027
2006	19,359,570,146	26,537,687,968
2007[2]	21,234,323,093	29,251,882,931

[1] For years 2003 and 2004, the above table excludes assets managed by the SLB, that consist of land and mineral assets, escrowed cash held by the SLB for real estate transactions, and investments in externally managed real estate funds (the "SLB managed assets"). For State law purposes, the SLB managed assets are included in the PSF. However, prior to the receipt of the 2005 IRS Letter such assets were excluded by the Agency in calculating Fund values for purposes of determining the capacity of the Guarantee Program under the IRS Limit. The 2005 IRS Letter clarified that the SLB managed assets may be included in Fund values for the purpose of calculating the capacity of the Guarantee Program. For fiscal years beginning with 2005, the Agency has included, and for future years the Agency expects to include, SLB managed assets in its reporting of 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 Agency uses current, unaudited values for Agency managed investment portfolios and cash held by the SLB. Market values of land and mineral interests, and investments in externally managed real estate funds managed by the SLB are based upon information reported to the PSF by the SLB at the close of the last fiscal year, which are not updated during the year. The valuation of such assets following the year end close 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 year to year. At August 31, 2007, land, external real estate investments and mineral assets managed by the SLB had book values of approximately $501 million, $410.6 million, and $13.4 million, respectively, and market values of approximately $864 million, $435.0 million, and $2.196 billion, respectively.
[2] At March 31, 2008, the PSF had a book value of $22,238,920,922, and a market value of $28,175,939,966.

Permanent School Fund Guaranteed Bonds

At 8/31	Principal Amount[1]
2003	$29,249,001,443
2004	32,097,749,985
2005	35,230,425,201
2006	37,793,429,328
2007[2]	44,856,621,419

[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 March 31, 2008, there were $46,588,387,208 of bonds guaranteed under the Guarantee Program and the capacity of the Guarantee Program was $55,597,302,305.

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2007

The following discussion is derived from the Annual Report for the year ended August 31, 2007, 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 for the complete Message and MD&A. The discussion in this section describes the portfolios managed by the SBOE and excludes land, external real estate investments, and mineral assets managed by the SLB.

The Permanent School Fund continues to grow and has increased 12% or $2.9 billion for the year ending August 31, 2007. The Fund's annual total return of 14.32% exceeded the target policy benchmark adopted by the SBOE for the Fund of 14.03%. The fiscal year ending August 31, 2007 was the fifth consecutive year that the Fund has experienced positive returns over all asset classes included in the Fund's strategic asset allocation mix. The three year, five year and ten year annualized total returns for the Fund are 12.97%, 11.96% and 8.32%, respectively (total return takes into consideration the change in the market value of the Fund during the year as well as the interest and dividend income generated by the Fund's investments). The market value of the investments grew by $2.5 billion for the fiscal year ended August 31, 2007.

The market value of the Fund's assets is directly impacted by the performance of the various financial markets in which the assets are invested. The most important factor affecting investment performance is the asset allocation decision made by the SBOE. The current long term asset allocation policy allows for diversification of the portfolio into alternative asset classes whose returns are not as correlated to traditional asset classes. The implementation of the long term asset allocation will occur over several fiscal years and is expected to provide incremental total return at reduced risk. New asset classes such as absolute return, real return, private equity, emerging markets and real estate will be strategically added commensurate with the economic environment and the goals and objectives of the SBOE. Effective November 16, 2007, the SBOE approved the selection of five absolute return fund of fund managers for the partial implementation of the absolute return mandate.

The Fund's investment in domestic and international equity securities experienced a positive return of 17.0% during the fiscal year. The domestic large capitalization equity market, as represented by the Standard & Poor's 500 Stock Index, increased 15.13% and the Fund's internally managed S&P 500 index portfolio returned 15.12% for the year. Small and mid capitalization stocks, represented by the Standard & Poor's 1000 Stock Index, increased 15.72% and the Fund's internally managed S&P 1000 index portfolio returned the 15.82%. Returns in the international developed markets were also positive. The Morgan Stanley Capital International All Country World Index Ex-U.S., Net Dividend increased 21.76% and the Fund's externally managed international index portfolio returned 21.93% for the year.

The Fund's fixed income portfolio produced a total return of 5.59% compared to the Lehman Brothers Aggregate Bond Index return of 5.26%. At August 31, 2007, approximately 21% of the Fund's $6.1 billion fixed income portfolio was invested in U.S. Treasury notes and bonds, 17% in government agencies, 44% in mortgage and asset backed securities and 18% in corporate bonds. For fiscal year 2007, total revenues, net of security lending rebates and fees reported by the Fund were $3.9 billion, a 36.9% increase over the prior year, primarily attributable to the fact that domestic equity and fixed income returns were higher in 2007 than the previous year. In fiscal year 2007, revenues earned by the Fund included lease payments, bonuses and royalty income received from oil, gas and mineral leases; lease payments from commercial real estate; surface lease and easement revenues; revenues from the resale of natural and liquid gas supplies; dividends, interest, and securities lending revenues; the net increase in the fair value of the investment portfolio; and, other miscellaneous fees and income.

Expenditures are paid from the Fund before distributions are made under the total return formula. Such expenditures include the costs incurred by the SLB to manage the land endowment, as well as operational costs of the Fund, including external management fees. Operating expenditures, net of security lending rebates and fees, moderately decreased by 1.7% for the year ended August 31, 2007.

The Fund supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. In February 2006, the SBOE requested an opinion from the Attorney General regarding the appropriate calculation of the market value of the Fund in determining the total return distribution. On February 13, 2007, the Attorney General issued a legal opinion, Op. Tex. Att'y Gen. No. GA-516, which addressed the SBOE's opinion request. The legal advice included in the opinion was taken into account by the SBOE in making its distribution calculation, which increased the calculation to include accrued investment revenues at each quarter. For fiscal years 2006 and 2007, this distribution to the ASF totaled $841.9 million and $843.1 million, respectively.

At the end of the 2007 fiscal year, PSF assets guaranteed $44.9 billion in bonds issued by 767 local school districts. Since its inception in 1983, the Fund has guaranteed 3,731 school district bond issues totaling $75.56 billion in principal amount. During the 2007 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program increased by 253, or 11.2%. The dollar amount of guaranteed school bond issues outstanding increased by $7.06 billion or 18.7%. The guarantee capacity of the Fund increased by $4.58 billion, or 9.5%, during fiscal year 2007.

The adoption of the 2006 Asset Allocation Policy by the SBOE is intended to strengthen the assets of the PSF that it manages by increasing total returns and reducing risk and volatility within the portfolio. Whether the Fund will realize those goals will be determined over a period of years and will be dependent upon a variety of factors, as the financial marketplace continues to undergo many changes.

Other Events and Disclosures

Beginning in the summer of 2007, U.S. and world investment markets experienced a series of announcements by financial institutions regarding asset write downs triggered by holdings of collateralized debt obligations ("CDOs"), credit default swaps ("CDS"), and other structured financial instruments that reflect exposure to defaults in subprime mortgages. In light of these events, on November 15, 2007, the Executive Administrator and Chief Investment Officer of the Fund reported to the SBOE Committee on School Finance/Permanent School Fund that the average credit quality of the PSF fixed income portfolio is AAA; that the fixed income portfolio does not invest in CDOs or CDSs; and that PSF investment management does not see any Fund assets that need to be written down.

The State Investment Ethics Code governs the ethics and disclosure requirements for financial advisors and other service providers who advise certain State governmental entities, including the PSF. In accordance with the provisions of the State Investment Ethics Code, the SBOE modified its code of ethics in November 2003 and again in September 2004. The SBOE code of ethics includes prohibitions on sharing confidential information, avoiding conflict of interests and requiring disclosure filings with respect to contributions made or received in connection with the operation or management of the Fund. The code of ethics applies to members of the SBOE as well as to persons who are responsible by contract or by virtue of being a TEA PSF staff member for managing, investing, executing brokerage transactions, providing consultant services, or acting as a custodian of the PSF, and persons who provide investment and management advice to a member of the SBOE, with or without compensation under certain circumstances. The code of ethics is codified in the Texas Administrative Code at 19 TAC sections 33.5 et seq., and is available on the TEA web site at www.tea.state.tx.us/rules/tac/chapter033/index.html.

In December 2007, the SBOE engaged outside counsel to advise it as to its fiduciary duties over the Fund, including the applicable fiduciary standards of Article VII, Section 5 of the Texas Constitution to specific actions regarding the investment of the PSF to ensure compliance with the fiduciary standards. That provision of the Texas Constitution directs the SBOE to manage the assets of the PSF in the manner that persons of ordinary prudence, discretion, and intelligence would manage their own accounts. In particular, the SBOE will take into consideration the advice of such counsel in connection with the investment of Fund assets in non-traditional investments that may be made in connection with the implementation of the 2006 Asset Allocation Policy.

The regular session of the 79th Texas Legislature, which met in 2005, enacted the appropriations bill for the State fiscal biennium that ended August 31, 2007, which reduced the financial resources available to the SBOE for the external management of the Fund to approximately $500,000 per year during such biennium from approximately $22.5 million for the biennium that ended August 31, 2003, in large part due to GA-0293, in which the Attorney General opined that certain indirect management costs incurred by the PSF are not subject to legislative appropriations. During the 2007 Legislative Session, the SBOE requested the Legislature to provide an additional appropriation of approximately $18 million for the State's fiscal biennium ending August 31, 2009, to be used for the implementation of the 2006 Asset Allocation Policy. Such amount was requested in addition to a general operating appropriation of $14 million. During the 2007 Legislative Session, for the 2008-2009 biennium the Legislature appropriated $9 million of the requested additional appropriation for external management services in addition to a $14 million operating appropriation. In addition, to the appropriation and the enactment of SB 389 (see "The Guarantee Program"), the Legislature also enacted House Bill 3699 ("HB 3699"), which establishes the real estate special fund account of the PSF (the "Real Estate Account") consisting of the land, mineral or royalty interest, real estate investment, or other interest, including revenue received from those sources, that is set apart to the PSF under the Texas Constitution and laws, together with the mineral estate in riverbeds, channels, and the tidelands, including islands. While as discussed below certain provisions of HB 3699 present questions relating to the constitutionality of HB 3699, HB 3699 provides that the investment of the Real Estate Account is subject to the sole and exclusive management and control of the SLB and the Land Commissioner, who is also the head of the GLO. In addition to modifying and expanding the powers of the SLB with respect to the management and investment of the assets of the Real Estate Account, HB 3699 provides that the SLB may release funds from the Real Estate Account to the credit of the ASF or to the SBOE for investment in the PSF. In addition, HB 3699 provides that the SBOE may transfer funds from the portion of the PSF managed by the SBOE to the Real Estate Account, provided that the SBOE determines any such proposed transfer to be in the best interest of the PSF. HB 3699 does not remove from the PSF any assets that have historically comprised or currently comprise the PSF, and therefore the bill does not directly impact the cost value of the PSF, which has generally been used to determine the capacity of the Guarantee Program to guarantee bonds under the Guarantee Program. In accordance with HB 3699, the SLB approved a resolution on August 7, 2007 to begin depositing revenues previously deposited with the PSF into the Real Estate Account, commencing September 1, 2007. Also on August 7, 2007, the SLB adopted a resolution to make four quarterly payments of $25,000,000 each for fiscal year 2008 from the Real Estate Account to the SBOE for investment, which action was taken to honor a SLB commitment to the Fund that was made prior to the enactment of HB 3699.

HB 3699 includes language that would authorize the SLB and the Land Commissioner to determine whether to transfer funds to the SBOE (in which event such funds may then be invested by the SBOE or paid over to the ASF in accordance with the Total Return Constitutional Amendment) or to directly transfer funds to the ASF (see "The Total Return Constitutional Amendment"). In October 2007, the Chair of the SBOE requested an opinion from the Attorney General with respect to the constitutionality of certain provisions of HB 3699 that permit the SLB to transfer funds directly to the ASF, instead of to the SBOE for the exercise by the SBOE of its discretion under the limits of the Total Return Constitutional Amendment. The opinion request also sought confirmation that all assets that have historically been accounted for as the PSF are, in fact, a single fund under the Texas Constitution, which assets form the corpus available for the Bond Guarantee Program. On April 9, 2008, the Attorney General issued a legal opinion, Op. Tex. Att'y Gen. No. GA-0617 (2008) ("GA-0617"), advising the Chair of the SBOE that (1) the various constitutional references made to a perpetual educational endowment of the State are all properly read to refer to a single fund known as the PSF, (2) the SLB is authorized to sell PSF land and to acquire other land for the PSF, although any proceeds from the sale of real estate that are not reinvested by the SLB in other real estate assets shall be invested under the direction of the SBOE, (3) both the SLB and the SBOE, in making their respective reinvestment of proceeds from the sale of PSF land or other assets, should consider the potential impact of such investment on the probable income and safety of the PSF, and (4) the provisions of H.B. 3699 that purport to authorize the SLB to directly transfer investment proceeds to the ASF (in lieu of transfer to the PSF for a determination by the SBOE of an appropriate ASF distribution rate), would likely be determined by a court to be in violation of the State constitution. The TEA is unable to forecast whether the advice of the Attorney General in GA-0617 will impact amounts transferred in the current or any future fiscal year by the SLB from the Real Estate Account to the SBOE-managed investment portfolios.

As of August 31, 2007, 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. Reference is made to the Annual Report for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

PSF Continuing Disclosure Undertaking

The SBOE has adopted an investment policy rule (the "TEA Rule") pertaining to the PSF and the Guarantee Program. The TEA Rule is codified in Section H of the TEA Investment Procedure Manual, which relates to the Guarantee Program. Through the adoption of the TEA Rule and its commitment to guarantee the Bonds, the SBOE has made the following agreement for the benefit of the District and holders and beneficial owners of the 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 SEC Rule 15c2-12 ("Rule 15c2-12"), with respect to the Bonds. Under the agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports

The TEA will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the Guarantee Program and the PSF of the general type included in this Official Statement under the heading "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM." The information also includes the Annual Report. The TEA will update and provide this information within six months after the end of each fiscal year. The TEA will provide the updated information to each NRMSIR and to the SID. The Texas MAC has received SEC approval to operate, and has begun to operate, a "central post office" for information filings (the "CPO") made by issuers of municipal securities in accordance with Rule 15c2-12. A municipal issuer may submit its information filings with the central post office, which then transmits such information to the NRMSIRs and the appropriate SID for filing. This central post office can be accessed and utilized at www.DisclosureUSA.org ("DisclosureUSA"). The TEA may utilize DisclosureUSA for the filing of information relating to the Guarantee Program, unless the SEC issues a statement that its approval has been withdrawn.

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

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

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

Material Event Notices

The TEA will also provide timely notices of certain events to certain information vendors. The TEA will provide notice of any of the following events with respect to the Guarantee Program, if such event is material within the meaning of the federal securities laws: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (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 or events affecting the tax-exempt status of the Guarantee Program; (7) modifications to rights of holders of Bonds guaranteed by the Guarantee Program; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of Bonds guaranteed by the Guarantee Program; and (11) rating changes. (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, or early redemption.) 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." The TEA will provide each notice described in this paragraph to any SID and to each NRMSIR.

Availability of Information from NRMSIRs and SID

The TEA has agreed to provide the foregoing information only to NRMSIRs and any SID. The information will be available to holders of Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

The Municipal Advisory Council of Texas has been designated by the State of Texas as a SID, and the SEC staff has issued a no-action letter confirming that designation. The address of the Municipal Advisory Council of Texas is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512/476-6947 and its Internet address is www.mactexas.com.

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 District has made a continuing disclosure undertaking in accordance with Rule 15c2-12 with respect to its obligations arising under Rule 15c2-12 pertaining to financial and operating data concerning the District and notices of material events relating to the Bonds. A description of the District's undertaking is included elsewhere in this Official Statement.

This continuing disclosure agreement may be amended by the TEA from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the TEA, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the 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 of the holders and beneficial owners of the bonds guaranteed by the Guarantee Program. The TEA may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling bonds guaranteed by the Guarantee Program in the primary offering of such bonds.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 this continuing disclosure agreement if the SEC amends or repeals the applicable provision of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling bonds guaranteed by the Guarantee Program in the primary offering of such bonds.

COMPLIANCE WITH PRIOR UNDERTAKINGS

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

SEC Exemptive Relief

On February 9, 1996, the TEA received a letter from the Chief Counsel of the SEC that pertains to the availability of the "small issuer exemption" set forth in paragraph (d)(2) of Rule 15c2-12. The letter provides that Texas school districts which offer municipal securities that are guaranteed under the Guarantee Program may undertake to comply with the provisions of paragraph (d)(2) of Rule 15c2-12 if their offerings otherwise qualify for such exemption, notwithstanding the guarantee of the school district securities under the Guarantee Program. Among other requirements established by Rule 15c2-12, a school district offering may qualify for the small issuer exemption if, upon issuance of the proposed series of securities, the school district will have not more than $10 million of outstanding municipal securities. The TEA has filed the SEC letter with each NRMSIR and the Texas SID, and reference should be made to the letter for the complete terms and conditions thereof.

[The remainder of this page intentionally left blank]

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Recent Litigation Relating to the Texas Public School Finance System

On April 9, 2001, four property wealthy districts filed suit in the 250th District Court of Travis County, Texas (the "District Court") against the Texas Education Agency, the Texas State Board of Education, the Texas Commissioner of Education (the "Commissioner") and the Texas Comptroller of Public Accounts in a case styled *West Orange-Cove Consolidated Independent School District, et al. v. Neeley, et al.* The plaintiffs alleged that the $1.50 maximum maintenance and operations tax rate had become in effect a state property tax, in violation of article VIII, section 1-e of the Texas Constitution, because it precluded them and other school districts from having meaningful discretion to tax at a lower rate. Forty school districts intervened alleging that the Texas public school finance system (the "Finance System") was inefficient, inadequate, and unsuitable, in violation of article VII, section 1 of the Texas Constitution, because the State of Texas (the "State") did not provide adequate funding. As described below, this case has twice reached the Texas Supreme Court (the "Supreme Court"), which rendered decisions in the case on May 29, 2003 ("West Orange-Cove I") and November 22, 2005 ("West Orange-Cove II"). After the remand by the Supreme Court back to the District Court in West Orange-Cove I, 285 other school districts were added as plaintiffs or intervenors. The plaintiffs joined the intervenors in their article VII, section 1 claims that the Finance System was inadequate and unsuitable, but not in their claims that the Finance System was inefficient.

On November 30, 2004, the final judgment of the District Court was released in connection with its reconsideration of the issues remanded to it by the Supreme Court in West Orange-Cove I. In that case, the District Court rendered judgment for the plaintiffs on all of their claims and for the intervenors on all but one of their claims, finding that (1) the Finance System was unconstitutional in that the Finance System violated article VIII, section 1-e of the Texas Constitution because the statutory limit of $1.50 per $100.00 of taxable assessed valuation on property taxes levied by school districts for operation and maintenance purposes had become both a floor and a ceiling, denying school districts meaningful discretion in setting their tax rates; (2) the constitutional mandate of adequacy set forth in article VII, section 1, of the Texas Constitution exceeded the maximum amount of funding available under the funding formulas administered by the State; and (3) the Finance System was financially inefficient, inadequate, and unsuitable in that it failed to provide sufficient access to revenue to provide for a general diffusion of knowledge as required by article VII, section 1, of the Texas Constitution.

As stated above, in West Orange-Cove I the plaintiff school districts asserted that the $1.50 per $100.00 of taxable assessed valuation tax that was generally authorized by State law to be levied for school operation and maintenance purposes (the "O&M Tax"), though imposed locally, had become in effect a State property tax prohibited by article VIII, section 1-e of the Texas Constitution. The intervening school district groups contended that funding for school operations and facilities was inefficient in violation of article VII, section 1 of the Texas Constitution, because children in property-poor districts did not have substantially equal access to education revenue. All of the plaintiff and intervenor school districts asserted that the Finance System could not achieve "[a] general diffusion of knowledge" as required by article VII, section 1 of the Texas Constitution, because the system was underfunded. The State, represented by the Texas Attorney General, made a number of arguments opposing the positions of the school districts, as well as asserting that school districts did not have standing to challenge the State in these matters.

In West Orange-Cove II, the Supreme Court's holding was twofold: (1) that the local O&M Tax had become a state property tax in violation of article VIII, section 1-e of the Texas Constitution and (2) the deficiencies in the Finance System did not amount to a violation of article VII, section 1 of the Texas Constitution. In reaching its first holding, the Supreme Court relied on evidence presented in the District Court to conclude that school districts did not have meaningful discretion in levying the O&M Tax. In reaching its second holding, the Court, using a test of arbitrariness determined that: the public education system was "adequate," since it is capable of accomplishing a general diffusion of knowledge; the Finance System was not "inefficient," because school districts have substantially equal access to similar revenues per pupil at similar levels of tax effort, and efficiency does not preclude supplementation of revenues with local funds by school districts; and the Finance System does not violate the constitutional requirement of "suitability," since the system was suitable for adequately and efficiently providing a public education.

In reversing the District Court's holding that the Finance System was unconstitutional under article VII, section 1 of the Texas Constitution, the Supreme Court stated:

> Although the districts have offered evidence of deficiencies in the public school finance system, we conclude that those deficiencies do not amount to a violation of article VII, section 1. We remain convinced, however, as we were sixteen years ago, that defects in the structure of the public school finance system expose the system to constitutional challenge. Pouring more money into the system may forestall those challenges, but only for a time. They will repeat until the system is overhauled.

In response to the intervenor districts' contention that the Finance System was constitutionally inefficient, the West Orange-Cove II decision states that the Texas Constitution does not prevent the Finance System from being structured in a manner that results in gaps between the amount of funding per student that is available to the richest districts as compared to the poorest district, but reiterated its statements in *Edgewood Independent School District v. Meno*, 917 S.W.2d 717 (Tex. 1995) ("Edgewood IV") that such funding variances may not be unreasonable. The Supreme Court further stated that "[t]he standards of article VII, section 1 - adequacy, efficiency, and suitability - do not dictate a particular structure that a system of free public schools must have." The Supreme Court also noted that "[e]fficiency requires only substantially equal access to revenue for facilities necessary for an adequate system," and the Supreme Court agreed with arguments put forth by the State that the plaintiffs had failed to present sufficient evidence to prove that there was an inability to provide for a "general diffusion of knowledge" without additional facilities.

FUNDING CHANGES IN RESPONSE TO WEST ORANGE-COVE II

The Governor called a third special session of the 79th State Legislature (the "Legislature") to address the deficiencies in the Finance System that were identified in West Orange-Cove II. The special called session began on April 17, 2006 and ended on May 15, 2006 (the "Third Called Session"). In the Third Called Session, the Legislature enacted House Bill 1 ("HB 1"), which made substantive changes in the way the Finance System is funded, as well as House Bill 2 ("HB 2"), which establishes a special fund in the Texas state treasury to be used to collect new tax revenues that are dedicated under certain conditions for appropriation by the Legislature to reduce O&M Tax rates. Through enactment of House Bills 3, 4 and 5, the Legislature, respectively, broadened the State business franchise tax, modified the procedures for assessing the State motor vehicle sales and use tax and increased the State tax on tobacco products (House Bills 1 through 5 are collectively referred to as the "Reform Legislation"). The Reform Legislation generally became effective at the beginning of the 2006-07 fiscal year of each district.

RECENT LITIGATION RELATING TO HB 1

On June 14, 2006, an entity called Citizens Lowering Our Unfair Taxes PAC ("CLOUT") filed a lawsuit (case number GN602156) in the 345th District Court (the "District Court") in Travis County, Texas against the Texas Lieutenant Governor, the Speaker of the Texas House of Representatives, the Texas Comptroller of Public Accounts, the State of Texas and the Legislative Budget Board ("LBB") (collectively, the "State Defendants") in a case styled Edd Hendee, individually and as Executive Director of C.L.O.U.T. v. Dewhurst, et al. (the "CLOUT Lawsuit"). The plaintiffs allege that various violations of Article VIII, Section 22(a) of the Texas Constitution and Chapter 316 of the Texas Government Code have occurred and have resulted in unconstitutional and illegal spending by the State government, including the appropriations made for the Texas public school Finance System under HB 1. (See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - General" for a discussion regarding HB 1). Among other things, the plaintiffs challenge the methodology used to establish the maximum amount of non-dedicated revenues that may be spent in the 2006-2007 State biennium under Article VIII, Section 22(a) and the delegation of the determination of such amount to the LBB. The plaintiffs have requested, among other things, a declaratory judgment that the appropriation for the Finance System in HB 1 is unconstitutional on the basis that it exceeds the maximum amount of appropriations authorized by Article VIII, Section 22(a). The State Defendants filed an answer to the suit with the District Court which included a general denial of the plaintiffs' allegations and asserted certain affirmative defenses to the suit. On August 7, 2006, the District Court granted a motion filed by the State Defendants to dismiss the suit on the grounds that the issues raised by the suit are strictly within the province of the Legislature and the LBB. The plaintiffs have appealed the District Court's dismissal of the suit. On May 25, 2007 the Court of Appeals reversed the trial Court on jurisdiction grounds. The District can make no representation or prediction concerning the outcome of the CLOUT Lawsuit or its effects on HB 1 and, consequently, its impact on the financial condition of the District. However, the District does not anticipate that the security for the payment of the Bonds would be affected as a result of the outcome of the CLOUT Lawsuit.

POSSIBLE EFFECTS OF LITIGATION AND CHANGES IN LAW ON DISTRICT OBLIGATIONS

The Reform Legislation did not alter the provisions of Chapter 45, Texas Education Code, that authorizes districts to secure their bonds by pledging the receipts of an unlimited ad valorem debt service tax as security for payment of the Bonds. Reference is made, in particular, to the information under the headings "THE BONDS - Source and Security for Payment" and "PERMANENT SCHOOL FUND GUARANTEE PROGRAM" in the Official Statement.

In the future, the Legislature could enact additional changes to the Finance System which could benefit or be a detriment to a school district depending upon a variety of factors, including the financial strategies that the district has implemented in light of past funding structures. Among other possibilities, the District's boundaries could be redrawn, taxing powers restricted, State funding reallocated, or local ad valorem taxes replaced with State funding subject to biennial appropriation. In Edgewood IV, the Supreme 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"). Consistent with the Contract Clauses, in the exercise of its police powers, the State may make such modifications in the terms and conditions of contractual covenants related to the payment of the Bonds as are reasonable and necessary for the attainment of important public purposes.

Although, as a matter of law, the Bonds, upon issuance and delivery, will be entitled to the protections afforded previously existing contractual obligations under the Contract Clauses, the District can make no representations or predictions concerning the effect of future legislation or litigation, or how such legislation or future court orders may affect the District's financial condition, revenues or operations. While the disposition of any possible future litigation or the enactment of future legislation to address school funding in Texas could substantially adversely affect the financial condition, revenues or operations of the District, as noted herein, the District does not anticipate that the security for payment of the Bonds, specifically, the District's obligation to levy an unlimited debt tax and the Permanent School Fund guarantee of the Bonds, would be adversely affected by any such litigation or legislation. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM."

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

GENERAL

The following description of the Finance System includes the provisions of the Reform Legislation. For a more complete description of school finance and fiscal management in the State, reference is made to Vernon's Texas Codes Annotated, Education Code, Chapters 41 through 46, as amended.

The Reform Legislation, which generally became effective at the beginning of the 2006-07 fiscal year of each district, made substantive changes to the manner in which the Finance System is funded, but did not modify the basic structure of the Finance System. The changes to the manner in which the Finance System is funded are intended to reduce local O&M Tax rates by one third over two years, with O&M Tax levies declining by approximately 11% in fiscal year 2006-07 and approximately another 22% in fiscal year 2007-08. Additional State funding needed to offset local tax rate reductions must be generated by the modified State franchise, motor vehicle and tobacco taxes or any other revenue source appropriated by the Legislature. The LBB has projected that the Reform Legislation will be underfunded from the Reform Legislation revenue sources by a cumulative amount of $25 billion over fiscal years 2006-2007 through 2010-2011, although current State surpluses are expected to offset the revenue shortfall in fiscal years 2006-07 and 2007-2008, and the shortfall could be further reduced if the Reform Legislation, particularly the ad valorem tax compression measures of HB 1, should prove to be an economic stimulus for the State.

Under the Finance System, school districts are guaranteed to receive State funding necessary to provide the district the greater of (A) the amount of State and local revenue per student for the district in the 2005-06 fiscal year, (B) the amount of State and local revenue per student the district would have been entitled to for the 2006-07 fiscal year based on the funding elements in place prior to the Reform Legislation using the O&M Tax rate the district adopted for the 2005-06 fiscal year, or (C) the amount of State and local revenue per student the district would have been entitled to for the 2006-07 fiscal year based on the funding elements in place prior to the Reform Legislation using an O&M Tax rate that would allow the district to maintain total revenue per student under the funding elements in place prior to the Reform Legislation. In addition to the greater of (A), (B) or (C), school districts are guaranteed to receive a $2,000 across-the-board salary increase for teachers and certain other employees funded by the State, a $500 stipend for school district employee health insurance and a high school student allotment of $275 per student in average daily attendance for dropout prevention and college readiness programs. State funds appropriated to provide districts the guaranteed amount may only be used for operating and maintenance purposes and not to fund facilities, debt service or other purposes. If a district adopts an O&M Tax rate in any fiscal year below a rate equal to the state compression percentage for the district in that year multiplied by the O&M Tax rate adopted by the district for the 2005-06 fiscal year, the district's guaranteed amount is reduced in a proportionate amount. If a district would receive more State and local revenue from the Tier One and Tier Two allotments and wealth equalization than the guaranteed amount described above, the amount of State funding will be reduced by the amount of such surplus over the guaranteed amount described above. According to the LBB, the average result to school districts in the State as a consequence of the enactment of HB 1 will be an approximately 4% increase in funding for the 2006-07 fiscal year.

In general terms, funds are allocated to districts in a manner that requires districts to "compress" their tax rates in order to receive increased State funding at a level that equalizes local tax wealth at the 88th percentile yield for the 2006-07 fiscal year. A basic component of the funding formulas is the "state compression percentage". The state compression percentage is 88.67% for fiscal year 2006-07 and 66.67% for fiscal year 2007-08. For fiscal year 2008-09 and thereafter, the Commissioner is required to determine the state compression percentage for each fiscal year based on the percentage by which a district is able to reduce its O&M Tax rate for that year, as compared to the district's adopted O&M Tax rate for the 2005-06 fiscal year, as a result of State funds appropriated for distribution for the current fiscal year from the property tax relief fund established under HB 2, or from any other funding source made available by the Legislature for school district property tax relief.

In addition to changes to the Finance System that are included in the description of the Finance System above, HB 1 modified other laws that are described in the Official Statement under "TAX INFORMATION". Among other reform measures also included in HB 1 are provisions mandating that all public schools in the State start the school year on a uniform date; establishing a statewide electronic student records system; requiring the Commissioner and the Texas Higher Education Coordinating Board to align high school and college curriculums; and establishing approximately $300 million in incentive pay programs for campus and teacher incentive programs. A constitutional amendment that would have reduced the amount of taxes for taxpayers 65 years of age or older that are "frozen", so that the frozen tax amount will be proportionate to the reduction in local ad valorem taxes, failed to pass during the Third Called Session, but could be reintroduced in future legislative sessions.

STATE FUNDING FOR LOCAL SCHOOL DISTRICTS

To limit disparities in school district funding abilities, the Finance System (1) compels districts with taxable property wealth per weighted student higher than the "equalized wealth level" to reduce their wealth to such amount or to divert a portion of their tax revenues to other districts as described below and (2) provides various State funding allotments, including a basic funding allotment and other allotments for "enrichment" of the basic program, for debt service tax assistance and for new facilities construction.

The Finance System provides for (1) State guaranteed basic funding allotments per student ("Tier One") and (2) State guaranteed revenues per student for each cent of local tax effort to provide operational funding for an "enriched" educational program ("Tier Two"). In addition, to the extent funded by the Legislature, the Finance System includes, among other funding allotments, an allotment to subsidize existing debt service up to certain limits ("EDA"), the Instructional Facilities Allotment ("IFA"), and an allotment to pay operational expenses associated with the opening of a new instructional facility. Tier One, Tier Two, EDA and IFA are generally referred to as the Foundation School Program. Tier One and Tier Two allotments represent the State funding share of the cost of maintenance and operations of school districts and supplement local ad valorem O&M Taxes levied for that purpose. Tier One and Tier Two allotments and prior year IFA allotments are generally required to be funded each year by the Legislature. EDA and future year IFA allotments supplement local ad valorem taxes levied for debt service on bonds issued by districts to construct, acquire and improve facilities and are generally subject to appropriation by the Legislature. State funding allotments may be altered and adjusted to penalize school districts with high administrative costs and, in certain circumstances, to account for shortages in State appropriations or to allocate available funds in accordance with wealth equalization goals.

Tier One allotments are intended to provide a basic program of education rated academically acceptable and meeting other applicable legal standards. If needed, the State will subsidize local tax receipts to produce an amount known as the basic allotment (the "Basic Allotment") per student in average daily attendance. Tier Two allotments are intended to guarantee each school district an opportunity to provide a basic program and to supplement that program at a level of its own choice, however Tier Two allotments may not be used for the payment of debt service or capital outlay. The Tier One basic allotment and the Tier Two guaranteed yield are determined by a formula which relies on the use of the "state compression percentage," discussed above. The basic allotment for the 2006-07 fiscal year is $2,748 and the guaranteed yield for each cent of tax effort is $31.95.

The IFA guarantees each school district a specified amount per student (the "IFA Guaranteed Yield") in State and local funds for each cent of tax effort to pay principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. To receive an IFA, a school district must apply to the Commissioner in accordance with rules adopted by the Commissioner before issuing the bonds to be paid with State assistance. The total amount of debt service assistance over a biennium for which a district may be awarded is limited to the lesser of (1) the actual debt service payments made by the district in the biennium in which the bonds are issued; or (2) the greater of (a) $100,000 or (b) $250 multiplied by the number of students in average daily attendance. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. If the total amount appropriated by the State for IFA in a year is less than the amount of money school districts applying for IFA are entitled to for that year, districts applying will be ranked by the Commissioner by wealth per student, and State assistance will be awarded to applying districts in ascending order of adjusted wealth per student beginning with the district with the lowest adjusted wealth per student. In determining wealth per student for purposes of IFA, adjustments are made to reduce wealth for certain fast growing districts. Once a district receives an IFA award for bonds, it is entitled to continue receiving State assistance without reapplying to the Commissioner and the guaranteed level of State and local funds per student per cent of tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. In 2005, the Legislature renewed the IFA allotment program and appropriated funds for outstanding school district bonds that qualified in prior budget cycles for IFA allotments and for additional IFA funding for the State's 2006-07 fiscal biennium.

State financial assistance is provided for certain existing debt issued by school districts (referred to herein as EDA) to produce a guaranteed yield (the "EDA Yield"), which for the 2006-07 State Biennium is $35.00 (subject to adjustment as described below) in State and local revenue per student for each cent of debt service tax levy; however, for bonds that became eligible for EDA funding after August 31, 2001, and prior to August 31, 2005, EDA assistance for such eligible bonds may be less than $35 in revenue per student for each cent of debt service tax, as a result of certain administrative delegations to the Commissioner under State law. Effective September 1, 2003, the portion of the local debt service rate that has qualified for equalization funding by the State has been limited to the first 29 cents of debt service tax or a greater amount for any year provided by appropriation by the Legislature. In general, a district's bonds are eligible for the allotment if, during the 2004-05 fiscal year, the district (i) made payments on such bonds or (ii) levied and collected debt taxes for the payment of principal and interest on such bonds. In 2005, the Legislature appropriated funds for outstanding school district bonds that qualified in prior budget cycles for EDA allotments and provided additional EDA funding for the State's 2006-07 fiscal biennium. The eligibility date for the Existing Debt Allotment (EDA) program was rolled forward by the passage of House Bill 1922, 80th Texas Legislature. Bonds for which a payment is made on or before August 31, 2007 will be eligible for EDA state assistance beginning with the 2007-08 school year. This payment must be reflected in the debt service schedule of the final official statement for the bonds in order to establish eligibility for the EDA program.

The amount of state aid on eligible bonds during the coming biennium (2007-08 and 2008-09) will be determined by the 2006-07 I&S tax collections. If a district’s 2006-07 tax rate did not include tax effort for newly eligible bonds, the district may or may not receive EDA funding for those bonds until the 2009-10 school year, depending upon local circumstances.

A district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the district receives overlapping IFA funding.

A district may also qualify for an allotment for operational expenses associated with opening new instructional facilities. This funding source may not exceed $25,000,000 in one school year on a State-wide basis. For the first school year in which students attend a new instructional facility, a district is entitled to an allotment of $250 for each student in average daily attendance at the facility. For the second school year in which students attend that facility, a district is entitled to an allotment of $250 for each additional student in average daily attendance at the facility. The new facility operational expense allotment will be deducted from wealth per student for purposes of calculating a district's Tier Two State funding.

LOCAL REVENUE SOURCES - PROPERTY TAX AUTHORITY

The primary source of local funding for school districts is ad valorem taxes levied against the local tax base. The former provision of the Education Code, Section 45.003, that in general limited the O&M Tax rate to $1.50 per $100 of taxable assessed value, was replaced with a formula using the state compression percentage so that the maximum tax rate that may be adopted by a district in any fiscal year is limited based on the amount of State funds to be received by the District in that year. For the 2006-07 and 2007-08 fiscal years, districts may generate additional local funds by raising their O&M Tax rate by four cents above the compressed tax rates (without taking into account changes in taxable valuation) without voter approval, and such amounts will generate equalized funding dollars from the State under the Tier Two program. In fiscal year 2008-09 and thereafter, districts may, in general, increase their tax rate by an additional two or more cents and receive State equalization funds for such taxing effort so long as the voters approve such tax rate increase. Many school districts, however, voted their O&M Tax under prior law and may be subject to other limitations on the O&M Tax rate. School districts are also authorized to levy a bond debt service tax that may be unlimited in rate. See "TAX INFORMATION-Tax Rate Limitations" herein. The governing body of a school district cannot adopt an annual tax rate which exceeds the district's "rollback tax rate" without submitting such proposed tax rate to the voters at a referendum election. See "TAX INFORMATION-Public Hearing and Rollback Tax Rate" herein.

WEALTH TRANSFER PROVISIONS

Under the Finance System, districts are required, with certain limited exceptions, to effectively adjust taxable property wealth per weighted student ("wealth per student") for each school year to no greater than the "equalized wealth level", determined in accordance with a formula set forth in the Reform Legislation. A district may effectively reduce its wealth per student either by reducing the amount of taxable property within the district relative to the number of weighted students, by transferring revenue out of the district or by exercising any combination of these remedies.

The wealth level for fiscal year 2006-07 that will require wealth reduction measures is $319,500 per student in average daily attendance. Property wealthy districts may also be able to levy up to an additional four cents (six cents beginning with fiscal year 2009-10) per $100 of assessed valuation of O&M Taxes to provide revenue above the equalized wealth level that is not subject to recapture. Additional funding was provided by the Legislature in HB 1 for low wealth districts that exercise all or part of the local option enrichment tax.

A district has four options to reduce its wealth per student so that it does not exceed the equalized wealth level: (1) A district may consolidate by agreement with one or more districts to form a consolidated district. All property and debt of the consolidating districts vest in the consolidated district. (2) Subject to approval by the voters of all affected districts, a district may consolidate by agreement with one or more districts to form a consolidated taxing district solely to levy and distribute either O&M Taxes or both O&M Taxes and debt service taxes. (3) A district may detach property from its territory for annexation by a property-poor district. (4) A district may educate students from other districts who transfer to the district without charging tuition to such students.

A district has three options to transfer tax revenues from its excess property wealth. First, a district with excess wealth per student may purchase "attendance credits" by paying the tax revenues to the State for redistribution under the Foundation School Program. Second, it can contract to disburse the tax revenues to educate students in another district, if the payment does not result in effective wealth per student in the other district to be greater than the equalized wealth level. Both options to transfer property wealth are subject to approving elections by the transferring district's qualified voters. Third, a wealthy district may reduce its wealth by paying tuition to a non-wealthy district for the education of students that reside in the wealthy district.

A district may not adopt a tax rate until its effective wealth per student is the equalized wealth level or less. If a final court decision holds any of the preceding permitted remedial options unlawful, districts may exercise any remaining option under a revised schedule approved by the Commissioner.
If a district fails to exercise a permitted option, the Commissioner must reduce the district's property wealth per student to the equalized wealth level by detaching certain types of property from the district and annexing the property to a property-poor district or, if necessary, consolidate the district with a property-poor district. Provisions governing detachment and annexation of taxable property by the Commissioner do not provide for assumption of any of the transferring district's existing debt.

POSSIBLE EFFECTS OF WEALTH TRANSFER PROVISIONS AND HB 1 ON THE DISTRICT'S FINANCIAL CONDITION

The District's wealth per student for the 2007-08 school year is less than the equalized wealth value. Accordingly, the District is not required to exercise one of the permitted wealth equalization options.

TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the District is the responsibility of the Hidalgo County Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Property Tax Code to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the less of (1) the market value of the property, or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The District may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the District by petition filed with the Appraisal Review Board.

Reference is made to the Property Tax Code, for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Article VIII of the State Constitution ("Article VIII") and State law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value, and the exemption of certain personal property from ad valorem taxation.

Certain residence homestead exemptions from ad valorem taxes for public school purposes are mandated by Section 1-b, Article VIII, and State law and apply to the market value of residence homesteads in the following sequence:

$ 15,000; and an additional

$10,000 for those 65 years of age or older, or the disabled. A person over 65 and disabled may receive only one $10,000 exemption, and only one such exemption may be received per family, per residence homestead. State law also mandates a freeze on taxes paid on residence homesteads of persons 65 years of age or older which receive the $10,000 exemption (the "freeze"). Such residence homesteads shall be appraised and taxes calculated as on any other property, but taxes shall never exceed the amount imposed in the first year in which the property received the $10,000 exemption. The freeze on ad valorem taxes on the homesteads of persons 65 years of age or older for general elementary and secondary public school purposes is also transferable to a different residence homestead. If improvements (other than maintenance or repairs) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Effective January 1, 2004, the freeze on taxes paid on residence homesteads of persons 65 years of age and older was extended to include the resident homesteads of "disabled" persons, including the right to transfer the freeze to a different residence homestead. A "disabled" person is one who is "under a disability for purposes of payment of disability insurance benefits under the Federal Old Age, Survivors and Disability Insurance". Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption as long as the property is the homestead of the surviving spouse and the spouse is at least 55 years of age at the time of the death of the individual's spouse. Pursuant to a constitutional amendment approved by voters on May 12, 2007, legislation was subsequently enacted to reduce the school property tax limitation (the "freeze" on ad valorem taxes) on residence homesteads of person 65 years of age or older or of disabled persons to correspond to reductions in local school district tax rates from the 2005 tax year to the 2006 tax year and from the 2006 tax year to the 2007 tax year (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – General" herein). This tax limitation is effective beginning with the 2007 tax year.

In addition, under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant:

(i) An exemption of not less than $3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision;

(ii) An exemption of up to 20% of the market value of residence homesteads; minimum exemption $5,000.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from $5,000 to a maximum of $12,000.

Article VIII provides that eligible owners of both agricultural land (Section l-d) and open-space land (Section l-d-l), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and 1-d-1.

Nonbusiness personal property, such as automobiles or light trucks, are exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property. Boats owned as nonbusiness property are exempt from ad valorem taxation.

Article VIII, Section 1-j of the Texas Constitution provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Notwithstanding such exemption, counties, school districts, junior college districts and cities may tax such tangible personal property provided official action to tax the same was taken before April 1, 1990. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal. “Goods in transit”, which are certain goods, principally inventory, that are stored, for the purposes of assembling, storing, manufacturing, processing, or fabricating the goods, in a location that is not owned by the owner of the goods and are transferred from that location to another location within 175 days; a taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property.

In 2001, the Legislature enacted legislation known as the Texas Economic Development Act, which provides incentives for certain school districts to grant tax abatements on certain eligible property to encourage economic development in their tax base and provides additional State funding for each year of such tax abatement in the amount of the tax credit provided to the taxpayer by the district. The District also may enter into tax abatement agreements to encourage economic development. Under and abatement agreement, a property owner agrees to construct certain improvements on its property. The District in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the abatement agreement. The abatement agreement could last for a period of up to 10 years. Under current law, the Comptroller of Public Accounts is to determine taxable value of property within each school district in the State (which taxable value figure is used in calculating a district’s wealth per student) and in making such determination the taxable value is to exclude (i) the total dollar amount of any captured appraised value of property located in a reinvestment zone on August 31, 1999, that generates taxes paid into a tax increment fund and is eligible for tax increment financing under a reinvestment zone financing plan approved before September 1, 1999, and (ii) the total dollar value of taxable property covered by a tax abatement agreement entered into prior to June 1, 1993..

TAX RATE LIMITATIONS

A school district is authorized to levy maintenance and operation taxes subject to approval of a proposition submitted to district voters under Section 45.003(d) of the Texas Education Code, as amended. The maximum voted maintenance tax rate for the District is $1.50 per $100 of assessed valuation as approved by the voters at an election held on June 29, 2000 under Chapter 20, Texas Education Code (now codified at Section 45.003, Texas Education Code). Prior to the adoption of the Reform Legislation in 2006 (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM"), subject to limited exceptions, the maximum tax rate that could have been adopted by the District in any fiscal year for maintenance and operations was $1.50 per $100 of assessed valuation. With the adoption of the Reform Legislation, for any fiscal year beginning with the 2006-07 fiscal year, the maximum tax rate per $100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) $1.50 and (B) the sum of (1) the rate of $0.17, and (2) the product of the "state compression percentage" multiplied by $1.50. The state compression percentage is 88.67% for fiscal year 2006-07 and 66.67% for fiscal year 2007-08. For fiscal year 2008-09 and thereafter, the Commissioner is required to determine the state compression percentage for each fiscal year which is based on the amount of State funds appropriated for distribution to the District for the current fiscal year. For a more detailed description of the state compression percentage, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - 2006 Reform Legislation." Furthermore, a school district cannot annually increase its tax rate in excess of the district's "rollback tax rate" without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate. See "TAX INFORMATION - Public Hearing and Rollback Tax Rate."

A school district is authorized to issue bonds and levy taxes for payment of bonds subject to voter approval of a proposition submitted to the voters under Section 45.003(b)(1), Texas Education Code, as amended, which provides a tax unlimited as to rate or amount for the support school district bonded indebtedness (see "THE BONDS - Security and Source of Payment").

Chapter 45 of the Texas Education Code, as amended, requires a district to demonstrate to the Texas Attorney General that it has the prospective ability to pay debt service on a proposed issue of bonds, together with debt service on other outstanding "new debt" of the district, from a tax levied at a rate of $0.50 per $100 of assessed valuation before bonds may be issued. In demonstrating the ability to pay debt service at a rate of $0.50, a district may take into account State allotments to the district which effectively reduces the district's local share of debt service. Once the prospective ability to pay such tax has been shown and the bonds are issued, a district may levy an unlimited tax to pay debt service. Taxes levied to pay debt service on bonds approved by District voters at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds) are not subject to the foregoing threshold tax rate test. In addition, taxes levied to pay refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the $0.50 tax rate test; however, taxes levied to pay debt service on such bonds are included in the calculation of the $0.50 tax rate test as applied to subsequent issues of "new debt." The Bonds are "new debt" and are subject to the $0.50 threshold tax rate test. Under current law, a district may demonstrate its ability to comply with the $0.50 threshold tax rate test by applying the $0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a district uses projected future taxable values to meet the $0.50 threshold tax rate test and subsequently imposes a tax at a rate greater than $0.50 per $100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Attorney General must find that the district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the $0.50 threshold tax rate test from a tax rate of $0.45 per $100 of valuation. The District has not used projected property values to satisfy this threshold test.

PUBLIC HEARING AND ROLLBACK TAX RATE

In setting its annual tax rate, the governing body of a school district generally cannot adopt a tax rate exceeding the district's "rollback tax rate" without approval by a majority of the voters voting at an election approving the higher rate. For the 2006-07 fiscal year, the rollback tax rate for a school district was the sum of (1) 88.67% of the maintenance and operations tax rate adopted by the district for the 2005-06 fiscal year, (2) the rate of $0.04, and (3) the district's current debt rate. For the 2007-08 fiscal year and thereafter, the rollback tax rate for a school district is the lesser of (A) the sum of (1) the product of the district's "state compression percentage" for that year multiplied by $1.50, (2) the rate of $0.04, (3) any rate increase above the rollback tax rate in prior years that were approved by voters, and (4) the district's current debt rate, or (B) the sum of (1) the district's effective maintenance and operations tax rate, (2) the product of the district's state compression percentage for that year multiplied by $0.06; and (3) the district's current debt rate (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - General" for a description of the "state compression percentage"). For tax years 2003 through 2008, the rollback tax rate includes the tax rate that, applied to current tax values, would impose taxes in an amount sufficient for the district to fund its minimum local effort requirement for employee health care coverage (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM").

The "effective maintenance and operations tax rate" for a school district is the tax rate that, applied to the current tax values, would provide local maintenance and operating funds, when added to State funds to be distributed to the district pursuant to Chapter 42 of the Texas Education Code for the school year beginning in the current tax year, in the same amount as would have been available to the district in the preceding year if the funding elements of wealth equalization and State funding for the current year had been in effect for the preceding year.

By each September 1 or as soon thereafter as practicable, the Board of Trustees adopts a tax rate per $100 taxable value for the current year. Before adopting its annual tax rate, a public meeting must be held for the purpose of adopting a budget for the succeeding year. A notice of public meeting to discuss budget and proposed tax rate must be published in the time, format and manner prescribed in Section 44.004 of the Texas Education Code. Section 44.004(e) of the Texas Education Code provides that a person who owns taxable property in a school district is entitled to an injunction restraining the collection of taxes by the district if the district has not complied with such notice requirements or the language and format requirements of such notice as set forth in Section 44.004(b), (c) and (d) and if such failure to comply was not in good faith. Section 44.004(e) further provides the action to enjoin the collection of taxes must be filed before the date the district delivers substantially all of its tax bills. Furthermore, Section 26.05 of the Property Tax Code that provides the governing body of a taxing unit is required to adopt the annual tax rate for the unit before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit for the tax year to be the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

PROPERTY ASSESSMENT AND TAX PAYMENT . . . Property within the District is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first installment due on February 1 of each year and the final installment due on August 1.

PENALTIES AND INTEREST . . . Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Cumulative Penalty	Cumulative Interest[b]	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	27[a]	6	33

(a) Includes additional penalty of up to 20% assessed after July 1 in order to defray attorney collection expenses.
(b) Interest continues to accrue after July 1 at the rate of 1% per month until paid.

Taxes levied by the District are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with tax liens of all other such taxing units. A tax lien on real property has priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty and interest. At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. The ability of the District to collect delinquent taxes by foreclosure may be adversely affected by the amount of taxes owed to other taxing units, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of a taxpayer's debt. **Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.**

DISTRICT APPLICATION OF TAX CODE . . . The District grants an exemption to the market value of the residence homestead of persons 65 years of age or older of $10,000; the disabled are also granted an exemption of $10,000.

The District has not granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of $5,000.

See Table 1 for a listing of the amounts of the exemptions described above.

Ad valorem taxes are not levied by the District against the exempt value of residence homesteads for the payment of debt.

The District does not tax nonbusiness personal property; and District collects its own taxes.
The District does not permit split payments, and discounts are not allowed.

Beginning with Fiscal year 2002-2003 the District does not tax freeport property.

The District has not adopted a tax abatement policy.

TAX INCREMENT FINANCING ZONE . . . The District has not participated in the creation of a tax increment zone.

TABLE 1 - VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT

2007/08 Market Valuation Established by Hidalgo County Appraisal District				
(excluding totally exempt property)			$	585,713,038
Less Exemptions/Reductions at 100% Market Value:				
Residential Homestead Exemptions (State Mandated)	$	17,326,789		
Residential Homestead Exemptions (Over 65)		2,601,694		
Disabled Persons		747,021		
Disabled Veterans		134,949		
Homestead Cap Adjustment		5,802,439		
Agricultural Use Reductions		164,164,517		
House Bill 366		630		
Freeport Exemption		32,168,097		
Value Lost to Freeze Adjustments		7,999,141		230,945,277
2007/2008 Taxable Assessed Valuation			$	354,767,761
Debt Payable from Ad Valorem Taxes as of June 30, 2008				
Unlimited Tax School Building Bonds	$	45,870,000		
The Bonds(1)		5,400,000		
Debt Payable from Ad Valorem Taxes as of June 30, 2008			$	51,270,000
Less: Instructional Facilities Allotment(2)				32,697,237
Less: Existing Debt Allotment(2)				4,580,667
Net Debt Payable from Ad Valorem Taxes			$	13,992,096
Interest and Sinking Fund as of June 30, 2008			$	177,475
Ratio Net Tax Supported Debt to Taxable Assessed Valuation				3.94%

2008 Estimated Population - 9,032

Per Capita Taxable Assessed Valuation - $39,279

Per Capita Net Debt Payable from Ad Valorem Taxes - $1,549

---

(1) Preliminary, subject to change.

(2) Excludes approximately $32,697,687 or 72.71% of the District’s currently outstanding unlimited tax bonds and the Bonds (as shown in detail in footnote 3 of Table 3) which are supported by the Texas Education Agency’s Instructional Facilities Allotment (the “IFA”) as provided by Chapter 46.

(3) Excludes approximately $4,580,730 or 72.71% of the currently outstanding unlimited tax bonds (as shown in detail in footnote 3 of Table 3) which are supported by the Texas Education Agency's Existing Debt Allotment program as provided by Chapter 46, as amended, Texas Education Code.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

	Taxable Appraised Value for Fiscal Year Ended August 31,					
	2008		2007		2006	
Category	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 103,402,158	17.65%	$ 83,636,031	22.01%	$ 80,556,311	23.74%
Real, Residential, Multi-Family	3,466,988	0.59%	3,555,156	0.94%	3,086,577	0.91%
Real, Vacant Lots/Tracts	22,242,243	3.80%	17,087,566	4.50%	19,168,972	5.65%
Real, Acreage (Land Only)	179,647,797	30.67%	61,260,490	16.12%	61,554,079	18.14%
Real, Farm and Ranch Improvements	2,862,017	0.49%	2,545,576	0.67%	2,115,437	0.62%
Real, Commercial	153,101,274	26.14%	120,498,386	31.71%	96,012,970	28.30%
Real, Oil, Gas and Other Mineral Reserves	6,844,280	1.17%	3,815,640	1.00%	2,414,550	0.71%
Real and Tangible Personal, Utilities	8,288,299	1.42%	9,900,120	2.61%	8,520,103	2.51%
Tangible Personal Commercial	104,668,346	17.87%	76,566,519	20.15%	64,770,849	19.09%
Tangible Personal, Other	702,785	0.12%	778,242	0.20%	855,593	0.25%
Real Property, Inventory	84,464	0.01%	52,868	0.01%	60,805	0.02%
Exempt	-	0.00%	52,071	0.01%	-	0.00%
Special Inventory	265,394	0.05%	280,159	0.07%	211,826	0.06%
Error	136,993	0.02%	-	0.00%	-	0.00%
Total Appraised Value Before Exemptions	$ 585,713,038	99.98%	$ 380,028,824	100.00%	$ 339,328,072	100.00%
Less: Total Exemptions/Reductions	230,945,277		101,698,148		87,855,847	
Adjustments	-		3,923,844		2,958,067	
Taxable Assessed Value	$ 354,767,761		$ 282,254,520		$ 254,430,292	

	Taxable Appraised Value for Fiscal Year Ended August 31,			
	2005		2004	
Category	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 77,777,341	24.42%	$ 69,358,660	24.99%
Real, Residential, Multi-Family	2,815,527	0.88%	2,573,665	0.93%
Real, Vacant Lots/Tracts	15,410,026	4.84%	14,767,373	5.32%
Real, Acreage (Land Only)	63,677,460	19.99%	56,030,477	20.19%
Real, Farm and Ranch Improvements	2,040,941	0.64%	1,907,876	0.69%
Real, Commercial	84,760,356	26.61%	77,477,196	27.91%
Real, Oil, Gas and Other Mineral Reserves	6,655,330	2.09%	2,668,650	0.96%
Real and Tangible Personal, Utilities	7,873,657	2.47%	8,261,801	2.98%
Tangible Personal Commercial	56,171,485	17.64%	43,062,707	15.51%
Tangible Personal, Other	934,562	0.29%	1,012,237	0.36%
Other	62,544	0.02%	-	0.00%
Real Property, Inventory	-	0.00%	394,734	0.14%
Special Inventory	333,360	0.10%	59,937	0.02%
Total Appraised Value Before Exemptions	$ 318,512,589	100.00%	$ 277,575,313	100.00%
Less: Total Exemptions/Reductions	91,144,676		79,673,933	
Adjustments	3,021,696		1,652,287	
Taxable Assessed Value	$ 230,389,609		$ 199,553,667	

NOTE: Valuations shown are certified taxable assessed values reported by the Hidalgo County Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY

Fiscal Year Ended 8/31	Estimated Population[(1)]	Taxable Assessed Valuation[(2)]	Taxable Assessed Valuation Per Capita	Tax Supported Net Debt Outstanding at End of Year[(3)]	Ratio of Net Tax Debt to Taxable Assessed Valuation	Tax Supported Net Debt Per Capita
2004	8,832	$ 199,553,667	$ 22,594	$ 12,402,000	6.21%	1,404
2005	8,882	230,389,609	25,939	5,489,100	2.38%	618
2006	8,932	254,430,292	28,485	8,420,598	3.31%	943
2007	8,982	282,254,520	31,424	10,600,290 (4)	3.76% (4)	1,180 (4)
2008	9,032	354,767,761	39,279	13,992,096 (5)	3.94% (5)	1,549 (5)

(1) Source: District Officials.

(2) As reported by the Hidalgo County Appraisal District on District's Annual Certified Totals; subject to change during the ensuing year.

(3) Amount for Fiscal Years 2003 through 2005 does include tax supported debt that was funded with existing Debt Allotment (Tier III) or Instructional Facilitates Allotment State Funding.

(4) Projected and excludes $32,697,687 or approximately 72.71% of the currently outstanding unlimited tax bonds and the Bonds which are supported by the Texas Education Agency's Instructional Facilities Allotment program and $4580730 or approximately 72.71% of the currently outstanding unlimited tax bonds which are supported by the Texas Education Agency's Existing Debt Allotment program

Estimated Instructional Facilities Allotment Bonds

Series	Principal		State Portion	District Portion
1997	$ 5,055,000	72.71%	$ 3,675,440	$ 1,379,560
2000	5,675,000	72.71%	4,126,236	1,548,764
2003	9,115,000	72.71%	6,627,425	2,487,575
2004	5,945,000	72.71%	4,322,550	1,622,450
2006	10,480,000	72.71%	7,619,903	2,860,097
2007-B (4)	3,300,000	72.71%	2,399,397 (4)	900,603
The Bonds	5,400,000	72.71%	3,926,286	1,473,714
Total	$ 44,970,000		$ 32,697,237	$ 12,272,763

Estimated Existing Debt Allotment Bonds

Series	Principal		State Portion	District Portion
2007-A (4)	$ 6,300,000	72.71%	$ 4,580,667 (4)	$ 1,719,333
Total	$ 6,300,000		$ 4,580,667	$ 1,719,333

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 8/31	Tax Rate	Local Maintenance	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2004	$ 1.5900	$ 1.4600	$ 0.1300	$ 3,172,903	92.83%	100.85%
2005	1.5900	1.4400	0.1500	3,663,195	92.27%	97.01%
2006	1.6100	1.4600	0.1500	4,096,328	91.02%	98.55%
2007	1.5400	1.3300	0.2100	4,346,720	94.88%	101.08%
2008	1.3200	1.0400	0.2800	4,982,657	89.97% (1)	94.83% (1)

(1) Collections for through June 30, 2008.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2007/2008 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Progressive Molded Products Inc.	Industrial	$ 12,533,404	3.53%
Tres Puentes Land Dev Co.	Commercial	10,451,205	2.95%
Verde 6900 S Int'l Parkway LP	Commercial	9,751,414	2.75%
Argent McAllen Realty LP	Commercial	9,153,179	2.58%
McAllen Foreign Trade Zone Inc.	Industrial	8,977,883	2.53%
Millard Refrigerated Services	Industrial	7,336,614	2.07%
USA Logistics Carriers LLC	Commercial	6,836,305	1.93%
Orchid Manufacturing - McAllen	Industrial	6,461,093	1.82%
Capote Farms LTD	Commercial	6,206,075	1.75%
Gold Star Warehousing LTD	Industrial	5,634,098	1.59%
		$ 83,341,270	23.49%

TAX SUPPORTED DEBT LIMITATION . . . Section 45.003(e), Texas Education Code, as amended, requires a district to demonstrate to the Texas Attorney General its prospective ability to pay debt service on a proposed issue of bonds, together with debt service on other outstanding "new debt" of the district, from a tax levied at a rate of $0.50 per $100 of assessed valuation before bonds may be issued. In demonstrating the ability to pay debt service at a rate of $0.50, a district may take into account State allotments to the district which effectively reduce the district's local share of debt service. Once the prospective ability to pay such tax has been shown and the bonds are issued, a district may levy an unlimited tax to pay debt service. Taxes levied to pay debt service on bonds approved by district voters at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds) are not subject to the foregoing threshold tax rate test. The Bonds are "new debt" and are subject to the $.50 threshold tax rate test.

TABLE 6 - TAX ADEQUACY

Fiscal Year 2007/08 General Obligation Debt Principal and Interest Requirements	$	3,396,323
Less: Existing Debt Allotment (Tier III)		270,901
Less: Instructional Facilities Allotment		1,837,085
Less: Budgeted Delinquent Taxes		250,000
Less: Budgeted Penalties and Interest		12,000
Less: Budgeted Transfer from Interest and Sinking Fund		32,987
Total Net Principal and Interest Requirements	$	993,350
$0.2800 Interest and Sinking Fund Tax Levy @ 100.00% Collection Produces (1)	$	993,350

(1) Based on 2007/08 Taxable Assessed Valuation of $354,767,761.

TABLE 7 - ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the District are paid out of ad valorem taxes levied by such entities on properties within the District. Such entities are independent of the District and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax bonds ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional bonds since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the District.

Taxing Jurisdiction	2007/2008 Taxable Assessed Value	2007/2008 Tax Rate	Total Tax Supported Debt	Estimated % Applicable	District's Overlapping Tax Supported Debt As of ________	Authorized But Unissued Debt As Of __________
Hidalgo Independent School District	$ 354,767,761	$1.5400	$ 13,992,096 (1)	100.00%	$ 13,992,096	$ -
Hidalgo County	22,767,451	0.5900	171,180,000	1.56%	2,670,408	-
Hidalgo County Drainage District No. 1	22,725,686,190	0.0492	100,000,000	1.56%	1,560,000	-
Hidalgo, City of	393,514,337	0.3514	6,175,000	100.00%	6,175,000	-
McAllen, City of	6,519,211,813	0.4213	4,385,000	1.25%	54,813	3,200,000
Mission, City of	2,530,266,980	0.5566	31,030,000	0.04%	12,412	196,000
Pharr, City of	1,683,453,626	0.6831	35,740,000	5.50%	1,965,700	465,000
South Texas College	24,776,090,697	0.1540	91,329,991	1.55%	1,415,615	-
Total Direct and Overlapping Tax Supported Debt					$ 27,846,043	
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation					7.85%	
Per Capita Overlapping Tax Supported Debt (Estimated 2007 population - 8,932)					$ 3,083	

____

(1) Excludes approximately $37,278,417 or 72.71% of the District's currently outstanding unlimited tax bonds and the Bonds which are supported by the Texas Education Agency's Instructional Facilities Allotment (the "IFA") and Existing Debt Allotment ("Tier III") as provided by Chapter 46.

DEBT INFORMATION

TABLE 8 - PRO-FORMA TAX SUPPORTED DEBT SERVICE REQUIREMENTS

Year Ending 8/31	Outstanding Debt Principal	Outstanding Debt Interest	Outstanding Debt Total	The Bonds[1] Principal	The Bonds[1] Interest	The Bonds[1] Total	Total Debt Service Requirements	% of Principal Retired
2008	$ 1,320,000	$ 2,076,323	$ 3,396,323	$ -	$ -	$ -	$ 3,396,323	
2009	1,440,000	2,049,356	3,489,356	70,000	282,653	352,653	3,842,009	
2010	1,625,000	1,984,999	3,609,999	85,000	268,076	353,076	3,963,076	
2011	1,690,000	1,916,398	3,606,398	85,000	263,767	348,767	3,955,165	
2012	1,775,000	1,843,671	3,618,671	90,000	259,331	349,331	3,968,002	15.55%
2013	1,845,000	1,766,386	3,611,386	95,000	254,641	349,641	3,961,026	
2014	1,950,000	1,683,715	3,633,715	100,000	249,698	349,698	3,983,413	
2015	2,030,000	1,595,726	3,625,726	105,000	244,501	349,501	3,975,227	
2016	2,135,000	1,502,845	3,637,845	110,000	239,051	349,051	3,986,896	
2017	2,235,000	1,405,514	3,640,514	120,000	233,220	353,220	3,993,734	35.95%
2018	2,345,000	1,303,234	3,648,234	125,000	227,009	352,009	4,000,243	
2019	2,460,000	1,194,463	3,654,463	130,000	220,545	350,545	4,005,008	
2020	2,580,000	1,079,025	3,659,025	140,000	213,701	353,701	4,012,726	
2021	2,105,000	970,123	3,075,123	145,000	206,476	351,476	3,426,598	
2022	1,580,000	884,628	2,464,628	150,000	198,998	348,998	2,813,625	58.31%
2023	1,650,000	810,688	2,460,688	160,000	191,139	351,139	2,811,827	
2024	1,735,000	731,970	2,466,970	170,000	182,774	352,774	2,819,744	
2025	1,815,000	648,489	2,463,489	175,000	174,028	349,028	2,812,517	
2026	1,905,000	560,055	2,465,055	185,000	164,902	349,902	2,814,957	
2027	2,000,000	466,289	2,466,289	195,000	155,269	350,269	2,816,558	77.31%
2028	2,095,000	367,908	2,462,908	205,000	145,129	350,129	2,813,036	
2029	1,490,000	281,723	1,771,723	215,000	134,482	349,482	2,121,204	
2030	1,120,000	219,308	1,339,308	230,000	123,201	353,201	1,692,509	
2031	1,170,000	164,830	1,334,830	240,000	111,287	351,287	1,686,117	
2032	460,000	126,853	586,853	255,000	98,738	353,738	940,591	91.53%
2033	485,000	106,099	591,099	265,000	85,556	350,556	941,655	
2034	500,000	84,426	584,426	280,000	71,741	351,741	936,167	
2035	525,000	61,744	586,744	295,000	57,164	352,164	938,908	
2036	550,000	37,825	587,825	310,000	41,828	351,828	939,653	
2037	575,000	12,794	587,794	325,000	25,730	350,730	938,524	99.34%
2038				345,000	8,746	353,746	353,746	100.00%
	$ 47,190,000	$ 27,937,402	$ 75,127,402	$ 5,400,000	$ 5,133,375	$ 10,533,375	$ 85,660,777	

(1) Preliminary, subject to change.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Tax Supported Debt Service Requirements, Fiscal Year Ending 2008		$ 3,396,323
Interest and Sinking Fund Balance, 8/31/07	$ 543,683	
Existing Debt Allotment (Tier III)	270,901	
Instructional Facilities Allotment	1,837,085	
Delinquent Taxes	250,000	
Penalties and Interest	12,000	
$0.2800 Interest & Sinking Fund Tax Levy @ 100% Collections[1]	993,350	$ 3,907,019
Estimated Balance, 8/31/08		$ 510,696

(1) Based on 2007/08 Taxable Assessed Valuation of $354,767,761

TABLE 10 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

Purpose	Date Authorized	Amount Authorized	Amount Previously Issued	Amount Being Issued	Unissued Balance
School Facilities	5/12/2007	$ 15,000,000	$ 9,600,000	$ 5,400,000	$ -

ANTICIPATED ISSUANCE OF UNLIMITED TAX DEBT . . . The District does not anticipate issuing additional unlimited tax bonds witin the next 12 months.

TABLE 11- OTHER OBLIGATIONS

The District has no unfunded debt outstanding as of August 31, 2007.

PENSION FUND . . . Pension funds for employees of Texas school districts, and any employee in public education in Texas, are administered by the Teacher Retirement System of Texas (the "System"). The individual employees contribute a fixed amount of their salary to the System, currently 6.4%, and the State of Texas contributes funds to the System based on statutory required minimum salary for certified personnel, except any District personnel paid by Federally funded programs. (For more detailed information concerning the retirement plan, see APPENDIX B, "Excerpts from the District's Annual Financial Report" - Note #I.)

FINANCIAL INFORMATION

TABLE 12 - CHANGES IN NET ASSETS

	Fiscal Years Ended August 31,				
	2007	2006	2005	2004	2003
Program Revenues:					
Charges for Services	$ 39,353	$ 58,297	$ 148,373	$ 153,805	$ 205,159
Operating Grants & Contributions	6,917,587	7,138,989	6,202,811	5,188,868	5,503,630
Property Taxes	4,357,476	4,045,417	3,821,100	3,023,597	3,032,949
State Aid - Formula	24,244,995	21,108,243	20,239,122	19,527,378	18,216,525
Investment Earnings	951,923	718,624	542,755	194,774	148,151
Other	397,488	852,742	143,130	108,568	361,421
Total Revenues	$ 36,908,822	$ 33,922,312	$ 31,097,291	$ 28,196,990	$ 27,467,835
Expenses:					
Instruction	$ 20,944,824	$ 18,092,094	$ 15,936,379	$ 14,177,716	$ 15,307,635
Instructional Resources & Media Services	-	482,638	421,021	319,858	368,849
Curriculum & Staff Development	-	309,429	486,987	471,266	497,351
Instructional Leadership	1,623,849	535,862	527,129	545,179	560,289
School Leadership	-	1,385,524	1,145,430	1,127,341	1,055,666
Guidance, Counseling & Evaluation Services	2,365,471	541,035	678,512	840,486	676,144
Social Work Services	-	47,020	161,023	119,032	140,748
Health Services	-	366,285	331,144	328,739	321,489
Student (Pupil) Transportation	-	1,022,593	885,322	723,670	721,270
Food Services	2,379,691	2,091,700	1,945,914	1,754,148	1,865,637
Cocurricular/Extracurricular Activities	1,613,553	847,555	944,078	701,001	722,855
General Administration	1,422,768	1,292,997	1,198,650	1,094,803	1,267,713
Plant Maintenance & Operations	3,548,205	3,722,595	3,192,257	2,845,380	2,803,959
Security & Monitoring Services	-	-	3,119	1,986	-
Data Processing Services	508,399	515,542	431,082	510,649	387,730
Community Services	204,010	223,126	160,398	168,297	178,828
Debt Service - Interest on Long Term Debt	1,969,357	1,309,963	1,307,587	1,107,026	797,221
Debt Service - Bond Issuance Cost & Fees	-	3,011	128,631	2,571	2,144
Facilities Acquisition and Construction	-	-	-	805,465	-
Total Expenses	$ 36,580,127	$ 32,788,969	$ 29,884,664	$ 27,644,613	$ 27,675,528
Increase (Decrease) in Net Assets	$ 328,695	$ 1,133,343	$ 1,212,628	$ 552,377	$ (207,693)
Beginning Net Assets	16,611,748	15,720,727	14,422,528	13,928,952 (1)	14,136,645
Prior Period Adjustment	(985,923)	(242,322)	85,603	(58,801)	-
Ending Net Assets	$ 15,954,520	$ 16,611,748	$ 15,720,759	$ 14,422,528	$ 13,928,952

(1) Restated.

TABLE 12-A - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Years Ended August 31,				
	2007	2006	2005	2004	2003
Revenues:					
Local, Intermediate & Out of State	$ 4,334,710	$ 4,624,362	$ 3,761,822	$ 3,378,366	$ 3,343,297
State Program Revenue	20,977,896	17,347,621	17,566,112	17,313,324	16,361,678
Federal Program Revenue	2,119,761	1,794,923	2,000,309	1,791,373	1,730,568
Total Revenues	$ 27,432,367	$ 23,766,906	$ 23,328,243	$ 22,483,063	$ 21,435,543
Expenditures:					
Instruction	$ 14,214,735	$ 12,802,927	$ 11,490,599	$ 10,967,518	$ 11,379,100
Instruction Administration	-	-	-	-	-
Instructional Resources and Media Services	294,511	35,149	252,658	214,259	268,617
School Administration	-	-	-	-	-
Curriculum /Instruct Staff Dev.	538,801	295,446	464,026	463,461	488,686
Instruction Leadership	191,535	240,539	158,799	151,736	171,386
School Leadership	1,111,501	1,160,785	974,440	1,086,344	1,005,200
Communication and Dissemination	-	-	-	-	-
Guidance and Counseling	886,552	387,575	557,266	707,470	356,263
Attendance and Social Work Services	-	-	-	-	-
Health Services	336,334	323,396	292,265	300,187	288,901
Student Transportation	1,107,147	1,190,188	912,590	803,682	802,530
Co-Circular Activities	1,555,537	811,092	861,005	696,484	714,467
Food Services	2,201,787	1,923,481	1,794,431	1,667,705	1,765,832
General Administration	1,371,612	1,239,463	1,146,410	1,087,188	1,203,187
Debt Services	-	-	-	-	-
Plant Maintenance and Operations	3,533,617	3,613,934	3,042,338	2,739,593	2,675,727
Security and Monitoring Svs.	-	-	2,992	1,986	-
Data Processing Services	339,750	334,301	283,895	360,477	309,668
Community Services	12,065	3,547	2,160	3,000	7,468
Facilities Acquisition and Construction	-	-	-	39,322	180,998
Intergovt. Charges	-	-	-	-	-
Payments to JJAEP	-	-	-	-	-
Total Expenditures	$ 27,695,484	$ 24,361,823	$ 22,235,874	$ 21,290,412	$ 21,618,030
Excess (Deficiency) of Revenues Over Expenditures	$ (263,117)	$ (594,917)	$ 1,092,369	$ 1,192,651	$ (182,487)
Other Resources	-	-	1,025,000	810,000	992,800
Other (Uses)	-	-	(1,025,000)	(810,000)	(992,800)
Excess (Deficiency) of Revenues & Other Resources Over Expenditures & Other Uses	$ (263,117)	$ (594,917)	$ 1,092,369	$ 1,192,651	$ (182,487)
Beginning Fund Balance	5,521,819	6,359,060	5,181,088	4,047,238	4,229,725
Increase (Decrease) Fund Bal.		(242,322)	85,603	(58,801)	-
Ending Fund Balance	$ 5,258,702	$ 5,521,821	$ 6,359,060	$ 5,181,088	$ 4,047,238

FINANCIAL POLICIES

<u>Basis of Accounting</u> . . .This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred band become measurable. The district applies all GASB pronouncements as well as the Financial Accounting Standard Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Assets. The fund equity is segregated into invested in capital assets ne3t of related debt, restricted net assets and unrestricted net assets.

<u>General Fund Balance</u> . . .the general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

<u>Debt Service Fund Balance</u> . . *The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.*

<u>Capital Project Fund</u> . . . . The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

<u>Budgetary Procedures</u> . . .Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the board and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.

INVESTMENTS

The Hidalgo Independent School District invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the Board of Trustees of the District. Both state law and the District’s investment policies are subject to change.

LEGAL INVESTMENTS . . . Under the Texas Public Funds Investment Act (the “Act”), the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than “A” or its equivalent, (6) bonds issued, assumed, or guaranteed by the State of Israel, (7) certificates of deposit and share certificates issued by a state or national bank domiciled in the State of Texas, a savings bank domiciled in the State of Texas, or a state or federal credit union domiciled in the State of Texas, that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor, or are secured as to principal by obligations described in clauses (1) through (5), or in any other manner and amount provided by law for District deposits, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), require securities be pledged to the District, held in the District’s name and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State of Texas, (9) a securities lending program that meets the following conditions: (i) the value of securities loaned under the program must be not less than 100 percent collateralized, including accrued income; (ii) a loan made under the program must allow for termination at any time; (iii) a loan made under the program must be secured by: (A) pledged securities described by clauses (1) through (6); (B) pledged irrevocable letters of credit issued by banks (I) organized and existing under the laws of the United States or any other state; and (II) continuously rated by at least one nationally recognized investment rating firm at not less than A or its equivalent; or (III) cash invested in accordance with clauses (1) through (8); (iv) the terms of a loan made under the program must require that the securities being held as collateral be: (I) pledged to the investing entity; (II) be held in the investing entity's name; and (III) deposited at the time the investment is made with the District or with a third party selected by or approved by the District; (v) a loan made under the program must be placed through: (A) a primary government securities dealer, or (B) a financial institution doing business in this state; and (vi) an agreement to lend securities that is executed under this section must have a term of one year or less. (10) certain banker’s acceptances with the remaining term of 270 days or fewer, from the date of issuance, and will be, in accordance with their terms, liquidated in full at maturity, are eligible for collateral for borrowing from a Federal Reserve Bank, and are accepted by a state or federal bank) if the short-term obligations of the accepting bank or its parent are rated at least A-1or P-1 or an equivalent rating by at least one nationally recognized credit rating agency, (11) commercial paper that has a stated maturity of 270 days or fewer from the date of its issuance, rated at least A-1 or P-1 or an equivalent rating by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a United States or state bank, (12) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that provide the School District with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share, (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the preceding clauses, are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent, and conform to the requirements relating to the eligibility of investment pools to receive and invest funds, (14) if specifically adopted by the District in its investment policy as authorized investments, guaranteed investment contracts that have a defined termination date, are secured by obligations of the United States or its agencies or instrumentalities, are pledged to the District and deposited with the District or with a third party selected and approved by the District; are acquired through bids from at least three separate bidders with no material interest in the bonds, represent the highest yielding guaranteed investment contract, takes into account the reasonably expected drawdown schedule for the bond proceeds to be invested, and the provider certifies its administrative costs other than the prohibited obligations described in the next succeeding paragraph, and the District may invest its funds and funds under its control through an eligible investment pool if the board of trustees of the District by rule, order or resolution, as appropriate, authorizes investment in the particular pool. To be eligible, an investment pool must invest the funds it receives from the District in authorized investments permitted by the Act, and must furnish to the District's investment officer or other authorized representative of the District an offering circular or other similar disclosure instrument that contains, at a minimum, the following information: the types of investments in which money is allowed to be invested; the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool; the maximum stated maturity date any investment security within the portfolio has; the objectives of the pool; the size of the pool; the names of the members of the advisory board of the pool and the dates their terms expire; the custodian bank that will safe keep the pool's assets; whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation; whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment; the name and address of the independent auditor of the pool; the requirements to be satisfied for a District to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the District to invest funds in and withdraw funds from the pool; and the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios.

In order to maintain eligibility to receive funds from and invest funds on behalf of the District, an investment pool must also furnish to the investment officer or other authorized representative of the District: investment transaction confirmations; and a monthly report that contains, at a minimum, the following information: (A) the types and percentage breakdown of securities in which the pool is invested; (B) the current average dollar-weighted maturity, based on the stated maturity date, of the pool; (C) the current percentage of the pool's portfolio in investments that have stated maturities of more than one year; (D) the book value versus the market value of the pool's portfolio, using amortized cost valuation; (E) the size of the pool; (F) the number of participants in the pool; (G) the custodian bank that is safekeeping the assets of the pool; (H) a listing of daily transaction activity of the District participating in the pool; (I) the yield and expense ratio of the pool; (J) the portfolio managers of the pool; and (K) any changes or addenda to the offering circular.

The District may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.

A public funds investment pool created to function as a money market mutual fund must: mark its portfolio to market daily, and, to the extent reasonably possible, stabilize at a $1 net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005; must have an advisory board composed: (A) equally of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for a public funds investment pool managed by a state agency; or (B) of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for other investment pools; and must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to changes in a market index.

INVESTMENT POLICIES . . . Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, District investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the District shall submit an investment report detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest District funds without express written authority from the Board of Trustees.

ADDITIONAL PROVISIONS . . . Under Texas law the District is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers' with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Trustees; (3) require the registered principal of firms seeking to sell securities to the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (5) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (7) restrict its investment in mutual funds in the aggregate to no more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and to invest no portion of bond proceeds, reserves and funds held for debt service, in mutual funds; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

TABLE 13 - CURRENT INVESTMENTS

As of June 30, 2008 the District's investable funds were invested in the following categories:

Description	Percent	Carrying Value	Market Value
Certificates of Deposit	100.00%	$ 11,361,331	$ 11,361,331
Total	100.00%	$ 11,361,331	$ 11,361,331

As of such date, 100% of the District's investment portfolio will mature within 12 months. The market value of the investment portfolio was approximately 100% of its purchase price.

TAX MATTERS

TAX EXEMPTION . . . The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the "Code"), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. A form of Bond Counsel's opinion is reproduced as Appendix C. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

Interest on all tax-exempt obligations, including the Bonds, owned by a corporation will be included in such corporation's adjusted current earnings for tax years beginning after 1989, for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code will be computed.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the District made in a certificate dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the District with the provisions of the Order subsequent to the issuance of the Bonds. The Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds, the manner in which the proceeds of the Bonds are to be invested, the reporting of certain information to the United States Treasury, and rebating any arbitrage profits to the U. S. Treasury. Failure to comply with any of these covenants would cause interest on the Bonds to be includable in the gross income of the owners thereof from date of the issuance of the Bonds.

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

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS . . . Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code completely disallows any deduction for interest expense which is incurred by "financial institutions" described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this rule for interest expense allocable to tax-exempt obligations (other than private activity bonds) which are designated by an issuer, such as the District, as "qualified tax-exempt obligations." An issuer may designate obligations as "qualified tax-exempt obligations" only if the amount of the issue of which they are a part, when added to the amount of all other tax-exempt obligations (other than private activity bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed $10,000,000.

The District has designated the Bonds as "qualified tax-exempt obligations" and certified its expectation that the above-described $10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions which purchase the Bonds will not be subject to the one-hundred percent (100%) disallowance of interest expense allocable to interest on the Bonds under Section 265(b) of the Code. However, twenty percent (20%) of the interest expense incurred by a financial institution which is allocable to the interest on the Bonds will not be deductible pursuant to section 291 of the Code.

TAX ACCOUNTING TREATMENT OF DISCOUNT AND PREMIUM ON CERTAIN BONDS . . . The initial public offering price of certain Bonds (the "Discount Bonds") may be less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Bonds described above under "Tax Exemption." Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an original purchaser in a different amount from the amount of the payment denominated as interest actually received by the original purchaser during the tax year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by Section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with "subchapter C" earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering price of certain Bonds (the "Premium Bonds") may be greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

ANNUAL REPORTS . . . The District will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 13 and in Appendix B. The District will update and provide this information within six (6) months after the end of each fiscal year ending in or after 2008. The District will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") approved by the staff of the United States Securities and Exchange Commission ("SEC") and to any state information depository ("SID") that is designated and approved by the State of Texas and by the SEC staff.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial information and operating data which is customarily prepared by the District by the required time, and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

The Municipal Advisory Council of Texas (the "MAC") has been designated by the State of Texas and approved by the SEC staff as a qualified SID. The address of the MAC is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512/476-6947. The MAC has also received SEC approval to operate, and has begun to operate, a "central post office" for information filings made by municipal issuers, such as the District. A municipal issuer may submit its information filings with the central post office, which then transmits such information to the NRMSIRs and the appropriate SID for filing. This central post office can be accessed and utilized at www.DisclosureUSA.org ("DisclosureUSA"). The District may utilize DisclosureUSA for the filing of information relating to the Bonds.

MATERIAL EVENT NOTICES . . . The District will also provide timely notices of certain events to certain information vendors. The District will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (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 or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes (neither the Bonds nor the Order make any provision for debt service reserves, credit enhancement or liquidity enhancement). In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The District will provide each notice described in this paragraph to the SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

AVAILABILITY OF INFORMATION FROM NRMSIRS AND SID . . . The District has agreed to provide the foregoing information only to NRMSIRs and the SID. The information will be available to holders of Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

AMENDMENTS . . . The District may amend its continuing disclosure agreement 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 District, if (i) the agreement, as amended, would have permitted an Underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the SEC Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of the SEC 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 in the primary offering of the Bonds. If the District so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . The District has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12.

OTHER INFORMATION

RATINGS

The uninsured tax supported debt of the District is rated "A" by Fitch. The District also has five issues outstanding which are rated "AAA" by Fitch and two issues outstanding which are rated "Aaa" by Moody's by virtue of the guarantee of the Permanent School Fund of the State of Texas. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the respective view of such organization and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such rating, may have an adverse effect on the market price of the Bonds.

LITIGATION

The District is not a party to any litigation or other proceeding pending or to its knowledge, threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to the District, would have a material adverse effect on the financial statements of the District.

At the time of the initial delivery of the Bonds, the District will provide the initial Purchases with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Bonds or that affects the payment and security of the Bonds or in any other manner questioning the issuance, sale or delivery of said Bonds.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The District assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. See "OTHER INFORMATION - Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the District has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL MATTERS

The delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limitation as to rate or amount, upon all taxable property in the District and the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations. The form of Bond Counsel's opinion is attached hereto as Appendix C. 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. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System.

Bond Counsel was engaged by, and only represents, the District. Except as noted below, Bond Counsel 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 herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under captions "THE BONDS" (except under the Book-Entry-Only System"), "TAX MATTERS," "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance With Prior Undertakings"), and the subcaptions "OTHER INFORMATION-Legal Matters", and such firm is of the opinion that the information relating to the Bonds and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order.

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. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from the District's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

FINANCIAL ADVISOR

First Southwest Company is employed as Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. First Southwest Company, in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

UNDERWRITING

The Underwriter(s) has agreed, subject to certain conditions, to purchase the Bonds from the District, at an underwriting discount of $________. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has 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 Underwriter does not guarantee the accuracy or completeness of such information

FORWARD-LOOKING STATEMENTS DISCLAIMER

The statements contained in this Official Statement, and in any other information provided by the District, that are not purely historical, are forward-looking statements, including statements regarding the District's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements. The District's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the District. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

MISCELLANEOUS

The financial data and other information contained herein have been obtained from the District's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

The Order authorizing the issuance of the Bonds will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Bonds by the Underwriter.

CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Bonds, the Purchaser will be furnished a certificate, executed by proper officers, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the District contained in its Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of said Bonds and therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the District, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the District believes to be reliable and the District has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the District since the date of the last audited financial statements of the District.

The Order authorizing the issuance of the Bonds will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Bonds by the Purchaser.

/s/
President, Board of Trustees
Hidalgo Independent School District

ATTEST:

/s/
Secretary, Board of Trustees
Hidalgo Independent School District

APPENDIX A

GENERAL INFORMATION REGARDING THE DISTRICT

THE DISTRICT

The Hidalgo Independent School District is located in the southern-most section of Hidalgo County in the Rio Grande Valley. Included in the District is the City of Hidalgo, Texas, a center of tourism located approximately seven miles south of McAllen on US Highway 281. The District encompasses some 36 square miles. The District has an estimated 2008 population of 8,932. The District is experiencing growth in student population. In 1990, the student population was approximately 2,400 and in 2008 the student population was 3,396. The District currently has 9 elementary schools, 1 junior high school, 1 high school and 1 academy.

ENROLLMENT AND STAFF

For the 2007/2008 school year, the District employs a staff of approximately 535 employees, which include a professional staff of approximately 339. Educational status of the teachers and administrators is as follows:

Masters Degree	25%
Bachelor Degree	75%
Average Years of Classroom Experience per Teacher	10Years

Personnel distribution is as follows:

District Level Administrators	41
Building Administration	0
Instructional Staff	276
Professional Staff (Counselors, Librarians, Nurses)	18
General Personnel (Secretaries, Aides, Clerks, Bus Drivers)	135
Custodial/Maintenance	65

Teacher Salaries

Teacher salaries are competitive with surrounding districts. Teacher salaries range form $37,700 for beginning teachers to a maximum $55,990.

Teacher/Pupil ratios for 2007/2008 are:

	Students	Teachers
Salinas Elementary	408	25
Hidalgo Elementary	464	28
Kelly Elementary	440	26
Hidalgo Park Elementary	415	25
Diaz Junior High School	686	50
Hidalgo High School	854	69
Hidalgo Academy	41	4

Historical Membership for the District

School/Year	Membership
1994/1995	2,607
1995/1996	2,617
1996/1997	2,633
1997/1998	2,588
1998/1999	2,528
1999/2000	2,637
2000/2001	2,771
2001/2002	2,930
2002/2003	3,033
2003/2004	3,156
2004/2005	3,206
2005/2006	3,251
2006/2007	3,331
2007/2008	3,396

HIDALGO COUNTY

Hidalgo County was created in 1852 from Cameron and Starr counties. The County is located in South Texas adjacent to the Republic of Mexico. The County's economy is diversified by tourism, agribusiness and international trade with Mexico. Cotton, grain, vegetables, citrus and sugar cane are the principal sources of agricultural income as designated by the Texas Almanac. Gas, sand and gravel are the minerals produced in the County. The county is a tourist center located in the Lower Rio Grande Valley with access to Old Mexico, and with facilities to accommodate the summer and winter visitors.

LABOR FORCE STATISTICS FOR HIDALGO COUNTY(1)

	2008(3)	2007(2)	2006(2)	2005(2)	2004(2)
Civilian Labor Force	272,446	271,171	266,893	262,250	256,215
Total Employed	17,782	17,876	19,723	20,703	23,343
Total Unemployed	254,664	253,295	247,170	241,547	232,872
Unemployment Rate	6.5%	6.6%	7.4%	7.9%	9.1%
% Unemployed (Texas)	4.3%	4.6%	4.8%	5.4%	5.8%
% Unemployed (U.S.)	5.2%	4.9%	4.6%	5.1%	5.4%

(1) Source: Texas Employment Commission.
(2) Average annual statistics.
(3) As of February, 2008.

EMPLOYMENT AND WAGES BY INDUSTRY – HIDALGO COUNTY (1) (2)

	Third Quarter				
	2007	2006	2005	2004	2003
Natural Resources and Mining	5,966	5,423	5,882	5,528	5,606
Construction	9,300	8,945	8,811	9,224	9,694
Manufacturing	7,768	7,738	8,084	8,447	9,207
Trade, Transportation & Utilities	45,527	42,645	40,413	38,051	35,652
Information	3,053	3,063	2,886	2,714	2,052
Financial Activities	8,436	8,036	7,749	7,458	6,980
Professional and Business Services	13,848	13,216	12,750	11,613	10,610
Education & Health Services	46,452	43,774	41,970	36,286	32,818
Leisure & Hospitality	18,167	17,320	16,609	16,167	16,477
Other Services	4,085	3,759	3,791	3,821	3,702
Nonclassifiable	188	576	367	406	377
State Government	5,355	5,195	5,009	4,988	4,974
Local Government	36,543	37,453	35,911	35,430	34,069
Total Employment	204,688	197,143	190,232	180,133	172,218
Total Wages	$ 1,396,200,133	$ 1,291,260,070	$ 1,210,592,253	$ 1,086,816,389	$ 999,550,144

(1) Source: Texas Workforce Commission.
(2) Statistics do not include Federal employees or their wages.

APPENDIX B

EXCERPTS FROM THE

HIDALGO INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

For the Year Ended August 31, 2007

The information contained in this Appendix consists of excerpts from the Hidalgo Independent School District Annual Financial Report for the Year Ended August 31, 2007 and is not intended to be a complete statement of the District's financial condition. Reference is made to the complete Report for further information.

Reyna & Garza, PLLC

Certified Public Accountants
4416 S. McColl Road
Edinburg, TX 78539

UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER
SUPPLEMENTARY INFORMATION INCLUDING THE
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Independent Auditor's Report

Board of Trustees
Hidalgo Independent School District
Hidalgo, Texas

Members of the Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hidalgo Independent School District (the District) as of and for the year ended August 31, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's administrators. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hidalgo Independent School District as of August 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 4 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Phone: (956) 668-1118 Members of Texas Society of Certified Public Accountants Fax: (956) 668-1137

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Hidalgo Independent School District's basic financial statements.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Although the combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements, they have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1 through J-5. Except for Exhibit J-3 (Cash Flow and the Optimum Fund Balance Calculation Schedule) which is marked ***UNAUDITED*** and on which we express no opinion, these schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Reyna & Garza, CPA's

Reyna & Garza, CPA's

January 20, 2008

HIDALGO INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Hidalgo Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2007. Please read it in conjunction with the independent auditors' report on page 2, and the District's Basic Financial Statements which begin on page 10.

FINANCIAL HIGHLIGHTS

- The District's net assets increased by $ 328,696 as a result of this year's operations.
- During the year, the District had expenditures that were $ 11.87 million more than the $ 36.86 million generated in tax and other revenues for governmental programs (before special items). This compares to last year when expenses exceeded revenues by $ 2.9 million.
- The General Fund ended the year with a fund balance of $ 5.2 million.
- The resources available for appropriation were $ .113 million more than budgeted for the General Fund.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (on pages 10 and 11). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.
Fund financial statements (starting on page 12) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the district.

The notes to the financial statements (starting on page 19) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by TEA. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Assets and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 10. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies..

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as tuition received from students from outside the district and grants provided by the U.S. Department of Education to assist children with disabilities of from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net assets and changes in them. The District's net assets (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider nonfinancial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Assets and the Statement of Activities, one kind of activity is reported for the District:

- Governmental activities–Most of the District's basic services are reported here, including the instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 12 and provide detailed information about the most significant funds–not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's has only governmental type funds.

- Governmental funds–Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities and alumnae scholarship programs. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 17 and 18. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net assets (Table I) and changes in net assets (Table II) of the District's governmental and business-type activities.

Net assets of the District's governmental activities decreased from $16,611,748 to $ 15,954,521. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was $4,199,190 at August 31, 2007.

Table I
Hidalgo Independent School District

NET ASSETS
in thousands

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	$23,297,465	$15,579,312	0	0	$23,297,465	$15,579,312
Capital assets	40,111,966	29,075,196	0	0	40,111,966	29,075,196
Total assets	$63,409,431	$44,654,508	0	0	$63,409,431	$44,654,508
Long-term liabilities	47,190,000	27,865,000	0	0	47,190,000	27,865,000
Other liabilities	264,910	177,760	0	0	264,910	177,760
Total liabilities	$47,454,910	$28,042,760	0	0	$47,454,910	$28,042,760
Net Assets:						
Invested in capital assets, net of related debt	(7,078,034)	1,210,196	0	0	(7,078,034)	1,210,196
Restricted	18,833,365	9,190,988			18,833,365	9,190,988
Unrestricted	4,199,190	6,210,564	0	0	4,199,190	6,210,564
Total Net Assets	$15,954,521	$16,611,748	0	0	$15,954,521	$16,611,748

Table II
Hidalgo Independent School District
CHANGES IN NET ASSETS
in thousands

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program Revenues:						
Charges for Services	$ 39,353	$ 58,297	0	0	$ 39,353	$ 148,373
Operating Grants and Contributions	6,917,587	7,138,989			6,917,587	6,202,811
General Revenues:						
Maintenance and Operations Taxes	3,763,275	3,668,597			3,763,275	3,469,874
Debt Service Taxes	594,201	376,820			594,201	351,226
State Aid Formula Grants	24,244,995	21,108,243			24,244,995	21,108,243
Grants, Contributions not restricted to specific Functions						
Investment Earnings	951,923	718,624			951,923	718,624
Miscellaneous	397,488	852,742			397,488	852,742
Total Revenue	$36,908,822	$33,922,312	0	0	$ 36,908,822	$33,922,312
Expenses:						
Instruction, curriculum and media services	$20,944,824	$18,884,161			$20,944,824	$18,884,161
Instructional/school leadership	1,623,849	1,921,386			1,623,849	1,921,386
Guidance, social work, health, transportation	2,365,471	1,976,933			2,365,471	1,976,933
Food Services	2,379,691	2,091,700			2,379,691	2,091,700
Cocurricular activities	1,613,553	847,555			1,613,553	847,555
General administration	1,422,768	1,292,997			1,422,768	1,292,997
Plant Maintenance and Security	3,548,205	3,722,595			3,548,205	3,722,595
Data Processing	508,399	515,542			508,399	515,542
Community Services	204,010	223,126			204,010	223,126
Debt Service	1,969,357	1,312,974			1,969,357	1,312,974
Facilities Acquistion	0	0	0	0	0	0
Total Expenses	$ 36,580,126	$ 32,788,969	0	0	$ 36,580,126	$ 32,788,969
Increase in net assets before transfers and special items	328,696	1,133,343	(0)	0	328,696	1,133,343
Transfers						
Special Items	(985,923)	(242,322)			(985,923)	(242,322)
Increase in Net Assets	(657,227)	891,021	(0)	0	(657,227)	891,021
Net assets at 9/1/05	$16,611,748	$15,720,729	0	0	$16,611,748	$15,720,729
Net assets at 8/31/06	$15,954,521	$16,611,748	0	0	$15,954,521	$16,611,748

The District's total revenues increased by 8.8 percent ($ 2.99 million). The total cost of all programs and services was greater than last year, due primarily to salary increases for all staff and the associated fringe benefits.

The cost of all governmental activities this year was $ 48.73 million compared to $33.86 million last year. However, as shown in the Statement of Activities on pages 11, the amount that our taxpayers ultimately financed for these activities through District taxes was $ 4.36 million because some of the costs were paid by other governments and organizations that subsidized certain programs with grants and contributions or by State equalization funding.

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 12 reported a combined fund balance of $ 22.37 million, which is significantly more than last year's total of $14.74 million. The primary reason for the decrease is for the construction work that took place throughout the District.

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments principally involve reclassifications between functional categories and funds from programs that did not need all the resources originally appropriated to them to programs with resource needs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2007, the District had $ 54.94 million invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. This amount represents a net increase of just over $ 12.29 million, or 28.8 percent, above last year's amount of $42.65 million.

This year's major additions, which are all construction projects in progress at August 31, 2007:

New Hidalgo Elementary Project	$ 4,498,064
Jr. High Remodeling Project	1,787,127
High School Remodeling Project	2,469,753
Kelly Elementary Remodeling Project	1,167,784
Totaling	$ 9,922,728

Debt

At year-end, the District had $ 47.19 million in bonds versus $27.87 million last year–an increase of 69.32 percent. Bonds outstanding include series 2000, 2003, 2004, 2006 & 2007.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal-year 2007 budget, tax rates. One of those factors is the economy.

This indicator was taken into account when adopting the General Fund budget for 2008. Amounts available for appropriation in the General Fund budget are $ 27.9 million, a decrease of .9 percent from the final 2007 budget of $ 28.18 million. The District will use its revenues to finance programs we currently offer. Budgeted expenditures are expected to remain relatively constant, despite increased wages and salaries. The District has added no major new programs or initiatives to the 2008 budget.

If these estimates are realized, the District's budgetary General Fund balance is expected to increase modestly by the close of 2008. More importantly, however, this will have been accomplished in spite of unfunded mandates.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Business Office, at Hidalgo Independent School District, 324 East Flora, Hidalgo, Texas.

EXHIBIT A-1

HIDALGO ISD
STATEMENT OF NET ASSETS
AUGUST 31, 2007

Data Control Codes		Primary Government
		Governmental Activities
	ASSETS	
1110	Cash and Cash Equivalents	$ 20,807,566
1220	Property Taxes Receivable (Delinquent)	738,917
1230	Allowance for Uncollectible Taxes	(73,892)
1240	Due from Other Governments	870,525
1250	Accrued Interest	11,866
1260	Internal Balances	(13,948)
1267	Due from Fiduciary Funds	420,787
1290	Other Receivables, net	74,360
1300	Inventories	225,986
1410	Deferred Expenses	235,298
	Capital Assets:	
1510	Land	1,253,507
1520	Buildings, Net	26,136,704
1530	Furniture and Equipment, Net	818,716
1580	Construction in Progress	11,903,039
1000	Total Assets	63,409,431
	LIABILITIES	
2110	Accounts Payable	5,043
2150	Payroll Deductions & Withholdings	35,334
2160	Accrued Wages Payable	221,303
2300	Deferred Revenues	3,230
	Noncurrent Liabilities	
2501	Due Within One Year	1,320,000
2502	Due in More Than One Year	45,870,000
2000	Total Liabilities	47,454,910
	NET ASSETS	
3200	Invested in Capital Assets, Net of Related Debt	(7,078,034)
3820	Restricted for Federal and State Programs	251,811
3850	Restricted for Debt Service	177,476
3860	Restricted for Capital Projects	18,404,078
3900	Unrestricted Net Assets	4,199,190
3000	Total Net Assets	$ 15,954,521

The notes to the financial statements are an integral part of this statement.

THIS PAGE LEFT BLANK INTENTIONALLY

HIDALGO ISD
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2007

Data Control Codes		1 Expenses	Program Revenues: 3 Charges for Services	Program Revenues: 4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: 6 Primary Gov. Governmental Activities
	Primary Government:				
	GOVERNMENTAL ACTIVITIES:				
11	Instruction	$ 19,903,557	$ 3,000	$ 5,467,884	$ (14,432,673)
12	Instructional Resources and Media Services	482,371	-	179,929	(302,442)
13	Curriculum and Instructional Staff Development	558,896	-	17,585	(541,312)
21	Instructional Leadership	363,269	-	158,672	(204,597)
23	School Leadership	1,260,580	-	177,278	(1,083,302)
31	Guidance, Counseling and Evaluation Services	1,041,256	-	154,985	(886,271)
32	Social Work Services	65,017	-	62,679	(2,338)
33	Health Services	377,952	-	45,202	(332,751)
34	Student (Pupil) Transportation	881,246	-	34,316	(846,930)
35	Food Services	2,379,691	29,025	122,431	(2,228,235)
36	Cocurricular/Extracurricular Activities	1,613,553	7,328	19,447	(1,586,778)
41	General Administration	1,422,768	-	34,744	(1,388,024)
51	Plant Maintenance and Operations	3,548,205	-	95,677	(3,452,528)
53	Data Processing Services	508,399	-	162,149	(346,250)
61	Community Services	204,010	-	184,610	(19,400)
72	Debt Service - Interest on Long Term Debt	1,766,862	-	-	(1,766,862)
73	Debt Service - Bond Issuance Cost and Fees	202,495	-	-	(202,495)
[TP]	TOTAL PRIMARY GOVERNMENT:	$ 36,580,126	$ 39,353	$ 6,917,587	(29,623,186)

Data Control Codes		
	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	3,763,275
DT	Property Taxes, Levied for Debt Service	594,201
GC	Grants and Contributions not Restricted	24,244,995
IE	Investment Earnings	951,923
MI	Miscellaneous Local and Intermediate Revenue	397,488
TR	Total General Revenues	29,951,882
CN	Change in Net Assets	328,696
NB	Net Assets--Beginning	16,611,748
PA	Prior Period Adjustment	(985,923)
NE	Net Assets--Ending	$ 15,954,521

The notes to the financial statements are an integral part of this statement.

HIDALGO ISD
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2007

Data Control Codes		10 General Fund	50 Debt Service Fund	60 Capital Projects
	ASSETS			
1110	Cash and Cash Equivalents	$ 4,309,356	$ 165,215	$ 16,880,086
1220	Property Taxes - Delinquent	585,478	153,439	-
1230	Allowance for Uncollectible Taxes (Credit)	(58,548)	(15,344)	-
1240	Due from Other Governments	56,159	240,000	-
1250	Accrued Interest	3,453	373	8,040
1260	Due from Other Funds	643,717	-	5,181
1290	Other Receivables	63,589	-	10,771
1300	Inventories	225,986	-	-
1410	Deferred Expenditures	235,298	-	-
1000	Total Assets	$ 6,064,488	$ 543,683	$ 16,904,078
	LIABILITIES AND FUND BALANCES			
	Liabilities:			
2110	Accounts Payable	$ 5,043	$ -	$ -
2150	Payroll Deductions and Withholdings Payable	35,334	-	-
2160	Accrued Wages Payable	221,303	-	-
2170	Due to Other Funds	13,947	228,112	-
2300	Deferred Revenues	530,159	138,095	-
2000	Total Liabilities	$ 805,786	$ 366,207	$ -
	Fund Balances:			
	Reserved For:			
3410	Investments in Inventory	$ 225,986	$ -	$ -
3420	Retirement of Long Term Debt	-	177,476	-
3450	Food Service	224,536	-	-
3490	Other Purposes	-	-	16,904,078
	Unreserved Designated For:			
3510	Construction	1,500,000	-	-
	Unreserved and Undesignated:			
3600	Reported in the General Fund	3,308,180	-	-
3610	Reported in Special Revenue Funds	-	-	-
3000	Total Fund Balances	$ 5,258,702	$ 177,476	$ 16,904,078
4000	Total Liabilities and Fund Balances	$ 6,064,488	$ 543,683	$ 16,904,078

The notes to the financial statements are an integral part of this statement.

EXHIBIT C-1

Other Funds	Total Governmental Funds
$ (547,091)	$ 20,807,566
-	738,917
-	(73,892)
574,366	870,525
-	11,866
-	648,898
-	74,360
-	225,986
-	235,298
$ 27,275	$ 23,539,524
$ -	$ 5,043
-	35,334
-	221,303
-	242,059
-	668,254
$ -	$ 1,171,993
$ -	$ 225,986
-	177,476
-	224,536
-	16,904,078
-	1,500,000
-	3,308,180
27,275	27,275
$ 27,275	$ 22,367,531
$ 27,275	$ 23,539,524

THIS PAGE LEFT BLANK INTENTIONALLY

HIDALGO ISD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
AUGUST 31, 2007

	Total Fund Balances - Governmental Funds	$	22,367,531
1	The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net effect of this consolidation is to increase(decrease) net assets.		-
2	Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was $42,646,689 and the accumulated depreciation was $13,571,493. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets.		1,210,196
3	Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements,but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2007 capital outlays and debt principal payments is to increase (decrease) net assets.		13,603,621
4	The 2007 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(1,251,851)
5	Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying tehproceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.		(19,974,976)
19	**Net Assets of Governmental Activities**	$	15,954,521

The notes to the financial statements are an integral part of this statement.

HIDALGO ISD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2007

Data Control Codes		10 General Fund	50 Debt Service Fund	60 Capital Projects
	REVENUES:			
5700	Total Local and Intermediate Sources	$ 4,334,710	$ 673,745	$ 690,604
5800	State Program Revenues	20,977,896	2,195,583	-
5900	Federal Program Revenues	2,119,761	-	-
5020	Total Revenues	27,432,367	2,869,328	690,604
	EXPENDITURES:			
	Current:			
0011	Instruction	14,214,735	-	-
0012	Instructional Resources and Media Services	294,511	-	-
0013	Curriculum and Instructional Staff Development	538,801	-	-
0021	Instructional Leadership	191,535	-	-
0023	School Leadership	1,111,501	-	-
0031	Guidance, Counseling and Evaluation Services	886,552	-	-
0032	Social Work Services	-	-	-
0033	Health Services	336,334	-	-
0034	Student (Pupil) Transportation	1,107,147	-	-
0035	Food Services	2,201,787	-	-
0036	Cocurricular/Extracurricular Activities	1,555,537	-	-
0041	General Administration	1,371,612	-	-
0051	Facilities Maintenance and Operations	3,533,617	-	-
0053	Data Processing Services	339,750	-	-
0061	Community Services	12,065	-	-
	Debt Service:			
0071	Debt Service - Principal on Long Term Debt	-	1,315,000	-
0072	Debt Service - Interest on Long Term Debt	-	1,766,862	-
0073	Debt Service - Bond Issuance Cost and Fees	-	1,495	-
	Capital Outlay:			
0081	Facilities Acquisition and Construction	-	-	12,082,713
6030	Total Expenditures	27,695,484	3,083,357	12,082,713
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(263,117)	(214,029)	(11,392,109)
	OTHER FINANCING SOURCES (USES):			
7911	Capital Related Debt Issued (Regular Bonds)	-	43,628	20,439,000
7080	Total Other Financing Sources (Uses)	-	43,628	20,439,000
1200	Net Change in Fund Balances	(263,117)	(170,401)	9,046,891
0100	Fund Balance - September 1 (Beginning)	5,521,819	1,333,800	7,857,187
1300	Increase (Decrease) in Fund Balance	-	(985,923)	-
3000	Fund Balance - August 31 (Ending)	$ 5,258,702	$ 177,476	$ 16,904,078

The notes to the financial statements are an integral part of this statement.

Other Funds	Total Governmental Funds
$ 220,400	$ 5,919,459
1,162,378	24,335,857
4,486,564	6,606,325
5,869,342	36,861,641
4,801,107	19,015,842
170,516	465,027
-	538,801
158,672	350,207
103,754	1,215,255
117,265	1,003,817
62,679	62,679
28,029	364,363
-	1,107,147
92,341	2,294,128
-	1,555,537
-	1,371,612
-	3,533,617
150,369	490,119
184,610	196,675
-	1,315,000
-	1,766,862
-	1,495
-	12,082,713
5,869,342	48,730,896
-	(11,869,255)
-	20,482,628
-	20,482,628
-	8,613,373
27,275	14,740,081
-	(985,923)
$ 27,275	$ 22,367,531

HIDALGO ISD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2007

Total Net Change in Fund Balances - Governmental Funds	$	8,613,373
The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net assets.		-
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2007 capital outlays and debt principal payments is to increase (decrease) net assets.		13,603,621
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.		(1,251,851)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.		(20,636,447)
Change in Net Assets of Governmental Activities	$	328,696

The notes to the financial statements are an integral part of this statement.

EXHIBIT C-5

HIDALGO ISD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2007

Data Control Codes		Budgeted Amounts Original	Final	Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	REVENUES:				
5700	Total Local and Intermediate Sources	$ 3,988,722	$ 4,679,430	$ 4,334,710	$ (344,720)
5800	State Program Revenues	18,432,256	20,447,209	20,977,896	530,687
5900	Federal Program Revenues	1,607,055	2,192,792	2,119,761	(73,031)
5020	Total Revenues	24,028,033	27,319,431	27,432,367	112,936
	EXPENDITURES:				
	Current:				
0011	Instruction	14,586,940	14,314,007	14,214,735	99,272
0012	Instructional Resources and Media Services	361,759	294,669	294,511	158
0013	Curriculum and Instructional Staff Development	566,890	532,258	538,801	(6,543)
0021	Instructional Leadership	131,280	194,161	191,535	2,626
0023	School Leadership	1,179,755	1,127,218	1,111,501	15,717
0031	Guidance, Counseling and Evaluation Services	471,696	886,600	886,552	48
0032	Social Work Services	-	2,590	-	2,590
0033	Health Services	369,999	337,765	336,334	1,431
0034	Student (Pupil) Transportation	629,086	1,348,682	1,107,147	241,535
0035	Food Services	1,652,194	2,202,142	2,201,787	355
0036	Cocurricular/Extracurricular Activities	599,606	1,317,506	1,555,537	(238,031)
0041	General Administration	1,157,649	1,547,584	1,371,612	175,972
0051	Facilities Maintenance and Operations	2,803,979	3,629,615	3,533,617	95,998
0052	Security and Monitoring Services	17,902	-	-	-
0053	Data Processing Services	238,691	424,048	339,750	84,298
0061	Community Services	15,074	20,081	12,065	8,016
6030	Total Expenditures	24,782,500	28,178,926	27,695,484	483,442
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(754,467)	(859,495)	(263,117)	596,378
	OTHER FINANCING SOURCES (USES):				
7915	Transfers In	754,467	916,067	-	(916,067)
8911	Transfers Out (Use)	(754,467)	(916,067)	-	916,067
7080	Total Other Financing Sources (Uses)	-	-	-	-
1200	Net Change in Fund Balances	(754,467)	(859,495)	(263,117)	596,378
0100	Fund Balance - September 1 (Beginning)	5,521,819	5,521,819	5,521,819	-
3000	Fund Balance - August 31 (Ending)	$ 4,767,352	$ 4,662,324	$ 5,258,702	$ 596,378

The notes to the financial statements are an integral part of this statement.

EXHIBIT E-1

HIDALGO ISD
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2007

	836-849 Investment Trust Fund	Agency Funds
ASSETS		
Cash and Cash Equivalents	$ -	$ 323,229
Accrued Interest	2,290	-
Due from Other Funds	13,947	-
Restricted Assets	1,013,797	-
Total Assets	1,030,034	$ 323,229
LIABILITIES		
Accounts Payable	-	$ 13,422
Due to Other Funds	-	212,954
Due to Student Groups	-	96,854
Total Liabilities	-	$ 323,230
NET ASSETS		
Restricted for Scholarships	1,030,034	
Total Net Assets	$ 1,030,034	

The notes to the financial statements are an integral part of this statement.

EXHIBIT E-2

HIDALGO ISD
STATEMENT OF CHANGES IN FIDUCIARY FUND NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2007

	836-849 Investment Trust Fund
ADDITIONS:	
Local and Intermediate Sources	$ 126,120
Total Additions	126,120
DEDUCTIONS:	
Other Operating Costs	37,004
Total Deductions	37,004
Change in Net Assets	89,116
Total Net Assets - September 1 (Beginning)	939,241
Total Net Assets - August 31 (Ending)	$ 1,028,357

The notes to the financial statements are an integral part of this statement.

HIDALGO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hidalgo Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in ***Statement on Auditing Standards No. 69*** of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of Texas Education Agency's ***Financial Accountability System Resource Guide*** (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

A. REPORTING ENTITY

The Board of Trustees (the "Board") is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the Hidalgo Independent School District nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support. The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include tuition paid by students not residing in the district, school lunch charges, etc. The "grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act. If a revenue is not a program revenue, it is a general revenue used to support all of the District's functions. Taxes are always general revenues.

Interfund activities between governmental funds appear as due to/due froms on the Governmental Fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide statements. The District considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The District considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors some times require the District to refund all or part of the unused amount.

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

D. FUND ACCOUNTING

The District reports the following major governmental funds:

1. **The General Fund** – The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

2. **Capital Projects Funds** – The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

Additionally, the District reports the following fund type(s):

Governmental Funds:

1. **Special Revenue Funds** – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

2. **Debt Service Funds** – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

3. **Permanent Funds** – The District accounts for donations for which the donor has stipulated that the principal may not be expended and where the income may only be used for purposes that support the District's programs. The District has no Permanent Funds.

Proprietary Funds:

The District has no Proprietary Funds.

Fiduciary Funds:

7. **Private Purpose Trust Funds** – The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District's Private Purpose Trust Fund is the Scholarship Fund.

8. **Pension (and Other Employee Benefit) Trust Funds** – These funds are used to account for local pension and other employee benefit funds that are provided by the District in lieu of or in addition to the Teacher Retirement System of Texas. The District has no Pension Trust Funds.

9. **Investment Trust Fund** - This fund is one in which the District holds assets in trust for other entities participating in an investment program managed by the district. The District has no Investment Trust Funds.

10. **Agency Funds** – The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Funds are:
-Tax Collections Fund
-Campus Activity Fund

E. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary funds, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

2. The District reports inventories of supplies at actual cost including consumable maintenance, instructional, office, athletic, and transportation items. Supplies are recorded as expenditures when they are consumed. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.

3. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

   In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

4. All employees of Hidalgo Independent School District employed for one-half or more of the standard work load who are not exempted from membership under Texas Government Code, Subtitle C, Section 822.02 and who participate in the Texas Retirement System of Texas (The "System"), receive annual paid leave. State Law requires that all employees receive up to five days of paid personal leave per year. There is no limit on the accumulation of state personal leave, and it can be transferred to other Texas school districts. All employees receive five days of paid local leave concurrently with state personal leave per year. Local leave does not accumulate from year to year.

   For purposes of personal illness, illness in the immediate family, family emergency, or death in the family, available sick leave will be used in the following order;

   (1) State sick leave accumulated prior to the 1995-96 year.
   (2) Current year state personal leave.
   (3) Accumulated state personal leave.
   (4) Local state leave.

When an employee is absent and has no applicable personal sick leave remaining from the current year or accumulated from prior years, the applicable daily rate of pay will be deducted from the next paycheck.

No liability has been accrued for personal or sick leave in the accompanying general purpose financial statements.

5. Capital assets, which include land, buildings, furniture and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

   The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

   Buildings, furniture and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	40
Building Improvements	40
Vehicles	5
Office Equipment	5
Computer Equipment	5

6. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

8. The Data Control Codes refer to the account code structure prescribed by TEA in the ***Financial Accountability System Resource Guide***. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a Statewide data base for policy development and funding plans.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

Capital Assets at the Beginning of the year	Historic Cost	Accumulated Depreciation	Net Value at the Beginning of the Year	Change in Net Assets
Land	$ 1,253,507	$ 0	$ 1,253,507	
Buildings	37,898,946	(11,134,353)	26,764,593	
Furniture & Equipment	3,177,331	(2,437,140)	740,191	
Capital Leases	0	0	0	
Construction in Progress	316,905	0	316,905	
Change in Net Assets	$ 42,646,689	$ (13,571,493)	$ 29,075,196	29,075,196
Long-term Liabilities at the Beginning of the year			**Payable at the Beginning of the Year**	
Bonds Payable			27,865,000	
Other			0	
Change in Net Assets				(27,865,000)
Net Adjustment to Net Assets				(1,210,196)

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net assets of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net assets. The details of this adjustment are as follows:

	Amount	Adjustments to Changes in Net Assets	Adjustments to Net Assets
Current Year Capital Outlay			
Land	$ 0		
Buildings & Improvements	0		
Furniture & Equipment	385,582		
Vehicles			
Construction in Progress	11,903,039		
Total Capital Outlay	$ 12,288,621	$12,288,621	$12,288,621
Debt Principal Payments			
Bond Principal	$ 1,315,000		
Loan Principal	0		
Capital Lease Payments	0		
Other	0		
Total Principal Payments	$ 1,315,000	1,315,000	1,315,000
Total Adjustment to Net Assets		$13,603,621	$13,603,621

Another element of the reconciliation on Exhibit C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

	Amount	Adjustments to Change in Net Assets	Adjustments to Net Assets
Adjustments to Revenue and Deferred Revenue			
Taxes Collected from PriorYear Levies	248,774	(248,774)	
Uncollected taxes (assumed collectible) from Current Year Levy	274,772	274,772	274,772
Uncollected Taxes (assumed collectible) from Prior Year Levy	390,252		390,252
Reclassify Proceeds of Bonds, Loans & Capital Leases			
New Bond Issue	20,640,000	(20,640,000)	(20,640,000)
Discount (Premium) on Issuance of Bonds	0	0	0
Capital Lease Proceeds	0	0	0
Other			
Reclassify liabilities incurred but not liquidated this year			
Unused Vacation Pay and/or unused sick leave	0	0	0
Other Adjustments	22,445	(22,445)	0
Total		(20,636,447)	(19,974,976)

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund (which is included in the General Fund. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit C-5 and the other two reports are in Exhibit J4 and J5.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.

2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.

3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.

4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end. A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

	August 31, 2007 Fund Balance
Appropriated Budget Funds -	$ 0
Nonappropriated Budget Funds	27,275
All Special Revenue Funds	$ 27,275

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended August 31, 2007, expenditures exceeded appropriations in the following functions as noted;

Function	Amount Exceeded
13- C & I Staff Development	$ 6,543
36- Cocurricular Activities	238,031

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

The funds of the District must be deposited and invested under the terms of a contract, contents of which are set out in the **Depository Contract Law.** The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At August 31, 2007, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was $22,144,592 and the bank balance was $ 22,566,551. The District's cash deposits at August 31, 2007 and during the year ended August 31, 2007 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

a. Depository: **Texas State Bank**

b. The market value of securities pledged as of the date of the highest combined balance on deposit was $32,459,083.

c. The highest combined balances of cash, savings, and time deposit accounts amounted to $ 28,851,608 and occurred during the month of August 2007.

d. Total amount of FDIC coverage at the time of the highest combined balance was $300,000.

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certifieates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The district is in substantial compliance with the requirements of the Act and with local policies.

Additional Contractual provisions governing deposits and investments for HIDALGO ISD are as follows:

Policies Governing Deposits and Investments

In compliance with the **Public Funds Investment Act**, the District has adopted a deposit and investment policy. That policy **does not** address the following risks:

a. Custodial Credit Risk - Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District is not exposed to custodial credit risk for its deposits as all are covered by depository insurance.

b. Custodial Credit Risk - Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District is not exposed to custodial credit risk for its investments are held in the name of the district.

d. Interest-rate Risk - Interest-rate risk occurs when potential purchasers of debt securities do not agree to pay face value for those securities if interest rates rise. The District does not have a policy dealing with interest-rate risk.

e. Other Credit Risk Exposure - The District is not exposed to other credit risk for all deposits are collateralized by securities of the U.S. government. The District policy does not address other credit risk.

f. Concentration Risk - The District is not exposed to other credit risk for all deposits are collateralized by securities of the U.S. government. The District policy does not address concentration risk

Both cash deposits and investments held at a financial institution can be categorized according to three levels of risk. These three levels of risk are:

The District's investments at August 31, 2007, are shown below:

		Investment Maturities (in years)			
Investment Type	**Market Value**	**Less than 1**	**1-5**	**6-10**	**More Than 10**
Certificates of Deposit					
General Fund	4,406,990	X			
Construction	13,955,939	X			
Total District Investments	$18,362,929				

During the year, the District's entire portfolio consisted of certificates of deposit.

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. INTERFUND BALANCES AND TRANSFERS

Interfund balances at August 31, 2007, consisted of the following amounts:

General Fund Due From:	
Debt Service Fund	228,112
Trust & Agency	212,954
Total General Fund	$441,066
Capital Projects Fund Due From:	
General Fund	5,181
Total Debt Service Fund	$5,181
Trust & Agency Fund Due From:	
General Fund	13,947
Total Trust & Agency Funds	$ 13,947
Total Due From	$460,194
General Fund Due To:	
Capital Fund	$5,181
Trust & Agency	13,947
Total General Fund	$19,128
Debt Service Fund Due To:	
General Fund	228,112
Total Debt Service Fund	$ 228,112
Trust & Agency Fund Due To:	
General Fund	212,954
Total Trust & Agency Funds	$212,954
Total Due To	$460,194

E. CAPITAL ASSET ACTIVITY

Capital asset activity for the District for the year ended August 31, 2007, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Land	$ 1,253,507	$ 0	$ 0	$ 1,253,507
Buildings and Improvements	37,898,946	316,905	0	38,215,851
Furniture and Equipment	3,177,331	385,582	0	3,562,913
Construction in Progress	316,905	11,903,039	(316,905)	11,903,039
Totals at Historic Cost	$ 42,646,689	$12,605,526	$ (316,905)	54,935,310
Less Accumulated Depreciation for:				
Buildings and Improvements	(11,134,353)	(944,794)	0	(12,079,147)
Furniture and Equipment	(2,437,140)	(307,057)	0	(2,744,197)
Total Accumulated Depreciation	(13,571,493)	(1,251,851)	0	(14,823,344)
Governmental Activities Capital Assets, Net	$ 29,075,196	$11,353,675	$ (316,905)	$ 40,111,966

Depreciation expense was charged to governmental functions as follows:

Instruction	$ 709,225
Instructional Resources and Media Services	17,344
Curriculum Development and Instructional Staff Development	20,095
Instructional Leadership	13,062
School Leadership	45,325
Guidance, Counseling and Evaluation Services	37,439
Social Work Services	2,338
Health Services	13,589
Student (Pupil) Transportation	41,293
Food Services	85,563
Cocurricular/Extracurricular Activities	58,016
General Administration	51,156
Plant Maintenance and Operations	131,792
Data Processing Services	18,280
Community Services	7,335
Total Depreciation Expense	$1,251,851

F. SHORT-TERM DEBT PAYABLE

The District accounts for short-term debts for maintenance purposes through the General Fund. Short-term debts include notes made in accordance with the provisions of the Texas Education Code Section 45.108. The proceeds from loans are shown in the financial statements as Other Resources and principal payments are shown as Other Uses.

No amount was outstanding at year-end.

G. BONDS PAYABLE

Bonded indebtedness of the District is reflected in the General Long-Term Debt Account Group. Current requirements for principal and interest expenditures are accounted for in the Debt Service Fund.

A summary of changes in general long-term debt for the year ended August 31, 2007 is as follows:

DESCRIPTION	Interest Rate Payable	Amounts Original Issue	Interest Current Year	Payable Amounts Outstanding 9/1/06	Issued	Retired	Outstanding 8/31/07
Unlimited Tax School Building Bonds – Series 1997	4.50 to 6.50%	$7,450,000	$ 271,318	$ 5,600,000	$ 0	$ 265,000	$ 5,335,000
Unlimited Tax School Building Bonds-Series 2000	4.50 to 5.40%	7,700,000	326,983	6,255,000	0	285,000	5,970,000
Unlimited Tax School Building Bonds-Series 2003	3.50 to 4.80%	9,700,000	403,960	9,700,000	0	290,000	9,410,000
Unlimited Tax School Building Bonds-Series 2004	3.00 to 5.00%	6,710,000	257,556	6,310,000	0	180,000	6,130,000
Unlimited Tax School Building Bonds-Series 2006	4.00 to 5.00%	11,040,000	455,887	0	11,040,000	295,000	10,745,000
Unlimited Tax School Building Bonds-Series 2007A	3.90 to 4.45%	6,300,000	33,610	0	6,300,000	0	6,300,000
Unlimited Tax School Building Bonds-Series 2007B	3.88% to 4.45%	3,300,000	17,549	0	3,300,000	0	3,300,000
TOTAL			$ 1,766,863	$ 27,865,000	$ 20,640,000	$ 1,315,000	$ 47,190,000

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2007.

H. DEBT SERVICE REQUIREMENTS - BONDS

Debt service requirements for bonds are as follows:

Year Ended August 31,	General Obligations Principal	Interest	Total Requirements
2008	1,320,000	2,076,322	3,396,322
2009	1,440,000	2,049,356	3,489,356
2010	1,625,000	1,984,999	3,609,999
2011	1,690,000	1,916,398	3,606,398
2012	1,775,000	1,843,671	3,618,671
2013-2017	10,195,000	7,954,186	18,149,186
2018-2022	11,070,000	5,431,471	16,501,471
2023-2027	9,105,000	3,217,490	12,322,490
2028-2032	6,335,000	1,160,620	7,495,620
2033-2037	2,635,000	302,888	2,937,888
Total	$ 47,190,000	$ 27,937,402	$75,127,402

I. DEFINED BENEFIT PENSION PLAN

Plan Description. Hidalgo Independent School District contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 8701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy. State law provides for fiscal years 2005, 2006 and 2007 a state contribution rate of 6.0% and a member contribution rate of 6.4%. In certain instances the reporting district (I.S.D., college, university, or state agency) is required to make all or a portion of the state's 6.0% contribution. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State contributions to TRS made on behalf of Hidalgo Independent School District's employees for the years ended August 31, 2005, 2006 and 2007 were $ 836,166, $854,178, and $1,048,245 respectively. Hidalgo Independent School District paid additional state contributions for the years ended August 31, 2005, 2006, and 2007 in the amount of $229,806, $239,438 and $264,418, respectively, on the portion of the employees' salaries that exceeded the statutory minimum.

J. HEALTH CARE COVERAGE

During the year ended August 31, 2007, employees of the District were covered by a health insurance plan (The Plan). Effective October 2002, the District contributed premiums of $ 266.00 per month per employee to the plan, and employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Section 21.922, Texas Education Code, and was documented by contractual agreement. The contract between the District and the insurance provider is renewable on October 1, 2005 and terms for coverage and premiums are included in the contractual provisions. The latest insurance information of the insurance provider are on file with the Texas Board of Insurance.

K. CHANGES IN LONG-TERM LIABILITIES

Long-term activity for the year ended August 31, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds and Notes Payable:					
General Obligation Bonds	$ 27,865,000	$ 20,640,000	$ (1,315,000)	$47,190,000	$ 1,320,000
Special Assessment Bonds	0	0	(0)	0	0
Equipment Note	0		(0)	0	0
Less Deferred Amount on Refunding	(0)	(0)	0	(0)	0
Total Bonds and Notes Payable	$ 27,865,000	20,640,000	$ (1,315,000)	$ 47,190,000	$ 1,320,000
Other Liabilities:					
Capital Leases	0	0	(0)	0	0
Compensated Absences	0	0	(0)	0	0
Claims and Judgments	0	0	(0)	0	0
Total Other Liabilities	0	0	($0)	0	0
Total Governmental Activities Long-term Liabilities	$ 27,865,000	20,640,000	($1,315,000)	$ 47,190,000	$ 1,320,000

L. DEFERRED REVENUE

Deferred revenue at year-end consisted of the following:

	General Fund	Debt Service Fund	Total
Net Tax Revenue	$526,931	$ 138,095	$665,026
Misc. Local	3,228	0	3,228
Total Deferred Revenue	$ 530,159	$ 138,095	668,254

M. DUE FROM STATE AGENCIES

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2007, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from State Agencies

FUND	STATE ENTITLEMENTS	FEDERAL GRANTS	TOTAL
General	$ 56,159	$ 0	$ 56,159
Special Revenue	195,957	27,509	223,466
Debt Service Funds	240,000	0	240,000
Total	$ 492,116	$ 27,509	$ 519,625

N. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

During the current year, revenues from local and intermediate sources consisted of the following:

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Property Taxes	$ 3,751,673	$ 0	$ 579,805	$ 0	$ 4,331,478
Penalties, Interest and Other Tax-related Income	139,712	0	14,132	0	153,844
Investment Income	172,889	0	79,808	690,604	943,301
Food Sales	36,660	0	0	0	36,660
Co-curricular Student Activities	6,377	0	0	0	6,377
Other	227,399	220,400	0	0	447,799
Total	$ 4,334,710	$ 220,400	$ 673,745	$ 690,604	$5,919,459

O. LITIGATION

The District is not aware of any pending or threatening litigation.

P. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS ANDCONTINGENCIES

As of 8/31/2007, the Hidalgo ISD had the following significant commitments for construction projects not yet completed:

Project	Contract	% Comlete	Est Completion
New Hidalgo Elementary Project	$ 6,755,640	95%	September 2007
Kelly Elementary New Classroom Wing & Gym	$ 1,315,000	95%	October 2007
Hidalgo Jr. High & High School Remodeling Project	$ 5,848,000	80%	January 2008.

Q. JOINT VENTURE-SHARED SERVICE ARRANGEMENTS

The District is the fiscal agent for a Shared Services Arrangement ("SSA") which provides dual language technical assistance services to the member districts, Monte Alto ISD and Lyford ISD. The fiscal agent, the District, directly provides the funding to implement the services to the member district. According to guidance provided in TEA's Resource Guide, the District has accounted for the fiscal agent's activities of the SSA in Special Revenue Fund No. 352, Shared Services Arrangements – Title VII Part A, 21st Century Grant. Expenditures of the SSA are summarized below:

Hidalgo Independent School District	$439,089
Monte Alto Independent School District	140,935
Lyford Independent School District	294,936
Total	874,960

R. MAINTENANCE OF EFFORT

The total amount paid by the district (a fully insured plan provider) for employee health care premiums is as follows:

a)	Total District Premium paid for health care 2006-07		$ 2,079,914
b)	Subtract any non-medical expenditures		
	Life Insurance	$ 0	
	Dental Insurance	0	
	Vision Insurance	0	
	Long-term Disability	0	
	Short-Term Disability	0	
	Alternate Plans	0	
	COBRA Expense	0	
	Retiree Expense	0	(0)
c)	2006-2007 Maintenance of Effort		$ 2,079,914

S. PRIOR PERIOD ADJUSTMENT

The District recognized a net prior period adjustment in the Debt Service Fund as follows;

Description	Amount
Decrease Due to IFA/EDA TEA Receivable reduction	(985,923)
Net Prior Period Adjustment	$(985,923)

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

RAMIREZ & GUERRERO, L.L.P.
Attorneys at Law
600 East Nolana Avenue, Suite 200
McAllen, Texas 78501
Phone: (956) 664-0007
Fax: (956) 664-1770

[Closing Date]

**HIDALGO INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2008
IN THE AGGREGATE ORIGINAL PRINCIPAL
AMOUNT OF $5,400,000***

WE HAVE ACTED as Bond Counsel for the HIDALGO INDEPENDENT SCHOOL DISTRICT (the "District") in connection with issuance of the captioned bonds (the "Bonds") for the purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income of the owners thereof for federal income tax purposes and for no other purpose. In rendering the opinions herein, we have relied upon a transcript of certain certified proceedings pertaining to the issuance of the Bonds as described in the District's order authorizing the Bonds (the "Order"). The transcript contains certified copies of certain proceedings of the District and certain certifications and representations, other material facts within the knowledge and control of the District, an opinion of the Attorney General of Texas to the effect that the initial Bond is a valid and binding obligation of the District, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds. We have also examined executed Bond No. T-l and a specimen of Bonds to be authenticated and delivered in exchange for the Bonds.

THE BONDS are being issued to provide funds to be used (a) to construct and equip instructional facilities, (b) purchase the necessary sites therefor, and (c) to pay for costs of issuance of the Bonds.

BASED ON SUCH EXAMINATION, our opinion is as follows:

The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; and constitute valid and legally binding obligations of the District in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases.

The Bonds are payable, both as to principal and interest, from the proceeds of an ad valorem tax levied, without legal limits as to rate or amount, against all taxable property located within the District, which taxes have been pledged irrevocably to pay the principal of and the interest on the Bonds.

In the Order, the District has designated the Bonds as “qualified tax-exempt obligations” under Section 265(b) of the Code and has made the representations and covenants which we have not independently verified, necessary to qualify the Bonds as “qualified tax-exempt obligations” for financial institutions. Based upon such representations, it is our opinion that the Bonds are “qualified tax-exempt obligations.”

It is our further opinion, subject to the restrictions hereinafter described, that the interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes under existing law and

* Preliminary, subject to change.

is not subject to the alternative minimum tax on individuals or, except as hereinafter described, corporations. The opinion set forth in the first sentence of this paragraph is subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986 (the "Code") that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted in the Order to comply with each such requirement. Failure to comply with such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. The Code and the regulations, rulings and court decisions thereunder, upon which the foregoing opinions of Bond Counsel are based, are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof for federal income tax purposes.

INTEREST ON all tax-exempt obligations, including the Bonds, owned by a corporation, other than an S corporation, a qualified mutual fund, a regulated investment company, a real estate investment trust (REIT) or a real estate mortgage investment conduit (REMIC), will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by the Code is computed.

EXCEPT AS DESCRIBED ABOVE, we express no opinion as to any federal, state or local tax consequences under present law, or future legislation, resulting from the ownership of, receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income credit, individuals who own an interest in a financial asset securitization investment trust, and taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. For the foregoing reasons, prospective purchasers should consult their own tax advisors as to the consequences of investing in the Bonds.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

Respectfully submitted,