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(See "Continuing Disclosure Information" 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 statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations.

**THE BONDS WILL NOT BE DESIGNATED AS
"QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS**

**MANSFIELD INDEPENDENT SCHOOL DISTRICT
(Tarrant and Johnson Counties, Texas)**

\$41,220,000*

UNLIMITED TAX REFUNDING BONDS, SERIES 2012-A

Dated Date: July 1, 2012

Interest Accrual Date: Delivery Date

Due: As shown on Page 2

PAYMENT TERMS...Interest on the \$41,220,000* Mansfield Independent School District Unlimited Tax Refunding Bonds, Series 2012-A (the "Bonds") will accrue from August 23, 2012* (the "Delivery Date") and will be payable February 15 and August 15 of each year commencing on February 15, 2013, until maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued as fully registered obligations in the denominations of \$5,000 of principal amount or any integral multiple thereof for any one stated maturity. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in authorized denominations thereof. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** The principal 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 Regions Bank, Dallas, 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 Chapter 1207 of the Texas Government Code, as amended, and an order (the "Bond Order") adopted by the Board of Trustees (the "Board") of the Mansfield Independent School District (the "District") in which the Board delegated to certain officers of the District authority to complete the sale of the Bonds through the execution of a "Pricing Certificate" (the Bond Order and Pricing Certificate are jointly referred to as the "Order"). The Bonds are direct obligations of the District, payable from an annual 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 (see "THE BONDS - Authority for Issuance"). **The District has applied for and has received conditional approval for the payment of the Bonds to be guaranteed by the Permanent School Fund of Texas (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein).**

PURPOSE . . .Proceeds from the sale of the Bonds will be used (1) to refund a portion of the District's Unlimited Tax School Building Bonds, Series 2004 (the "Refunded Bonds") for debt service savings (see "PLAN OF FINANCING"; also see Schedule I for a detailed listing of the Refunded Bonds and their call date) and (2) to pay the costs associated with the sale and issuance of the Bonds.

CUSIP PREFIX: 564386 – MATURITY SCHEDULE AND 9-DIGIT CUSIP - See Schedule on Page 2

LEGALITY...The Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinion of Fulbright & Jaworski L.L.P., Dallas, Texas, Bond Counsel (see "Appendix C - Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by its counsel, Kelly Hart & Hallman LLP, Fort Worth, Texas.

DELIVERY...It is expected that the Bonds will be available for delivery through DTC on August 23, 2012*.

RAYMOND JAMES | MORGAN KEEGAN

BOSC, INC.

A subsidiary of BOK Financial Corporation

FROST BANK

SOUTHWEST SECURITIES

* Preliminary, subject to change.

Ratings:

Moody's: "Applied For"

S&P: "Applied For"

Fitch: "Applied For"

PSF Guarantee: "Approval Received"

(See "OTHER INFORMATION - Ratings" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein)

MATURITY SCHEDULE ***CUSIP Prefix: 564386⁽¹⁾**

<u>Maturity (2/15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP⁽¹⁾ Suffix</u>	<u>Maturity (2/15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP⁽¹⁾ Suffix</u>
2015	\$ 870,000				2025	\$ 3,935,000			
***	***	***	***	***	2026	5,610,000			
2022	4,440,000				2027	5,970,000			
2023	4,870,000				2028	5,635,000			
2024	3,160,000				2029	6,730,000			

(Interest to accrue from the Delivery Date)

OPTIONAL REDEMPTION...The District reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 20__, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 20__, 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 is provided by CUSIP Global Services, managed by Standard & Poor’s Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. Neither the District, the Financial Advisor, nor the Underwriters take any responsibility for the accuracy of CUSIP numbers.

* Preliminary, subject to change.

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, this document constitutes an 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.

No dealer, broker, salesman or other person has been authorized by the District or the Underwriters to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Underwriters. This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

Certain information set forth herein has been obtained from the District and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Financial Advisor or the Underwriters. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM - PSF Continuing Disclosure Undertaking” and “CONTINUING DISCLOSURE INFORMATION” for a description of the undertakings of the Texas Education Agency (the “TEA”) and the District, respectively, to provide certain information on a continuing basis.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with their respective responsibilities to investors under federal securities laws, but the Underwriters do 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 schedules and appendices attached hereto, to obtain information essential to making an informed investment decision.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

NEITHER THE DISTRICT, ITS FINANCIAL ADVISOR, NOR THE UNDERWRITERS MAKES 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 TEA DESCRIBED UNDER “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”, AS SUCH INFORMATION HAS BEEN PROVIDED BY THE DEPOSITORY TRUST COMPANY AND THE TEA, RESPECTIVELY.

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 JURISDICTIONS IN WHICH THE BONDS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

*This Official Statement contains “forward-looking” statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements to be different from future results, performance and achievements expressed or implied by such forward-looking statements. **Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements.***

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

PRELIMINARY 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 Tarrant and Johnson Counties, Texas. The District is approximately 94 square miles in area (see “INTRODUCTION - Description of the District”).

- THE BONDS** The \$41,220,000* Unlimited Tax Refunding Bonds, Series 2012-A (the “Bonds”) are issued as serial bonds maturing on February 15 in the years 2015 and 2022 through 2029 (see “THE BONDS - Description of the Bonds”).

- PAYMENT OF INTEREST** Interest on the Bonds accrues from the date of their delivery to the Underwriters and is due semiannually on February 15 and August 15 of each year commencing on February 15, 2013 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 Chapter 1207 of the Texas Government Code, as amended, and an order (the “Bond Order”) passed by the Board. In the Bond Order, the Board delegated to certain officers of the District, pursuant to certain provisions of Chapter 1207 of the Texas Government Code, as amended, authority to complete the sale of the Bonds. The terms of the sale will be included in a “Pricing Certificate,” which will complete the sale of the Bonds (the Bond Order and Pricing Certificate are jointly referred to as the “Order”) (see “THE BONDS - Authority for Issuance”).

- SECURITY FOR THE BONDS** The Bonds constitute direct 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, as provided in the Order. Additionally, the payment of the Bonds is expected to be guaranteed by the corpus of the Permanent School Fund of Texas (see “THE BONDS - Security and Source of Payment” and “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).

- PERMANENT SCHOOL FUND GUARANTEE** The District has applied for and has received conditional approval from the Texas Education Agency for the payment of the Bonds to be guaranteed by the Permanent School Fund Guarantee Program of the State of Texas (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).

- OPTIONAL REDEMPTION** The District reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 20__, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 20__, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE BONDS - Optional Redemption”).

- NOT QUALIFIED TAX-EXEMPT OBLIGATIONS**..... The Bonds will not be designated as “Qualified Tax-Exempt Obligations” for financial institutions.

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

- USE OF PROCEEDS** Proceeds from the sale of the Bonds will be used (1) to refund a portion of the District’s Unlimited Tax School Building Bonds, Series 2004 (the “Refunded Bonds”) for debt service savings (see “PLAN OF FINANCING”; also see Schedule I for a detailed listing of the Refunded Bonds and their call date) and (2) to pay the costs associated with the issuance and sale of the Bonds.

* Preliminary, subject to change.

RATINGS The presently outstanding tax supported debt of the District is rated “Aa2” by Moody’s Investors Service, Inc. (“Moody’s”), “AA” by Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”) and “AA+” by Fitch, Inc. (“Fitch”) without regard to credit enhancement. The District also has issues outstanding which are rated “Aaa” by Moody’s and “AAA” by S&P by virtue of the guarantee of the Permanent School Fund of the State of Texas. Applications for contract ratings on the Bonds have been submitted to Moody’s, S&P and Fitch (see “OTHER INFORMATION - Ratings” and “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”)

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 within a maturity. **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 never defaulted in payment of its tax supported debt.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 8/31	Estimated District Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Per Capita Taxable Assessed Valuation	Tax Supported Debt at End of Fiscal Year	Per Capita Tax Supported Debt	Ratio Tax Supported Debt to Taxable Assessed Valuation	% of Total Tax Collections
2008	157,416	\$ 7,831,495,869	\$ 49,750	\$ 701,849,741	\$ 4,459	8.96%	101.00%
2009	165,286	8,569,215,648	51,845	687,857,835	4,162	8.03%	100.44%
2010	166,000	8,952,290,682	53,929	666,804,943	4,017	7.45%	100.19%
2011	167,676	8,865,913,912	52,875	697,913,432	4,162	7.87%	100.66%
2012	167,676	9,413,258,283	56,140	726,134,963 ⁽³⁾	4,331 ⁽³⁾	7.71% ⁽³⁾	94.55% ⁽⁴⁾

- (1) Source: The District.
- (2) As reported by the Appraisal District (defined herein) on the District’s annual State Property Tax Reports and such values are subject to change during the ensuing year.
- (3) Projected, includes the Bonds and excludes the Refunded Bonds. Preliminary, subject to change.
- (4) Partial year collections through April 30, 2012.

For additional information regarding the District, please contact:

Elaine Cogburn
 Associate Superintendent of Business & Finance
 Mansfield Independent School District
 605 East Broad Street
 Mansfield, Texas 76063
 (817) 299-6324

or

Jeff W. Robert, Sr. Vice President or
 Nick Bulaich, Vice President
 First Southwest Company
 325 N. St. Paul Street, Suite 800
 Dallas, Texas 75201
 (214) 953-8744

DISTRICT OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>Board of Trustees</u>	<u>Date First Elected</u>	<u>Term Expires</u>	<u>Occupation</u>
Ms. Beth Light President	2006	May, 2015	Account Manager
Dr. Michael Evans Vice President	2007	May, 2013	Clergy
Mr. Terry Moore Secretary	2006	May, 2015	Medical Sales
Ms. Sandra Vathauer Board Member	2004	May, 2013	Petroleum Engineer
Mr. Danny Baas Board Member	2011	May, 2014	Police Officer
Mr. Raul Gonzalez Board Member	2010	May, 2013	Director of Administration for a Law Firm
Ms. Courtney Wilson Board Member	2011	May, 2014	Business Owner

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service with the District</u>	<u>Total School District Service</u>
Dr. Bob Morrison	Superintendent	9 Years	24 Years
Ms. Elaine Cogburn	Associate Superintendent of Business & Finance	(1)	17 Years
Dr. Jim Vaszauskas	Associate Superintendent/Curriculum, Instruction & Accountability	3 Years	31 Years
Dr. Linda Chance	Associate Superintendent Human Resources	3 Years	31 Years

(1) Ms. Cogburn began her position with the District in April 2012.

CONSULTANTS AND ADVISORS

Independent Auditors.....WhitleyPenn, L.L.P.
Fort Worth, Texas

Bond CounselFulbright & Jaworski L.L.P.
Dallas, Texas

Financial Advisor First Southwest Company
Dallas, Texas

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**PRELIMINARY OFFICIAL STATEMENT
RELATING TO
MANSFIELD INDEPENDENT SCHOOL DISTRICT
\$41,220,000*
UNLIMITED TAX REFUNDING BONDS, SERIES 2012-A**

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$41,220,000* Mansfield Independent School District Unlimited Tax Refunding Bonds, Series 2012-A (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Order (defined herein), except as otherwise indicated herein.

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 District is a political subdivision located in Tarrant and Johnson Counties, 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 94 square miles in Tarrant and Johnson Counties, encompassing the City of Mansfield.

PLAN OF FINANCING

PURPOSE . . . Proceeds from the sale of the Bonds will be used (1) to refund a portion of the District's Unlimited Tax School Building Bonds, Series 2004 (the "Refunded Bonds") for debt service savings (see "PLAN OF FINANCING"; also see Schedule I for a detailed listing of the Refunded Bonds and their call date) and (2) to pay the costs associated with the sale of the Bonds.

REFUNDED BONDS . . . The principal and interest due on the Refunded Bonds are to be paid on the interest payment dates, the maturity date and redemption date of such Refunded Bonds from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the District and U.S. Bank National Association, Dallas, Texas (the "Escrow Agent"). The Order provides that from the proceeds of the sale of the Bonds received from the Underwriters and other available District funds, if any are necessary, the District will deposit with the Escrow Agent the amount that, together with investment earnings thereon, will be sufficient to pay all amounts coming due on the Refunded Bonds to their redemption date and to accomplish the discharge and final payment of the Refunded Bonds on their redemption date. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase direct obligations of the United States of America (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

Grant Thornton LLP, a nationally recognized accounting firm, will verify at the time of delivery of the Bonds to the Underwriters thereof the mathematical accuracy of the schedules that demonstrate the Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. Such maturing principal of and interest on the Federal Securities will not be available to pay the Bonds (see "OTHER INFORMATION - Verification of Arithmetical and Mathematical Computations").

By the deposit of the Federal Securities and cash, if necessary, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of all of the Refunded Bonds in accordance with State law. It is the opinion of Bond Counsel that as a result of such defeasance and in reliance upon the verification report of Grant Thornton LLP, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Federal Securities and any cash held for such purpose by the Escrow Agent and such Refunded Bonds will not be deemed as being outstanding obligations of the District payable from taxes nor for the purpose of applying any limitation on the issuance of debt. Upon defeasance of the Refunded Bonds, the payment of such Refunded Bonds will no longer be guaranteed by the Permanent School Fund Guarantee.

In the Escrow Agreement, the District covenants to make timely deposits to the Escrow Fund from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Bonds, if, for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

* Preliminary, subject to change.

SOURCES AND USES OF PROCEEDS . . . The proceeds from the sale of the Bonds will be applied approximately as follows:

<u>Sources of Funds</u>	
Par Amount of the Bonds	\$ -
Net Reoffering Premium	-
Total Sources of Funds	<u>\$ -</u>
 <u>Uses of Funds</u>	
Deposit to the Escrow Fund	\$ -
Underwriters' Discount and Costs of Issuance	-
Total Uses of Funds	<u>\$ -</u>

THE BONDS

DESCRIPTION OF THE BONDS... The Bonds will be dated July 1, 2012 and mature on the dates and in the amounts shown on page 2 of this Official Statement. Interest will accrue from the date of their delivery to the Underwriters and will be computed on the basis of a 360-day year of twelve 30-day months. Such interest will be payable on February 15 and August 15, commencing on February 15, 2013, until maturity or prior redemption. 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") 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 "THE BONDS - 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 Chapter 1207, Texas Government Code, as amended, and by the order (the "Bond Order") passed by the Board.

In the Bond Order, the Board delegated to certain officers of the District, pursuant to certain provisions of Chapter 1207 of the Texas Government Code, as amended, authority to complete the sale of the Bonds. The terms of the sale will be included in a "Pricing Certificate," which will complete the sale of the Bonds (the Bond Order as supplemented by the Pricing Certificate is referred to as 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 the Bonds. See "TAX INFORMATION – Tax Rate Limitations" and "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM." Additionally, the payment of the Bonds is expected to be 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 and has received conditional approval from the Commissioner of Education for the payment of the Bonds to be guaranteed 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 payment of the Bonds will be guaranteed by the corpus of the Permanent School Fund of the State of Texas. In the event of default, registered owners will receive all payments due on the Bonds from the corpus of the Permanent School Fund.

OPTIONAL REDEMPTION... The District reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 20__, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 20__, 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 AND ANY OTHER CONDITION TO REDEMPTION SATISFIED, 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.

With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Order have been met and moneys sufficient to pay the redemption price of the Bonds to be redeemed shall have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption is conditional upon the satisfaction of such prerequisites and receipt of such moneys by the Paying Agent/Registrar on or prior to the date fixed for such redemption, or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption and sufficient moneys are not received, such notice shall be of no force and effect, the District shall not redeem such Bonds and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

ANY NOTICE SO MAILED WILL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, AND ANY CONDITIONS STATED IN THE NOTICE HAVING BEEN MET, THE BONDS CALLED FOR REDEMPTION WILL 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 BOND OR PORTION THEREOF WILL 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 such 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 the Paying Agent/Registrar, or other authorized escrow agent, in trust (1) money sufficient to make such payment or (2) Government Securities 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 "Government 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, on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (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, on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (d) any other then authorized securities or obligations that may be used to defease obligations such as the Bonds under applicable laws of the State of Texas. The District has the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities for the Government 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.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Order does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Government Securities or that for any other Government Security will be maintained at any particular rating category.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid and will cease to be outstanding obligations secured by the Order or treated as debt of the District for purposes of taxation or applying any limitation on the District's ability to issue debt or for any other purpose. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished 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.

Furthermore, the Permanent School Fund Guarantee will terminate with respect to the Bonds defeased in the manner provided above.

AMENDMENTS...The District may amend the Order without the consent of or notice to any registered owners of the Bonds in any manner not detrimental to the interest of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Order; except that, without consent of the registered owners of all of the Bonds then outstanding, no such amendment, addition or rescission may (1) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof, the redemption price, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required to be held by holders for consent to any such amendment, addition, or rescission.

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 credited by The Depository Trust Company (“DTC”), New York, New York, 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, the Financial Advisor and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

The District, the Financial Advisor and the Underwriters cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Bonds or any 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 any 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 Bonds registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent/Registrar. Under such circumstances, in the event that a successor 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-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District and the Underwriters believe to be reliable, but neither the District nor the Underwriters take any responsibility for the accuracy thereof.

EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM...In the event that the Book-Entry-Only System is discontinued, printed certificates 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.

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 Direct or Indirect 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.

PAYING AGENT/REGISTRAR...The initial Paying Agent/Registrar is Regions Bank, Dallas, 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, financial institution, trust company 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.

In 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 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; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under “THE BONDS - Book-Entry-Only System” herein. If the date for the payment of the principal of or interest on the Bonds is a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located 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.

TRANSFER, EXCHANGE AND REGISTRATION...In the event the Book-Entry-Only System should be discontinued, printed Bond certificates will be delivered to registered owners and thereafter the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed certificates 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 “THE BONDS - Book-Entry-Only System” for a description of the system to be utilized initially in regard to the 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 on 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 last business 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...If the District defaults in the payment of principal, interest or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions or obligations set forth in the Order, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the covenants contained in the Bonds or in the Order and the District’s obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the Event of Default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order 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 and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. Because it is unclear whether the Texas legislature has effectively waived the District’s sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Chapter 1371, Texas Government Code (“Chapter 1371”), which pertains to the issuance of public securities by issuers such as the District, permits the District to waive sovereign immunity in the proceedings authorizing its bonds, but in connection with the issuance of the Bonds, the District is not using Chapter 1371 as legal authority for the issuance of the Bonds and has not waived sovereign immunity pursuant to the legal authority provided by Chapter 1371. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District’s property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. 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 ad valorem 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. See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

The information below concerning the Texas Permanent School Fund and the Guarantee Program for School District Bonds has been provided by the Texas Education Agency and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the District or the Underwriters.

This disclosure statement provides information relating to the program administered by the Texas Education Agency (the “TEA”) with respect to the Texas Permanent School Fund guarantee of Texas school district bonds, which program is referred to, and defined herein, as the Guarantee Program.

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 2011, distributions to the ASF amounted to \$246.09 per student and the total amount distributed to the ASF was \$1.093 billion.

Audited financial information for the PSF is provided annually through the PSF Annual Report (the “Annual Report”), which is filed with the Municipal Securities Rulemaking Board (“MSRB”). 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, 2011 and for a description of the financial results of the PSF for the year ended August 31, 2011, the most recent year for which audited financial information regarding the Fund is available. The 2011 Annual Report is incorporated herein and made a part hereof for all purposes, but the 2011 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2011 Annual Report or any other Annual Report. The TEA posts each Annual Report, which includes statistical data regarding the Fund 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 and with the MSRB at www.emma.msrb.org. Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the 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) 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. A list of the Fund's equity and fixed income holdings as of August 31, 2011 has been posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund's securities lending program. Such list is incorporated herein and made a part hereof for all purposes.

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 6% of the average of the market value of the Fund, excluding real property (the "Distribution Rate"), on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium (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 (the "Ten Year Total Return"). In April 2009, the Attorney General issued a legal opinion, Op. Tex. Att'y Gen. No. GA-0707 (2009) ("GA-0707"), at the request of the Chairman of the SBOE with regard to certain matters pertaining to the Distribution Rate and the determination of the Ten Year Total Return. In GA-0707 the Attorney General opined, among other advice, that (i) the Ten Year Total Return should be calculated on an annual basis, (ii) a contingency plan adopted by the SBOE, to permit monthly transfers equal in aggregate to the annual Distribution Rate to be halted and subsequently made up if such transfers temporarily exceed the Ten Year Total Return, is not prohibited by State law, provided that such contingency plan applies only within a fiscal year time basis, not on a biennium basis, and (iii) that the amount distributed from the Fund in a fiscal year may not exceed 6% of the average of the market value of the Fund or the Ten Year Total Return. In accordance with GA-0707, in the event that the Ten Year Total Return is exceeded during a fiscal year, transfers to the ASF will be halted. However, if the Ten Year Total Return subsequently increases during that biennium, transfers may be resumed, if the SBOE has provided for that contingency, and made in full during the remaining period of the biennium, subject to the limit of 6% in any one fiscal year. Any shortfall in the transfer that results from such events from one biennium may not be paid over to the ASF in a subsequent biennium as the SBOE would make a separate payout determination for that subsequent biennium.

In determining the Distribution Rate, the SBOE has adopted the goal of maximizing the amount distributed from the Fund in a manner designed to preserve "intergenerational equity." 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, projected returns in the capital markets 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. In the 2011 fiscal year, the SLB also released \$100 million to the investment assets of the PSF. The SBOE set the Distribution Rate for the Fund for fiscal years 2010 and 2011 at 2.5% of the average of the PSF market value during the Distribution Measurement Period that ended in November 2008. That distribution rate produced total transfers of \$1.1535 billion to the ASF from the PSF during the 2010-11 biennium. The SBOE has set the Distribution Rate for the 2012-13 biennium at 4.2%, which rate was determined after the SLB authorized the release of a total of \$500 million to the PSF in quarterly installments during the 2012-13 biennium. See "2011 Constitutional Amendment" below

for a description of amendments made to the Texas Constitution on November 8, 2011 that permits the SLB to make transfers directly to the ASF up to the amount of \$300 million in each fiscal year.

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, prior to the adoption of the 2004 Asset Allocation Policy (as defined below) the investment of the Fund 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 (the "2004 Asset Allocation Policy"), in July 2006 (as subsequently reaffirmed in July 2008 such asset allocation is referred to herein as the "2008 Asset Allocation Policy") and in July 2010 (the "2010 Asset Allocation Policy"), which have significantly altered the asset allocations of the Fund. The Fund's investment policy provides for minimum and maximum ranges among the components of each of the three general asset classifications: equities, fixed income and alternative asset investments. The 2004 Asset Allocation Policy 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 July 2006, the SBOE modified its asset allocation to reduce the equity allocation, including both domestic and foreign equity portfolios, to a target of 53% of Fund assets, further reduced the fixed income allocation target to 19% and added an alternative asset allocation, which included real estate, real return, absolute return and private equity components, totaling 28% of the Fund's asset target. Alternative asset classes diversify the SBOE-managed assets and are not as correlated to traditional asset classes, which is intended to increase investment returns over the long run while reducing risk and return volatility of the portfolio. In July 2010, the SBOE modified the 2008 Asset Allocation Policy by decreasing the equity allocation to 50%, and the fixed income allocation to 15%, while increasing the alternative asset allocation (which may include equity and fixed income investments as part of a variety of alternative investment strategies) to 35%. The new asset categories added by the 2010 Asset Allocation Policy are a new 7% allocation for risk parity investments, added in accordance with the recommendation of a new investment advisor, and a .5% allocation for charter school investments, both of which are categorized within the Fund's alternative asset category. Based on an opinion of the Texas Attorney General, which was received by the Chair of the SBOE in August 2011, and which stated that the PSF may not be invested for an objective that does not meet the prudent person investment standard, the charter school investment allocation was discontinued without being implemented in September 2011, with the .5% allocation being reallocated into other alternative investment allocations. The PSF Staff and the Fund's investment advisor are tasked with advising the SBOE with respect to the implementation of the 2010 Asset Allocation Policy, including the timing and manner of the selection of any external managers and other consultants. For a variety of reasons, each change in asset allocation for the Fund, including the 2010 Asset Allocation Policy, has been, and is being, implemented in phases. At August 31, 2011, the Fund was invested as follows: 54.60% in public market equity investments; 22.18% in fixed income investments; 10.34% in absolute return assets; 0.72% in private equity assets; 1.42% in real estate assets; 7.73% in risk parity assets; 2.88% in real return assets; and 0.13% in cash.

In accordance with the Texas Constitution, the SBOE views the PSF as a perpetual institution, and the Fund 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. The heavier weighting of equity securities relative to fixed income investments has resulted in greater volatility of the value of the Fund. Given the greater weighting in the overall portfolio of passively managed investments, it is expected that the Fund will reflect the general performance returns of the markets in which the Fund is invested.

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 section 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. In 2007, the Legislature established 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. 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. The 2007 legislation that established the Real Estate Account, House Bill 3699 (“HB 3699”) presented constitutional questions regarding the respective roles of the SBOE and the SLB relating to the disposition of proceeds of real estate transactions to the ASF, among other questions. On April 9, 2008, the Attorney General issued a legal opinion, Op. Tex. Att’y Gen. No. GA-0617 (2008), at the request of the Chair of the SBOE advising, among other matters, that any proceeds from the sale of real estate that are not reinvested by the SLB in other real estate assets must be invested under the direction of the SBOE, and that the provisions of H.B. 3699 that permit the SLB to directly transfer real estate investment proceeds to the ASF (in lieu of transfer to the investment portfolio of the PSF under the management of the SBOE), would likely be determined by a court to be in violation of the State constitution. Amounts in the investment portfolio of the PSF are taken into account by the SBOE for purposes of determining the Distribution Rate. An amendment to the Texas Constitution was approved by State voters on November 8, 2011, which permits the SLB to make transfers directly to the ASF, see “2011 Constitutional Amendment” below.

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. The SBOE has also engaged outside counsel to advise it as to its duties over the Fund, including specific actions regarding the investment of the PSF to ensure compliance with fiduciary standards, and to provide transactional advice in connection with the investment of Fund assets in non-traditional investments.

THE GUARANTEE

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 guaranteed bonds are paid or defeased, by a refunding or otherwise.

In the event of default, holders of guaranteed bonds will receive all payments due from the corpus of the PSF. Following a determination that a district will be or is unable to pay maturing or matured principal or interest on any guaranteed 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 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. The Act permits the Commissioner to order a school district to set a tax rate sufficient to reimburse the Fund for any payments made with respect to guaranteed bonds, and also sufficient to pay future payments on guaranteed bonds, and provides certain enforcement mechanisms to the Commissioner, including the appointment of a board of managers or annexation of a defaulting district to another district.

If a 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 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 bonds.

In the event that two or more payments are made from the PSF on behalf of a district, the Commissioner shall request the Attorney General to institute legal action to compel the district and its officers, agents and employees to comply with the duties required of them by law in respect to the payment of guaranteed bonds.

For a discussion of legislative developments that have authorized the use of the Fund to guarantee revenue bonds issued by certain open-enrollment charter schools, see "Other 2011 Legislative Actions – Charter School Guarantee Program" below.

CAPACITY LIMITS FOR THE GUARANTEE PROGRAM

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 regulations and a notice issued by the Internal Revenue Service (the "IRS" and the "IRS Limit," respectively). 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 issuance of the IRS Notice (defined below), the capacity of the program under the IRS Limit was limited to two and one-half times the lower of cost or fair market value of the Fund's assets adjusted by a factor that excluded additions to the Fund made since May 14, 1989. During the 2007 Texas Legislature, Senate Bill 389 ("SB 389") was enacted providing for additional increases in the capacity of the Guarantee Program, and specifically providing that the SBOE may by rule increase the capacity of the Guarantee Program from two and one-half times the cost value of the PSF to an amount not to exceed five times the cost value of the PSF, provided that the increased limit does not violate federal law and regulations and does not prevent bonds guaranteed by the Guarantee Program from receiving the highest available credit rating, as determined by the SBOE. SB 389 further provides that the SBOE shall at least annually consider whether to change the capacity of the Guarantee Program. Since 2005, the Guarantee Program has twice reached capacity under the IRS Limit, and in each instance the Guarantee Program was closed to new bond guarantee applications until relief was obtained from the IRS. The most recent closure of the Guarantee Program commenced in March 2009 and the Guarantee Program reopened in February 2010 on the basis of receipt of the IRS Notice.

On December 16, 2009, the IRS published Notice 2010-5 (the "IRS Notice") stating that the IRS will issue proposed regulations amending the existing regulations to raise the IRS limit to 500% of the total cost of the assets held by the PSF as of December 16, 2009. In accordance with the IRS Notice, the amount of any new bonds to be guaranteed by the PSF, together with the then outstanding amount of bonds previously guaranteed by the PSF, must not exceed the IRS limit on the sale date of the new bonds to be guaranteed. The IRS Notice further provides that the IRS Notice may be relied upon for bonds sold on or after December 16, 2009, and before the effective date of future regulations or other public administrative guidance affecting funds like the PSF.

The IRS Notice establishes a static capacity for the Guarantee Program based upon the cost value of Fund assets on December 16, 2009 multiplied by five. On December 16, 2009, the cost value of the Guarantee Program was \$23,463,730,608 (estimated and unaudited), thereby producing an IRS Limit of approximately \$117.3 billion. The State Capacity Limit is determined on the basis of the cost value of the Fund from time to time multiplied by the capacity multiplier determined annually by the SBOE, but not to exceed a multiplier of five. The capacity of the Guarantee Program will be limited to the lower of the State Capacity Limit and the IRS Limit. On May 21, 2010, the SBOE modified the regulations that govern the Guarantee Program (the "Guarantee Program Rules"), and increased the State Law Capacity to an amount equal to three times the cost value of the PSF. Such modified regulations, including the revised capacity rule, became effective on July 1, 2010. The Guarantee Program Rules provide that the Commissioner may reduce the multiplier to maintain the AAA credit rating of the Guarantee Program, but provide that any changes to the multiplier made by the Commissioner are to be ratified or rejected by the SBOE at the next meeting following the change. See "Valuation of the PSF and Guaranteed Bonds," below.

Since July 1991, when the SBOE amended the Guarantee Program Rules to broaden the range of bonds that are eligible for guarantee under the Guarantee Program to encompass most Texas school district bonds, the principal amount of bonds guaranteed under the Guarantee Program has increased sharply. In addition, in recent years a number of factors have caused an increase in the amount of bonds issued by school districts in the State. See the table "Permanent School Fund Guaranteed Bonds" below. The SBOE has approved and modified the Guarantee Program Rules in recent years, most recently in May 2010. Generally, the Guarantee Program Rules limit guarantees to certain types of notes and bonds, including, with respect to

refunding bonds, a requirement that the bonds produce debt service savings, and that bonds issued for capital facilities must have been voted as unlimited tax debt of the issuing district. The Guarantee Program regulations include certain accreditation criteria for districts applying for a guarantee of their bonds, and limit guarantees to districts that have less than the amount of annual debt service per average daily attendance that represents the 90th percentile of annual debt service per average daily attendance for all districts, but such limitation will not apply to school districts that have enrollment growth of at least 25% over the previous five school years. Effective September 1, 2009, the Act provides that the SBOE may annually establish a percentage of the cost value of the Fund to be reserved from use in guaranteeing bonds. The capacity of the Guarantee Program in excess of any reserved portion is referred to herein as the “Capacity Reserve.” The Guarantee Program Rules provide for a minimum Capacity Reserve of no less than 5%, and provide that the amount of the Capacity Reserve may be increased by a majority vote of the SBOE. The Commissioner is authorized to change the Capacity Reserve, which decision must be ratified or rejected by the SBOE at its next meeting following any change made by the Commissioner. The Guarantee Program Rules are codified in the Texas Administrative Code at 19 TAC sections 33.65 et seq., and are available on the TEA web site at www.tea.state.tx.us/rules/tac/chapter033/index.html. The current Capacity Reserve is noted in the monthly updates with respect to the capacity of the Guarantee Program on the TEA web site at www.tea.state.tx.us/psf, which are also filed with the MSRB.

Based upon historical performance of the Fund, the legal restrictions relating to the amount of bonds that may be guaranteed has generally resulted in a lower ratio of guaranteed bonds to available assets as compared to many other types of credit enhancements that may be available for Texas school district bonds. 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, the implementation of a guarantee program for revenue bonds issued by certain open-enrollment charter schools, or an increase in the calculation base of the Fund for purposes of making transfers to the ASF (see “Other 2011 Legislative Actions – Charter School Guarantee Program” below), among other factors, could adversely affect the ratio of Fund assets to guaranteed bonds and the growth of the Fund in general. It is anticipated that the issuance of the IRS Notice will substantially increase the amount of bonds guaranteed under the Guarantee Program.

The Act requires that the Commissioner prepare, and the SBOE approve, an annual report on the status of the Guarantee Program (the Annual Report). The State Auditor audits the financial statements of the PSF, which are separate from other State financial statements. The TEA has filed the audited annual report of the PSF for the year ended August 31, 2011 with the MSRB. The 2011 Annual Report has also been filed with the Municipal Advisory Council of Texas and posted to the PSF web site. Such report speaks only as of the date thereof.

RATINGS OF BONDS GUARANTEED UNDER THE GUARANTEE PROGRAM

Moody’s Investors Service, Standard & Poor’s Rating Service, a Standard & Poor’s Financial Service LLC business, and Fitch Ratings rate bonds guaranteed by the PSF “Aaa,” “AAA” and “AAA,” respectively. Not all districts apply for multiple ratings on their bonds, however. See “OTHER INFORMATION - Ratings” herein.

VALUATION OF THE PSF AND GUARANTEED BONDS

Permanent School Fund Valuations		
Fiscal Year Ended	Book Value ⁽¹⁾	Market Value ⁽¹⁾
8/31		
2007	\$ 21,234,323,093	\$29,251,882,931
2008	22,926,299,922	29,336,248,611
2009	23,117,052,793	25,443,104,623
2010	23,653,185,489	27,066,200,259
2011	24,701,156,685 ⁽²⁾	29,643,439,794 ⁽²⁾

⁽¹⁾ SLB managed assets are included in the market value and book value of the Fund. In determining the market value of the PSF from time to time during a fiscal year, the TEA uses current, unaudited values for TEA 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. Beginning in fiscal year 2009, the SLB reported that information to the PSF on a quarterly basis. The valuation of such assets at any point in time is dependent upon a variety of factors, including economic conditions in the State and nation in general, and the values of these assets, and, in particular, the valuation of mineral holdings administered by the SLB, can be volatile and subject to material changes from period to period. At August 31, 2011, land, external real estate investments, mineral assets and cash managed by the SLB had book values of approximately \$352.24 million, \$1.41 billion, \$13.39 million and \$1.30 billion, respectively, and market values of approximately \$691.50 million, \$1.19 billion, \$2.37 billion and \$1.30 billion, respectively.

⁽²⁾ At December 31, 2011, the PSF had a book value of \$24,799,654,060 and a market value of \$29,438,411,036 (in each case, based on unaudited data).

Permanent School Fund Guaranteed Bonds

At 8/31	Principal Amount ⁽¹⁾
2007	\$ 44,856,621,419
2008	49,860,572,025
2009	50,032,724,439
2010	49,301,683,338
2011	52,653,930,546 ⁽²⁾

⁽¹⁾ Represents original principal amount; does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount shown excludes bonds that have been refunded and released from the Guarantee Program. The TEA does not maintain records of the accreted value of capital appreciation bonds that are guaranteed under the Guarantee Program.

⁽²⁾ As of August 31, 2011, the TEA expected that the principal and interest to be paid by school districts over the remaining life of the bonds guaranteed by the Guarantee Program is \$90,023,091,264, of which \$37,369,160,718 represents interest to be paid. At December 31, 2011, there were \$53,299,989,658 of bonds guaranteed under the Guarantee Program and the capacity of the Guarantee Program was \$74,398,962,180 based on the three times cost value multiplier approved by the SBOE on May 21, 2010. Such capacity figures include the Reserve Capacity.

DISCUSSION AND ANALYSIS PERTAINING TO FISCAL YEAR ENDED AUGUST 31, 2011

The following discussion is derived from the Annual Report for the year ended August 31, 2011, 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. Investment assets managed by the fifteen member SBOE are referred to throughout this MD&A as the PSF(SBOE) assets. As of August 31, 2011, the Fund’s land, mineral rights and certain real assets are managed by the three-member SLB and these assets are referred to throughout as the PSF(SLB) assets. The 2010 Asset Allocation Policy includes an allocation for real estate investments, and as such investments are made, and become a part of the PSF investment portfolio, those investments will be managed by the SBOE and not the SLB.

At the end of fiscal 2011, the total Fund balance was \$26.9 billion. Fund balance increased \$2.55 billion from the prior year primarily attributable to the increase in the fair value of the PSF(SBOE) alternative investments and the recovering markets. During the year, the SBOE continued implementing its revised long term strategic asset allocation to diversify and strengthen the PSF(SBOE) investment assets of the Fund. The revised allocation is projected to increase returns over the long run while reducing risk and return volatility of the portfolio. The one year, three year, five year and ten year annualized total returns for the PSF(SBOE) assets were 13.64%, 3.80%, 3.70% and 5.60% 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). In addition, the SLB continued its shift into externally managed real asset investment funds and the one year, three year, and five year annualized total returns for the PSF(SLB) real assets, including cash, are 9.52%, -4.30%, and 1.10% respectively.

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 factors affecting investment performance are the asset allocation decisions made by the SBOE and SLB. The current SBOE long term asset allocation policy allows for diversification of the PSF(SBOE) 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. As of August 31, 2011, the PSF(SBOE) portion of the Fund had diversified into emerging market international equities, absolute return funds, real estate, private equity, risk parity and real return Treasury Inflation-Protected Securities. Other asset classes such as real return commodities and small/midcap international securities will be strategically added commensurate with the economic environment and the goals and objectives of the SBOE. As of August 31, 2011, the SBOE had approved and the PSF(SBOE) made capital commitments to externally managed real estate funds in the amount of \$705 million and capital commitments to two private equity limited partnerships in the total amount of \$1.3 billion. Unfunded commitments at August 31, 2011, were \$380.7 million in real estate and \$1.13 billion in private equity.

The PSF(SLB) portfolio is generally characterized by three broad categories: (1) discretionary real assets investments, (2) sovereign and other lands, and (3) mineral interests. Discretionary real assets investments consist of externally managed real estate, infrastructure, and energy/minerals investment funds; internally managed direct real estate investments, and cash. Sovereign and other lands consist primarily of the lands set aside to the PSF when it was created. Mineral interests consist of all of the minerals that are associated with PSF lands. The investment focus of PSF(SLB) discretionary real assets investments has shifted from internally managed direct real estate investments to externally managed real assets investment funds. Approximately \$417 million of capital commitments to externally managed real assets investment funds were funded during fiscal year 2011. As of August 31, 2011, approximately \$1.62 billion of total capital commitments had been funded by PSF(SLB) and the fair value of the investments was \$1.19 billion.

The PSF(SBOE)’s investment in equity securities experienced a return of 16.71% during the fiscal year ended August 31, 2011. The PSF(SBOE)’s investment in fixed income securities produced a return of 4.58% during the fiscal year and absolute return

investments yielded a return of 4.48%. The PSF(SBOE) real estate and private equity investments returned 15.53% and 20.32%, respectively. Risk parity and real return assets were funded so late in the fiscal cycle that a full year's performance was not reportable at August 31, 2011. Combined, all PSF(SBOE) asset classes produced an investment return of 13.64% for the fiscal year ended August 31, 2011, outperforming the target index by approximately 49 basis points. All PSF(SLB) real assets (including cash) returned 9.52% for the fiscal year ending August 31, 2011.

For fiscal year 2011, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled \$3.73 billion, an increase of \$1.8 billion from fiscal year 2010 earnings of \$1.93 billion. This increase reflects the performance of the securities markets in which the Fund was invested in fiscal year 2011. In fiscal year 2011, 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 change 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 paid from appropriated funds. Total operating expenditures, net of security lending rebates and fees, increased 21.0% for the fiscal year ending August 31, 2011. This increase is primarily attributable to the increase in the operational costs to manage the PSF(SLB) investments.

The Fund supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. For fiscal years 2010 and 2011, this distribution to the ASF totaled \$60.7 million and \$1.093 billion, respectively.

At the end of the 2011 fiscal year, PSF assets guaranteed \$52.7 billion in bonds issued by 791 local school districts. Since its inception in 1983, the Fund has guaranteed 4,587 school district bond issues totaling \$96.2 billion in principal amount. During the 2011 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program increased by 84, or 3.4%. The dollar amount of guaranteed school bond issues outstanding increased by \$3.35 billion or 6.8%. The guarantee capacity of the Fund increased by \$3.41 billion, or 4.8%, during fiscal year 2011 due to the investment performance of the Fund.

2011 CONSTITUTIONAL AMENDMENT

During the Regular Session of the 82nd Legislature, which concluded May 30, 2011, a joint resolution ("HJR 109") was enacted proposing amendments to various sections of the Texas Constitution that pertain to the PSF. In accordance with HJR 109, a referendum was held in the State on November 8, 2011. At that referendum, voters of State approved non-substantive changes to the Texas Constitution to clarify references to the Fund, and, in addition, approved an amendment that effects an increase to the base amount used in calculating the Distribution Rate from the Fund to the ASF. The amendments approved at the referendum include an increase to the base used to calculate the Distribution Rate by adding to the calculation base certain discretionary real assets and cash in the Fund that is managed by entities other than the SBOE (at present, by the SLB). The value of those assets were already included in the value of the Fund for purposes of the Guarantee Program, but prior to the amendment had not been included in the calculation base for purposes of making transfers from the Fund to the ASF. While the amendment provides for an increase in the base for the calculation of approximately \$2 billion, no new resources were provided for deposit to the Fund. As described under "The Total Return Constitutional Amendment" the SBOE is prevented from approving a Distribution Rate or making a pay out from the Fund if the amount distributed would exceed 6% of the average of the market value of the Fund, excluding real property in the Fund, but including discretionary real asset investments on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium or if such pay out would exceed the Ten Year Total Return. The new calculation base is required to be used to determine all payments to the ASF from the Fund beginning with the 2012-13 biennium. As described under "The Total Return Constitutional Amendment" the SBOE approved a distribution rate of 4.2% in January 2011 based on a commitment of the SLB to transfer \$500 million to the PSF during the biennium.

The constitutional amendments approved on November 8, 2011 also provides authority to the GLO or other entity other than the SBOE that has responsibility for the management of land or other properties of the Fund to determine in its sole discretion whether to transfer each year from Fund assets to the ASF revenue derived from such land or properties, an amount not to exceed \$300 million. Any amount transferred to the ASF by an entity other than the SBOE is excluded from the 6% Distribution Rate limitation applicable to SBOE transfers.

The impact of the increase in the base against which the Distribution Rate is applied will be an increase in the distributions from the PSF to the ASF, provided that there are no reductions in the percentage established biennially by the SBOE to be the Distribution Rate. For the 2012-13 biennium, the Distribution Rate has been set by the SBOE at 4.2%. Given the increase in the calculation base effected by the November 8, 2011 constitutional amendment, the effect on transfers made by the SBOE in 2012-12 will be an increase in the total return distribution by an estimated \$73.7 million in each year of the biennium. Going forward, it may be necessary for the SBOE to reduce the Distribution Rate in order to preserve the corpus of the Fund in accordance with its management objective of preserving intergenerational equity. Assuming a static Distribution Rate in the 2014-15 biennium and beyond, as the value of the real assets investments increase annually, distributions to the ASF would increase in the out

years. The increased amounts distributed from the Fund will be a loss to either the investment corpus of the PSF managed by SBOE or, should the SLB increase its transfers to the SBOE to cover this share of the distribution, to the assets managed by the SLB. In addition, the changes made by the amendment will reduce the compounding interest in the Fund that would be derived from these assets remaining in the corpus of the Fund. Other factors that may affect the corpus of the Fund that are associated with this change include the decisions that are made by the SLB or others that are or may in the future be authorized to make transfers of funds from the PSF to the ASF. While the SBOE has oversight of the Guarantee Program, it will not have the decision making power with respect to all transfers to the ASF, as it has had in the past, which could adversely affect the ability of the SBOE to optimally manage its portion of the PSF assets.

OTHER 2011 LEGISLATIVE ACTIONS – CHARTER SCHOOL GUARANTEE PROGRAM

During the First Called Session of the 82nd Texas Legislature, which ended June 29, 2011, Senate Bill 1 (“SB 1”) was enacted. Among other provisions, SB 1 authorizes the use of the PSF to guarantee revenue bonds issued by certain open-enrollment charter schools that are designated as “charter districts” by the Commissioner. The program authorized by SB 1 is referred to herein as the “Charter School Guarantee Program.” It is anticipated that the Charter School Guarantee Program will not become effective until certain contingent requirements are satisfied, including the establishment of regulations by the Commissioner for the administration of the program. It is also expected that the new program will not be implemented until the SBOE has received a response from the IRS with respect to certain federal tax law matters concerning the Charter School Guarantee Program that have been submitted to the IRS for review. As a result, the date of implementation and the ultimate structure of the Charter School Guarantee Program are presently unknown, although the program could be implemented in calendar year 2012.

In general, the Charter School Guarantee Program has been authorized through the enactment of amendments to the Act. As amended, the Act provides that a qualified charter district may make application to the Commissioner under the Act for a guarantee of its bonds, including refunding bonds, by the PSF. The capacity of the Charter School Guarantee Program is limited to the total amount that equals the result of the percentage that is equal to the ratio of the number of students enrolled in open-enrollment charter schools in the State compared to the total number of students enrolled in all public schools in the State multiplied by the combined capacities of the Guarantee Program and Charter School Guarantee Program. As of March 1, 2011 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools to the total State scholastic census was approximately 2.72%. For the capacity of the Guarantee Program, see “Capacity Limits for the Guarantee Program.”

The amendments to the Act further provide that the Commissioner may not approve charter district bonds for guarantee if such guarantees will result in lower bond ratings for public school district bonds that are guaranteed under the Guarantee Program. To be eligible for a guarantee, the Act provides that a charter district's bonds must be approved by the Attorney General, rated without the guarantee as investment grade by a nationally recognized investment rating firm, and satisfy an investigation conducted by the TEA as to the charter district's accreditation.

The amendments to the Act further provide for the establishment of a reserve fund in the State treasury. Each charter district that has a bond guaranteed must annually remit to the Commissioner, for deposit in the charter district bond guarantee reserve fund, an amount equal to 10% (or such higher amount as may be determined by the Commissioner) of the savings to the charter district that result from the lower interest rate on the bond due to the guarantee by the PSF.

The Act provides that immediately following receipt of notice that a charter district will be or is unable to pay maturing or matured principal or interest on a guaranteed bond, the Commissioner is required to instruct the transfer from the charter district bond guarantee reserve fund to the district's paying agent an amount necessary to pay the maturing or matured principal or interest. If money in the charter district bond guarantee reserve fund is insufficient to pay the amount due on a bond for which a notice of default has been received, the Commissioner shall instruct the transfer from the PSF to the district's paying agent the amount necessary to pay the balance of the unpaid maturing or matured principal or interest. If a total of two or more payments are made under the Charter School Guarantee Program on charter district bonds and the Commissioner determines that the charter district is acting in bad faith under the program, the Commissioner may request the Attorney General to institute appropriate legal action to compel the charter district and its officers, agents, and employees to comply with the duties required of them by law in regard to the guaranteed bonds.

OTHER EVENTS AND DISCLOSURES

The State Investment Ethics Code governs the ethics and disclosure requirements for financial advisors and other service providers who advise certain State governmental entities, including the PSF. In accordance with the provisions of the State Investment Ethics Code, the SBOE periodically modifies its code of ethics, which occurred most recently in May 2010. 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.

Since 2007, TEA has made supplemental appropriation requests to the Legislature for the purpose of funding the implementation of the 2008 Asset Allocation Policy, but those requests have been denied or partly funded. In the 2011 legislative session, the Legislature approved an increase of 31 positions in the full-time equivalent employees for the administration of the Fund, which was funded as part of an \$18 million appropriation for each year of the 2012-13 biennium, in addition to the operational appropriation of \$11 million for each year of the biennium. The TEA plans to retain a consultant to make recommendations on how to structure any increase in staffing.

As of August 31, 2011, 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.

The SBOE is a named defendant in litigation described in the Official Statement pertaining to the Bonds that has been filed in State District Court that has challenged the constitutionality of the Texas public school finance system, and which, among other relief requested, seeks an injunction to prohibit the State and its officials from distributing any funds under the current finance system until a constitutional system is created. The TEA does not anticipate that the security for payment of the Bonds, including the PSF guarantee of school district bonds, would be adversely affected by such litigation.

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 I of the TEA Investment Procedure Manual, which relates to the Guarantee Program. The most recent amendment to the TEA Rule was adopted by the SBOE on November 19, 2010, and is summarized below. 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. Nothing in the TEA Rule obligates the Agency to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the Agency under the TEA Rule pertain solely to the Guarantee Program. The district issuing the guaranteed bonds has assumed the applicable obligation under Rule 15c-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such district undertakings. Under the TEA agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

The MSRB has established the Electronic Municipal Market Access ("EMMA") system, and the TEA is required to file its continuing disclosure information using the EMMA system. Investors may access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

ANNUAL REPORTS

The TEA will annually provide certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the Guarantee Program and the PSF of the general type included in this 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 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 the MSRB of the change.

MATERIAL EVENT NOTICES

The TEA will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of Bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) Bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of Bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA will provide timely notice of any failure by the TEA to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

AVAILABILITY OF INFORMATION

The TEA has agreed to provide the foregoing information only to the MSRB and to transmit such information electronically to the MSRB in such format and accompanied by such identifying information as prescribed by the MSRB. The information is available from the MSRB to the public without charge at www.emma.msrb.org.

LIMITATIONS AND AMENDMENTS

The TEA has agreed to update information and to provide notices of material events only as described above. The TEA has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The TEA makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The TEA disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the TEA to comply with its agreement.

The continuing disclosure agreement of the TEA is made only with respect to the PSF and the Guarantee Program. The District may make a continuing disclosure undertaking in accordance with Rule 15c2-12 with respect to its obligations arising under Rule 15c2-12 pertaining to financial and operating data concerning the District and notices of material events relating to the Bonds. A description of the District's undertaking, if any, is included elsewhere in the Official Statement relating to the Bonds.

This continuing disclosure agreement may be amended by the TEA from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the TEA, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell guaranteed bonds in the primary offering of such bonds in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 since such offering as well as such changed circumstances and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding bonds guaranteed by the Guarantee Program consent to such amendment or (b) a person that is unaffiliated with the TEA (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the holders and beneficial owners of the bonds guaranteed by the Guarantee Program. The TEA may also

amend or repeal the provisions of its continuing disclosure agreement if the SEC amends or repeals the applicable provision of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of 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 no more than \$10 million of outstanding municipal securities.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

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 ("M&O") 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 maintenance and operation 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.

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 Finance 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 M&O 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 M&O tax. In reaching its second holding, the Supreme 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 Finance 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 "the 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 "efficiency 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

In response to the decision in West Orange-Cove II, the Texas Legislature (the "Legislature") enacted House Bill 1 ("HB 1"), which made substantive changes in the way the Finance System is funded, as well as other legislation which, among other things, established a special fund in the State treasury to be used to collect new tax revenues that are dedicated under certain conditions for appropriation by the Legislature to reduce M&O tax rates, 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 (HB 1 and other described legislation are collectively referred to herein as the "Reform Legislation"). The Reform Legislation generally became effective at the beginning of the 2006–07 fiscal year of each district.

CURRENT LITIGATION RELATED TO THE TEXAS PUBLIC SCHOOL FINANCE SYSTEM

Several lawsuits have been filed in District Courts of Travis County, Texas, which allege that the Finance System, as modified by legislation enacted by the Legislature since the decision in West Orange Cove II, and in particular, as modified by Senate Bill 1 in 2011 (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - 2011 Legislation"), has resulted in a funding system that violates principles established in West Orange Cove I and West Orange Cove II, and prior decisions of the Supreme Court relating to the constitutionality of the Finance System and several provisions of the Texas Constitution. In general, each suit presents the legal perspectives and arguments of the different coalitions of school districts represented, but as a general matter, each group has challenged the adequacy of funding provided by the Legislature for the Finance System, and the plaintiffs in each suit are seeking to have an injunction issued to the State and its officials to prevent the distribution of any funds under the current Finance System until a constitutional system is created and seek a declaration that changes in funding for the Finance System since the enactment of HB 1 have effectively converted the local M&O Tax into a state property tax in violation of the Texas Constitution. The defendants in the suits include State officials and the State Board of Education (the "State Defendants"). The first suit was filed on October 10, 2011, styled "The Texas Taxpayer & Student Fairness Coalition, et al. v. Robert Scott, Commissioner of Education et al." A second suit was filed on December 9, 2011, styled "Calhoun County Independent School District, et al. v. Robert Scott, Commissioner of Education, et al." A third suit was filed on December 13, 2011, styled "Edgewood Independent School District, et al. v. Robert Scott, Commissioner of Education, et al." and a fourth suit was filed on December 23, 2011, styled "Fort Bend Independent School District, et al. v. Robert Scott, Commissioner of Education, et al." (the "Fort Bend Suit"). The State Defendants have filed an answer with respect to the each of the first four suits filed, denying the plaintiff's allegations, and all of such suits have been assigned to the 250th District Court of Travis County for the handling of all pre-trial, trial and post-judgment proceedings. On February 24, 2012 a plea of intervention to the Fort Bend Suit was filed by seven parents and a group named "Texans for Real Efficiency and Equity in Education." The intervenors assert that the school finance system is qualitatively inefficient, and that the Finance System is unconstitutional, in part based on arguments made by other plaintiffs. A fifth suit was filed on June 26, 2012 by individuals and the Texas Charter School Association, styled "Flores, et al. v. Robert Scott, Commissioner of Education, et al. (the "Charter School Suit". The petition for the Charter School Suit agrees with the arguments of the school districts in the first four suits filed that the Finance System is unconstitutional and seeks to have an injunction issued against the State Defendants in the same manner as the first four suits. The Charter School Suit also adds additional grounds that relate to the circumstances of charter schools as a basis for holding the Finance System unconstitutional, including that charter schools receive no funding for facilities and that the statutory cap on charter schools is unconstitutionally arbitrary. The first four suits have been consolidated by the 250th District Court of Travis County, and trial

has been scheduled for October 22, 2012. It is possible that the Charter School Suit will be consolidated into that matter. It is also possible that additional plaintiffs will join the suits and that other, independent lawsuits may be filed challenging various aspects of the Finance System, and that any such additional legal challenges may be consolidated with the suits referenced above.

The District can make no representations or predictions concerning the effect this litigation may have on the District's financial condition, revenues or operations. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS – Possible Effects of Litigation and Changes in Law on District Bonds."

POSSIBLE EFFECTS OF LITIGATION AND CHANGES IN LAW ON DISTRICT BONDS

The Reform Legislation and the changes made by the State Legislature to the Reform Legislation since its enactment did not alter the provisions of Chapter 45, Texas Education Code, that authorize districts to secure their bonds by pledging the receipts of an unlimited ad valorem debt service tax as security for payment of such bonds (including the Bonds). Reference is made, in particular, to the information under the heading "THE BONDS - Security and Source of Payment".

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 State funding systems. Among other possibilities, a 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 service 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

OVERVIEW

The following description of the Finance System is a summary of the Reform Legislation and the changes made by the State Legislature to the Reform Legislation since its enactment, including modifications made during the regular through third called sessions of the 79th Texas Legislature (collectively, the "2006 Legislative Session"), the regular session of the 81st Texas Legislature (the "2009 Legislative Session") and the regular and first called sessions of the 82nd Texas Legislature (collectively, the "2011 Legislative Session"). 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.

Funding for school districts in the State is provided primarily from State and local sources. State funding for all school districts is provided through a set of funding formulas comprising the "Foundation School Program," as well as two facilities financing programs. Generally, the Finance System is designed to promote wealth equalization among school districts by balancing State and local sources of funds available to school districts. In particular, because districts with relatively high levels of property wealth per student can raise more local funding, such districts receive less State aid, and in some cases, are required to disburse local funds to equalize their overall funding relative to other school districts. Conversely, because districts with relatively low levels of property wealth per student have limited access to local funding, the Finance System is designed to provide more State funding to such districts. Thus, as a school district's property wealth per student increases, State funding to the school district is reduced. As a school district's property wealth per student declines, the Finance System is designed to increase its State funding. A similar equalization system exists for facilities funding wherein districts with the same tax rate for debt service raise the same amount of combined State and local funding. Facilities funding for debt incurred in prior years is expected to continue in future years; however, State funding for new school facilities was not appropriated by the 82nd Texas Legislature for the 2012–13 fiscal biennium.

Local funding is derived from collections of ad valorem taxes levied on property located within each district's boundaries. School districts are authorized to levy two types of property taxes: a limited maintenance and operations ("M&O") tax to pay current expenses and an unlimited interest and sinking fund ("I&S") tax to pay debt service on bonds. Under current law, M&O tax rates are subject to a statutory maximum rate of \$1.17 per \$100 of taxable value for most school districts. Current law also

requires school districts to demonstrate their ability to pay debt service on outstanding indebtedness through the levy of an ad valorem tax at a rate of not to exceed \$0.50 per \$100 of taxable property at the time bonds are issued. Once bonds are issued, however, districts may levy a tax to pay debt service on such bonds unlimited as to rate or amount (see "TAX INFORMATION – Tax Rate Limitations" herein). As noted above, because property values vary widely among school districts, the amount of local funding generated by the same tax rate is also subject to wide variation among school districts.

The Reform Legislation, which generally became effective at the beginning of the 2006–07 fiscal year of each school district in the State, made substantive changes to the Finance System, which are summarized below. While each school district's funding entitlement was calculated based on the same formulas that were used prior to the 2006–07 fiscal year, the Reform Legislation effected changes to the manner in which school districts are funded that were intended to reduce local M&O tax rates by one-third over two years through the introduction of the "State Compression Percentage," with M&O tax levies declining by approximately 11% in fiscal year 2006–07 and approximately another 22% in fiscal year 2007–08. (Prior to the Reform Legislation, the maximum M&O tax rate for most school districts was \$1.50 per \$100 of taxable assessed valuation.) Subject to local referenda, a district may increase its local M&O tax levy up to \$0.17 above the district's compressed tax rate. Based on the current State Compression Percentage, the maximum M&O tax rate is \$1.17 per \$100 of taxable value for most school districts (see "TAX INFORMATION – Tax Rate Limitations" herein).

LOCAL FUNDING FOR SCHOOL DISTRICTS

The primary source of local funding for school districts is collections from ad valorem taxes levied against the taxable property located in each school district. As noted above, prior to the Reform Legislation, the maximum M&O tax rate for most school districts was generally limited to \$1.50 per \$100 of taxable value, and the majority of school districts were levying an M&O tax rate of \$1.50 per \$100 of taxable value at the time the Reform Legislation was enacted. The Reform Legislation required each school district to "compress" its tax rate by an amount equal to the "State Compression Percentage." For fiscal years 2007–08 through 2012–13, the State Compression Percentage has been set at 66.67%, effectively setting the maximum compressed M&O tax rate for most school districts at \$1.00 per \$100 of taxable value. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. School districts are permitted, however, to generate additional local funds by raising their M&O tax rate by \$0.04 above the compressed tax rate without voter approval (for most districts, up to \$1.04 per \$100 of taxable value). In addition, if the voters approve the tax rate increase, districts may, in general, increase their M&O tax rate by an additional two or more cents and receive State equalization funds for such taxing effort up to a maximum M&O tax rate of \$1.17 per \$100 of taxable value (see "TAX INFORMATION – Public Hearing and Rollback Tax Rate" herein). Elections held in certain school districts under older laws, however, may subject M&O tax rates in such districts to other limitations (See "TAX INFORMATION – Tax Rate Limitations" herein).

STATE FUNDING FOR SCHOOL DISTRICTS

State funding for school districts is provided through the Foundation School Program, which provides each school district with a minimum level of funding (a "Basic Allotment") for each student in average daily attendance ("ADA"). The Basic Allotment is calculated for each school district using various weights and adjustments. This basic level of funding is referred to as "Tier One" of the Foundation School Program. The basic level of funding is then "enriched" with additional funds known as "Tier Two" of the Foundation School Program. Tier Two provides a guaranteed level of funding for each cent of local tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates above \$1.00 per \$100 of taxable value). The Finance System also provides an Existing Debt Allotment ("EDA") to subsidize debt service on eligible outstanding school district bonds and an Instructional Facilities Allotment ("IFA") to subsidize debt service on newly issued bonds. IFA primarily addresses the debt service needs of property-poor school districts. A New Instructional Facilities Allotment ("NIFA") also is available to help pay operational expenses associated with the opening of a new instructional facility. Future-year IFA and NIFA awards, however, were not funded by the Legislature for the 2012–13 fiscal biennium, although funding awards for IFA made in prior years will continue to be funded (but not the second year for NIFA for the 2012–13 fiscal biennium for districts that first became eligible for NIFA in the 2010–11 fiscal year).

Tier One and Tier Two allotments represent the State's share of the cost of M&O expenses of school districts, with local M&O taxes representing the district's local share. EDA and IFA allotments supplement a school district's local I&S taxes levied for debt service on eligible bonds issued to construct, acquire and improve facilities. Tier One and Tier Two allotments and existing EDA and IFA allotments are generally required to be funded each year by the Legislature. Since future-year IFA awards were not funded by the Legislature for the 2012–13 fiscal biennium, and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service on new bonds issued by districts to construct, acquire and improve facilities must be funded solely from local I&S taxes. State funding allotments may be adjusted 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 all districts a basic level of education necessary to meet applicable legal standards. Tier Two allotments are intended to guarantee each school district that is not subject to the wealth transfer provisions described below an opportunity to supplement that basic program at a level of its own choice; however, Tier Two allotments may not be used for the payment of debt service or capital outlay.

The cost of the basic program is based on an allotment per student known as the "Basic Allotment". The Basic Allotment is adjusted for all districts by a cost adjustment factor intended to address competitive labor markets for teachers known as the "cost of education index." In addition, district-size adjustments are made for small- and mid-size districts. The cost of education index and district-size adjustments applied to the Basic Allotment, create what is referred to as the "Adjusted Allotment". The Adjusted Allotment is used to compute a "regular program allotment," as well as various other allotments associated with educating students with other specified educational needs. For fiscal year 2007–08, the Basic Allotment was \$3,135, and for fiscal year 2008–09, the Basic Allotment was increased to \$3,218. For a discussion of the Basic Allotment in fiscal years 2009–10 and beyond, see "2009 Legislation" below.

Tier Two currently provides two levels of enrichment with different guaranteed yields depending on the district's local tax effort. For the 2012–13 State fiscal biennium, the first six cents of tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates ranging from \$1.01 to \$1.06 per \$100 of taxable value) will, for most districts, generate a guaranteed yield of \$59.97 per cent per weighted student in average daily attendance ("WADA"). The second level of Tier Two is generated by tax effort that exceeds the compressed tax rate plus six cents (for most districts eligible for this level of funding, M&O tax rates ranging from \$1.07 to \$1.17 per \$100 of taxable value) and has a guaranteed yield per cent per WADA of \$31.95. Property-wealthy school districts are subject to recapture at the equivalent wealth per student of \$319,500 (see "Wealth Transfer Provisions" below). For school districts that adopted an M&O tax rate of \$1.17 per \$100 in taxable value for the 2010–11 fiscal year, the \$31.95 guaranteed yield is increased to \$33.95, but only for the 2011–12 fiscal year.

The IFA guarantees each awarded school district a specified amount per student (the "IFA Guaranteed Yield") in State and local funds for each cent of tax effort to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The guaranteed yield per cent of local tax effort per student in ADA has been \$35 since this program first began. To receive an IFA award, a school district must apply to the Commissioner in accordance with rules adopted by the Commissioner before issuing the bonds to be paid with IFA state assistance. The total amount of debt service assistance over a biennium for which a district may be awarded is limited to the lesser of (1) the actual debt service payments made by the district in the biennium in which the bonds are issued; or (2) the greater of (a) \$100,000 or (b) \$250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. For the 2012–13 State biennium, however, no funds are appropriated for new IFA awards, although all current obligations are funded through the biennium.

State financial assistance is provided for certain existing eligible debt issued by school districts (referred to herein as EDA). The EDA guaranteed yield (the "EDA Yield") is the same as the IFA Guaranteed Yield (\$35 per cent of local tax effort per student in ADA), subject to adjustment as described below. For bonds that became eligible for EDA funding after August 31, 2001, and prior to August 31, 2005, EDA assistance was less than \$35 in revenue per student for each cent of debt service tax, as a result of certain administrative delegations granted to the Commissioner under State law. Effective September 1, 2003, the portion of the local debt service rate that has qualified for EDA assistance is limited to the first 29 cents of debt service tax or a greater amount for any year provided by appropriation by the Legislature. In general, a district's bonds are eligible for EDA assistance if (i) the district made payments on the bonds during the final fiscal year of the preceding State fiscal biennium or (ii) the district levied taxes to pay the principal of and interest on the bonds for that fiscal year. Each biennium, access to EDA funding is determined by the debt service taxes collected in the final year of the preceding biennium. A district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the district receives IFA funding.

Prior to the 2012–13 biennium, a district could also qualify for a NIFA allotment, which provided assistance to districts for operational expenses associated with opening new instructional facilities. As previously mentioned, this program was not funded for the 2012–13 State fiscal biennium.

2006 LEGISLATION

Since the enactment of the Reform Legislation in 2006, most school districts in the State have operated with a "target" funding level per student ("Target Revenue") that is based upon the "hold harmless" principles embodied in the Reform Legislation. This system of Target Revenue was superimposed on the Foundation School Program and made existing funding formulas substantially less important for most school districts. As noted above, the Reform Legislation was intended to lower M&O tax rates in order to give school districts "meaningful discretion" in setting their M&O tax rates, while holding school districts harmless by providing them with the same level of overall funding they received prior to the enactment of the Reform Legislation. Under the Target Revenue system, each school district is generally entitled to receive the same amount of revenue per student as it did in either the 2005–2006 or 2006–07 fiscal year (under existing laws prior to the enactment of the Reform Legislation), as long as the district adopted an M&O tax rate that was at least equal to its compressed rate. The reduction in local M&O taxes resulting from the mandatory compression of M&O tax rates under the Reform Legislation, by itself, would have significantly reduced the amount of local revenue available to fund the Finance System. To make up for this shortfall, the Reform Legislation authorized Additional State Aid for Tax Reduction ("ASATR") for each school district in an amount equal to

the difference between the amount that each district would receive under the Foundation School Program and the amount of each district's Target Revenue funding level.

2009 LEGISLATION

During the 2009 Legislative Session, legislation was enacted that increased the Basic Allotment for the 2009–10 fiscal year from \$3,218 to \$4,765. In addition, each district's Target Revenue was increased by \$120 per WADA. Target Revenue amounts were also adjusted to provide for mandatory employee pay raises and to account for changes in transportation and NIFA costs since the original Target Revenues were set. Overall, the Legislature allocated approximately \$1.9 billion in new State aid for school districts.

2011 LEGISLATION

During the 2011 Legislative Session, the Legislature enacted a budget that cut \$4 billion from the Foundation School Program for the 2012–13 State fiscal biennium, as compared to the funding level school districts were entitled to under the current formulas, including Target Revenue, and also cut approximately \$1.3 billion in various grants (i.e., pre-kindergarten grant program, student success initiative, etc.) that were previously available. Such cuts were made in light of a projected State deficit of up to \$27 billion for the 2012–13 State fiscal biennium. In order to reduce formula funding, a Regular Program Adjustment Factor ("RPAF") was applied to the formula that determines a district's regular program allotment. RPAF is multiplied by a school district's count of students in ADA (not counting the time a student spends in special education and career & technology education) and its Adjusted Allotment, which is the \$4,765 Basic Allotment adjusted for the cost of education index and the small- and mid-sized district adjustments. The RPAF is set at 0.9239 for the 2011–12 fiscal year and 0.98 for the 2012–13 fiscal year. In order to balance these reductions across the two years for formula funded districts, such districts have the option to request that an RPAF value of 0.95195 be applied for both the 2011–12 and 2012–13 fiscal years. In order to be granted the request by the Commissioner, the district must demonstrate that using the 0.9239 RPAF will cause the district a financial hardship in 2011–12. By applying the RPAF only to the Adjusted Allotment, other Tier One allotments, such as special education, career and technology, gifted and talented, bilingual and compensatory education, were not affected. The State Board of Education however, was directed to decrease funding for these programs in proportion to the reductions to the Basic Allotment. The Legislature also established an RPAF value of 0.98 for the 2013–15 State fiscal biennium, subject to increases by subsequent legislative appropriation not to exceed an RPAF value of 1.0. The RPAF factor and its related provisions are scheduled to expire on September 1, 2015.

The RPAF is the primary mechanism for formula reductions in the 2011–12 fiscal year. In the 2012–13 fiscal year, the RPAF of 0.98 is combined with a percentage reduction in each school district's Target Revenue per WADA to 92.35% of its formula amount. For the 2013–14 and subsequent fiscal years, the percentage reduction will be set by legislative appropriation. With regard to this adjustment, the ASATR relief that funds the Target Revenue system is phased out between the 2013–14 and 2017–18 fiscal years.

WEALTH TRANSFER PROVISIONS

Some districts have sufficient property wealth per student in WADA ("wealth per student") to generate their statutory level of funding through collections of local property taxes alone. Districts whose wealth per student generates local property tax collections in excess of their statutory level of funding are referred to as "Chapter 41" districts because they are subject to the wealth equalization provisions contained in Chapter 41 of the Texas Education Code. Chapter 41 districts may receive State funds for certain competitive grants and a few programs that remain outside the Foundation School Program, as well as receiving ASATR until their overall funding meets or exceeds their Target Revenue level of funding. Otherwise, Chapter 41 districts are not eligible to receive State funding. Furthermore, Chapter 41 districts must exercise certain options in order to reduce their wealth level to equalized wealth levels of funding, as determined by formulas set forth in the Reform Legislation. For most Chapter 41 districts, this equalization process entails paying the portion of the district's local taxes collected in excess of the equalized wealth levels of funding to the State (for redistribution to other school districts) or directly to other school districts with a wealth per student that does not generate local funds sufficient to meet the statutory level of funding; a process known as "recapture".

The equalized wealth levels that subject Chapter 41 districts to wealth equalization measures for fiscal year 2011–12 are set at (i) \$476,500 per student in WADA with respect to that portion of a district's M&O tax effort that does not exceed its compressed tax rate (for most districts, the first \$1.00 per \$100 of taxable value) and (ii) \$319,500 per WADA with respect to that portion of a district's M&O tax effort that is beyond its compressed rate plus \$.06 (for most districts, M&O taxes levied above \$1.06 per \$100 in taxable value). M&O taxes levied above \$1.00 but below \$1.07 per \$100 of taxable value are not subject to the wealth equalization provisions of Chapter 41. Chapter 41 districts with a wealth per student above the lower equalized wealth level but below the higher equalized wealth level must equalize their wealth only with respect to the portion of their M&O tax rate, if any, in excess of \$1.06 per \$100 of taxable value. Chapter 41 districts may be entitled to receive ASATR from the State in excess of their recapture liability, and such districts may use their ASATR funds to offset their recapture liability.

Under Chapter 41, a district has five options to reduce its wealth per student so that it does not exceed the equalized wealth levels: (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) a district may detach property from its territory for annexation by a property-poor district; (3) a district may purchase attendance credits from the State; (4) a district may contract to educate nonresident students from a property-poor district by sending money directly to one or more property-poor districts; or (5) a district may consolidate by agreement with one or more districts to form a consolidated taxing district solely to levy and distribute either M&O taxes or both M&O taxes and I&S taxes. A Chapter 41 district may also exercise any combination of these remedies. Options (3), (4) and (5) require prior approval by the transferring district's voters; however, Chapter 41 districts may apply ASATR funds to offset recapture and to achieve the statutory wealth equalization requirements, as described above, without approval from voters.

A district may not adopt a tax rate until its effective wealth per student is at or below the equalized wealth level. If a district fails to exercise a permitted option, the Commissioner must reduce the district's property wealth per student to the equalized wealth level by detaching certain types of property from the district and annexing the property to a property-poor district or, if necessary, consolidate the district with a property-poor district. Provisions governing detachment and annexation of taxable property by the Commissioner do not provide for assumption of any of the transferring district's existing debt. The Commissioner has not been required to detach property in the absence of a district failing to select another wealth-equalization option.

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

The District's wealth per student for the current school year is less than the equalized wealth value. Accordingly, the District has not been required to exercise one of the permitted wealth equalization options. As a district with wealth per student less than the equalized wealth value, the District may benefit in the future by agreeing to accept taxable property or funding assistance from or agreeing to consolidate with a property-rich district to enable such district to reduce its wealth per student to the permitted level.

As described above under "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - 2011 Legislation", during the 82nd legislative sessions in 2011, the Texas Legislature adopted SB 1, which failed to fully fund the Finance System for the 2012-13 State biennium. As a result of the funding action in the 2011 Legislature, and as compared to the State funding formulas for fiscal year 2010-11, the District expects to have its State funding reduced by approximately \$13.5 million during the 2011-12 fiscal year and approximately \$13.7 million during the 2012-13 fiscal year. In anticipation of such funding loss, the District cut department budgets by 10 percent; reduced certain administrative positions vacated through retirements; utilized attrition to reduce instructional staff needs by shifting the middle and intermediate school bell schedules from an A/B block to a straight eight period schedule; postponed the purchase of certain capital expenditures; and utilized the federal jobs funds. These actions, along with additional state revenue generated through enrollment growth, allowed the District to balance the 2011-2012 budget and provide a 1 ½ percent overall staff pay increase. For the 2012-2013 fiscal year, the District plans to make similar bell schedule adjustments to the high schools allowing for further budget reductions through staff attrition. The District cannot predict how it will be funded by the State for any period beyond the current fiscal biennium.

TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the District is the responsibility of the Tarrant Appraisal District and the Central Appraisal District of Johnson County (collectively, the "Appraisal District") in which the District is located. Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under Title I of the Texas Tax Code (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 the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. Effective January 1, 2010, State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount that would not exceed the lesser of (1) the market value of the property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value in the preceding tax year, plus (c) the market value of all new improvements to the property. The value placed upon property within each Appraisal District is subject to review by an Appraisal Review Board within each Appraisal District, consisting of members appointed by the Board of Directors of each respective Appraisal District. Each 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 appropriate 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 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 who are 65 years of age or older or disabled, to the extent that such persons are eligible for the \$10,000 exemption. 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 who are 65 years of age or older or disabled is also transferable to a different residence homestead. If improvements (other than repairs or improvements required to comply with governmental requirements) 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. 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 so long as the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse and the spouse was at least 55 years of age at the time of the death of the individual's spouse. Pursuant to a constitutional amendment approved by the voters on May 12, 2007, legislation was enacted to reduce the school property tax limitation imposed by the freeze on taxes paid on residence homesteads of persons who are 65 years of age or over or disabled 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"). The school property tax limitation provided by the constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years.

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

- (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.

After the exemption described in (i) above is authorized, such exemption may be repealed or decreased or increased in amount (a) by the governing body of the political subdivision or (b) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than \$3,000 of the market value.

The surviving spouse of an individual who qualifies for the exemption listed in (i) above for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

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; provided, however, that beginning in the 2009 tax year, a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. In addition, effective January 1, 2012, and subject to certain conditions, surviving spouses of a deceased veteran who had received a disability rating of 100% will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), 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.

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by Section 11.253 of the Tax Code, which is effective for tax years 2008 and thereafter, as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. Section 11.253 permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax year. A taxpayer may receive only one of the freeport exemption or the goods-in-transit exemption for items of personal property.

A city or county may create a tax increment financing district ("TIF") within the city or county with defined boundaries and establish a base value of taxable property in the TIF at the time of its creation. Overlapping taxing units, including school districts, may agree with the city or county to contribute all or part of future ad valorem taxes levied and collected against the "incremental value" (taxable value in excess of the base value) of taxable real property in the TIF to pay or finance the costs of certain public improvements in the TIF, and such taxes levied and collected for and on behalf of the TIF are not available for general use by such contributing taxing units. Prior to September 1, 2001, school districts were allowed to enter into tax abatement agreements to encourage economic development. Under such agreements, a property owner agrees to construct certain improvements on its property. The school 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 agreement. The abatement agreement could last for a period of up to 10 years. School districts have been prohibited from entering into new tax abatement agreements since September 1, 2001. In addition, credit will not be given by the Commissioner of Education in determining a district's property value wealth per student for (1) the appraised value, in excess of the "frozen" value, of property that is located in a TIF created after May 31, 1999 (except in certain limited circumstances where the municipality creating the tax increment financing zone gave notice prior to May 31, 1999 to all other taxing units that levy ad valorem taxes in the TIF of its intention to create the TIF and the TIF was created and had its final project and financing plan approved by the municipality prior to August 31, 1999), or (2) for the loss of value of abated property under any abatement agreement entered into after May 31, 1993. Notwithstanding the foregoing, in 2001 the Legislature enacted legislation known as the Texas Economic Development Act, which provides incentives for school districts to grant limitations on appraised property values and provide ad valorem tax credits to certain corporations and limited liability companies to encourage economic development within the district. Generally, during the last eight years of the ten-year term of a tax limitation agreement, the school district may only levy and collect ad valorem taxes for maintenance and operation purposes on the agreed-to limited appraised property value. The taxpayer is entitled to a tax credit from the school district for the amount of taxes imposed during the first two years of the tax limitation agreement on the appraised value of the property above the agreed-to limited value. Additional State funding is provided to a school district for each year of such tax limitation in the amount of the tax credit provided to the taxpayer. During the first two years of a tax limitation agreement, the school district may not adopt a tax rate that exceeds the district's rollback tax rate (see "TAX INFORMATION - Public Hearing and Rollback Tax Rate" and "TAX INFORMATION - District Application of Tax Code").

TAX RATE LIMITATIONS . . . A school district is authorized to levy M&O 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 M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next succeeding paragraph. The maximum voted M&O tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on February 2, 2002, under Chapter 45, Texas Education Code.

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 has been set, and will remain, at 66.67% for fiscal years 2007-08 through 2012-13. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For a more detailed description of the State Compression Percentage, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Local Funding for School Districts." 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 also authorized to issue bonds and levy taxes for payment of bonds subject to voter approval of one or more propositions 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 of 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, as amended, 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 issued as refunding bonds issued pursuant to Chapter 1207, Texas Government Code, as amended, and are not 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. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures and (2) a rate for debt service. 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"). Effective June 19, 2009, if for the preceding tax year a district adopted an M&O Tax rate that was less than its effective M&O Tax rate for that preceding tax year, the district's rollback tax for the current year is calculated as if the district had adopted an M&O Tax rate for the preceding tax year equal to its effective M&O Tax rate for that preceding tax year.

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 provides that 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. Beginning September 1, 2009, a district may adopt its budget after adopting a tax rate for the tax year in which the fiscal year covered by the budget begins if the district elects to adopt its tax rate before receiving the certified appraisal roll. A district that adopts a tax rate before adopting its budget must hold a public hearing on the proposed tax rate followed by another public hearing on the proposed budget rather than holding a single hearing on the two items.

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 ^(a)	Cumulative Interest ^(a)	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12 ^(a)	6	18

(a) After July, penalty remains at 12%, and interest accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest penalty is to compensate the taxing unit for revenue lost because of the delinquency. In addition, if a business personal property account is delinquent on April 1, an attorney's collection fee of up to 20% may be added to the total tax, penalty & interest charge. If a real property account is delinquent on July 1, an attorney's collection fee of up to 20% may be added to the total tax, penalty & interest charge.

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. Except with respect to taxpayers who are 65 years of age or older, 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 does not grant an exemption to the market value of the residence homestead of persons 65 years of age or older or the disabled.

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 Tarrant County Tax Office collects taxes for the District.

The District does permit split payments, and discounts are not allowed.

The District does not tax freeport property.

The District has opted to tax goods-in-transit.

The District has not adopted a tax abatement policy.

TABLE 1 - VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT

2011/12 Market Valuation Established by the Appraisal District (excluding totally exempt property)		\$ 10,508,500,406
Less Exemptions/Reductions at 100% Market Value:		
State Mandated Residential Homestead Exemptions	\$ 483,995,409	
State Mandated Over 65 Homestead Exemptions	41,372,153	
State Mandated Disabled Persons Homestead Exemptions	4,947,132	
Disabled Veterans Exemptions	35,945,124	
Pollution Control	1,059,714	
Agricultural Use Reductions	306,196,845	
Solar/Wind Loss	40,000	
Community House Development Exemption	45,000	
Capped Value Loss	1,170,717	
Prorated Absolutes	438,916	
Freeport Exemptions	220,031,113	<u>1,095,242,123</u>
2011/12 Taxable Assessed Valuation		\$ 9,413,258,283
Debt Payable from Ad Valorem Taxes as of 08/23/12		
Unlimited Tax Bonds ⁽¹⁾	\$ 684,914,964	
The Bonds ⁽²⁾	<u>41,220,000</u>	
Total Debt Payable from Ad Valorem Taxes as of 08/23/12		\$ 726,134,964
Ratio Tax Supported Debt to 2011/12 Taxable Assessed Valuation		7.71%

Current Estimated District Population - 167,676
Per Capita 2011/12 Taxable Assessed Valuation - \$56,140
Per Capita General Obligation Debt - \$4,331

- (1) The amounts of outstanding tax-supported debt shown in the table above include the principal amount of current interest bonds and capital appreciation bonds as of the issuance date thereof. The District has bonds outstanding that were issued in part as capital appreciation bonds. Excludes the Refunded Bonds.
- (2) Preliminary, subject to change.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Appraised Value for Fiscal Year Ended August 31,					
	2012		2011		2010	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 6,631,304,366	63.10%	\$ 6,406,216,012	64.36%	\$ 6,349,556,529	63.37%
Real, Residential, Multi-Family	316,755,100	3.01%	280,975,583	2.82%	255,620,548	2.55%
Real, Vacant Lots/Tracts	222,190,931	2.11%	209,436,679	2.10%	216,658,916	2.16%
Real, Acreage (Land Only)	317,590,189	3.02%	328,834,031	3.30%	347,235,305	3.47%
Real, Farm and Ranch Improvements	60,300,523	0.57%	62,075,070	0.62%	65,343,738	0.65%
Real, Commercial	1,021,734,973	9.72%	963,697,776	9.68%	993,175,745	9.91%
Real, Industrial	120,532,945	1.15%	119,433,178	1.20%	130,187,095	1.30%
Real, Oil, Gas and Other Mineral Reserves	715,425,864	6.81%	651,349,857	6.54%	529,228,459	5.28%
Real and Tangible Personal, Utilities	186,390,294	1.77%	145,657,932	1.46%	185,425,679	1.85%
Tangible Personal, Commercial	464,617,478	4.42%	393,493,217	3.95%	439,994,163	4.39%
Tangible Personal, Industrial	326,413,305	3.11%	290,215,164	2.92%	336,920,610	3.36%
Tangible Personal, Other	1,257,000	0.01%	219,343	0.00%	4,160	0.00%
Tangible Personal, Mobile Homes	23,580,119	0.22%	24,574,936	0.25%	26,112,696	0.26%
Real Property, Inventory	100,407,319	0.96%	77,816,936	0.78%	145,075,739	1.45%
Total Appraised Value Before Exemptions	\$ 10,508,500,406	100.00%	\$ 9,953,995,714	100.00%	\$ 10,020,539,382	100.00%
Less: Total Exemptions/Reductions	(1,095,242,123)		(1,088,081,802)		(1,068,248,700)	
Taxable Assessed Value	<u>\$ 9,413,258,283</u>		<u>\$ 8,865,913,912</u>		<u>\$ 8,952,290,682</u>	

Category	Taxable Appraised Value for Fiscal Year Ended August 31,			
	2009		2008	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 6,329,813,275	66.61%	\$ 5,999,838,808	68.62%
Real, Residential, Multi-Family	225,710,829	2.38%	208,184,890	2.38%
Real, Vacant Lots/Tracts	208,839,669	2.20%	211,826,106	2.42%
Real, Acreage (Land Only)	316,646,315	3.33%	326,388,808	3.73%
Real, Farm and Ranch Improvements	36,799,220	0.39%	15,439,898	0.18%
Real, Commercial	898,460,250	9.45%	802,539,765	9.18%
Real, Industrial	122,843,947	1.29%	96,947,566	1.11%
Real, Oil, Gas and Other Mineral Reserves	300,631,916	3.16%	29,098,850	0.33%
Real and Tangible Personal, Utilities	158,432,324	1.67%	121,403,636	1.39%
Tangible Personal, Commercial	413,354,716	4.35%	352,849,991	4.04%
Tangible Personal, Industrial	234,517,834	2.47%	255,560,471	2.92%
Tangible Personal, Other	1,291,000	0.01%	916,000	0.01%
Tangible Personal, Mobile Homes	21,141,703	0.22%	27,929,737	0.32%
Real Property, Inventory	234,533,283	2.47%	294,662,734	3.37%
Total Appraised Value Before Exemptions	\$ 9,503,016,281	100.00%	\$ 8,743,587,260	100.00%
Less: Total Exemptions/Reductions	(933,800,633)		(912,091,391)	
Taxable Assessed Value	<u>\$ 8,569,215,648</u>		<u>\$ 7,831,495,869</u>	

Valuations shown are certified taxable assessed values reported by the 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 Debt Outstanding at End of Fiscal Year	Ratio of Tax Debt to Taxable Assessed Valuation	Tax Debt Per Capita
2008	157,416	\$ 7,831,495,869	\$ 49,750	\$ 701,849,741	8.96%	\$ 4,459
2009	165,286	8,569,215,648	51,845	687,857,835	8.03%	4,162
2010	166,000	8,952,290,682	53,929	666,804,943	7.45%	4,017
2011	167,676	8,865,913,912	52,875	697,913,432	7.87%	4,162
2012	167,676	9,413,258,283	56,140	726,134,963 ⁽³⁾	7.71% ⁽³⁾	4,331 ⁽³⁾

(1) Source: District Officials.

(2) As reported by the Appraisal District on the District's annual State Property Tax Reports and is subject to change during the ensuing year.

(3) Projected, includes the Bonds and excludes the Refunded Bonds. Preliminary, subject to change.

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
2008	\$ 1.45000	\$ 1.04000	\$ 0.41000	\$ 112,643,758	98.65%	101.00%
2009	1.45000	1.04000	0.41000	127,658,467	98.41%	100.44%
2010	1.45000	1.04000	0.41000	134,668,944	98.62%	100.19%
2011	1.49600	1.04000	0.45600	135,912,011	98.82%	100.66%
2012	1.49600	1.04000	0.45600	139,564,308	93.40% ⁽¹⁾	94.55% ⁽¹⁾

(1) Collections as of April 30, 2012.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2011/12 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
XTO Energy Inc.	Oil and Gas	\$ 252,252,513	2.68%
Chesapeake Land Dev Co. LLC	Oil and Gas	105,792,750	1.12%
Oncor Electric Delivery Co. Inc.	Electric Utility	75,574,554	0.80%
Carrizo Oil & Gas	Oil and Gas	71,797,356	0.76%
Walmart	Retail Sales	54,355,151	0.58%
TTI Inc/Mouser Electronics	Electronics Manufacturer	39,684,175	0.42%
Broadstone at Lowe's Farm LLC	Apartment Complex	38,139,000	0.41%
EOG Resources Inc.	Oil and Gas	32,432,386	0.34%
Mansfield KDC II & III LP	Apartment Managers	34,506,532	0.37%
Target Stores	Retail Sales	33,347,174	0.35%
		<u>\$ 737,881,591</u>	<u>7.84%</u>

TABLE 6 - 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 debt ("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 Tax Debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the District.

<u>Taxing Jurisdiction</u>	<u>2011/12 Taxable Assessed Value</u>	<u>2011/12 Tax Rate</u>	<u>Total Tax Supported Debt As Of 8/23/2012</u>	<u>Estimated % Applicable</u>	<u>Overlapping Tax Supported Debt As Of 8/23/2012</u>
Mansfield Independent School District	\$ 9,413,258,283	\$ 1.4960	\$ 726,134,964 ⁽¹⁾	100.00%	\$ 726,134,964 ⁽¹⁾
City of Mansfield	4,396,696,698	0.7100	102,870,000	97.90%	100,709,730
City of Arlington	17,179,112,308	0.6480	316,735,000	13.23%	41,904,041
City of Grand Prairie	9,130,719,590	0.6700	252,405,000	15.88%	40,081,914
Johnson County	12,058,916,287	0.3795	20,199,579	84.10%	16,987,846
Tarrant County	123,043,200,369	0.2640	335,050,000	6.23%	20,873,615
Tarrant County Hospital District	123,134,885,714	0.2279	26,285,000	6.23%	1,637,556
Tarrant County Junior College District	123,490,855,713	0.1490	22,705,000	6.23%	<u>1,414,522</u>
Total Direct and Overlapping Tax Supported Debt					\$ 949,744,187
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation					10.09%
Per Capita Overlapping Tax Supported Debt					\$ 5,664.16

(1) Projected, includes the Bonds and excludes the Refunded Bonds. Preliminary, subject to change.

DEBT INFORMATION

TABLE 7 - PRO-FORMA TAX SUPPORTED DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 8/31	Outstanding Debt ⁽¹⁾			The Bonds ⁽²⁾			Total	% of
	Principal	Interest	Total	Principal	Interest	Total	Debt Service Requirements	Principal Retired
2012	\$ 15,928,467	\$ 32,561,513	\$ 48,489,980				\$ 48,489,980	2.27%
2013	21,055,000	31,339,206	52,394,206		\$ 1,976,548	\$ 1,976,548	54,370,754	5.28%
2014	21,226,589	31,022,335	52,248,924		2,021,470	2,021,470	54,270,394	8.31%
2015	16,893,374	33,115,093	50,008,468	\$ 870,000	2,006,898	2,876,898	52,885,365	10.72%
2016	23,440,000	28,370,130	51,810,130	-	1,992,325	1,992,325	53,802,455	14.06%
2017	25,015,000	27,229,014	52,244,014	-	1,992,325	1,992,325	54,236,339	17.63%
2018	27,115,000	28,147,123	55,262,123	-	1,992,325	1,992,325	57,254,448	21.50%
2019	28,415,000	26,847,463	55,262,463	-	1,992,325	1,992,325	57,254,788	25.55%
2020	30,905,000	25,416,257	56,321,257	-	1,992,325	1,992,325	58,313,582	29.96%
2021	32,195,000	23,887,436	56,082,436	-	1,992,325	1,992,325	58,074,761	34.56%
2022	30,075,000	22,403,199	52,478,199	4,440,000	1,917,955	6,357,955	58,836,154	38.85%
2023	31,985,000	20,931,546	52,916,546	4,870,000	1,713,313	6,583,313	59,499,859	43.41%
2024	36,440,000	19,363,431	55,803,431	3,160,000	1,502,460	4,662,460	60,465,891	48.61%
2025	37,890,000	17,540,981	55,430,981	3,935,000	1,321,538	5,256,538	60,687,519	54.02%
2026	38,565,000	15,716,478	54,281,478	5,610,000	1,078,140	6,688,140	60,969,618	59.52%
2027	40,530,000	13,846,750	54,376,750	5,970,000	782,850	6,752,850	61,129,600	65.30%
2028	32,845,000	11,837,375	44,682,375	5,635,000	486,923	6,121,923	50,804,298	69.99%
2029	32,175,000	10,211,875	42,386,875	6,730,000	171,615	6,901,615	49,288,490	74.58%
2030	34,125,000	8,554,375	42,679,375				42,679,375	79.45%
2031	31,225,000	6,920,625	38,145,625				38,145,625	83.91%
2032	24,550,000	5,526,250	30,076,250				30,076,250	87.41%
2033	21,875,000	4,365,625	26,240,625				26,240,625	90.53%
2034	7,925,000	3,620,625	11,545,625				11,545,625	91.66%
2035	8,450,000	3,211,250	11,661,250				11,661,250	92.87%
2036	5,955,000	3,000,000	8,955,000				8,955,000	93.72%
2037	6,315,000	2,642,700	8,957,700				8,957,700	94.62%
2038	6,695,000	2,263,800	8,958,800				8,958,800	95.57%
2039	7,095,000	1,862,100	8,957,100				8,957,100	96.58%
2040	7,520,000	1,436,400	8,956,400				8,956,400	97.66%
2041	7,970,000	985,200	8,955,200				8,955,200	98.79%
2042	8,450,000	507,000	8,957,000				8,957,000	100.00%
	<u>\$ 700,843,430</u>	<u>\$ 464,683,155</u>	<u>\$ 1,165,526,585</u>	<u>\$ 41,220,000</u>	<u>\$ 26,933,658</u>	<u>\$ 68,153,658</u>	<u>\$ 1,233,680,244</u>	

(1) "Outstanding Debt" does not include the Refunded Bonds. Preliminary, subject to change.

(2) Preliminary, subject to change; interest calculated at 3.584% for purposes of illustration only.

TABLE 8 - INTEREST AND SINKING FUND BUDGET PROJECTION ⁽¹⁾

Tax Supported Debt Service Requirements, Fiscal Year Ending 8/31/12		\$ 48,489,980
Interest and Sinking Fund Balance (as of 8/31/11)	\$ 7,559,801	
Budgeted Interest and Sinking Fund Tax Revenues	42,344,978	
Interest Income	45,000	
State Instructional Facilities Allotment	2,905,624	
State Existing Debt Allotment	<u>5,200,576</u>	<u>\$ 58,055,979</u>
Estimated Balance, 8/31/12		<u><u>\$ 9,565,998</u></u>

(1) Preliminary, subject to change.

TABLE 9 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

<u>Purpose</u>	<u>Date Authorized</u>	<u>Amount Authorized</u>	<u>Amount Issued to Date</u>	<u>Unissued Balance</u>
School Buildings	11/8/2011	\$ 198,530,000	\$ 50,000,000	\$ 148,530,000

ANTICIPATED ISSUANCE OF ADDITIONAL UNLIMITED TAX DEBT . . . The District does not anticipate the issuance of additional unlimited tax debt within the next 12 months.

TABLE 10 - OTHER OBLIGATIONS

The following is a schedule of the District's future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of August 31, 2011.

<u>Fiscal Year</u>	<u>Amount</u>
2012	\$ 860,976
2013	860,976
2014	860,976
2015	860,976
2016	215,244
	<u>\$ 3,659,148</u>

Rental expense for the year ended August 31, 2011 was \$827,681.

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 #11.)

RETIREE HEALTH CARE . . . In addition to its participation in the System, the District contributes to the Texas Public School Retired Employees Group Insurance Program (the "TRS-Care Retired Plan"), a cost-sharing multiple-employer defined benefit post-employment health care plan. The TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. For the years ended August 31, 2011, 2010 and 2009, the State's contributions to TRS-Care were \$257,105,886, \$279,250,547 and \$267,471,299, respectively, the active member contributions were \$183,808,580, \$181,512,856 and \$173,856,344, respectively, and the school district's contributions were \$929,117, \$954,090 and \$911,599, respectively, which equaled the required contributions each year. Upon an employee's retirement, the District is no longer obligated to make contributions to the TRS-Care Retired Plan on behalf of such retired employee. For more detailed information concerning the District's funding policy and contributions in connection with the TRS-Care Retired Plan, see Appendix B, "Excerpts from the District's Annual Financial Report" - Note #12.

OTHER POST EMPLOYMENT BENEFITS . . . As a result of its participation in the System and the TRS-Care Retired Plan and having no other post-employment benefit plans, the District has no obligations for other post-employment benefits within the meaning of Governmental Accounting Standards Board Statement 45.

FINANCIAL INFORMATION

TABLE 11 - CHANGE IN NET ASSETS

	Fiscal Year Ended August 31				
	2011	2010	2009	2008	2007
<u>Program Revenues:</u>					
Charges for Services	\$ 7,643,893	\$ 10,615,134	\$ 11,045,716	\$ 10,234,900	\$ 10,054,985
Operating Grants & Contributions	51,973,150	45,723,842	40,754,158	36,395,859	34,889,444
<u>General Revenues:</u>					
Property Taxes	137,768,779	136,557,008	129,511,034	115,867,866	118,205,540
Grants and Contributions Not Restricted	108,789,775	98,649,734	99,130,655	102,577,334	74,377,336
Investment Earnings	33,371	658,752	4,695,226	10,203,353	10,522,339
Estraordinary Items	0	0	252,062	0	0
Miscellaneous	3,481,005	1,588,030	1,596,066	2,917,624	1,614,612
Total Revenues	<u>\$ 309,689,973</u>	<u>\$ 293,792,500</u>	<u>\$ 286,984,917</u>	<u>\$ 278,196,936</u>	<u>\$ 249,664,256</u>
<u>Expenses:</u>					
Instruction	\$ 170,101,863	\$ 163,272,516	\$ 150,057,613	\$ 135,516,619	\$ 118,760,250
Instructional Resources & Media Services	4,487,952	4,418,426	4,031,093	3,702,772	3,746,113
Curriculum & Staff Development	2,537,353	2,934,834	2,387,118	2,418,015	2,550,473
Instructional Leadership	2,514,569	2,403,080	2,002,363	1,827,040	1,645,236
School Leadership	15,834,356	15,646,416	14,382,678	16,176,022	15,079,181
Guidance & Counseling Services	9,581,037	9,237,209	8,946,235	7,833,097	6,685,272
Social Work Services	65,867	64,763	62,476	59,722	0
Health Services	3,700,939	3,642,173	3,241,021	3,052,568	2,577,899
Student Transportation (Pupil)	9,720,955	9,101,290	7,983,672	7,235,427	6,162,455
Food Services	13,888,854	13,613,046	12,449,256	11,387,701	10,092,907
Curricular/Extracurricular Activities	8,250,483	8,284,147	7,980,978	7,505,036	6,695,046
General Administration	4,818,303	4,407,044	4,316,196	4,363,211	4,225,047
Plant Maintenance & Operations	23,972,101	23,350,908	21,646,664	23,661,508	19,731,930
Security & Monitoring Services	2,555,072	2,564,195	2,334,253	2,124,971	1,711,638
Data Processing Services	2,983,474	3,877,101	2,165,964	1,751,777	1,521,952
Community Services	155,257	233,572	197,786	196,613	183,725
Interest and Fiscal Charges	31,399,229	30,614,760	33,053,653	29,991,212	26,777,679
Facilities Aquisition and Construction	93,949	37,097	69,705	144,760	0
Payments Related to Shared Service Arrangements	133,500	127,884	171,933	164,834	101,026
Other Intergovernmental Charges	900,040	869,244	931,441	0	0
Total Expenses	<u>\$ 307,695,153</u>	<u>\$ 298,699,705</u>	<u>\$ 278,412,098</u>	<u>\$ 259,112,905</u>	<u>\$ 228,247,829</u>
Increase (Decrease) in Net Assets					
Expenditures	\$ 1,994,820	\$ (4,907,205)	\$ 8,572,819	\$ 19,084,031	\$ 21,416,427
Tranfers In (Out)	0	0	0	0	0
Beginning Net Assets	<u>113,407,219</u>	<u>118,314,424</u>	<u>109,741,605</u>	<u>90,657,574</u>	<u>69,241,147</u>
Ending Net Assets	<u>\$ 115,402,039</u>	<u>\$ 113,407,219</u>	<u>\$ 118,314,424</u>	<u>\$ 109,741,605</u>	<u>\$ 90,657,574</u>

TABLE 11-A - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Years Ended August 31,				
	2011	2010	2009	2008	2007
Revenues:					
Local and Intermediate Sources	\$ 99,910,858	\$ 101,535,527	\$ 96,830,108	\$ 89,240,460	\$ 101,079,133
State Sources	119,304,813	110,821,779	109,200,633	112,298,511	83,547,190
Federal Sources	2,315,829	1,694,692	802,990	758,723	504,464
Total Revenues	\$ 221,531,500	\$ 214,051,998	\$ 206,833,731	\$ 202,297,694	\$ 185,130,787
Expenditures:					
Instruction	\$ 138,299,367	\$ 131,104,580	\$ 120,805,691	\$ 113,639,153	\$ 99,889,509
Instructional Resources and Media	3,133,889	2,986,528	2,855,176	2,508,120	2,786,769
Curriculum & Instruct Staff Development	1,957,726	1,742,333	1,619,449	11,887,592	10,968,907
Instructional Leadership	2,428,007	2,317,611	1,920,265	1,561,554	1,442,574
School Leadership	14,374,798	14,196,488	13,029,505	1,553,021	1,379,543
Guidance and Counseling	5,122,965	8,058,678	7,257,344	6,356,841	5,696,192
Social Work Services	65,867	64,763	62,476	59,722	0
Health Services	3,307,183	3,223,369	2,902,360	2,808,955	2,334,950
Student Transportation	8,960,381	8,361,036	7,284,088	12,205,859	7,759,628
Extracurricular Activities	6,249,617	6,246,686	5,972,389	5,611,165	5,046,609
General Administration	4,558,965	4,151,396	4,068,766	4,165,182	3,996,611
Plant Maintenance and Operations	18,404,900	22,815,440	21,189,631	23,395,776	19,458,920
Security and Monitoring Services	2,608,962	2,531,390	2,221,027	2,112,396	1,728,833
Facilities Acquisition and Construction	8,081	8,266	31,183	54,883	8,570
Data Processing Services	2,010,620	2,197,774	2,209,573	1,704,213	1,512,689
Intergovernmental	21,000	23,625	24,750	26,335	25,997
Other Intergovernmental Charges	900,040	869,244	931,441	0	0
Community Services	79,226	95,384	99,946	92,002	73,927
Total Expenditures	\$ 212,491,594	\$ 210,994,591	\$ 194,485,060	\$ 189,742,769	\$ 164,110,228
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 9,039,906	\$ 3,057,407	\$ 12,348,671	\$ 12,554,925	\$ 21,020,559
Other Resources and (Uses)	\$ 281,846	\$ (3,202,964)	\$ (1,736,929)	\$ 13,693	\$ 15,695
Change in Fund Balance Beginning Fund Balance on September 1	\$ 87,401,206	\$ 87,546,763	\$ 76,935,021	\$ 64,366,403	\$ 43,330,149
Ending Fund Balance on August 31	\$ 96,722,958	\$ 87,401,206	\$ 87,546,763	\$ 76,935,021	\$ 64,366,403

FINANCIAL POLICIES

Basis of Accounting . . . During the fiscal year 2002, the District adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Government*, ("GASB Statement No. 34"), issued June 1999; GASB Statement No. 37, *Basic Financial Statement and Management's Discussion and Analysis for State and Local Governments: Omnibus*, an amendment to GASB Statement No. 21 and No. 34, issued in June 2001, and; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, issued in 2001.

The GASB has issued Statement No. 39, *Determining Whether Certain Organizations are Component Units* ("GASB 39") which will be effective for the District in fiscal year ending August 31, 2004. GASB 39 requires state and local governments to report legally separate tax exempt organizations as discrete component units if they meet the following criteria:

- The economic resources raised and held by the affiliated organization almost entirely is for the benefit of the District.
- The District is entitled to or has the ability to access the funds raised by the affiliated organization.
- The funds held by the affiliated organization are material to the District's financial statements.

The District has evaluated GASB 39 and determined that there is no impact of the implementation of this standard on its financial statements.

Basis of Accounting . . . The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the fiduciary fund and financial statements. Revenues are recorded when earned and expenses

are recorded when 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 revenues as soon as all eligibility requirements imposed by the provider have been met. For the government-wide financial statements, the District has elected to follow GASB and only those accounting standards issued by the Financial Accounting Standards Board on or before November 30, 1989.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the District considered revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and claims and judgments are recorded only when payment is due.

Fund Accounting

The District reports the following major governmental funds:

The General Fund which accounts for financial resources related to the general operations of the District, including financial resources not required to be accounted for in some other fund.

The Debt Service Fund which is utilized to account for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs arising from general obligation bonds.

The Capital Projects Fund which accounts for proceeds from sales of bonds and other revenues to be used for authorized construction and acquisition of capital facilities.

Budgetary Procedures . . . The District is required by state law to adopt annual budgets for the general fund, National School Lunch and Breakfast Program fund (food service fund) and debt service fund. Special revenue funds, other than the food service fund, are required to be budgeted on a project basis. Each budget is presented on the modified accrual basis of accounting which is consistent with accounting principles generally accepted in the United States of America.

The District uses the following procedures in establishing the budgets reflected in the financial statements:

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

A meeting of the Board of Trustees is then called for the purpose of adopting the proposed budget after ten days public notice of the meeting has been given.

Prior to September 1, the budget is legally enacted by the Board of Trustees.

The officially adopted district budget, as amended, must be filed with TEA through PEIMS (Public Education Information Management System) by the date prescribed in the annual system guidelines. This requirement for filing the amended budget with TEA is satisfied when the school district files its Annual Financial and Compliance Report.

Once a budget is approved, it can be amended at the function and fund level only by approval of a majority of the members of the Board of Trustees. Amendments are presented to the Board at their regular meetings. Each amendment must have Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board of Trustees. All budget appropriations lapse at year-end.

INVESTMENTS

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

LEGAL INVESTMENTS . . . Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities including letters of credit, (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 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, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (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 meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (i) that are issued by or through an institution that has its main office or a branch office in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, and are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits; or (ii) that are invested by the District through a depository institution that has its main office or a branch office in the State of Texas and otherwise meet the requirements of the Public Funds Investment Act, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are 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 are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent 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 U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission 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; and (12) 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 this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. If specifically authorized in the authorizing document, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The District is also authorized to purchase, sell, and invest its funds in corporate bonds, but only if the District has formally amended its investment policy to authorize such investments. "Corporate bond" is defined as a senior secured debt obligation issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm (does not include convertible bonds or unsecured debt). The bonds must have a stated final maturity that is not later than 3 years from the date the corporate bonds were purchased. The District may not (1) invest more than 15 percent of its monthly average fund balance (excluding bond proceeds, reserves, and other funds held for the payment of debt service), in corporate bonds; or (2) invest more than 25 percent of the funds invested in corporate bonds in any one domestic business entity, including subsidiaries and affiliates of the entity. The District must sell corporate bonds if they are rated "AA-" or its equivalent and are either downgraded or placed on negative credit watch. Corporate bonds are not an eligible investment for a public funds investment pool.

Governmental bodies in the State are authorized to implement securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) of the first paragraph under this subcaption, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than "A" or its equivalent, or (c) cash invested in obligations that are described in clauses (1) through (6) and (10) through (12) of the first paragraph under this subcaption, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the governmental body, held in the name of the governmental body and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution. 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 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 the 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, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except

investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. 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, ending market value and fully accrued interest for the reporting period for each pooled fund group, (4) the book value and market value of each separately listed asset at the 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) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Trustees; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the District's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (7) 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 purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

TABLE 12 - CURRENT INVESTMENTS

As of April 30, 2012, the District's investable funds were invested in the following categories:

<u>Description of Investment</u>	<u>Book Value</u>	<u>Percent</u>	<u>Market Value</u>
TexStar	\$ 79,350,284	30.365%	\$ 79,350,284
Logic - Pool	108,055,961	41.350%	108,055,961
U.S. Government & Agency Discount Notes	73,916,135	28.285%	73,940,684
TOTAL	\$ 261,322,380	100.000%	\$ 261,346,929

- (1) A portion of the District's investments are invested in TexSTAR of which is an investment pool that has an investment objective of achieving and maintaining a stable net asset value of \$1.00 per share. Daily investment or redemption of funds is allowed by the participants. TexStar is a local government investment pool for which First Southwest Asset Management, Inc., an affiliate of First Southwest Company, the District's financial advisor, provides customer service and marketing.

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 the Bonds owned by a corporation will be included in such corporation's adjusted current earnings 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 (“FASIT”). 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 and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage “profits” from the investment of proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the 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 “IRS”) with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel’s opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the District as the “taxpayer,” and the owners of the Bonds 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 of the Bonds. 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.

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

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 initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial 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 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. 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 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 certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for a description of the TEA's continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State of Texas, as the case may be, and to provide timely notice of certain specified events related to the guarantee to the MSRB.

ANNUAL REPORTS . . . The District will provide certain updated financial information and operating data to the MSRB 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 5 and 7 through 12 and in Appendix B. The District will update and provide this information within six months after the end of each fiscal year ending in and after 2012.

The District will provide the updated information to the MSRB in electronic format, which will be available to the public free of charge via the MSRB's Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule"). 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 of the type described in the preceding paragraph by the required time and will provide 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 following the end of its fiscal year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

NOTICE OF CERTAIN EVENTS . . . The District will also provide timely notices of certain events to the MSRB. The District will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. In

addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under “Annual Reports”.

For these purposes, any event described in (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

AVAILABILITY OF INFORMATION FROM MSRB . . . The District has agreed to provide the foregoing information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

LIMITATIONS AND AMENDMENTS . . . The District has agreed to update information and to provide notices of certain specified events only as described above. The District 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 District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell the Bonds at any future date. The District 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 and beneficial owners of the Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement 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 (1) the agreement, as amended would have permitted an underwriter to purchase or sell the Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances, and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provisions of the Order that authorizes such amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the registered owners 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 Rule 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 in the primary offering of the Bonds. If the District amends its agreement, it must 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 type of information and data provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS... During the last five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

OTHER INFORMATION

RATINGS

The presently outstanding tax supported debt of the District is rated “Aa2” by Moody’s Investors Service, Inc. (“Moody’s”), “AA” by Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”) and “AA+” by Fitch, Inc. (“Fitch”) without regard to credit enhancement. The District also has issues outstanding which are rated “Aaa” by Moody’s and “AAA” by S&P by virtue of the guarantee of the Permanent School Fund of the State of Texas. Applications for contract ratings on the Bonds have been submitted to Moody’s, S&P and Fitch. An explanation of the significance of any rating may be obtained from the company furnishing the rating. Each 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 any 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 such company, circumstances so warrant. Any such downward revision or withdrawal of a 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 condition or operations of the District.

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, investment securities 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 not less than "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 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 District will furnish the Underwriters a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas as to the Bonds to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, 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, a form of which opinion is attached to this Official Statement as Appendix C. Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in connection with the issuance of the Bonds. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds which would affect the provision made for their payment or security, or in any manner questioning the validity of said Bonds will also be furnished. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions and subcaptions "PLAN OF FINANCING" (excluding the information under the subcaption "Sources and Uses of Proceeds"), "THE BONDS" (excluding the information under the subcaptions "Permanent School Fund Guarantee", "Book-Entry-Only System", and "Bondholders' Remedies"), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" (excluding the information under the subcaption "The School Finance System as Applied to the District"), "TAX INFORMATION - Tax Rate Limitations" (first paragraph only), "TAX MATTERS", "CONTINUING DISCLOSURE INFORMATION" (excluding the information under the subcaption "Compliance with Prior Undertakings"), "OTHER INFORMATION - Registration and Qualification of Bonds for Sale", "OTHER INFORMATION - Legal Investments and Eligibility to Secure Public Funds in Texas", and "OTHER INFORMATION - Legal Matters" (excluding the last sentence of the first paragraph thereof) in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues 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 provisions of the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriters by Kelly Hart & Hallman LLP, Fort Worth, Texas, Counsel to the Underwriters, whose legal fees are contingent upon the sale and delivery of the Bonds.

The 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 that 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.

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, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies. In the normal course of business, the Financial Advisor may also from time to time sell investment securities to the District for the investment of bond proceeds or other funds of the District upon the request of the District.

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.

USE OF AUDITED FINANCIAL STATEMENTS

Deloitte & Touche, L.L.P., Dallas, Texas, the District's independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Deloitte & Touche also has not performed any procedures relating to this Official Statement.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District at a price equal to the initial offering prices to the public, as shown on the inside cover page of this Official Statement, less an underwriting discount of \$_____. The Underwriters 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 Underwriters 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 Underwriters.

The Underwriters have reviewed the information in this Official Statement pursuant to their respective responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

On April 2, 2012, Raymond James Financial, Inc. ("RJF"), the parent company of Raymond James & Associates, Inc. ("Raymond James"), acquired all of the stock of Morgan Keegan & Company, Inc. ("Morgan Keegan") from Regions Financial Corporation. Morgan Keegan and Raymond James are each registered broker-dealers. Both Morgan Keegan and Raymond James are wholly owned subsidiaries of RJF and, as such, are affiliated broker-dealer companies under the common control of RJF, utilizing the trade name "Raymond James | Morgan Keegan" that appears on the cover of this Official Statement. It is anticipated that the businesses of Raymond James and Morgan Keegan will be combined.

Morgan Keegan has entered into a distribution arrangement with Raymond James for the distribution of the Bonds at the original issue prices. Such arrangement generally provides that Morgan Keegan will share a portion of its underwriting compensation or selling concession with Raymond James.

One of the Underwriters is BOSC, Inc., which is not a bank, and the Bonds are not deposits of any bank and are not insured by the Federal Deposit Insurance Corporation.

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

Grant Thornton LLP, a firm of independent public accountants, will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified, in accordance with attestation standards established by the American Institute of Certified Public Accountants, the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Federal Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Bonds and (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes.

The verification performed by Grant Thornton LLP will be solely based upon data, information and documents provided to Grant Thornton LLP by First Southwest Company on behalf of the District. Grant Thornton LLP has restricted its procedures to recalculating the computations provided by First Southwest Company on behalf of the District and has not evaluated or examined the assumptions or information used in the computations.

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 order contained in this Official Statement are made subject to all of the provisions of such statutes, documents and orders. 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 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 Underwriters.

President, Board of Trustees
Mansfield Independent School District

ATTEST:

Secretary, Board of Trustees
Mansfield Independent School District

SCHEDULE I

SCHEDULE OF REFUNDED BONDS*

**Mansfield Independent School District
Unlimited Tax School Building Bonds, Series 2004**

<u>Original Dated Date</u>	<u>Original Maturity (February 15)</u>	<u>Interest Rate</u>	<u>Original Principal Amount</u>	<u>Principal Amount Refunded</u>	<u>Amount Outstanding Remaining</u>
4/1/2004	2014	5.000%	\$ 2,320,000	\$ 90,000	\$ 2,230,000
	2015	5.250%	2,275,000	2,275,000	
	***	***	***	***	***
	2022	5.000%	4,520,000	4,520,000	0
	2023	5.000%	4,985,000	4,985,000	0
	2024	5.000%	3,270,000	3,270,000	0
	2025	5.000%	4,045,000	4,045,000	0
	2026	⁽¹⁾ 5.000%	5,725,000	5,725,000	0
	2027	⁽¹⁾ 5.000%	6,085,000	6,085,000	0
	2028	⁽¹⁾ 5.000%	5,750,000	5,750,000	0
	2029	⁽¹⁾ 5.000%	6,840,000	6,840,000	0
			<u>\$ 45,815,000</u>	<u>\$ 43,585,000</u>	<u>\$ 2,230,000</u>

**The portion of the 2014 maturity shown above is expected to be defeased to its stated maturity date.
The remaining maturities shown above are expected to be redeemed on February 15, 2014.**

(1) Represents scheduled mandatory sinking fund redemption of a term bond with a final maturity of February 15, 2029.

* Preliminary, subject to change.

APPENDIX A

GENERAL INFORMATION REGARDING THE DISTRICT

MISSION STATEMENT

The mission of the Mansfield Independent School District (the "District") is to provide all students an equal opportunity to fulfill their potential through an instructional program of the highest quality which maintains accountability for demonstrated results and continuous improvements. In achieving its mission, the District will use sound, cost-effective financial management and solicit maximum community communication and participation.

THE DISTRICT

The District, established in 1909, encompasses approximately 80 square miles in Tarrant County and 14 square miles in Johnson County.

The District is located southeast of Fort Worth, in the southeastern corner of Tarrant County, due south of Arlington, with a small portion overlapping into the northeastern portion of Johnson County. A portion of the City of Arlington overlaps the District on its northern boundary. The City of Mansfield (the "City") is mostly located within the District. The City's 1990 census population was 15,607 increasing 93% over the 1980 estimate of 8,102. The City's 2000 population census of 28,031 is an increase of 79.6% over the 1990 estimate. The City's 2010 estimated population according to the U.S. Census Bureau was 56,368.

Access to the District is provided by Interstate Highway 20 to the north, U.S. Highway 287 which bisects the District, State Highway 360 which is located to the east of the City, FM 157 from Arlington, and FM 1187 from Fort Worth.

The District maintains pupil-teacher ratios of 22:1 for grades kindergarten through 4, and a 28:1 ratio for grades 5 through 12. The District employs a total of 3,917 full and part-time personnel. Broad categories of this total are: 2,120 classroom personnel, 38 librarians, 125 counselors, 72 health care workers, 200 transportation workers, 223 food service workers, 373 maintenance and operations workers, 134 campus administrators, 64 district administrators and 568 others. Current enrollment (9-8-10) for the District is approximately 32,535.

The fiscal year 2010-11 school system facilities consist of 22 elementary schools with grades pre-kindergarten through 4; six intermediate schools with grades 5 and 6; six middle schools for grades 7 and 8; four high schools with grades 9 through 12; one alternative school campus; and one vocational/career and technical center for high school aged students.

The District offers all of the services customarily associated with the education process which includes advanced placement in grades 11 & 12, foreign language taught in secondary school, career and technical training in secondary schools, special services such as an early childhood program, resource, and remedial classes in most schools, computer education in all schools, gifted and talented education in grades K-12, counseling and health services in all schools.

PROJECTED ENROLLMENT BY GRADE

FYE					Grand
8/31	PK4	5-6	7-8	9-12	Total
1994	4,148	1,438	1,377	2,177	9,140
1995	4,460	1,501	1,487	2,325	9,773
1996	4,490	1,661	1,551	2,500	10,202
1997	4,740	1,832	1,672	2,681	10,925
1998	4,921	1,898	1,829	2,953	11,601
1999	5,148	1,952	2,029	3,234	12,363
2000	5,559	2,167	2,124	3,573	13,423
2001	6,079	2,517	2,337	3,955	14,888
2002	6,926	2,722	2,703	4,515	16,866
2003	7,805	3,011	3,104	5,180	19,100
2004	8,582	3,206	3,357	5,822	20,967
2005	9,299	3,567	3,585	6,530	22,981
2006	10,434	3,996	3,889	7,298	25,617
2007	11,308	4,331	4,274	8,027	27,940
2008	11,992	4,571	4,597	8,455	29,615
2009	12,536	4,664	4,813	8,686	30,699
2010	12,923	4,792	4,857	9,090	31,662
2011	12,976	5,011	4,890	9,080	31,957
2012 ⁽¹⁾⁽²⁾	12,836	5,076	5,018	9,684	32,614
2013	13,314	5,067	5,282	9,893	33,556
2014	13,561	5,188	5,249	10,090	34,088
2015	14,031	5,135	5,270	10,264	34,700
2016	14,494	5,108	5,396	10,381	35,379
2017	14,993	5,303	5,348	10,531	36,175

Source: AEIS Report

(1) Actual enrollment as of September 21, 2011

(2) Population and Survey Analysts, October 2011 (Series I, Low Growth, Projection 2012-2017).

CURRENT SCHOOL DATA BY SITE (AS OF SEPTEMBER 21, 2011)

School	Campus Size (Acres)	Grade Use	Planned Grade Use	Present Enrollment 9/21/2011	Actual Student Capacity	Portable Buildings 9/21/2011
Alice Ponder	12.1	K-4	K-4	587	850	0
Charlotte Anderson	10.3	K-4	K-4	549	716	6
D.P. Morris	10.0	K-4	K-4	538	800	3
Erma Nash	18.8	K-4	K-4	604	783	1
Glenn Harmon	10.5	K-4	K-4	609	904	8
Imogene Gideon	12.5	K-4	K-4	547	800	1
J.L. Boren	16.2	K-4	K-4	681	847	4
Kenneth Davis	17.2	K-4	K-4	671	800	5
Tarver Rendon	17.5	K-4	K-4	592	874	0
Willie Brown	16.0	K-4	K-4	577	800	3
Roberta Tipps	15.1	K-4	K-4	767	800	2
Thelma Jones	16.6	K-4	K-4	489	800	2
Elizabeth Smith	13.3	K-4	K-4	638	800	0
Martha Reid	12.5	K-4	K-4	715	800	0
Janet Brockett	12.8	K-4	K-4	658	800	0
Mary Jo Sheppard	12.2	K-4	K-4	593	800	0
Anna May Daulton	12.2	K-4	K-4	745	800	0
Cora Spencer	12.0	K-4	K-4	494	800	2
Carol Holt	12.0	K-4	K-4	575	800	0
Louise Cabaniss	12.0	K-4	K-4	520	800	0
Annette Perry	12.9	K-4	K-4	328	800	0
Nancy Neal	12.0	K-4	K-4	359	800	0
Cross Timbers	16.6	5-6	5-6	958	1,000	7
Donna Sheppard	23.8	5-6	5-6	850	1,000	0
Mary Orr	44.0	5-6	5-6	863	1,000	2
Della Icenhower	33.0	5-6	5-6	644	1,000	3
Mary Lillard	50.0	5-6	5-6	905	1,000	0
Asa E. Low Jr.	37.5	5-6	5-6	856	1,000	0
Brooks Wester	56.0	7-8	7-8	898	1,400	1
Rogene Worley	27.3	7-8	7-8	933	1,000	5
T.A. Howard	41.0	7-8	7-8	942	1,000	8
Danny Jones	40.1	7-8	7-8	865	1,000	0
James Coble	40.5	7-8	7-8	630	1,000	3
Linda Jobe	37.2	7-8	7-8	750	1,000	0
Mansfield High School	70.0	9-12	9-12	2,510	2,500	0
Summit High School	60.1	9-12	9-12	2,089	2,500	5
Timberview High School	75.3	9-12	9-12	2,624	2,500	0
Legacy High School	69.1	9-12	9-12	2,126	2,500	0
Frontier High School	13.3	11-12	11-12	240	410	0
MISD Ace Program Center	11.0	3-12	3-12	95	375	0

HISTORICAL EMPLOYMENT DATA (ANNUAL AVERAGE DATA)

	Annual Averages				
	2011	2010	2009	2008	2007
Fort Worth-Arlington Metro Division					
Civilian Labor Force	1,078,817	1,067,634	1,053,707	1,033,043	1,019,252
Total Employment	991,004	979,658	972,177	982,844	975,406
Unemployment	87,813	87,976	81,530	50,199	43,846
Percent Unemployment	8.1%	8.2%	7.7%	4.9%	4.3%
State of Texas					
Civilian Labor Force	12,273,385	12,136,384	11,930,847	11,635,095	11,421,105
Total Employment	11,271,945	11,141,903	11,020,226	11,059,298	10,921,706
Unemployment	1,001,440	994,481	910,621	575,797	499,399
Percent Unemployment	8.2%	8.2%	7.6%	4.9%	4.4%

Source: Texas Employment Commission.

APPENDIX B

EXCERPTS FROM THE
MANSFIELD INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

For the Year Ended August 31, 2011

The information contained in this Appendix consists of excerpts from the Mansfield Independent School District Annual Financial Report for the Year Ended August 31, 2011, 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Mansfield Independent School District's (the "District") annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2011. It should be read in conjunction with the independent auditors' report preceding and the basic financial statements following this section.

FINANCIAL HIGHLIGHTS

- At August 31, 2011, the District's combined assets exceeded its liabilities by \$116,170,725 (net assets). The unrestricted portion of \$103,320,172 may be used to meet the District's ongoing obligations. The District's total combined net assets increased by \$2,109,879 during the year ended August 31, 2011.
- At the close of the fiscal year, the District reported \$198,971,693 combined governmental fund balance. Of the combined fund balance at year end, the District had \$69,089,777 or 34.7 percent of total fund balance available for the District's ongoing obligations (unassigned fund balance).
- As of August 31, 2011, the General Fund's unassigned fund balance was \$69,089,777 representing 32.5 percent of the total General Fund expenditures in the current fiscal year.
- During the fiscal year, the District issued \$49,225,000 in new bonds to construct, renovate and equip school buildings. In addition, the District completed a bond refunding that resulted in an economic gain of \$907,863.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements themselves.

The basic financial statements include two types of statements that present different views of the District, the government-wide financial statements and the fund financial statements.

Government-wide Financial Statements

The government-wide financial statements, including the *Statement of Net Assets* and the *Statement of Activities*, report on the District as a whole and are designed to provide readers with a broad overview of the District's finances. These statements are presented on the accrual basis of accounting similar to the accounting basis used by most private-sector entities.

The *Statement of Net Assets* presents information on all of the District's assets and liabilities including capital assets and long-term debt. The value of assets less liabilities is reported as net assets. The *Statement of Activities* presents the increases and decreases in net assets for the current fiscal year regardless of when cash is received or paid. Increases and decreases in net assets over time may serve as one indicator of whether the financial position of the District is improving or deteriorating but should be considered with additional factors as well.

Government-wide financial statements distinguish net assets and the changes in net assets between *governmental activities*, which are supported principally by taxes and intergovernmental revenues, and *business-type activities*, which are intended to recover all or a significant portion of their costs through user fees and charges.

Fund Financial Statements

The fund financial statements provide detailed information about the District's most significant funds as opposed to the District as a whole. Funds are accounting devices used to account for specific sources of funding and spending for particular purposes. State law and bond covenants require the District to establish some funds. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

The District's funds include three types: 1) governmental funds, 2) proprietary funds, and 3) fiduciary funds.

Governmental funds

Most of the District's activities are reported in governmental funds. Governmental funds report on the modified accrual basis of accounting which focuses on 1) how cash and other financial resources can be readily converted to cash inflows and outflows and 2) the balances remaining at year end available for future spending. The governmental fund statements provide a detailed short-term view of the District's operations and funds available to finance future operations. Because the focus and accounting methods are different for the governmental fund statements and the government-wide statements, reconciliation schedules are presented following each of the fund financial statements.

Proprietary funds

Proprietary funds are used to account for operations that provide services and/or goods for a fee, whether to outside users or units within the District. Proprietary funds use the same accrual basis of accounting used in the government-wide financial statements. There are two types of proprietary funds: enterprise funds and internal service funds. The enterprise funds report the same functions presented as *business-type activities* in the government-wide financial statements. Internal service funds are an accounting tool used to accumulate and allocate costs internally among various functions. The District uses enterprise funds to account for its day care operations and the natatorium.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The District is the trustee, or fiduciary, for these funds and is responsible for ensuring that the assets reported in these funds are used for their intended purposes. These funds are excluded from the District's government-wide financial statements as the District cannot use these assets to finance its operations.

Table I below provides a concise view of the major features of the District’s financial statements including the portion of the District they cover and types of information they contain.

Table I				
Major Features of the District's Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary funds	Fiduciary Funds
<i>Scope</i>	Entire District (except fiduciary funds)	Activities of the District that are not proprietary or fiduciary	Activities of the District that charge fee for services and or goods	Activities for which the District is the trustee/agent for other parties
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Revenues, Expenses & Changes in Fund Net Assets • Statement of Cash Flows 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Assets • Statement of Changes in Fiduciary Net Assets
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities to be paid during the year or soon thereafter; no capital assets or long-term debt	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; the District's fiduciary funds do not currently have capital assets, although they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenditures during the year, regardless of when cash is received or paid. Agency funds do not report revenues and expenditures

Notes to the Financial Statements

The notes to the basic financial statements provide additional information that is essential to a complete understanding of the data provided in the government-wide and fund financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information concerning the District.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets. The District's combined net assets were \$116.2 million at August 31, 2011 (see Table II). The largest portion of the District's net assets, \$103.3 million or 89.5 percent, are unrestricted and may be used to meet the District's ongoing obligations. The District's net assets invested in capital assets, net of related debt is (\$1.2 million). Because the District is depreciating buildings and furniture and equipment at a faster rate than the debt is being paid off, this net asset classification is a negative balance. Approximately \$13.2 million, 11.5 percent, of the District's net assets are restricted for use in food service, various grants and debt service.

Table II						
Net Assets						
	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
ASSETS						
Current and other assets	\$ 241,754,930	\$ 256,746,544	\$ 771,532	\$ 657,479	\$ 242,526,462	\$ 257,404,023
Capital assets	624,477,174	575,880,939	-	-	624,477,174	575,880,939
Total Assets	866,232,104	832,627,483	771,532	657,479	867,003,636	833,284,962
LIABILITIES						
Other liabilities	34,414,726	49,452,903	2,846	3,852	34,417,572	49,456,755
Long-term liabilities	716,415,339	669,767,361	-	-	716,415,339	669,767,361
Total Liabilities	750,830,065	719,220,264	2,846	3,852	750,832,911	719,224,116
NET ASSETS						
Investment in capital assets, net of related debt	(1,167,932)	2,753,827	-	-	(1,167,932)	2,753,827
Restricted	13,249,799	17,244,725	-	-	13,249,799	17,244,725
Unrestricted	103,320,172	93,408,667	768,686	653,627	104,088,858	94,062,294
Total Net Assets	\$ 115,402,039	\$ 113,407,219	\$ 768,686	\$ 653,627	\$ 116,170,725	\$ 114,060,846

Changes in Net Assets. Total combined net assets of the District increased \$2,109,879 during the year ended August 31, 2011 (see Table III). Funding for government-wide activities is through specific program revenues or general revenues such as property taxes and unrestricted grants and contributions. The following is a summary of governmental funds activities:

- The cost of all activities this year was \$308,163,207, an increase of \$9.0 million or 3.0 percent over the previous year.
- Some of these costs were funded by program revenues, \$60,200,156, directly attributable to specific activities.
- The remaining cost of government-wide activities was funded from general revenues, \$250,072,930, such as property taxes and unrestricted state and federal grants and contributions.

Table III
Changes in Net Assets

	Total		%
	2011	2010	
Revenues:			
Program			
Charges for services	\$ 8,227,006	\$ 11,230,767	-26.7%
Operating grants and contributions	51,973,150	45,723,842	13.7%
General			
Property taxes	137,768,779	136,557,008	0.9%
Grants and contributions not restricted	108,789,775	98,649,734	10.3%
Investment earnings	33,371	658,752	-94.9%
Miscellaneous	3,481,005	1,588,030	119.2%
Total Revenues	<u>310,273,086</u>	<u>294,408,133</u>	5.4%
Expenses:			
Instruction	170,101,863	163,272,516	4.2%
Instructional Resources & Media Services	4,487,952	4,418,426	1.6%
Curriculum & Staff Development	2,537,353	2,934,834	-13.5%
Instructional Leadership	2,514,569	2,403,080	4.6%
School Leadership	15,834,356	15,646,416	1.2%
Guidance & Counseling Services	9,581,037	9,237,209	3.7%
Social Work Services	65,867	64,763	1.7%
Health Services	3,700,939	3,642,173	1.6%
Student Transportation	9,720,955	9,101,290	6.8%
Food Service	13,888,854	13,613,046	2.0%
Extracurricular Activities	8,250,483	8,284,147	-0.4%
General Administration	4,818,303	4,407,044	9.3%
Plant Maintenance and Operations	23,972,101	23,350,908	2.7%
Security and Monitoring Services	2,555,072	2,564,195	-0.4%
Data Processing Services	2,983,474	3,877,101	-23.0%
Community Services	155,257	233,572	-33.5%
Interest and Fiscal charges	31,399,229	30,614,760	2.6%
Facilities Acquisition and Construction	93,949	37,097	153.3%
Payments to Districts Related to SSA	112,500	127,884	-12.0%
Payments to Juvenile Justice Alt. Ed. Prog.	21,000	-	100.0%
Other Intergovernmental Charges	900,040	869,244	3.5%
Day Care	180,976	196,526	-7.9%
Natatorium	287,078	277,898	3.3%
Total Expenses	<u>308,163,207</u>	<u>299,174,129</u>	3.0%
Increase (decrease) in net assets	2,109,879	(4,765,996)	-144.3%
Beginning net assets	<u>114,060,846</u>	<u>118,826,842</u>	-4.0%
Ending net assets	<u>\$ 116,170,725</u>	<u>\$ 114,060,846</u>	1.85%

Figures 1 and 2 depict the District's revenue sources for fiscal year 2011 and 2010. The graphs show that property taxes are the primary source of revenue for the District followed by state aid and operating grants. State aid as a percentage of total revenues increased and property tax as a percentage of total revenues decreased as these two revenues have inverse relationships in the state funding formulas.

Figure 1

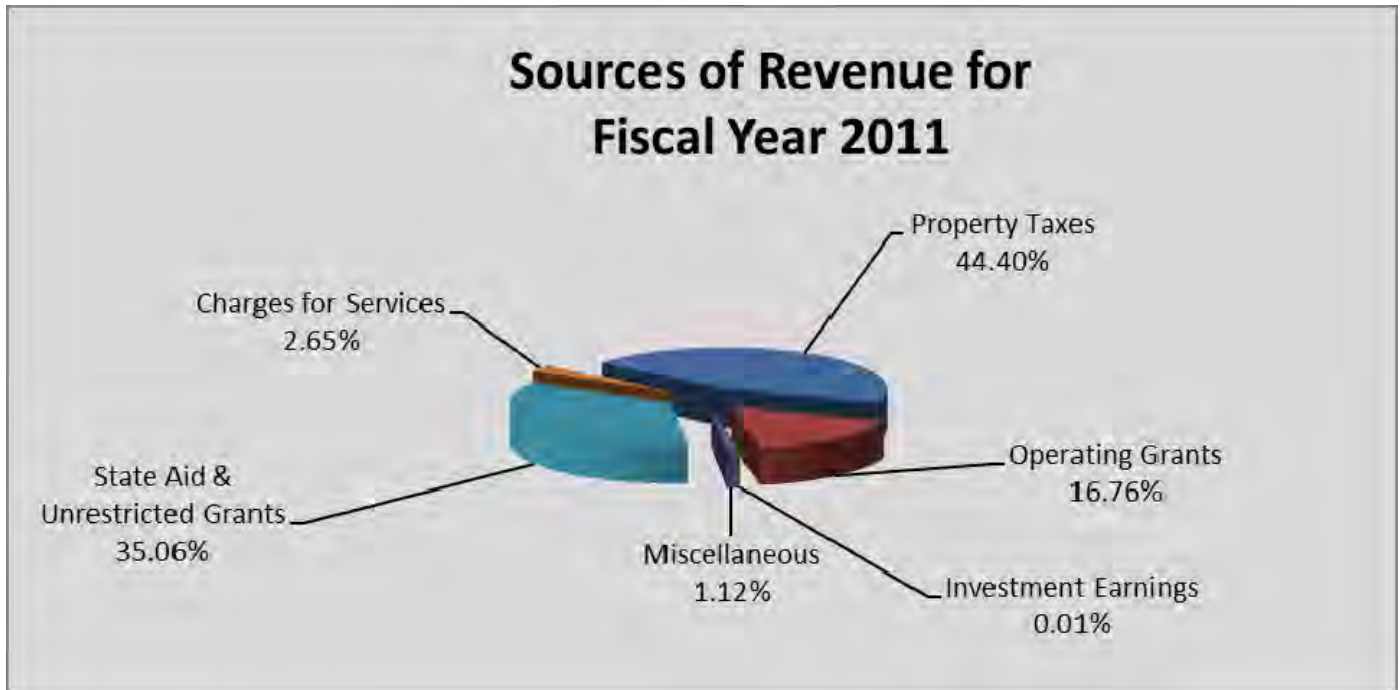
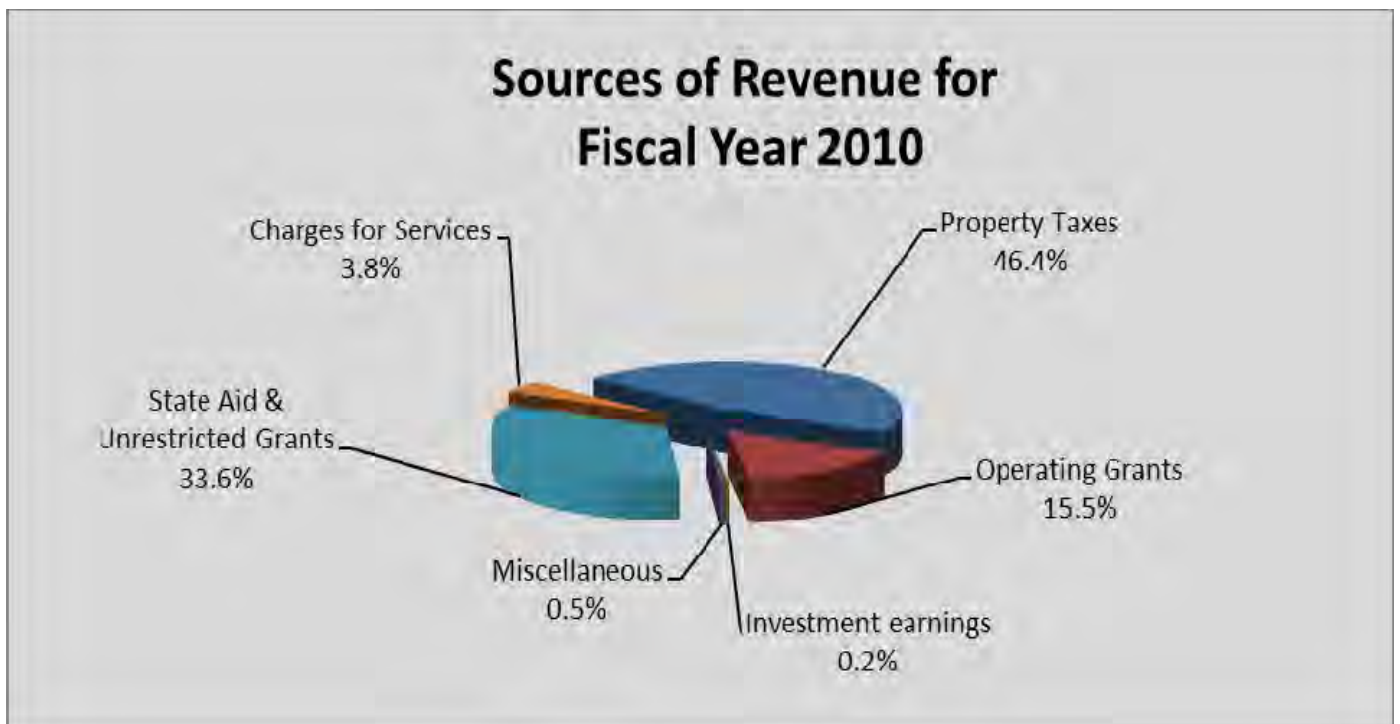


Figure 2



Expenses are shown in Table III by functional categories. Various operating expenses are reflected in each functional category. Total expenses in the current fiscal year were \$308.2 million, a \$9 million or 3.0 percent increase from the prior year which is largely attributable to a 2.0 percent salary increase for personnel and the purchase of instructional technology equipment for District classrooms.

Table IV shows the Districts largest governmental functions as well as their related net cost (total cost less fees and grants and contributions for the activities). The net cost reflects what was funded by property taxes, unrestricted state and federal grants and contributions and other miscellaneous local revenues.

Table IV Costs of Services for Major Functions				
	<u>Cost of Services</u>		<u>Net Cost of Services</u>	
	2011	% of Total	2011	% of Total
Instruction	\$ 170,101,863	55.2%	\$ 146,403,148	59.0%
School Leadership	15,834,356	5.1%	14,992,973	6.0%
Plant Maintenance	23,972,101	7.8%	18,011,697	7.3%
Interest and Fiscal Charges	31,399,229	10.2%	24,745,989	10.0%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, bond covenants, and segregation for particular purposes.

Governmental Funds

The focus of the District’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District’s financing requirements. In particular, unassigned fund balance may serve as a useful measure of the District’s net resources available for spending at the end of a fiscal year.

As of August 31, 2011, the District’s governmental funds reported combined fund balances of \$198,971,693, a decrease of \$18.3 million from the prior year. The unassigned fund balance, \$69.1 million or 34.7 percent, of the total ending fund balance is available for spending at the District’s on-going operations. The remainder of fund balance has various spending constraints as detailed in Table VII.

Table VII		
Governmental Fund Balances		
	2011	% of Total
Non-Spendable		
Inventory	\$ 276,973	0.14%
Restricted		
Federal, State and Local Grants	7,146,581	3.59%
Capital Acquisitions	87,542,353	44.00%
Retirement of Long-Term Debt	7,559,801	3.80%
Total Restricted	<u>102,248,735</u>	51.39%
Committed		
Capital Acquisition Projects	5,015,355	2.52%
Technology Projects	3,669,190	1.84%
Total Committed	<u>8,684,545</u>	4.36%
Assigned		
Encumbrances	1,173,379	0.59%
Benefits/Workers' Compensation	747,967	0.38%
Safe School Program	254,794	0.13%
High School Allotment	1,415,466	0.71%
Energy Program	87,533	0.04%
Advertising	12,524	0.01%
Budget Contingencies	14,980,000	7.53%
Total Assigned	<u>18,671,663</u>	9.38%
Unassigned	69,089,777	34.72%
Total Governmental Fund Balances	<u><u>\$198,971,693</u></u>	100.00%

The General Fund is the primary operating fund of the District. At August 31, 2011, unassigned fund balance of the General Fund was \$69,089,777, which is 71.4 percent of the total General Fund balance of \$96,722,958. As a measure of the General Fund's liquidity and financial health, it may be useful to compare unassigned fund balance to the total fund expenditures. Unassigned fund balance represents 32.5 percent of the current year General Fund expenditures.

The fund balance of the District's General Fund increased \$9.3 million during the current fiscal year. Gas lease and royalty revenues were approximately \$2 million more than in the prior year. The increase is also a result of unspent budgets by campuses and various departments due to unfinished projects and continued efforts by administration to emphasize prudent spending and limited resources. Lastly, certain utilities and salaries typically funded through the General Fund were funded through the ARRA State Fiscal Stabilization Fund which is accounted for in the Special Revenue Funds.

The Debt Service Fund balance of \$7,559,801 is restricted for the payment of debt service. The fund balance decreased \$6,024,841 from the prior year. The decrease was a result of planned use of fund balance for tax rate management as well as increased debt service costs associated with new debt issuances.

At year end, the Capital Projects Fund had a combined fund balance of \$87,542,353 which is a decrease of \$21.8 million from the prior year. The fund balance is reserved for outstanding construction encumbrances and completion of various construction projects. The decrease in fund balance resulted from ongoing construction projects approved through the 2006 voter approved bonds.

The District's non-major funds are composed of various Special Revenue Funds. The Special Revenue Funds ended the year with a combined fund balance of \$7,146,581. This represents an increase of \$165,756 from the prior year. Revenues typically approximate expenditures in the Special Revenue Funds as grant funds, which make up the largest portion of activity in these funds, and are generally earned when expended.

Proprietary Funds

The District's Proprietary Funds include the Day Care Center and the Natatorium. At year end, the Proprietary Funds had net assets of \$768,686 which is an increase \$115,059 from the prior year. This increase is a result of user fees that are higher than the operating costs incurred by the programs.

General Fund Budgetary Highlights

Over the course of the year, the District revised its General Fund budget. Actual expenditures were \$11 million or 4.9 percent below final budgeted expenditures. The majority of the remaining budget related to Board approved projects not completed by year end as well as certain funds previously accounted for in special revenue funds now required to be held in the general fund. This shift in accounting practice was required through the implementation of GASB 54. The incomplete projects referred to above were rolled into the next fiscal year.

Actual reported revenues were approximately \$1 million higher than the final total revenues budgeted. The revenue variance related to additional revenues received after year end required to be reported in the 2010-2011 financial statements.

During the year certain budget amendments were passed to address changes in planned expenditures for the District. This activity is normal for the District as the administration responds to changing needs throughout the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of August 31, 2011, the District had invested approximately \$624.5 million in a broad range of capital assets, including land, equipment, and buildings, less depreciation (see Table V). Net capital assets increased \$48.6 million from the prior year. The increase was primarily due to two large construction projects in progress: Lake Ridge High School and a performing arts center both scheduled for completion in 2012.

Table V			
Capital Assets (Net of Depreciation)			
	Governmental Activities		
	2011	2010	% Change
Land	\$ 50,850,863	\$ 47,457,140	7.2%
Construction in progress	100,082,097	29,182,066	243.0%
Buildings and improvements	459,437,542	485,336,129	-5.3%
Furniture and equipment	14,106,672	13,905,604	1.4%
Totals	<u>\$624,477,174</u>	<u>\$575,880,939</u>	8.4%

More detailed information about the District's capital assets is presented in the Note 4 to Basic Financial Statements.

Long-Term Debt

The District had \$716.4 million in long-term debt at year end, an increase of \$30.2 million from the prior year (see Table VI). The District issued \$49.2 million in bonds to construct, renovate and equip school buildings and \$9.5 million in refunding bonds for an economic gain of \$970,863. In addition, the District made principal payments of \$19.9 million on the bonds during the fiscal year. More detailed information about the District's debt is presented in Note 5 to Basic Financial Statements.

Table VI			
Long-Term Debt			
	Governmental Activities		
	2011	2010	% Change
Bonds payable	\$696,013,429	\$666,804,943	4.4%
Accreted interest	3,227,880	3,724,083	-13.3%
Bond premiums	31,616,584	30,967,650	2.1%
Deferred loss on bond refunding	(14,442,554)	(15,299,315)	-5.6%
Totals	<u>\$716,415,339</u>	<u>\$686,197,361</u>	4.4%

The District continues to receive excellent bond ratings. The latest underlying review by the rating agencies was performed in December 2011. The bonds have a municipal bond rating of "Aaa" by Moody's Investors Service, Inc. ("Moody's"), "AAA" by Standard & Poor's Ratings Services ("S&P") and "AAA" by Fitch Ratings ("Fitch") by virtue of the guarantee of the Permanent School Fund of the State of Texas. The underlying ratings for the District remained "Aa2" by Moody's, "AA" by S&P and "AA+" by Fitch.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

During the 82nd Texas Legislative Session in the spring of 2011, the Legislature approved cuts of \$4 billion from the Foundation School Program for the 2012-2013 State fiscal biennium. Over the two year period, the District is projecting a \$13 million per year reduction in revenue from these legislative actions in comparison with previous funding formulas. District staff began working on budget reduction plans in the fall of 2010 in anticipation of these cuts. With a goal of not cutting staff or student programs, the District adopted a balanced budget for fiscal year 2011-2012 (including a 1.5 percent overall pay increase) by implementing the following:

- Reduced non-personnel department budgets by 10 percent
- Maximized state revenue generation of career and technology funding through schedule changes
- Utilized attrition for instructional staffing reductions generated through bell schedule changes
- Decreased certain administrative positions vacated through retirements
- Continued implementation of energy efficiency projects to further cut utility costs
- Utilized the federal Jobs Grant funds

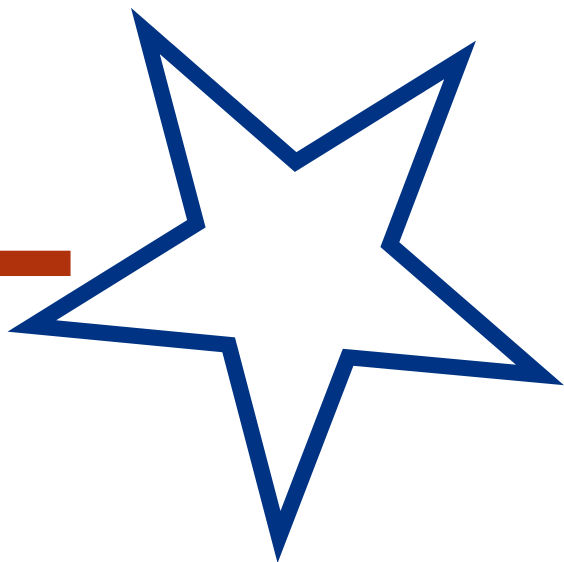
Property values for the 2011-2012 fiscal year increased almost 3 percent over the 2010-2011 year. The 2011-2012 total District tax rate of \$1.496 per \$100 of property value remained the same as the prior year with a Maintenance and Operations (M&O) rate of \$1.04 and an Interest and Sinking (I&S) rate of \$0.456. The District's enrollment for 2011-2012 increased approximately 1.1 percent over the prior year.

General fund expenditure budgets increased \$4.7 million over actual 2010-2011 expenditures. The federal Jobs Grant of approximately \$5 million provided the revenue to cover this budget increase. Using current District projections, no change in the general fund balance is expected at the end of fiscal year 2011-2012.

2011-2012 estimated budgets for the Child Nutrition Fund and Debt Service Fund include estimated revenues and expenditures of approximately \$13.1 million and \$51.6 million, respectively.

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 demonstrate the District's accountability for the funding it receives. If you have questions about this report or need additional financial information, contact the District's Finance Department.

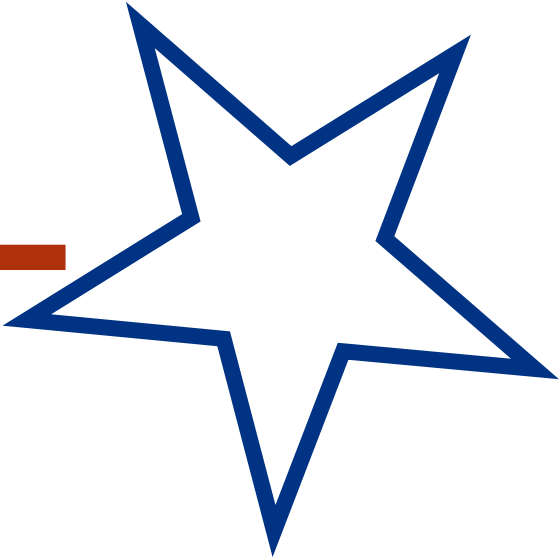


MANSFIELD INDEPENDENT SCHOOL DISTRICT





Basic Financial Statements



MANSFIELD INDEPENDENT SCHOOL DISTRICT



MANSFIELD INDEPENDENT SCHOOL DISTRICT

Statement of Net Assets

August 31, 2011

Data Control Codes		Governmental Activities	Business Type Activities	Total
ASSETS				
1110	Cash and Temporary Investments	\$ 227,121,955	\$ 759,512	\$ 227,881,467
1220	Property Taxes Receivable - Delinquent	5,294,555		5,294,555
1230	Allowance for Uncollectible Taxes	(158,836)		(158,836)
1240	Due from Other Governments	2,646,435		2,646,435
1260	Internal Balances	2,737	(2,737)	-
1290	Other Receivables	973,671	14,757	988,428
1310	Inventories	276,973		276,973
1420	Capital Bond & Other Debt Issuance Costs	5,597,440		5,597,440
1510	Land	50,850,863		50,850,863
1520	Buildings, net	459,437,542		459,437,542
1530	Furniture and Equipment, net	14,106,672		14,106,672
1580	Construction in Progress	100,082,097		100,082,097
1000	Total Assets	<u>866,232,104</u>	<u>771,532</u>	<u>867,003,636</u>
LIABILITIES				
2110	Accounts Payable	13,065,941	2,720	13,068,661
2140	Accrued Interest Payable	1,456,583		1,456,583
2150	Payroll Deductions and Withholdings Payable	3,830,159		3,830,159
2160	Accrued Wages Payable	10,787,113		10,787,113
2165	Other Current Liabilities		126	126
2180	Due to Other Governments	139,276		139,276
2300	Unearned Revenues	5,135,654		5,135,654
	Long-Term Liabilities			
	Portion Due or Payable within One Year:			
2501	Bonds Payable	16,815,000		16,815,000
	Portion Due or Payable after One Year:			
2502	Bonds Payable	699,600,339		699,600,339
2000	Total Liabilities	<u>750,830,065</u>	<u>2,846</u>	<u>750,832,911</u>
NET ASSETS				
3200	Invested in Capital Assets, Net of Related Debt	(1,167,932)		(1,167,932)
3820	Restricted for Food Service	5,587,344		5,587,344
3820	Restricted for Grants	1,559,237		1,559,237
3850	Restricted for Debt Service	6,103,218		6,103,218
3900	Unrestricted Net Assets	103,320,172	768,686	104,088,858
3000	Total Net Assets	<u>\$ 115,402,039</u>	<u>\$ 768,686</u>	<u>\$ 116,170,725</u>

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

MANSFIELD INDEPENDENT SCHOOL DISTRICTStatement of Activities
For the Year Ended August 31, 2011

Data Control Codes	Expenses	Program Revenues			Total Governmental Activities	Business Type Activities	Total
		Charges for Services	Operating Grants and Contributions				
GOVERNMENTAL ACTIVITIES							
11	Instruction	\$ 170,101,863	\$ 306,423	\$ 23,392,292	\$(146,403,148)	\$ -	\$(146,403,148)
12	Instructional Resources & Media Services	4,487,952		202,038	(4,285,914)		(4,285,914)
13	Curriculum & Staff Development	2,537,353		660,906	(1,876,447)		(1,876,447)
21	Instructional Leadership	2,514,569		158,621	(2,355,948)		(2,355,948)
23	School Leadership	15,834,356		841,383	(14,992,973)		(14,992,973)
31	Guidance & Counseling Services	9,581,037		4,591,211	(4,989,826)		(4,989,826)
32	Social Work Services	65,867		3,705	(62,162)		(62,162)
33	Health Services	3,700,939		424,555	(3,276,384)		(3,276,384)
34	Student Transportation	9,720,955		770,832	(8,950,123)		(8,950,123)
35	Food Service	13,888,854	5,921,093	6,830,415	(1,137,346)		(1,137,346)
36	Extracurricular Activities	8,250,483	785,728	426,700	(7,038,055)		(7,038,055)
41	General Administration	4,818,303		232,909	(4,585,394)		(4,585,394)
51	Plant Maintenance and Operations	23,972,101	532,718	5,427,686	(18,011,697)		(18,011,697)
52	Security and Monitoring Services	2,555,072	97,931	132,192	(2,324,949)		(2,324,949)
53	Data Processing Services	2,983,474		1,008,996	(1,974,478)		(1,974,478)
61	Community Services	155,257		94,888	(60,369)		(60,369)
72	Interest and Fiscal Charges	31,399,229		6,653,240	(24,745,989)		(24,745,989)
81	Facilities Acquisition and Construction	93,949		8,081	(85,868)		(85,868)
93	Payments to Districts Related to SSA	112,500		112,500	-		-
95	Payments to Juvenile Justice Alt. Ed. Prog.	21,000			(21,000)		(21,000)
99	Other Intergovernmental Charges	900,040			(900,040)		(900,040)
	TG Total Governmental Activities:	307,695,153	7,643,893	51,973,150	(248,078,110)	-	(248,078,110)
BUSINESS-TYPE ACTIVITIES							
	Day Care	180,976	180,633		-	(343)	(343)
	Natatorium	287,078	402,480		-	115,402	115,402
TB	Total Business-Type Activities:	468,054	583,113	-	-	115,059	115,059
TP	TOTAL PRIMARY GOVERNMENT:	\$ 308,163,207	\$ 8,227,006	\$ 51,973,150	(248,078,110)	115,059	(247,963,051)

Data Control Codes	General Revenues:				
MT	Property Taxes, Levied for General Purposes		95,956,165	95,956,165	
DT	Property Taxes, Levied for Debt Service		41,812,614	41,812,614	
GC	Grants and Contributions not Restricted		108,789,775	108,789,775	
IE	Investment Earnings		33,371	33,371	
MI	Miscellaneous		3,481,005	3,481,005	
TR	Total General Revenues		250,072,930	250,072,930	
CN	Change in Net Assets		1,994,820	115,059	2,109,879
NB	Net Assets-- Beginning		113,407,219	653,627	114,060,846
NE	Net Assets-- Ending		\$ 115,402,039	\$ 768,686	\$ 116,170,725

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

MANSFIELD INDEPENDENT SCHOOL DISTRICT

Balance Sheet Governmental Funds August 31, 2011

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects Fund	Other Nonmajor Funds	98 Total Governmental Funds
ASSETS					
1110 Cash and Temporary Investments	\$ 114,232,888	\$ 8,229,921	\$ 96,633,921	\$ 8,025,225	\$ 227,121,955
1220 Property Taxes Receivable - Delinquent	3,887,573	1,406,982			5,294,555
1230 Allowance for Uncollectible Taxes	(116,627)	(42,209)			(158,836)
1240 Due from Other Governments	114,193			2,532,242	2,646,435
1260 Due from Other Funds	1,606,463	143,999			1,750,462
1290 Other Receivables	865,776			107,895	973,671
1300 Inventories	276,973				276,973
1000 Total Assets	<u>\$ 120,867,239</u>	<u>\$ 9,738,693</u>	<u>\$ 96,633,921</u>	<u>\$ 10,665,362</u>	<u>\$ 237,905,215</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
2110 Accounts Payable	\$ 2,689,586	\$ 36,593	\$ 9,090,979	\$ 1,248,783	\$ 13,065,941
2150 Payroll Deductions and Withholdings Payable	3,830,159				3,830,159
2160 Accrued Wages Payable	10,510,434			276,679	10,787,113
2170 Due to Other Funds	143,999		589	1,603,137	1,747,725
2180 Due to Other Governments	139,264			12	139,276
2300 Deferred Revenues	6,830,839	2,142,299		390,170	9,363,308
2000 Total Liabilities	<u>24,144,281</u>	<u>2,178,892</u>	<u>9,091,568</u>	<u>3,518,781</u>	<u>38,933,522</u>
Fund Balances:					
Non-Spendable:					
3410 Investments in Inventory	276,973				276,973
Restricted:					
3450 Grant Restrictions				7,146,581	7,146,581
3470 Capital Acquisitions			87,542,353		87,542,353
3480 Retirement of Long-Term Debt		7,559,801			7,559,801
Committed:					
3510 Capital Acquisitions Projects	5,015,355				5,015,355
3530 Technology Projects	3,669,190				3,669,190
Assigned:					
3590 Other Assigned	18,671,663				18,671,663
3600 Unassigned	69,089,777				69,089,777
3000 Total Fund Balances	<u>96,722,958</u>	<u>7,559,801</u>	<u>87,542,353</u>	<u>7,146,581</u>	<u>198,971,693</u>
4000 Total Liabilities and Fund Balances	<u>\$ 120,867,239</u>	<u>\$ 9,738,693</u>	<u>\$ 96,633,921</u>	<u>\$ 10,665,362</u>	<u>\$ 237,905,215</u>

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

MANSFIELD INDEPENDENT SCHOOL DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the

Statement of Net Assets

August 31, 2011

Total Fund Balances - Governmental Funds	\$	198,971,693
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Costs of the assets		
Beginning balance		764,967,677
Added during year (net of retirements)		76,014,407
Accumulated depreciation		
Beginning balance		(189,086,738)
Added during year (net of retirements)		(27,418,172)

Certain liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. These liabilities at year-end consist of:

Bonds Payable		(696,013,429)
Accrued Interest Payable		(1,456,583)
Interest Accretion on Capital Appreciation Bonds		(3,227,880)

Various other adjustments and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include:

Deferred revenue		4,227,654
Bond issue costs		5,597,440
Deferred loss on refunding		14,442,554
Bond premium		(31,616,584)

Total Net Assets of Governmental Activities	\$	115,402,039
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The notes to the financial statements are an integral part of this statement.

MANSFIELD INDEPENDENT SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended August 31, 2011

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects Fund	Other Nonmajor Funds	98 Total Governmental Funds
REVENUES:					
5700 Total Local and Intermediate Sources	\$ 99,910,858	\$ 41,267,899	\$ 80,051	\$ 9,690,687	\$ 150,949,495
5800 State Program Revenues	119,304,813	6,653,240		4,120,048	130,078,101
5900 Federal Program Revenues	2,315,829			24,569,962	26,885,791
5020 Total Revenues	<u>221,531,500</u>	<u>47,921,139</u>	<u>80,051</u>	<u>38,380,697</u>	<u>307,913,387</u>
EXPENDITURES:					
Current:					
0011 Instruction	138,299,367			13,997,927	152,297,294
0012 Instructional Resources & Media Services	3,133,889			49,506	3,183,395
0013 Curriculum & Staff Development	1,957,726			578,209	2,535,935
0021 Instructional Leadership	2,428,007			52,441	2,480,448
0023 School Leadership	14,374,798			57,866	14,432,664
0031 Guidance & Counseling Services	5,122,965			4,207,412	9,330,377
0032 Social Work Services	65,867				65,867
0033 Health Services	3,307,183			236,276	3,543,459
0034 Student Transportation	8,960,381			625,382	9,585,763
0035 Food Service				11,599,797	11,599,797
0036 Extracurricular Activities	6,249,617			219,969	6,469,586
0041 General Administration	4,558,965			24,017	4,582,982
0051 Plant Maintenance and Operations	18,404,900			5,198,648	23,603,548
0052 Security and Monitoring Services	2,608,962			2,603	2,611,565
0053 Data Processing Services	2,010,620			923,117	2,933,737
0061 Community Services	79,226			76,031	155,257
Debt Service:					
0071 Principal on Long-Term Debt		19,946,514			19,946,514
0072 Interest on Long-Term Debt		33,932,523			33,932,523
0073 Bond Issuance Cost and Fees		252,073	529,835		781,908
Capital Outlay:					
0081 Facilities Acquisition and Construction	8,081		74,438,864		74,446,945
Intergovernmental:					
0093 Payments to Districts Related to SSA				112,500	112,500
0095 Payments to Juvenile Justice Alt. Ed. Program	21,000				21,000
0099 Other Intergovernmental Charges	900,040				900,040
6030 Total Expenditures	<u>212,491,594</u>	<u>54,131,110</u>	<u>74,968,699</u>	<u>37,961,701</u>	<u>379,553,104</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>9,039,906</u>	<u>(6,209,971)</u>	<u>(74,888,648)</u>	<u>418,996</u>	<u>(71,639,717)</u>
OTHER FINANCING SOURCES (USES):					
7911 Proceeds from Bond Issuance		9,500,000	49,225,000		58,725,000
7912 Proceeds from Sale of Equipment	20,254			24,155	44,409
7915 Transfer In	261,592	1,382			262,974
7916 Premium on Issuance of Bonds		466,751	3,861,217		4,327,968
8911 Transfer Out			(1,382)	(261,592)	(262,974)
8940 Payment to Refunding Bond Escrow Agent		(9,783,003)			(9,783,003)
8949 Other Use				(15,803)	(15,803)
7080 Total Other Financing Sources (Uses)	<u>281,846</u>	<u>185,130</u>	<u>53,084,835</u>	<u>(253,240)</u>	<u>53,298,571</u>
1200 Change In Fund Balance	9,321,752	(6,024,841)	(21,803,813)	165,756	(18,341,146)
0100 Fund Balance - September 1 (Beginning)	<u>87,401,206</u>	<u>13,584,642</u>	<u>109,346,166</u>	<u>6,980,825</u>	<u>217,312,839</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 96,722,958</u>	<u>\$ 7,559,801</u>	<u>\$ 87,542,353</u>	<u>\$ 7,146,581</u>	<u>\$ 198,971,693</u>

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

MANSFIELD INDEPENDENT SCHOOL DISTRICT

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, 2011

Total Net Change in Fund Balances - Governmental Funds	\$ (18,341,146)
Amounts Reported for governmental activities in the statement of net assets are different because:	
<p>Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of the assets is allocated over their estimated useful lives as depreciation expense.</p>	
Costs of the assets, net of retirements	76,014,407
Current year depreciation, net of retirements	(27,418,172)
<p>Repayment of principal is an expenditure in the governmental fund statements but a reduction in long-term liabilities in the statement of net assets.</p>	
Payments on bonds payable	19,946,514
Change in accreted interest on capital appreciation bonds	496,203
<p>Current year bond issuances (and related items) are other financing sources, uses and expenditures in the governmental fund statements but are shown as changes in long-term liabilities and assets in the statement of net assets.</p>	
Bonds issued	(58,725,000)
Payments to escrow agent	9,783,003
Premium on bonds	(4,327,968)
Bond issue costs	709,896
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include:</p>	
Deferred revenue change	2,009,884
Gas lease amortization	(261,904)
Bond premium, deferred loss on refunding and issue cost amortization	2,246,935
Increase in bond interest payable	(137,832)
Change in Net Assets of Governmental Activities	\$ 1,994,820

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

MANSFIELD INDEPENDENT SCHOOL DISTRICT

Statement of Net Assets

Proprietary Funds

August 31, 2011

	Business-type Activities
	Total Enterprise Funds
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 759,512
Other Receivables	14,757
Total Assets	<u>774,269</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	2,720
Due to Other Funds	2,737
Prepaid Tuition	126
Total Liabilities	<u>5,583</u>
NET ASSETS	
Unrestricted Net Assets	<u>768,686</u>
Total Net Assets	<u><u>\$ 768,686</u></u>

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

MANSFIELD INDEPENDENT SCHOOL DISTRICT

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Proprietary Funds

For the Year Ended August 31, 2011

	Business-type Activities
	Total Enterprise Funds
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 583,113
Total Operating Revenues	<u>583,113</u>
OPERATING EXPENSES:	
Payroll Costs	387,924
Professional and Contracted Services	34,652
Supplies and Materials	17,750
Other Expenses	27,728
Total Operating Expenses	<u>468,054</u>
Operating Income	115,059
Total Net Assets September 1 (Beginning)	<u>653,627</u>
Total Net Assets - August 31 (Ending)	<u><u>\$ 768,686</u></u>

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

MANSFIELD INDEPENDENT SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Funds

For the Year Ended August 31, 2011

	Business-type Activities
	Total Enterprise Funds
Cash flows from operating activities:	
Cash Received from User Charges	\$ 568,356
Cash Payments for Club Fees	(386)
Cash Payments to Employees for Services	(387,924)
Cash Payments for Contracted Services	(34,652)
Cash Payments for Supplies	(15,633)
Cash Payments for Other Expenses	(27,728)
Net Cash Provided by Operating Activities	102,033
Cash and Cash Equivalents at Beginning of the Year	657,479
Cash and Cash Equivalents at the End of the Year	<u>\$ 759,512</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 115,059
Effect of Increase and Decreases in Current Assets and Liabilities:	
Increase in Accounts Receivable	(14,757)
Increase (Decrease) in Accounts Payable	(620)
Increase in Due to Other Funds	2,737
Decrease in Prepaid Tuition	(386)
Net Cash Provided by Operating Activities	<u>\$ 102,033</u>

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

MANSFIELD INDEPENDENT SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Funds

August 31, 2011

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and Temporary Investments	\$ 67,825	\$ 706,187
Total Assets	<u>67,825</u>	<u>706,187</u>
LIABILITIES		
Due to Student Groups	-	\$ 690,384
Due to Others	-	15,803
Total Liabilities	<u>-</u>	<u>\$ 706,187</u>
NET ASSETS		
Restricted Net Assets	<u>67,825</u>	
Total Net Assets	<u>\$ 67,825</u>	

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

MANSFIELD INDEPENDENT SCHOOL DISTRICT

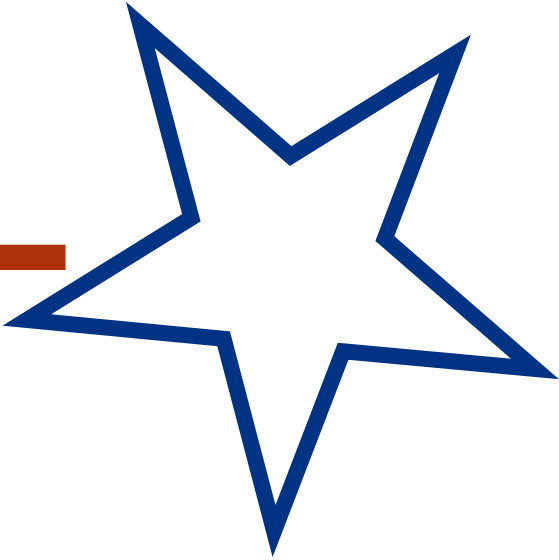
Statement of Changes in Fiduciary Net Assets

Fiduciary Fund

For the Year Ended August 31, 2011

	Private Purpose Trust Fund
ADDITIONS:	
Investment Income	\$ 137
Total Additions	<u>137</u>
Change in Net Assets	137
Net Assets - September 1 (Beginning)	<u>67,688</u>
Net Assets - August 31 (Ending)	<u><u>\$ 67,825</u></u>

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



MANSFIELD INDEPENDENT SCHOOL DISTRICT



Mansfield Independent School District

Notes to Basic Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Board of Trustees, a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of Mansfield Independent School District (“the District”). Because members of the Board of Trustees are elected by the public; have the authority to make decisions, appoint administrators and managers, and significantly influence operations; and have the primary accountability for fiscal matters; the District is not included in any other governmental “reporting entity” as defined in Governmental Accounting Standards Board (“GASB”) Statement No. 14. Also, there are no component units for which the District or the Board of Trustees is financially accountable.

Since the District receives funding from local, state and federal government sources, it must comply with the requirements of the entities providing those funds.

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 District's 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*, which are reported separately, rely to a significant extent, on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories – governmental, proprietary, and fiduciary. Since resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide statements. The emphasis on fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as other funds.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are nonoperating.

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 private purpose trust 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 revenues as soon as all eligibility requirements imposed by the provider have been met. The District has elected to follow accounting standards issued by GASB and only those accounting standards issued by the Financial Accounting Standards Board on or before November 30, 1989, as allowed by GASB Statement No. 20.

Mansfield Independent School District

Notes to Basic Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the District considered revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and claims and judgments are recorded only when payments are due.

Revenues from local sources consist primarily of property taxes. Property tax revenues, revenues received from the State, and gas lease revenues are recognized under the susceptible to accrual concept. 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 may require the District to refund all or part of the unused amounts.

Proprietary funds operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal operations. The principal operating revenues of the District's enterprise funds are for charges to patrons for use of the two facilities, District employee day care and the District natatorium. Operating expenses for the enterprise funds include salaries and other operating expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Accounting

The District reports the following major governmental funds:

The General Fund which accounts for financial resources related to the general operations of the District, including financial resources not required to be accounted for in some other fund.

The Debt Service Fund which is utilized to account for the accumulation of resources for, and the payment of long-term debt principal, interest and related costs arising from general obligation bonds.

The Capital Projects Fund which accounts for proceeds from sales of bonds and other revenues to be used for authorized construction and acquisition of capital facilities.

Additionally, the District reports the following funds:

Governmental Funds:

The Special Revenue Funds which account for federal, state and locally financed programs where unused balances are generally returned to the grantor at the close of specified project periods. Proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects are accounted for in special revenue funds. Project accounting is employed to maintain integrity for the various sources of funds.

Mansfield Independent School District

Notes to Basic Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Proprietary Funds:

Enterprise Funds account for the activities of the District's employee day care and natatorium.

Fiduciary Funds:

Private Purpose Trust Fund is used to account for resources legally held in trust under which principal and income benefit individuals, private organizations or other governments.

Agency Fund which is custodial in nature and accounts for activities of student groups and other types of activities requiring clearing accounts. This fund has no equity. Assets are equal to liabilities and do not include revenues and expenditures for general operations of the District. This accounting reflects the District's agency relationship with the student activity organizations. Fiduciary funds use the accrual basis of accounting to recognize assets and liabilities.

Cash, Cash Equivalents and Investments

The District's cash, cash equivalents and investments are classified as cash and temporary investments. The cash and temporary investments include cash on hand, deposits with financial institutions, investments in public funds investment pools, and short-term, highly liquid investments that are readily convertible to cash.

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report temporary investment contracts using cost based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term temporary refers to investments that have a remaining term of two years or less at the time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

Inventories

Supplies and materials are recorded as expenditures when requisitioned. Inventories of supplies on the balance sheet are recorded at cost, using the average cost method. Supplies and materials are used for almost all functions of activity.

Interfund Transactions and Receivables and Payables

Interfund receivables and payables arise from interfund transactions in the normal course of operations and are recorded in all affected funds in the period in which transactions are executed. All legally authorized transfers are appropriately treated as transfers and are included in the results of operations.

Capital Assets

Capital assets, which include land, buildings, furniture and equipment are reported in the government-wide financial statements. Assets are capitalized by the District if the cost of the item is more than \$5,000 and has a useful life of greater than 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.

Mansfield Independent School District

Notes to Basic Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

The cost of normal maintenance and repairs that do not add to the value of the assets 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 and Improvements	20-25 Years
Furniture and Equipment	5 Years
Vehicles	5 -15 Years
Property Under Capital Leases	5 Years

Fund Balance

During the year, the District implemented GASB Statement No. 54, which established a hierarchy of fund balance classifications based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources. The District reports governmental fund balance in the fund financial statements as follows:

Non-spendable – amounts that are not in spendable form or that are legally and contractually required to be maintained intact.

Restricted – amounts constrained to a specific purpose by the provider, through constitutional provisions, or by enabling legislation.

Committed – amounts constrained to specific purposes by the District’s Board of Trustees; amounts cannot be used for any other purpose unless the Board of Trustees takes action to remove or change the constraint.

Assigned – amounts constrained to a specific purpose by the Superintendent.

Unassigned – amounts not in the other classifications; applicable to the General Fund only.

The District policy is that the order of spending the fund balances shall be to reduce the funds in the following order: restricted, committed, assigned, and unassigned.

Data Control Codes

These codes refer to the account code structure prescribed by the Texas Education Agency ("TEA") in the Resource Guide.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The amount of state foundation revenue a school district earns for a year can and does vary until the time when final values for each of the factors in the formula become available. Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that the foundation revenue for fiscal 2011 will ultimately change from the amount calculated as of August 31, 2011 because of the factors that TEA uses in its calculation.

Mansfield Independent School District

Notes to Basic Financial Statements

NOTE 2: CASH AND INVESTMENTS

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the School Depository Act. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities 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, 2011, the District's carrying amount of deposits was \$10,755,682 and the bank balance was \$12,080,440. The District's bank balance at August 31, 2011, was entirely covered by FDIC insurance and pledged collateral held by the District's bank in the District's name. The deposits were collateralized in accordance with Texas Law.

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

- a. Name of bank: Frost National Bank, N.A., Mansfield, Texas
- b. The amount of bond and/or the market value of securities pledged as of the date of the highest combined balance on deposit was: \$17,508,645.
- c. The largest combined balances of cash, savings, and time deposit accounts amounted to \$17,258,000 and occurred during the month of July.
- d. Total amount of FDIC coverage at the time of the largest combined balance was \$250,000.

Credit Risk

State law and the Mansfield ISD adopted Investment Policy restrict demand deposits, certificates of deposit (CD) and share certificates to those fully collateralized or FDIC insured from eligible depositories (banks and savings banks) doing business in Texas. Such CDs are limited to maturities under one (1) year and are further collateralized to 102% with pledged securities (and 110% if mortgage backed securities) with all collateral held by an independent custodian.

State law and the Mansfield ISD adopted Investment Policy limit repurchase agreements to banks and primary dealers, require an industry standard, written master repurchase agreement, require independent safekeeping of collateral, and require a 102% margin on collateral. Fully collateralized flex repurchase agreements are restricted by Policy to be used only with bond funds and are required to match the expected expenditure plan of the bond proceeds.

Local government investment pools, as defined by state law (2256.016) and approved by adopted Policy are authorized. By State law, all local government pools are rated AAA or equivalent by at least one Nationally Recognized Statistical Rating Organization.

As of August 31, 2011,

- municipal bonds rated AA or better represented 40.43% of the total portfolio,
- local government investment pools that are rated AAA represented 42.83% of the total portfolio,
- the remainder of the portfolio, 16.74%, was in US Government securities rated AAA.

On August 5, 2011 Standard and Poors, one of three nationally recognized raters of US debt and securities, downgraded the rating of long-term US and government sponsored entities sovereign debt from AAA to AA+ for the first time since 1941 with a negative outlook. The two other national raters, Moody's and Fitch, continue to have the highest ratings, but also have the debt on their watch lists.

Mansfield Independent School District
Notes to Basic Financial Statements

NOTE 2: CASH AND INVESTMENTS – continued

Concentration of Credit Risk

Mansfield ISD's adopted Investment Policy requires diversification on all authorized investment types which are monitored on at least a monthly basis.

As of August 31, 2011,

- funds in one investment pool, LOGIC, represented 21.27% of the total portfolio,
- funds in one investment pool, TexStar, represented 21.56% of the total portfolio,
- funds invested in municipal bonds rated AA or better represented 40.43% of the total portfolio, the remainder of the portfolio, 16.74% was invested in US Government securities rated AAA.

Interest Rate Risk

In order to limit interest and market rate risk from changes in interest rates, Mansfield ISD's adopted Investment Policy sets a maximum maturity of one year and a maximum weighted average maturity (WAM) of 180 days on any operating and debt service fund. A maximum weighted average maturity of 270 days is established, by Policy, for capital project funds. Maturities longer than one year are authorized provided legal limits are not exceeded.

As of August 31, 2011, the portfolio contained:

- no holdings that had a stated maturity beyond 651 days
- the dollar weighted average maturity of the total portfolio was 135 days.

A segmented maturity distribution of the portfolio follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturities Less than 1 Year</u>	<u>Maturities More than 1 Year</u>
US Agencies			
FHLB *	\$ 16,309,317	\$ 16,309,317	\$ -
Government Sponsored Entities			
FHLMC *	5,000,100	-	5,000,100
FNMA *	15,037,905	15,037,905	-
Municipal Bonds	87,776,775	71,976,070	15,800,705
Constant Dollar Pools			
LOGIC	46,181,549	46,181,549	-
TexStar	46,820,139	46,820,139	-
Total Value	<u>\$ 217,125,785</u>	<u>\$ 196,324,980</u>	<u>\$ 20,800,805</u>
% of Total Portfolio		90.42%	9.58%

* Abbreviations:

FHLB is an abbreviation for Federal Home Loan Bank

FHLMC is an abbreviation of Federal Home Loan Mortgage Corporation

FNMA is an abbreviation for Federal National Mortgage Association

Mansfield Independent School District

Notes to Basic Financial Statements

NOTE 2: CASH AND INVESTMENTS – continued

Custodial Credit Risk

To control custody risk, State law and Mansfield ISD's adopted Investment Policy requires collateral for all time and demand deposits as well as repurchase agreements be transferred delivery versus payment and held by an independent party approved by the District and held in the District's name. The custodian is required to provide original safekeeping receipts and monthly reporting of positions and position descriptions including market value. Repurchase agreements and deposits must be collateralized to 102% (and 110% for mortgaged backed securities) and be executed under a written agreement. The counterparty of each type transaction is held contractually liable for monitoring and maintaining the required collateral margins on a daily basis.

As of August 31, 2011:

- the portfolio contained no certificates of deposit,
- the portfolio contained no flex repurchase agreements,
- all bank demand deposits were fully insured and collateralized. All pledged bank collateral for demand deposits was held by an independent institution outside the bank's holding company.

NOTE 3: PROPERTY TAXES

Property taxes are levied by October 1 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 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. The assessed value of the roll on January 1, 2010, upon which the levy for the 2011 fiscal year was based, was \$8,574,290,921.

The tax rates assessed for the year ended August 31, 2011 to finance general fund operations and the payment of principal and interest on general obligation long-term debt were \$1.04 and \$.456 per \$100 of valuation, respectively, for a total of \$1.496 per \$100 of valuation. Current tax collections for the year ended August 31, 2011 were 98.7% of the tax levy.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based upon 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.

Mansfield Independent School District
Notes to Basic Financial Statements

NOTE 4: CAPITAL ASSETS

Capital asset activity for the District for the year ended August 31, 2011 was as follows:

	Balance September 1, 2010	Additions/ Transfers	Deletions/ Transfers	Balance August 31, 2011
Capital assets, not being depreciated:				
Land	\$ 47,457,140	\$ 3,393,723		\$ 50,850,863
Construction in progress	29,182,066	70,959,272	\$ (59,241)	100,082,097
Total capital assets, not being depreciated	<u>76,639,206</u>	<u>74,352,995</u>	<u>(59,241)</u>	<u>150,932,960</u>
Capital assets, being depreciated:				
Buildings & improvements	664,039,391	59,241		664,098,632
Furniture & equipment	3,070,090	391,848		3,461,938
Vehicles	21,218,990	1,596,703	(327,139)	22,488,554
Total capital assets, being depreciated	<u>688,328,471</u>	<u>2,047,792</u>	<u>(327,139)</u>	<u>690,049,124</u>
Less accumulated depreciation for:				
Buildings & improvements	(178,703,262)	(25,957,828)		(204,661,090)
Furniture & equipment	(2,043,590)	(381,083)		(2,424,673)
Vehicles	(8,339,886)	(1,406,400)	327,139	(9,419,147)
Total accumulated depreciation	<u>(189,086,738)</u>	<u>(27,745,311)</u>	<u>327,139</u>	<u>(216,504,910)</u>
Total capital assets being depreciated, net	<u>499,241,733</u>	<u>(25,697,519)</u>	<u>-</u>	<u>473,544,214</u>
Total capital assets, net	<u>\$575,880,939</u>	<u>\$ 48,655,476</u>	<u>\$ (59,241)</u>	<u>\$ 624,477,174</u>

Mansfield Independent School District
Notes to Basic Financial Statements

NOTE 4: CAPITAL ASSETS – continued

Depreciation expense of the governmental activities was charged to functions / programs as follows:

Instruction	\$ 17,936,845
Instructional resources & Media Services	1,304,557
Curriculum & Staff Development	1,418
Instructional Leadership	34,121
School Leadership	1,401,692
Guidance & Counseling Services	250,660
Health Services	157,480
Student Transportation	1,637,537
Food Service	2,382,130
Extracurricular Activities	1,788,237
General Administration	235,321
Plant Maintenance and Operations	443,898
Security and Monitoring Services	86,278
Data Processing Services	85,137
Total depreciation expense	<u><u>\$ 27,745,311</u></u>

NOTE 5: LONG-TERM OBLIGATIONS

Bonds and accreted interest are secured by ad valorem taxes levied against all taxable property and are serviced by the Debt Service Fund with an apportionment of the ad valorem tax levy. Interest rates on the bonds range from 1.5% to 5.5%. The principal amount of bond indebtedness cannot exceed 10% of the assessed valuation of taxable property in the District according to the last completed and approved ad valorem tax rolls of the District. At August 31, 2011 \$7,559,801 was available in the Debt Service Fund to service these bonds.

The District issued \$49,225,000 of Unlimited Tax School Building Bonds, Series 2010 dated October 1, 2010 delivered November 4, 2010. The bonds were issued to construct, renovate and equip school buildings, to purchase any necessary sites for such construction and to pay costs associated with the sale of the bonds. The issuance cost of \$529,835 is being amortized over the life of the bond using the straight-line method. The net premium paid of \$3,861,217 is being amortized over the life of the bond using the effective interest method.

The District issued \$9,500,000 of Unlimited Tax Refunding Bonds, Series 2011 dated April 15, 2011 delivered May 12, 2011. The bonds were used to provide resources to purchase U.S. government securities that were placed in an irrevocable trust for the purpose of generating resources for a portion of the future debt service payments on a portion of the Unlimited Tax School Building & Refunding Bonds, Series 2001 and a portion of the Unlimited Tax School Building Bonds, Series 2004 and to pay the costs associated with the issuance of the bonds. The advance refunding was undertaken to achieve a restructuring of the debt service requirements of the District. As a result, the refunded portions of the bonds are considered defeased and the liability has been removed from the general long-term debt of the District. The reacquisition price exceeded the net carrying amount of the old debt resulting in a loss on the refunding of \$203,585. This amount is being netted against the new debt and amortized using the straight-line method over the remaining life of the refunded debt. This refunding was undertaken to reduce total debt service payments over the next 15 years by \$107,459 and resulted in an economic gain/present value of \$907,863. The issuance cost of \$180,061 is being amortized over the life of the bond using the straight-line method. The net premium paid of \$466,751 is being amortized over the life of the bond using the effective interest method.

Mansfield Independent School District
Notes to Basic Financial Statements

NOTE 5: LONG-TERM OBLIGATIONS – continued

As of August 31, 2011, the District has no authorized but unissued general obligation bonds, see Note 15 Subsequent Event. At year end, \$105,750,000 of bonds outstanding are considered defeased and have not been included in the District's Statement of Net Assets.

The following is a summary of changes in long-term obligations of the District for the year ended August 31, 2011:

	September 1, 2010 Obligations	New Obligations Incurred	Obligations Retired or Refunded	August 31, 2011 Obligations	Due Within One Year
Governmental Activities:					
Bonds and Notes Payable					
General obligation bonds	\$ 666,804,943	\$ 58,725,000	\$ 29,516,514	\$ 696,013,429	\$ 15,928,467
Accreted interest	3,724,083	847,282	1,343,485	3,227,880	886,533
Premium on bond issuance	30,967,650	4,327,968	3,679,034	31,616,584	
Loss on refunding	(15,299,315)	(203,585)	(1,060,346)	(14,442,554)	
Total Bonds and Notes Payable	<u>\$ 686,197,361</u>	<u>\$ 63,696,665</u>	<u>\$ 33,478,687</u>	<u>\$ 716,415,339</u>	<u>\$ 16,815,000</u>

The annual requirements to pay principal and interest on the bond obligations outstanding as of August 31, 2011 are as follows:

Year Ending August 31	Principal	Interest	Total Requirements
2012	\$ 15,928,467	\$ 35,106,028	\$ 51,034,495
2013	21,055,000	33,439,538	54,494,538
2014	22,816,589	32,766,972	55,583,561
2015	20,768,373	34,707,762	55,476,135
2016	23,940,000	29,807,080	53,747,080
2017-2021	143,645,000	130,062,042	273,707,042
2022-2026	198,995,000	88,756,311	287,751,311
2027-2031	186,065,000	37,633,875	223,698,875
2032-2035	62,800,000	4,723,750	67,523,750
	<u>\$ 696,013,429</u>	<u>\$ 427,003,358</u>	<u>\$ 1,123,016,787</u>

Note: Accreted interest is included in the interest column in the year it is payable.

Mansfield Independent School District
Notes to Basic Financial Statements

NOTE 5: LONG-TERM OBLIGATIONS – continued

Bonds payable at August 31, 2011 are composed of the following individual issues:

Description - Authorization (Dated)	Interest Rate	Amount Original Issue	Due Within One Year
Unlimited Tax School Building Variable Rate Bonds 1996* (7/15/96)	1.5% as of 8/31/2011	\$ 15,000,000	\$ -
Unlimited Tax School Building & Refunding Bonds 2002 (9/3/2002)	3.25% - 5.5%	79,789,984	2,820,000
Unlimited Tax School Building & Refunding Fixed Rate Bonds - 2003 (7/31/2003)	2.0% - 5.0%	70,435,000	3,200,000
Unlimited Tax School Building & Refunding Variable Rate Bonds 2003* (8/14/2003)	1.5% as of 8/31/2011	20,000,000	-
Unlimited Tax School Building Bonds 2003 (3/30/2004)	2.0% - 5.25%	76,330,000	50,000
Unlimited Tax Refunding Bonds 2005 (1/15/05)	2.25% - 5.0%	35,744,980	488,467
Unlimited Tax School Building Bonds 2005 (7/12/05)	3.0% - 5.0%	77,610,000	655,000
Unlimited Tax School Building Bonds 2006 (7/1/06)	4.25% - 5.0%	98,830,000	1,375,000
Unlimited Tax Refunding Bonds 2006 (8/15/2006)	4.00% - 5.00%	47,349,797	255,000
Unlimited Tax School Building Bonds - 2006 (5/15/2007)	4.00% - 5.00%	72,070,000	560,000
Unlimited Tax School Building Bonds - 2008 (6/15/2008)	4.00% - 5.00%	80,000,000	-
Unlimited Tax Refunding Bonds 2009 (11/20/2009)	3.00% - 5.00%	44,600,000	6,195,000
Unlimited Tax Refunding Bonds 2010 (7/15/10)	4.00% - 5.00%	85,465,000	-
Unlimited Tax School Building Bonds 2010 (10/1/2010)	2.00% - 5.00%	49,225,000	-
Unlimited Tax Refunding Bonds 2011 (4/15/2011)	2.00% - 4.00%	9,500,000	330,000
		Total	15,928,467
		Accumulated Accretion	886,533
			<u>\$ 16,815,000</u>

*For the variable rate debt issues, each one has a contractually bound liquidity agent, Dexia Credit Local bank. Both issues have interest rates separately remarketed under a contractual arrangement with First Southwest Company.

Mansfield Independent School District

Notes to Basic Financial Statements

NOTE 5: LONG-TERM OBLIGATIONS – continued

The following is a summary of changes in general obligation bonds of the District for the year ended August 31, 2011:

Description - Authorization (Dated)	Amount Outstanding September 1, 2010	Issued	Retired	Refunded	Accumulated Interest Accretion	Amount Outstanding August 31, 2011	Due within One Year
Unlimited Tax School Building Variable Rate Bonds 1996* (7/15/96)	\$ 4,500,000	\$	\$ 900,000	\$	\$	\$ 3,600,000	\$ -
Unlimited Tax School Building Bonds 2001 (3/13/01)	1,635,000		1,635,000			-	-
Unlimited Tax School Building & Refunding Bonds 2001 (8/9/01)	10,515,000		3,240,000	7,275,000		-	-
Unlimited Tax School Building & Refunding Bonds 2002 (9/3/2002)	7,099,984		2,710,000		1,373,823	5,763,807	2,820,000
Unlimited Tax School Building & Refunding Fixed Rate Bonds - 2003 (7/31/2003)	41,105,000		2,155,000			38,950,000	3,200,000
Unlimited Tax School Building & Refunding Variable Rate Bonds 2003* (8/14/2003)	15,900,000		1,000,000			14,900,000	-
Unlimited Tax School Building Bonds 2003 (3/30/2004)	52,575,000		1,685,000	2,295,000		48,595,000	50,000
Unlimited Tax Refunding Bonds 2005 (1/15/05)	34,239,980		441,514		788,254	34,586,720	488,467
Unlimited Tax School Building Bonds 2005 (7/12/05)	74,320,000		750,000			73,570,000	655,000
Unlimited Tax School Building Bonds 2006 (7/1/06)	98,830,000		320,000			98,510,000	1,375,000
Unlimited Tax Refunding Bonds 2006 (8/15/2006)	46,129,979		245,000		1,065,803	46,950,782	255,000
Unlimited Tax School Building Bonds - 2006 (5/15/2007)	71,880,000		100,000			71,780,000	560,000
Unlimited Tax School Building Bonds - 2008 (6/15/2008)	80,000,000					80,000,000	-
Unlimited Tax Refunding Bonds 2009 (11/20/2009)	42,610,000		1,805,000			40,805,000	6,195,000
Unlimited Tax Refunding Bonds 2010 (7/15/10)	85,465,000					85,465,000	-
Unlimited Tax School Building Bonds 2010 (10/1/2010)		49,225,000	2,800,000			46,425,000	-
Unlimited Tax Refunding Bonds 2011 (4/15/2011)		9,500,000	160,000			9,340,000	330,000
Total	\$ 666,804,943	\$ 58,725,000	\$ 19,946,514	\$ 9,570,000	\$ 3,227,880	\$ 699,241,309	\$ 15,928,467
				Accumulated Interest	Accretion	(3,227,880)	886,533
						\$ 696,013,429	\$ 16,815,000

*For the variable rate debt issues, each one has a contractually bound liquidity agent, Dexia Credit Local bank. Both issues have interest rates separately remarketed under a contractual arrangement with First Southwest Company.

Mansfield Independent School District

Notes to Basic Financial Statements

NOTE 6: INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at August 31, 2011 consisted of the following individual fund receivables and payables:

Receivable Fund	Payable Fund	Amount
General Fund	Special Revenue	\$ 1,603,137
General Fund	Capital Projects	589
General Fund	Proprietary	2,737
Debt Service	General Fund	143,999
	Total	\$ 1,750,462

Interfund balances resulted from the time lag between the dates reimbursable expenditures occur and payments between funds are made.

During Fiscal year 2011, transfers from the Special Revenue Funds to the General Fund totaling \$261,592 were recorded for the repayment of a grant match on some transportation projects in the prior year as well as to reclassify certain Special Revenue Funds to the General Fund as part of the implementation GASB Statement No. 54. In addition, a transfer of \$1,382 was made from the Debt Service Fund to the Capital Projects Fund related to new debt issuance. These transactions are eliminated in the government-wide financial statements.

NOTE 7: DEFERRED REVENUE

Deferred revenue at year-end for the fund statements consisted of the following:

Purpose	General Fund	Debt Service Fund	Non Major Funds	Total
Net Tax Revenue	\$ 3,305,655	\$ 1,183,904	\$	\$ 4,489,559
State Funding Payments	3,467,534	958,395		4,425,929
Safe School Program	2,000			2,000
Parking Permits	43,734			43,734
Rental	500			500
Advertising	11,416			11,416
MISD Foundation			17,158	17,158
Prepaid Lunch Cards			359,590	359,590
Scholarships			11,780	11,780
Miscellaneous Local Grants/Awards			1,642	1,642
Total	\$ 6,830,839	\$ 2,142,299	\$ 390,170	\$ 9,363,308

Tax revenues are earned but are not available as of year end; therefore, they are recognized as revenues in the government-wide financial statements and deferred in the fund level financial statements. In addition, gas lease revenues in the amount of \$261,905 recognized at the fund level are deferred as unearned on the government-wide financial statements.

Mansfield Independent School District

Notes to Basic Financial Statements

NOTE 8: ASSIGNED FUND BALANCE

Assigned fund balance as of August 31, 2011 is composed of the following:

Encumbrances	\$	1,173,379
Benefits/Workers' Compensation		747,967
Safe Schools Program		254,794
High School Allotment		1,415,466
Energy Program		87,533
Advertising		12,524
Budget Contingencies		14,980,000
Total		\$ 18,671,663

NOTE 9: OPERATING LEASES

The following is a schedule of the District's future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of August 31, 2011.

Fiscal Year	Amount
2012	\$ 860,976
2013	860,976
2014	860,976
2015	860,976
2016	215,244

Rental expense for the year ended August 31, 2011 was \$827,681.

NOTE 10: COMMITMENTS AND CONTINGENCIES

Litigation - The District is the defendant in a number of lawsuits arising principally in the normal course of operations. In the opinion of District's management, the potential losses after insurance coverage, on all claims will not have a material adverse effect on the District's financial statements; thus, no provision for losses has been recorded.

Grant Programs - The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent the District has not complied with the rules and regulations governing the grants, refunds of any monies received may be required, and the collectability of any related receivable at August 31, 2011, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic statements for such contingencies.

Construction - The District was obligated at August 31, 2011, under major contracts for construction, renovations, and repair of various facilities. The construction contract details associated with some of the major projects are as follows:

	Contract Amount	Incurred to Date
<u>New Construction:</u>		
Lake Ridge High School	\$ 60,171,728	\$ 46,349,257
Fine Arts Performing Center	40,783,553	27,369,345
Nancy Neal Elementary	10,813,594	10,810,594
Total	\$ 111,768,875	\$ 84,529,196

Mansfield Independent School District

Notes to Basic Financial Statements

NOTE 11: PENSION PLAN

Plan Description. The Mansfield 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. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2011, 2010 and 2009, and a state contribution rate of 6.644% for fiscal years 2011 and 2010 and 6.58% for fiscal years 2009. In certain instances the reporting district is required to make all or a portion of the state's 6.644% contribution, limited to 6.4% for the period September through December 2009 and increased to 6.644% for subsequent periods. State contributions to TRS made on behalf of the Mansfield Independent School District's employees for the years ended August 31, 2011, 2010 and 2009 were \$10,034,246, \$10,087,206, and \$7,961,678, respectively. The Mansfield Independent School District paid additional state contributions for the years ended August 31, 2011, 2010, and 2009 in the amount of \$2,170,019 \$2,035,148, and \$2,012,906, respectively, on the portion of the employees' salaries that exceeded the statutory minimum.

NOTE 12: SCHOOL DISTRICT RETIREE HEALTH PLAN

Plan Description. The Mansfield Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS Web site at www.trs.state.tx.us, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling 1-800-223-8778.

Mansfield Independent School District

Notes to Basic Financial Statements

NOTE 12: SCHOOL DISTRICT RETIREE HEALTH PLAN – continued

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2011, 2010 and 2009. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended August 31, 2011, 2010, and 2009, the State's contributions to TRS-Care were \$257,105,886, \$279,250,547, and \$267,471,299, respectively, the active member contributions were \$183,808,580, \$181,512,856, and \$173,856,344, respectively, and the District's contributions were \$929,117, \$954,090, and \$911,599, respectively, which equaled the required contributions each year.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. In accordance with GASB 24, the District recognizes these on-behalf payments as equal revenues and expenditures. For the years ended August 31, 2011, 2010, and 2009, the contributions made on behalf of the District were \$447,928, \$409,519, and \$352,585.

NOTE 13: HEALTH CARE

During the year ended August 31, 2011, employees of the District were covered by a health insurance plan ("the Plan"). The District paid premiums of \$247 per month per employee who worked at least 20 hours per week 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 Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

NOTE 14: RISK MANAGEMENT

As of September 1, 1998, the District has fully insured all workers' compensation claims. The current contract covers the period from September 1, 2010 through August 31, 2011. Premium payments are expensed as paid.

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal 2011, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

NOTE 15: SUBSEQUENT EVENT

On November 8, 2011, the District asked voters to approve a bond election of \$198,530,000 for school building construction and renovations. The bond election passed with 55 percent voter approval. Construction projects and renovations will begin in early 2012 and will continue over the next four to five years.

Mansfield Independent School District

Notes to Basic Financial Statements

NOTE 16: NEW ACCOUNTING PRONOUNCEMENTS

GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*. GASB 57 clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, those measures should be determined as of a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirements. This Statement is effective for the District in fiscal year 2012.

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, was issued in December 2010 to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The standard addresses SCAs in which there is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The statement also includes required disclosures about the SCAs. This standard becomes effective for the District in fiscal year 2013.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, was issued in November 2010 to improve financial reporting for a governmental reporting entity. The standard modifies certain requirements for inclusion of component units, amends criteria for blending, and clarifies the reporting of equity interests in legally separate entities. This standard becomes effective for the District in fiscal year 2013.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, was issued in December 2010 to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) Financial Accounting Standards Board (FASB) Statements and Interpretations, (2) Accounting Principles Board Opinions and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This standard becomes effective for the District beginning in fiscal year 2013.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, was issued in June 2011 to improve financial reporting for a governmental reporting entity. The standard provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. This standard becomes effective for the District in fiscal year 2013.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53*, was issued in June 2011 to improve financial reporting for a governmental reporting entity. The standard clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. This standard becomes effective for the District in fiscal year 2012.

The District will evaluate the impact of the standards on its financial statements and take the necessary steps to implement.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

[Closing Date]

IN REGARD to the authorization and issuance of the “Mansfield Independent School District Unlimited Tax Refunding Bonds, Series 2012-A”, dated July 1, 2012, in the aggregate principal amount of \$_____ (the “Bonds”), we have examined into their issuance by the Mansfield Independent School District (the “District”) solely to express legal opinions as to the validity of the Bonds, the defeasance and discharge of the District’s outstanding obligations being refunded by the Bonds and the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the District, the disclosure of any financial or statistical information or data pertaining to the District and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds.

THE BONDS are issued in fully registered form only and in denominations of \$5,000 or any integral multiple thereof (within a maturity). The Bonds mature on the dates and in each of the years specified in the pricing certificate (the “Pricing Certificate”) executed pursuant to an order adopted by the Board of Trustees of the District authorizing the issuance of the Bonds (the “Bond Order” and, jointly with the Pricing Certificate, the “Order”), unless redeemed prior to maturity in accordance with the terms stated on the Bonds. The Bonds accrue interest from the date, at the rates, and in the manner and interest is payable on the dates, all as provided in the Order.

IN RENDERING THE OPINIONS herein we have examined and rely upon (i) original or certified copies of the proceedings had in connection with the issuance of the Bonds, including the Bond Order, a Special Escrow Agreement (the “Escrow Agreement”) between the District and U.S. Bank National Association, Dallas, Texas (the “Escrow Agent”), a special report of Grant Thornton LLP, Certified Public Accountants (the “Accountants”) and an examination of the initial Bonds executed and delivered by the District (which we found to be in due form and properly executed); (ii) certifications of officers of the District relating to the expected use and investment of proceeds of the sale of the Bonds and certain other funds of the District and (iii) other documentation and such matters of law as we deem relevant. In the examination of the proceedings relating to the issuance of the Bonds, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such documents and certifications.

BASED ON OUR EXAMINATION and the above assumption, we are of the opinion that, under applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds have been duly authorized by the District and, when issued in compliance with the provisions of the Order, are valid, legally binding, and enforceable obligations of the District, payable from the proceeds of an ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity.

2. The Escrow Agreement has been duly authorized, executed and delivered and is a binding and enforceable agreement in accordance with its terms and the outstanding obligations refunded, discharged, paid and retired with the proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in a trust fund with the Escrow Agent, pursuant to the Escrow Agreement and in accordance with the provisions of V.T.C.A., Government Code, Chapter 1207, as amended. In rendering this opinion, we have relied upon the special report of the Accountants as to the sufficiency of cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

3. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the District with the provisions of the Order relating to sections 141 through 150 of the Code, interest on the Bonds for federal income tax purposes (a) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof, and (b) will not be included in computing the alternative minimum taxable income of individuals or, except as hereinafter described, corporations. Interest on the Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporations, other than an S corporation, a qualified mutual fund, a real estate mortgage investment conduit, a real estate investment trust, or a financial asset securitization investment trust ("FASIT"). 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.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. 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, owners of interests in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit 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.

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

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