Rating: S&P "AAA" / "AA+"
(See "RATINGS" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM")

This Preliminary Official Statement and the information contained herein are subject to completion or amendment in a Final Official Statement. The Bonds may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to the registration or qualification under the applicable securities laws of any such jurisdiction. Final written confirmation of the sale shall not be conclusive unless the Final Official Statement is delivered to the purchaser.

PRELIMINARY OFFICIAL STATEMENT
Dated: July 31, 2012

NEW ISSUE: BOOK-ENTRY-ONLY
In the opinion of Bond Counsel, under existing law interest on the Bonds is excludable from gross income for federal income tax purposes and the Bonds are not "private activity bonds." See "TAX MATTERS" for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.

$13,560,000*
IRVING INDEPENDENT SCHOOL DISTRICT
(Dallas County, Texas)
Unlimited Tax School Building Bonds, Series 2012

Dated Date: August 1, 2012 **Due: February 15, as shown on page ii**

The Irving Independent School District (the "District") is issuing $13,560,000* Unlimited Tax School Building Bonds, Series 2012 (the "Bonds") in accordance with the Constitution and general laws of the State of Texas, including particularly Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), an election held in the District on November 6, 2007, and an order authorizing the issuance of the Bonds (the "Bond Order"). In the Bond Order, the Board delegated to officers of the District, pursuant to certain provisions of Chapter 1371, 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 Bonds constitute direct obligations of the District and are payable as to principal and interest from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the District (see "THE BONDS – Security"). Additionally, the District has received conditional approval for the Bonds to be guaranteed by the Permanent School Fund of the State of Texas (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Interest on the Bonds will accrue from August 1, 2012 and will be payable on February 15 and August 15 of each year, commencing February 15, 2013, until maturity or prior redemption. The Bonds will be issued in principal denominations of $5,000 or any integral multiple thereof within a maturity. Interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months (see "THE BONDS – General Description").

The District intends to use the Book-Entry-Only System of The Depository Trust Company ("DTC"), but use of such system could be discontinued. The principal of the Bonds at maturity or on a prior redemption date, and interest on the Bonds will be payable to Cede & Co., as nominee for DTC, by The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as the initial Paying Agent/Registrar for the Bonds. **No physical delivery of the Bonds will be made to the beneficial owners thereof**. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer of the Bonds (see "BOOK-ENTRY-ONLY SYSTEM").

Proceeds from the sale of the Bonds will be used to (i) acquire, construct and equip school facilities in the District, including the purchase of necessary sites for school facilities and the purchase of school buses and (ii) pay costs of issuance related to the Bonds (see "THE BONDS – Authorization and Purpose").

CUSIP PREFIX: 463813
MATURITY SCHEDULE & 9 DIGIT CUSIP
See Schedule on Page ii

The Bonds are offered when, as and if issued, and accepted by the Underwriters, subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Bracewell & Giuliani LLP, Bond Counsel, Dallas, Texas. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., Dallas, Texas. The Bonds are expected to be available for initial delivery through the services of DTC on or about August 30, 2012.

BAIRD **ESTRADA HINOJOSA & COMPANY, INC.**

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* Preliminary, subject to change.

CUSIP Prefix: 463813[A]

MATURITY SCHEDULE

$13,560,000*
IRVING INDEPENDENT SCHOOL DISTRICT
(Dallas County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2012

Maturity Date (2/15)	Principal Amount*	Interest Rate	Initial Yield[B]	CUSIP Suffix[A]
2013	$345,000	%	%	
2014	1,910,000			
2015	810,000			
2016	845,000			
2017	880,000			
2018	920,000			
2019	960,000			
2020	1,010,000			
2021	1,060,000			
2022	1,115,000			
2023	1,175,000			
2024	1,235,000			
2025	1,295,000			

(Interest Accrues from August 1, 2012)

Redemption Provisions*…The Bonds maturing on and after February 15, 2023 are subject to redemption at the option of the District, prior to maturity, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2022 or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption (see "THE BONDS – Redemption Provisions").

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* Preliminary, subject to change.

[A] CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the owners of the Bonds. 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 shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.
[B] The initial offering yield represents the initial offering yield to the public, which will be determined by the Underwriters and may subsequently be changed by the Underwriters without notice to the District and is the sole responsibility of the Underwriters.

IRVING INDEPENDENT SCHOOL DISTRICT
OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

Name	Term Expires	Occupation
Ronda Huffstetler, President	2013	Salon Owner
Gwen Craig, Vice President	2013	Retired Educator
Larry Stipes, Secretary	2015	Contract Manager-DCFWSD 6 & 7
Jerry Christian, Member	2013	Retired School Administrator
Steven Jones, Member	2014	Dentist
Valerie Jones, Member	2015	Civic Volunteer
Gail Conder Wells, Member	2014	CPA

CERTAIN DISTRICT OFFICIALS

Name	Position
Dana T. Bedden, Ph.D.	Superintendent
Ralph Diaz	Special Assistant to the Superintendent
Melody Paschall	Associate Superintendent of Academic Services
Deborah Cabrera	Associate Superintendent of Business Services
Karry Chapman	Interim Assistant Superintendent of Administration
Scott Layne	Assistant Superintendent for Support Services
Judy Rudebusch	Assistant Supt. of Student Services & Federal Programs
Cheryl Jennings, Ph.D.	Assistant Superintendent of Teaching &Learning
Alice Owen, Ph.D.	Executive Director of Technology
Lisa Freeman	Tax Collector

CONSULTANTS AND ADVISORS

Auditors……………………………………………………………………………………………Weaver & Tidwell, L.L.P.
Fort Worth, Texas

Bond Counsel………………………………………………………………………………………Bracewell and Giuliani LLP
Dallas, Texas

Financial Advisor ……………………………………………………………………………………RBC Capital Markets, LLC
Dallas, Texas

For additional information regarding the District, please contact:

Deborah Cabrera
Assistant Superintendent of Business Services
Irving Independent School District
2621 W. Airport Freeway
Irving, Texas 75062
(972) 215-5000

Clarence Grier or Derek Honea
RBC Capital Markets, LLC
200 Crescent Court, Suite 1500
Dallas, Texas 75201
Phone: (214) 989-1660

USE OF INFORMATION IN OFFICIAL STATEMENT

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 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, the Financial Advisor or the Underwriters.

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

Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM - PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE OF 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 BONDS ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, OR EXEMPTED, SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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

None of the District, the Financial Advisor, or the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company ("DTC") or its book-entry-only system as described under "BOOK-ENTRY-ONLY SYSTEM" or the affairs of the Texas Education Agency (the "TEA") described under "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", as such information was provided by DTC and the TEA, respectively.

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

The agreements of the District and others related to the Bonds are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the purchaser of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL SCHEDULES AND APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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 THE 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.

TABLE OF CONTENTS

The cover page hereof, the section entitled "Selected Data from the Official Statement," this Table of Contents and the Appendices attached hereto are part of this Official Statement.

SELECTED DATA FROM THE OFFICIAL STATEMENT

The selected data 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 page from this Official Statement or to otherwise use it without the entire Official Statement.

The Issuer

Irving Independent School District (the "District") is a political subdivision of the State of Texas (the "State") located in Dallas County. The District is governed by a seven-member Board of Trustees (the "Board"). 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. For more information regarding the District, see "APPENDIX A – FINANCIAL INFORMATION REGARDING THE DISTRICT" and "APPENDIX B – GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY."

Authority for Issuance and Use of Proceeds

The District's Unlimited Tax School Building Bonds, Series 2012 (the "Bonds") are being issued pursuant to the Constitution and general laws of the State of Texas, including particularly Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), an election held in the District on November 6, 2007, and an order authorizing the issuance of the Bonds (the "Bond Order"). In the Bond Order, the Board delegated to officers of the District, pursuant to certain provisions of Chapter 1371, 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 the Pricing Certificate are collectively referred to as the "Order").

Proceeds from the sale of the Bonds will be used to (i) acquire, construct and equip school facilities in the District, including the purchase of necessary sites for school facilities and the purchase of school buses and (ii) pay costs of issuance related to the Bonds (see "THE BONDS – Authorization and Purpose").

The Bonds

The Bonds shall mature on the dates and in the amounts set forth on page ii of this Official Statement (see "THE BONDS – General Description"). Interest on the Bonds will accrue from August 1, 2012 and will be payable semiannually on February 15 and August 15 of each year, commencing February 15, 2013, until maturity or prior redemption (see "THE BONDS – General Description").

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Bonds is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "REGISTRATION, TRANSFER AND EXCHANGE – Paying Agent/Registrar"). Initially, the District intends to use the Book-Entry-Only System of The Depository Trust Company (see "BOOK-ENTRY-ONLY SYSTEM").

Security

The Bonds will constitute direct obligations of the District, payable as to principal and interest from an annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the District (see "THE BONDS – Security"). Additionally, an application has been filed and the District has received conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of Texas (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"). Also see "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for a discussion of recent developments in State law affecting the financing of school districts in the State.

Redemption Provisions*

The Bonds maturing on and after February 15, 2023 are subject to redemption at the option of the District, prior to maturity, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2022 or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption as further described herein (see "THE BONDS – Redemption Provisions").

Tax Exemption

In the opinion of Bond Counsel, under existing law interest on the Bonds is excludable from gross income for federal income tax purposes and the Bonds are not "private activity bonds." See "TAX MATTERS" for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.

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* Preliminary, subject to change.

Rating	Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), has assigned a municipal bond rating of "AAA" to the Bonds based upon the Permanent School Fund Guarantee. S&P generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas "AAA" (see "RATINGS" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"). The District's underlying rating for the Bonds (without consideration of the Permanent School Fund Guarantee) is "AA+" by S&P (see "RATINGS").
Book-Entry-Only System	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 of principal amount or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. The principal of the Bonds at maturity or upon prior redemption and interest will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "BOOK-ENTRY-ONLY SYSTEM").
Continuing Disclosure of Information	Pursuant to the Order, the District is obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events to the Municipal Securities Rulemaking Board ("MSRB"). Such information will be available to the public without charge from the MSRB at www.emma.msrb.org (see "CONTINUING DISCLOSURE OF INFORMATION").
Payment Record	The District has never defaulted on the payment of its bonded indebtedness.
Legal Opinion	Bracewell & Giuliani LLP, Dallas, Texas.

PRELIMINARY OFFICIAL STATEMENT RELATING TO

$13,560,000*
IRVING INDEPENDENT SCHOOL DISTRICT
(Dallas County, Texas)
Unlimited Tax School Building Bonds, Series 2012

INTRODUCTORY STATEMENT

This Official Statement, including Appendices A, B and D, has been prepared by the Irving Independent School District (the "District") located in Dallas County, Texas, in connection with the offering by the District of its Unlimited Tax School Building Bonds, Series 2012 (the "Bonds") identified on the cover page hereof.

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

This Official Statement contains descriptions of the Bonds and the Order (as defined herein), and certain other information about 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 during the offering period, from the District's Financial Advisor, RBC Capital Markets, LLC.

This Official Statement speaks only as of its date and the information contained herein is subject to change. A copy of the final Official Statement will be submitted to the Municipal Securities Rulemaking Board and will be available through its Electronic Municipal Market Access system. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE OF INFORMATION" for a description of the undertakings of the Texas Education Agency ("TEA") and the District, respectively, to provide certain information on a continuing basis.

THE BONDS

Authorization and Purpose

The Bonds are being issued in accordance with the Constitution and general laws of the State of Texas, including particularly Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), an election held in the District on November 6, 2007 (the "Election"), and an order authorizing the issuance of the Bonds (the "Bond Order"). In the Bond Order, the Board delegated to officers of the District, pursuant to certain provisions of Chapter 1371, 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 the Pricing Certificate are collectively referred to as the "Order").

Proceeds from the sale of the Bonds will be used for the acquisition, construction and equipment of school facilities in the District, including the purchase of necessary sites for school facilities and the purchase of school buses and to pay costs of issuance related to the issuance of the Bonds. After the issuance of the Bonds, the District will have no voter authorized but unissued bonds remaining from the Election or any other election (see "APPENDIX A – FINANCIAL INFORMATION REGARDING THE DISTRICT – Table 13 – AUTHORIZED BUT UNISSUED BONDS").

General Description

The Bonds will be dated August 1, 2012 and will mature on the dates and in the principal amounts shown on page ii hereof. The Bonds will each be issued as fully registered obligations in principal denominations of $5,000 or any integral multiple thereof within a maturity. Interest on the Bonds will accrue from August 1, 2012 at the interest rates shown on page ii hereof and such interest shall be payable to the registered owners thereof on February 15, 2013 and semiannually thereafter on August 15 and February 15 in each year, until maturity or prior redemption. Interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months. The paying agent and transfer agent (the "Paying Agent/Registrar") for the Bonds is initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas.

Initially, the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described below. No physical delivery of the Bonds will be made to the beneficial owners.

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* Preliminary, subject to change.

Principal, at maturity or upon a prior redemption date, and interest will be payable by the Paying Agent/Registrar to Cede & Co., which will distribute the amounts paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM” for a more complete description of such system.

Interest on the Bonds will be payable to the registered owner whose name appears on the bond registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined) and such accrued interest will be paid by (i) check sent United States mail, first class, postage prepaid, to the address of the registered owner appearing on such registration books of the Paying Agent/Registrar or (ii) such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. See “REGISTRATION, TRANSFER AND EXCHANGE – Record Date for Interest Payment.” The principal of the Bonds at maturity or on a prior redemption date will be payable only upon presentation of such Bonds at the designated office of the Paying Agent/Registrar.

Redemption Provisions*

The Bonds maturing on and after February 15, 2023 are subject to redemption prior to maturity, at the option of the District, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2022 or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. If less than all of the Bonds are to be redeemed, the District shall determine the principal amount and maturities to be redeemed (provided that a portion of a Bond may be redeemed only in an integral multiple of $5,000 principal amount) and shall direct the Paying Agent/Registrar to select by lot or other customary method that results in a random selection, the Bonds or portions thereof within a maturity, to be redeemed.

Notice of Redemption

At least 30 days prior to the date fixed for any such redemption, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the Owners of the Bonds to be redeemed at the address of the 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.

In the Order, the District reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the District retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the District delivers a certificate of the District to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Bonds subject to conditional redemption where such redemption has been rescinded, shall remain Outstanding, and the rescission of such redemption shall not constitute an Event of Default. Further, in the case of a conditional redemption, the failure of the District to make moneys and/or authorized securities available, in part or in whole, on or before the redemption date shall not constitute an Event of Default.

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 SUBJECT, IN THE CASE OF AN OPTIONAL REDEMPTION, TO ANY RIGHTS OR CONDITIONS RESERVED BY THE DISTRICT IN THE NOTICE, 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.

The Paying Agent/Registrar and the District, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Order or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the beneficial owners. Any such selection of Bonds to be redeemed will not be governed by the Order and will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds selected for redemption (see “BOOK-ENTRY-ONLY SYSTEM”).

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* Preliminary, subject to change.

Security

The Bonds are direct obligations of the District and are payable as to principal and interest from an annual ad valorem tax levied, without limit as to rate or amount, on all taxable property within the District as provided in the Order (see "TAX RATE LIMITATIONS"). Also see "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for a discussion of recent developments in State law affecting the financing of school districts in the State).

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 Guarantee Program for School District Bonds (Chapter 45, Subchapter C, of the Texas Education Code). Subject to meeting 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 in accordance with the terms of the Guarantee Program for School District Bonds. In the event of default, registered owners will receive all payments due from the corpus of the Permanent School Fund.

In the event the District defeases any of the Bonds, the payment of such defeased Bonds will cease to be guaranteed by the Permanent School Fund (see "THE BONDS – Defeasance of Bonds").

Legality

The Bonds are offered when, as and if issued, and subject to the approval of legality by the Attorney General of the State of Texas and the opinion of Bracewell & Giuliani LLP, Dallas, Texas (see "LEGAL MATTERS" and "APPENDIX C – FORM OF LEGAL OPINION OF BOND COUNSEL").

Payment Record

The District has never defaulted with respect to the payment of its bonded indebtedness.

Defeasance of Bonds

The Order provides that the District may discharge its obligations to the registered owners of any or all of the Bonds in any manner permitted by law. Under current Texas law, such discharge may be accomplished either: (i) by depositing with the Paying Agent/Registrar or other lawfully authorized entity a sum of money equal to the principal and all interest to accrue on the Bonds to maturity or redemption, and/or (ii) by depositing with the Paying Agent/Registrar or other lawfully authorized entity amounts sufficient, together with the investments earnings thereon, to provide for the payment and/or redemption of such Bonds; provided that such deposits may be invested and reinvested only in (a) direct non-callable 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, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding obligations, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; and (c) noncallable obligations of a state or an agency or a district, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding obligations to refund the Bonds, as applicable, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; or (iii) any combination of (i) and (ii) above. The foregoing obligations may be in book-entry form, and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds, as the case may be. If any of the Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for the payment to the registered owners of such Bonds at the date of maturity or prior redemption of the full amount to which such owner would be entitled and for giving notice of redemption as provided in the Order.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of Bonds have been made as described above, all rights of the District to initiate proceedings to call such Bonds for redemption or take any other action amending the terms of such Bonds are extinguished; provided, however, that the right to call such 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 such Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of such 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.

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 for defeasance purposes or that for any other defeasance security will be maintained at any particular rating category.

Sources and Uses of Funds

The proceeds from the sale of the Bonds will be applied approximately as follows:

Sources:		
	Principal Amount	$
	Net Original Issue Premium	
	Accrued Interest	
	Total Sources of Funds	**$**
Uses:		
	Deposit to Construction Fund	$
	Costs of Issuance and Underwriters' Discount	
	Deposit to Interest and Sinking Fund	
	Total Uses of Funds	**$**

REGISTERED OWNERS' REMEDIES

The Order establishes specific events of default with respect to the Bonds. If the District defaults in the payment of the principal and interest on the Bonds when due or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District set forth in the Order, the failure to perform which materially adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Order, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the District, the Order provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Order and the District's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so 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 in the absence of District action, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. 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 has not waived sovereign immunity in the manner 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. 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. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are subject to bankruptcy and other laws affecting creditors rights or remedies generally.

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 DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official

Statement. The District, the Financial Advisor and the Underwriters believe the source of such information to be reliable, but none of the District, the Financial Advisor nor the Underwriters take any responsibility for the accuracy or completeness thereof.

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security will be issued for each maturity of Bonds, as set forth on page ii hereof, 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 a 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 companies 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 confirmation 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 physical 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 Paying Agent/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 the 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 securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, and interest on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and reimbursement 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 transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

Use of Certain Terms in Other Sections of this Official Statement

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

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The Bank of New York Mellon Trust Company, N.A., Dallas, Texas has been named to serve as initial Paying Agent/Registrar for the Bonds. In the Order the District retains the right to replace the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a legally qualified bank, trust company, financial institution or other agency duly qualified and legally authorized to serve and perform the duties of the 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 at stated maturity or earlier redemption will be paid to the registered owner at the stated maturity or earlier redemption, as applicable, upon presentation to the designated payment/transfer office of the Paying Agent/Registrar. If the date for the payment of the principal or interest on the Bonds is a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the principal corporate trust 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. So long as Cede & Co. is the registered owner of the Bonds, principal and interest on the Bonds will be made as described in "BOOK-ENTRY-ONLY SYSTEM" above.

Future Registration

In the event the book-entry-only system is discontinued, printed certificates will be delivered to the owners of the Bonds and thereafter the Bonds may be transferred, registered and assigned on the registration books only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar, and such registration and transfer 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 and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment must be acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bond or Bonds being transferred or exchanged at the designated office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. 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 (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer 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 authorized denominations and for a like kind and aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" for a description of the system to be utilized initially in regard to the ownership and transferability of the Bonds.

Record Date For Interest Payment

The record date ("Record Date") for the interest payable on any interest payment date for the Bonds means the close of business on the last business day of the month next preceding such interest payment date. In the event of a nonpayment 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 (the "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 registered owner of a Bond appearing on the 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.

Limitation on Transfer of Bonds

Neither the District nor the Paying Agent/Registrar shall be required to issue, transfer, or exchange any Bond (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or (ii) any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date; provided, however, such limitation on transferability shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Replacement Bonds

If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same principal amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and in substitution for a Bond which has been destroyed, stolen or lost, such new Bond will be delivered only (a) upon filing with the Paying Agent/Registrar of satisfactory evidence to the effect that such Bond has been destroyed, stolen or lost and proof of the ownership thereof, and (b) upon furnishing the District and the Paying Agent/Registrar with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

AD VALOREM TAX PROCEDURES

Property Tax Code and County-Wide Appraisal District

The Texas Property Tax Code (the "Property Tax Code") provides for county-wide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board responsible for appraising property for all taxing units within the county. The Dallas Central Appraisal District (the "Appraisal District") is responsible for appraising property within the District, generally, as of January 1 of each year. The appraised values set by the Appraisal District are subject to review and change by the Appraisal Review Board (the "Appraisal Review Board"), whose members are appointed by the Appraisal District. Such appraisal rolls, as approved by the Appraisal Review Board, are used by the District in establishing its tax roll and tax rate.

Property Subject to Taxation by the District

Except for certain exemptions provided by State law, all real and certain tangible personal property with a tax situs in the District is subject to taxation by the District. Principal categories of exempt property (including certain exemptions which are subject to local option by the Board of Trustees of the District) include property owned by the State or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain improvements to real property and certain tangible personal property located in designated reinvestment zones on which the District has agreed to abate ad valorem taxes; certain household goods, family supplies and personal effects; farm products owned by the producers; certain property of a nonprofit corporation used in scientific research and educational activities benefiting a college or university, and designated historic sites. Other principal categories of exempt property include tangible personal property not held or used for production of income; solar and windpowered energy devices; most individually owned automobiles; $10,000 exemption to residential homesteads of disabled persons or persons ages 65 or over; an exemption from $5,000 to a maximum of $12,000 for real or personal property of disabled veterans or the surviving spouses or children of a deceased veteran who died while on active duty in the armed forces; $15,000 in market value for all residential homesteads; and certain classes of intangible property. In addition, except for increases attributable to certain improvements, the District is prohibited by State law from increasing the total ad valorem tax of the residence homestead of persons 65 years of age or older above the amount of tax imposed in the year such residence qualified for an exemption based on age of the owner. The freeze on ad valorem taxes on the homesteads of persons 65 years of age or older is also transferable to a different residence homestead. 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 is the homestead of the surviving spouse and the spouse is at least 55 years of age at the time of the death of the individual's spouse. Effective January 1, 2004, the freeze on taxes paid on residence homesteads of persons 65 years of age and older was extended to include the resident homesteads of "disabled" persons, including the right to transfer the freeze to a different residence homestead. A "disabled" person is one who is "under a disability for purposes of payment of disability insurance benefits under the Federal Old Age, Survivors and Disability Insurance." Pursuant to State Law taxes paid on residence homesteads of persons 65 years of age or over or of disabled persons are frozen 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 – Overview"). The school property tax limitation provided by the constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years. Owners of agricultural and open space land, under certain circumstances, may request valuation of such land on the basis of productive capacity rather than market value.

Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, 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 a provision 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. The Tax Code provision 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 only receive either the freeport exemption or the "goods-in-transit" exemption for items of personal property. See "APPENDIX A – FINANCIAL INFORMATION REGARDING THE DISTRICT" and "THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT" for a schedule of exemptions allowed by the District.

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. Effective September 1, 2001, school districts may not enter into tax abatement agreements under the general statute that permits cities and counties to initiate tax abatement agreements. 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 "AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate").

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. 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 or the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are based on one hundred percent (100%) of market value, except as described below, and no assessment ratio can be applied.

State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the property's market value in the most recent tax year in which it was assessed or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, (b) the appraised value of the property for the preceding tax year; and (c) the market value of all new improvements to the property.

The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. Landowners wishing to avail themselves of the agricultural use designation must apply for the designation, and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes for previous years based on the new value, including three years for agricultural use and five years for agricultural open-space land and timberland prior to the loss of the designation.

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three years. The District, at its expense, has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraisal values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses to formally include such values on its appraisal roll.

Residential Homestead Exemption

Under Section 1-b, Article VIII of the Texas Constitution and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than $3,000 of 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. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) 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 foregoing exemption 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 addition to any other exemptions provided by the Property Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of $5,000.

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

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a petition for review in district court within 45 days after notice is received that a final order has been entered. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party, or through binding arbitration, if requested by the taxpayer. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

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. 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 - Local Funding for School Districts" for a description of the "State Compression Percentage"). 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.

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. 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. 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.

Levy and Collection of Taxes

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Before the later of September 30 or the 60th day after the date that the certified appraisal roll is received by the District, the rate of taxation must be set by the Board of Trustees of the District based upon the valuation of property within the District as of the preceding January 1 and the amount required to be raised for debt service and maintenance and operations purposes. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty from six percent (6%) to twelve percent (12%) of the amount of the tax, depending on the time of payment, and accrues interest at the rate of one percent (1%) per month. If the tax is not paid by the following July 1, an additional penalty of up to twenty percent (20%) may, under certain circumstances, be imposed by the District. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property. The District has no lien for unpaid taxes on personal property but does have a lien for unpaid taxes on real property, which lien is discharged upon payment. On January 1 of each year, such tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The District's tax lien is on a parity with the tax liens of other such taxing units. A tax lien on real property takes priority over the claims 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. The automatic stay in bankruptcy will prevent the automatic attachment of tax liens with respect to post-petition tax years unless relief is sought and granted by the bankruptcy judge. 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. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights, or by bankruptcy proceedings which restrict the collection of taxpayer debts. **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.**

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

The Appraisal District has the responsibility for appraising property in the District as well as other taxing units in Dallas County. The Appraisal District is governed by a board of directors appointed by voters of the governing bodies of various political subdivisions in Dallas County. The District's taxes are collected by the District.

The District grants a state mandated $15,000 general residence homestead exemption.

The District grants a state mandated $10,000 residence homestead exemption for persons 65 years of age or older or the disabled.

The District grants a state mandated residence homestead exemption for disabled veterans.

The District has not granted a local option, additional exemption for disabled veterans above the amount of the state-mandated exemption.

The District does not grant any part of the local option, additional exemption of up to 20% of the market value of residence homesteads.

The District does not tax non-business personal property.

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 grant a freeport property exemption.

The District has taken action to continue taxing "goods-in-transit."

The District is a participant in the Tax Increment Reinvestment Zone Number One ("TIRZ #1"), created by the City of Irving in 1998. The taxable value of property in TIRZ #1 is $922,841,706 for fiscal year 2012/13, which is $246,065,004 more than the taxable value of property in 1998 ($676,776,702) at the time the District began its participation in TIRZ #1. The District has agreed to pay to TIRZ #1 the proceeds received from the District's property taxes pursuant to the District's total tax rate on the total incremental taxable assessed value located within TIRZ #1 (the "Tax Increment Payments"). Under the terms of the tax increment reinvestment zone participation agreement (the "TIRZ #1 Agreement"), the District is to receive 75% of the Tax Increment Payments actually received for the purpose of paying all or a portion of Zone School Project Costs as specified in the TIRZ #1 Agreement, which is scheduled to terminate on December 31, 2018, and the remaining 25% of the District's contribution to TIRZ #1 is required to be used to promote economic development in TIRZ #1, and in particular, in that part of TIRZ #1 that overlaps the District. The current school Finance System includes provisions that are designed to "hold harmless" districts that have entered into certain qualifying tax increment agreements, such as the TIRZ #1 Agreement. In addition, the TIRZ #1 Agreement includes provisions that release the District from its obligation to make payments to TIRZ #1 should applicable law governing the District adversely affect the District financially as a result of its participation in the TIRZ #1 Agreement.

The District is currently not a participant in any tax abatement agreements.

Charges for penalties and interest on the unpaid balance of delinquent taxes are as follows:

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

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, an additional penalty of 20% is assessed on July 1 in order to defray attorney collection expenses.

Property within the District is assessed as of January 1 of each year (except business inventories which may be assessed as of September 1 and mineral values which are assessed on the basis of a twelve month average) and taxes become due October 1 of the same year and become delinquent on February 1 of the following year. Split payments of taxes are not permitted. Discounts for the early payment of taxes are not permitted.

EMPLOYEES' BENEFIT PLANS

The District's employees participate in The Teachers Retirement System of Texas (the "Plan"), a cost sharing multiple employer public-employee retirement. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. For the year ended August 31, 2011, the State contributed $11,859,712 to TRS on behalf of the District, District employees paid $13,315,174 and other contributions into the plan by the District for salaries above the statutory minimum were $3,058,269.

In addition to the TRS retirement plan, the District provides medical and dental care coverage for its current employees. For a discussion of the TRS retirement plan and the District's medical and dental benefit plan in place through fiscal year 2011, see Note 6 and Note 1, Section O to the audited financial statements of the District that are attached hereto as Appendix D. Beginning in fiscal year 2012, employees of the District are covered by a health insurance plan, known as TRS Activecare. The plan is administered under a contract between the District and TRS Activecare (Blue Cross/Blue Shield) and is renewable September 1 of each year. In fiscal year 2012, the District pays premiums of $297 per month per employee, and employees, at their option, authorize payroll withholdings to provide dependents coverage under the plan. The plan was authorized by Article 3.51-2, Texas Insurance Code. The latest financial statements for Blue Cross/Blue Shield are available for the year ended December 31, 2010, and have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records. Claims incurred prior to September 1, 2011 under the prior plan, are subject to an individual stop-loss of $200,000 per participant annually and $1,000,000 lifetime maximum benefit.

The District also 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 TRS. TRS-Care Retired Plan provides health care coverage for certain persons and their dependents who retired under TRS. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. The State of Texas and active public school employee contribution rates were 1.00% and 0.65%, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2011, 2010 and 2009. State law provides that the public school contribution rate cannot be less than .025% or greater than 0.75% of the salary of each active employee of the school district. For the year ended August 31, 2011, the State's contribution to TRS-Care was $2,080,496, the active member contributions were $1,352,310 and the District's contribution was $1,144,281, which equaled the required contribution for the year. For more information, see Note 7 to the audited financial statements of the District that are attached hereto as Appendix D.

As a result of its participation in the TRS and having no other post-retirement benefit plans, the District has no obligations for other post-employment benefits within the meaning of Governmental Accounting Standards Board Statement 45.

Formal collective bargaining agreements relating directly to wages and other conditions of employment are prohibited by Texas law, as are strikes by teachers. There are various local, state and national organized employee groups who engage in efforts to better the terms and conditions of employment of school employees. Some districts have adopted a policy to consult with employer groups with respect to certain terms and conditions of employment. Some examples of these groups are the Texas State Teachers Association, the Texas Classroom Teachers Association, the Association of Texas Professional Educators and the National Education Association.

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 tax rate (the "M&O Tax") 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 "[t]he standards of Article VII, Section 1 - adequacy, efficiency, and suitability - do not dictate a particular structure that a system of free public schools must have." The Supreme Court also noted that "[e]fficiency requires only substantially equal access to revenue for facilities necessary for an adequate system," and the Supreme Court agreed with arguments put forth by the State that the plaintiffs had failed to present sufficient evidence to prove that there was an inability to provide for a "general diffusion of knowledge" without additional facilities.

Funding Changes in Response to West Orange-Cove II

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 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." 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 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's 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 unlimited tax bonds by pledging the receipts of an unlimited ad valorem debt service tax as security for payment of such bonds.

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 unlimited tax bonds as are reasonable and necessary for the attainment of important public purposes.

Although, as a matter of law, the District's unlimited tax bonds and other debt obligations, including 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. 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, including the repayment of the Bonds. 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 unlimited tax 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 unlimited tax bonds are issued. Once such bonds are issued, however, districts may levy a tax to pay debt service on such bonds unlimited as to rate or amount. 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 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 "AD VALOREM TAX PROCEDURES – 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 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 biennia, 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 is approximately $197,000 for each student in weighted average daily attendance. As a result, the District is a property poor district for purposes of the wealth equalization provisions of the Finance System, and the District has not been required to take remedial steps to equalize its wealth.

Since the enactment of HB 1, the District has operated with a target funding level per student that is based upon the "hold harmless" formulas set forth in HB 1 of $4,707, which is below the State average of approximately $5,050 per student. The hold harmless amount reflects prior year funding decisions by school boards and the relative efficiency achieved by a particular district in budgets adopted under the former Finance System that predated HB 1. In 2011, the State Legislature adopted a budget that cut $4 billion from public school finance for the 2012-13 State fiscal biennium, as compared to the budget for the 2010-11 State fiscal biennium. As a result, and without taking into account the effects of enrollment growth, the District was slated to have a 2.8% cut in funding in fiscal year 2012 and a 1.4% cut in funding in fiscal year 2013 as compared with 2011 levels. The 2011 State budget provided increased funding in 2013 to low target level districts, such as the District, relative to higher target level districts. The District's preliminary 2013 budget relies on State funding for 60.5% of the expenditures of the General Fund (its primary operating account) (an increase from 58.3% in 2012), with local revenues (tax receipts) providing 38.2% of the funding (down from 38.7% in 2012) and federal funds contributing 1.3% (down from 3% in 2012).

As a result of its lower target revenue under HB 1, the District has received less funding since the enactment of that bill that became effective in 2007 from the State than other school districts that were "grandfathered" at higher funding levels based upon 2005-06 school year expenditures. The so-called "hold harmless" provisions of the Finance System generally neutralize tax base growth in determining funding for operations, although the District benefits from any growth in its tax base with respect to its debt service tax levy for unlimited tax, voted bonds. The tax values of the District have declined 11.60% from tax year 2008 though 2011, however; the 2012 tax roll reflects an approximately 1.15% increase over the 2011 tax roll, which is the first increase in tax roll value in four years. The District can increase its State funding with increases in average daily attendance, although at present enrollment growth is modest, with the District having experienced, and currently anticipating, an approximately 1.5% enrollment growth rate.

At the close of the 2011 fiscal year, the fund balance of the District's General Fund was approximately $79.4 million, which represented approximately 35% of General Fund expenditures, or about four months of expenditures. Based on operations through the first 10 months of fiscal year 2012, the District anticipates that its General Fund balance will increase by approximately $2.2 million at the close of the year. The 2012 budget included a planned surplus of $1.67 million, despite a net cut in State funding of $8.2 million. Some of the State funding cut was offset by one-time federal funding of $5.8 million of the Education Jobs Fund Grant. In addition, the District was able to reduce322.5 staff positions for the 2011-12 school year through early notice payments to retirees and non-renewal of first year staff.

The end of year fund balance for the General Fund has consistently been in the 33% to 35% range in each of the last five years. The Board of the District has adopted a financial policy to maintain the General Fund balance at a minimum of three months of General Fund revenues, although the ability of the District to do so will be dependent in large part on State funding for school districts, which is appropriated by the State legislature every two years and is dependent in large part on the State's financial resources. The District has also adopted a policy of having a balanced operating budget each year, although the policy permits the use of fund balance to balance the budget, but only to the extent that the amount required from fund balance is for a non-recurring expense item.

The District generally adopts its annual budget at the end of August each year for the fiscal year that begins on September 1. Based on the preliminary 2013 budget, which is subject to modification by the Board, the District anticipates a surplus in 2013 of approximately $1.2 million. State funding is anticipated to increase by $12.4 million in the coming year, with $9 million coming from funding in SB 1 for low target level districts, and another $3.4 million anticipated from increased student attendance. Overall, the preliminary General Fund budget reflects a $12.3 million increase in expenditures over 2012, due to a modest pay increase, additional staffing and increases in student transportation, among other factors. In 2011, the District increased its M&O tax rate for operations from $1.02 per $100 of taxable value to $1.04, which is the highest rate that may be levied by the District without seeking voter approval. State law currently permits "tax ratification elections" in which a District may seek voter approval to levy up to $0.13 more than the $1.04 capped rate. The proposed 2013 tax rate is the same as 2012, with $1.04 for M&O and $0.4250 for the interest and sinking fund tax for the payment of debt. The preliminary budget shows an ending 2013 fund balance equal to approximately 32.3% of fiscal year General Fund expenditures. At present, the District has no plans to seek voter approval for an increase in its M&O tax rate.

With respect to the payment of debt service, the District projects that it will end 2012 with a Debt Service Fund balance of approximately $13.2 million. The $0.4250 I&S tax rate is anticipated to produce $36.3 million in local revenues, which the District anticipates will be supplemented by State debt service allotments of approximately $10.6 million, which the District receives by virtue of being a "property poor district." Those funding sources are anticipated to be sufficient to fund $46.9 million in debt service, without using any of the fund balance in the Debt Service Fund.

TAX RATE LIMITATIONS

A school district is authorized to levy maintenance and operation taxes ("M&O tax") 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 May 16, 1970 under Chapter 20, Texas Education Code (now codified at Section 45.003, 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 – Overview." 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").

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 reduce the district's local share of debt service. Once the prospective ability to pay such tax has been shown and the bonds are issued, a district may levy an unlimited tax to pay debt service. Taxes levied to pay debt service on bonds approved by district voters at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds) are not subject to the foregoing threshold tax rate test. In addition, taxes levied to pay refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the $0.50 tax rate test; however, taxes levied to pay debt service on such bonds are included in the calculation of the $0.50 tax rate test as applied to subsequent issues of "new debt." The Bonds are issued as new debt pursuant to Chapter 45, Texas Education Code and are subject to the 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 the test and will not use projected property values to satisfy the test in connection with the issuance of the Bonds.

RATINGS

Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), has assigned a municipal bond rating of "AAA" to the Bonds based upon the Permanent School Fund Guarantee (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"). S&P generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas "AAA."

The District's underlying rating for the Bonds (without consideration of the Permanent School Fund Guarantee) is "AA+" by S&P.

An explanation of the significance of such ratings may be obtained from S&P. The rating reflects only the views of S&P and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely, if in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating, may have an adverse effect on the market price of the Bonds.

Due to the ongoing uncertainty regarding the economy and debt of the United States of America, including, without limitation, the general economic conditions in the country and developments arising from the Budget Control Act of 2011, including the deliberations and results thereof of the Joint Select Committee on Deficit Reduction, and other political and economic developments that may affect the financial condition of the United States government, the United States debt limit, and the bond ratings of the United States and its instrumentalities, obligations issued by state and local governments, such as the Bonds, could be subject to a rating downgrade. Additionally, if a significant default or other financial crisis should occur in the affairs of the United States or of any of its agencies or political subdivisions, then such event could also adversely affect the market for and ratings, liquidity, and market value of outstanding debt obligations, including the Bonds.

LEGAL MATTERS

The District will furnish to the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas 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 Bracewell & Giuliani LLP, Bond Counsel, with respect to the Bonds being issued in compliance with the provisions of applicable law and the interest on the Bonds being excludable from gross income for purposes of federal income tax. The form of Bond Counsel's opinion is attached hereto as Appendix C.

Bond Counsel was engaged by, and only represents, the District. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under captions or subcaptions, "THE BONDS" (except under the subcaptions "Payment Record," "Permanent School Fund Guarantee" and "Sources and Uses of Funds"), "REGISTRATION, TRANSFER AND EXCHANGE," "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" (except under the subcaption "The School Finance System as Applied to the District"), "TAX RATE LIMITATIONS," "LEGAL MATTERS" (except for the last three sentences of the second paragraph thereof), "TAX MATTERS," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE" and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance With Prior Undertakings") and such firm is of the opinion that the information relating to the Bonds and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., Dallas, Texas. The legal fee of such firm is contingent upon the sale and delivery of the Bonds. McCall, Parkhurst & Horton L.L.P. also advises the TEA in connection with its disclosure obligations under the Federal securities laws, but such firm has not passed upon any TEA disclosures contained in this Official Statement.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

TAX MATTERS

Tax Exemption

In the opinion of Bracewell & Giuliani LLP, Bond Counsel, (i) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and (ii) the Bonds are not "private activity bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and, as such, interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The District has covenanted in the Bond Order that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Bond Order pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the District, the District's Financial Advisor and the Underwriters with respect to matters solely within the knowledge of the District, the District's Financial Advisor and the Underwriters, respectively, which Bond Counsel has not independently verified. Bond. If the District fails to comply with the covenants in the Bond Order, interest on the Bonds could become includable in gross income from the date of delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

The Code also imposes a 20% alternative minimum tax on the "alternative minimum taxable income" of a corporation if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT, or REMIC), includes 75% of the amount by which its "adjusted current earnings" exceeds its other "alternative minimum taxable income." Because interest on tax-exempt obligations, such as the Bonds, is included in a corporation's "adjusted current earnings," ownership of the Bonds could subject a corporation to alternative minimum tax consequences.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds regardless of the ultimate outcome of the audit.

Additional Federal Income Tax Considerations

Collateral Tax Consequences. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the “branch profits tax” on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

Tax Accounting Treatment of Original Issue Premium Bonds. The issue price of all or a portion of the Bonds may exceed the stated redemption price payable at maturity of such Bonds. Such Bonds (the “Premium Bonds”) are considered for federal income tax purposes to have “bond premium” equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Bonds.

Tax Accounting Treatment of Original Issue Discount Bonds. The issue price of all or a portion of the Bonds may be less than the stated redemption price payable at maturity of such Bonds (the “Original Issue Discount Bonds”). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Bonds under the captions “TAX MATTERS – Tax Exemption” and “TAX MATTERS – Additional Federal Income Tax Considerations - Collateral Tax Consequences” and “- Tax Legislative Changes” generally apply and should be considered in connection with the discussion in this portion of the Official Statement.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue 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 Original Issue Discount Bond was held by such initial owner) is includable in gross income.

The foregoing discussion assumes that (i) the Underwriters have purchased the Bonds for contemporaneous sale to the public and (ii) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm’s-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the cover page of this Official Statement. Neither the District nor Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each Original Issue Discount Bond accrues daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (i) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less, (ii) the amounts payable as current interest during such accrual period on such Bond.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of Original Issue Discount Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

Tax Legislative Changes. Current law may change so as to directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed or pending legislation, whether or not enacted, could also affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed, pending or future legislation.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Bonds (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Business and Commerce Code applies, and (iii) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds (see "RATING"). In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital and savings and loan associations.

The District has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The District has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

INVESTMENT AUTHORITY AND INVESTMENT OBJECTIVES OF THE DISTRICT

Available District funds are invested as authorized by Texas law and in accordance with investment policies approved by the Board of Trustees. Both State law and the District's investment policies are subject to change. 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 is 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 Public Funds Investment Act, (i) that are issued by an institution that has its main office or a branch office in the State of Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or 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) where (a) the funds are invested by the District through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.41(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3); (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) 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) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name 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; (10) 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; (11) 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; (12) 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 (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the 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. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, 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 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.

The District is also authorized to purchase, sell, and invest its funds in corporate bonds. "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 of 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.

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 include a list of authorized investments for District funds, the maximum allowable stated maturity of any individual investment and 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 fund's 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, the District's 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 District's investment officers must submit an investment report to the Board of Trustees detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest District funds without express written authority from the Board of Trustees.

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 family relationships with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the District, (4) require the registered principal of firms seeking to sell securities to the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (5) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy, (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (7) restrict the investment in non-money market 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, (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements and (9) provide specific investment training for the Treasurer, the chief financial officer (if not the Treasurer) and the investment officer; 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.

Current Investments

As of June 30, 2012, the District's investable funds were invested in the following investment instruments:

Investment Instrument	Market Value	Percentage
Certificates of Deposit	$29,000,000	15.46%
Local Investment Pools[(A)]	156,543,063	83.47%
U.S. Agency Securities	1,998,494	1.07%
Total	**$187,541,557**	**100.00%**

[(A)] The District invests in the LoneStar, TexPool, TexStar and Texas Class investment pools, which operate pursuant to Chapter 2256 of the Texas Government Code, as amended, as money market equivalents, in a manner consistent with the SEC's Rule 2a-7 under the Investment Company Act of 1940.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

The information below concerning the 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 of, the District, the Financial Advisor or the Underwriters.

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

This disclosure statement provides information relating to the program administered by the TEA with respect to the Texas Permanent School Fund guarantee of Texas (the "PSF" or the "Fund") 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 PSF. 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."

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 Statewide, 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, Inc., Standard & Poor's Ratings Services, a Standard & Poor's Financial Services 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 "RATINGS"herein.

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

Fiscal Year Ended 8/31	Book Value[1]	Market Value[1]
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.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2). The Bonds have not been approved or disapproved by the Securities and Exchange Commission, nor has the Securities and Exchange Commission passed upon the accuracy or adequacy of the Official Statement. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any other jurisdiction. The District assumes no responsibility for registration or 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 registration or 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 or qualification provisions.

It is the obligation of the Underwriters to register or qualify the sale of the Bonds under the securities laws of any jurisdiction which so requires. The District agrees to cooperate, at the Underwriters' written request and expense, in registering or qualifying the Bonds or in obtaining an exemption from registration or qualification in any state where such action is necessary; provided, however, that the District shall not be required to qualify as a foreign corporation or to execute a general or special consent to service of process in any jurisdiction.

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement while it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually and timely notice of specified material events to the Municipal Securities Rule Making Board ("MSRB"). This information will be free of charge via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

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, 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. 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 in "APPENDIX A – FINANCIAL INFORMATION REGARDING THE DISTRICT" (Tables 1 through 17) and in Appendix D.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "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 statements by the required time, and will provide audited financial statements when and if an audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix D or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

Notice of Certain Events

The District shall notify the MSRB, in a timely manner not in excess of ten business days after the occurrence of the event, of any of the following events with respect to the Bonds: (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; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of trustee, if material. The District shall notify the MSRB in an electronic format prescribed by the MSRB, in a timely manner, of any failure by the District to provide financial information or operating data in accordance with the Rule.

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.

Limitations and Amendments

The District has agreed to update information and to provide notices of material 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 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 of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

This continuing disclosure agreement may be amended by the District from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with 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 provision of the Order that authorizes such an 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) determines 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 provision 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 the 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.

LITIGATION

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

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

FINANCIAL ADVISOR

In its role as Financial Advisor, RBC Capital Markets, LLC has relied on the District for certain information concerning the District and the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement. The fee of the Financial Advisor for services with respect to the Bonds is contingent upon the issuance and sale of the Bonds. The Financial Advisor may also receive a fee for conducting a competitive bidding process regarding the investment of certain proceeds of the Bonds.

UNDERWRITING

The Underwriters have agreed, subject to certain customary conditions, to purchase the Bonds at a price equal to the initial offering prices to the public, as shown on page ii, less an underwriting discount of $______________. The Underwriters’ obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

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

FORWARD LOOKING STATEMENTS

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. It is important to note that the District's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements 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 would prove to be accurate.

CONCLUDING STATEMENT

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

MISCELLANEOUS

The Order authorizing the issuance of the Bonds will approve the use of this Official Statement and any addenda, supplement or amendment thereto in the reoffering of the Bonds by the Underwriters in accordance with the provisions of the Securities and Exchange Commission's rule codified at 17 C.F.R. §240.15c2-12, as amended.

/s/
President, Board of Trustees

ATTEST:

/s/
Secretary, Board of Trustees

APPENDIX A

FINANCIAL INFORMATION REGARDING THE DISTRICT

FINANCIAL INFORMATION REGARDING THE DISTRICT

Table 1
ASSESSED VALUATION[(A)]

2012/13 Total Assessed Valuation	$	9,541,100,273	(B)
2012/13 Taxable Assessed Valuation	$	9,095,092,708	(B)
2011/12 Total Assessed Valuation	$	9,443,749,860	
2011/12 Taxable Assessed Valuation	$	8,991,335,164	(C)
2011/12 Exemptions		Total	
Residential Homestead	$	353,419,270	
10% Residential Cap		4,526,094	
Over 65/Disabled Persons		73,906,521	
Disabled/Deceased Veterans		8,946,012	
Pollution Control		2,462,783	
Productivity Loss		9,154,016	
Total (4.79% of Total Assessed Valuation)	$	452,414,696	

(A) Source: Dallas Central Appraisal District and State Property Tax Reports. Certified values are subject to change throughout the year as contested values are resolved and the Dallas Central Appraisal District updates records.

(B) Certified Values for 2012/13 as reported by the Dallas Central Appraisal District on July 23, 2012. Detailed information not yet available.

(C) Includes value of property which is "frozen" at lower levels for homesteads of taxpayers 65 years or older, their surviving spouses and disabled taxpayers.

Table 2
UNLIMITED TAX DEBT OUTSTANDING [(A)(B)(C)]

Unlimited Tax Debt Outstanding (As of August 1, 2012)	$	540,106,600	
Plus: The Bonds (Dated: August 1, 2012)		13,560,000	(D)
TOTAL UNLIMITED TAX DEBT OUTSTANDING	$	553,666,600	
Less: Interest & Sinking Fund Balance (As of August 31, 2011)		13,614,669	
NET UNLIMITED TAX DEBT OUTSTANDING	$	540,051,931	

(A) See discussion under "TAX RATE LIMITATIONS" in the Official Statement.

(B) Excludes interest accreted on outstanding capital appreciation bonds. At August 31, 2011, the District had $67,670,697 of accumulated accretion on capital appreciation bonds.

(C) Does not include any limited tax debt obligations payable from the District's Maintenance & Operations tax rate.

(D) Preliminary, subject to change.

2012 Population Estimate	216,970 (A)	Per Capita Total Assessed Valuation	$43,974 (B)
2011/12 Enrollment	34,815	Per Capita Taxable Assessed Valuation	$41,919 (B)
Area (square miles)	48.5	Per Capita Net Debt	$2,489

(A) Source: The Distict.

(B) Based on 2012/13 Certified Appraised Values.

Table 3
ESTIMATED OVERLAPPING GENERAL OBLIGATION DEBT STATEMENT

Taxing Body	Gross Dollar Amount[A]	As of	Percent Overlap	Dollar Overlap
Dallas, City of	$ 1,644,101,896	08/01/12	0.24%	$ 3,945,845
Dallas County	139,062,642	08/01/12	5.80%	8,065,633
Dallas County Community College District	374,265,000	08/01/12	5.80%	21,707,370
Dallas County Flood Control District #1	30,035,000	08/01/12	32.80%	9,851,480
Dallas County Hospital District	705,000,000	08/01/12	5.80%	40,890,000
Dallas Co. Utility and Reclamation Dist.	266,488,359	08/01/12	44.82%	119,440,083
Grand Prairie, City of	223,335,000	08/01/12	0.73%	1,630,346
Irving, City of	331,255,000	08/01/12	50.36%	166,820,018
Irving Flood Control District Section I	7,667,264	08/01/12	100.00%	7,667,264
The District	**553,666,600** [B][C]	**08/01/12**	**100.00%**	**553,666,600** [B][C]
Total Direct and Overlapping Debt				**$ 933,684,637**

Ratio of Direct Debt to 2012/13 Taxable Assessed Valuation…………	6.09% [D]
Ratio of Direct and Overlapping Debt to 2012/13 Total Assessed Valuation…………	9.79% [D]
Ratio of Direct and Overlapping Debt to 2012/13 Taxable Assessed Valuation…………	10.27% [D]
Per Capita Direct and Overlapping Debt…………	$4,303

[A] Excludes interest accreted on outstanding capital appreciation bonds. At August 31, 2011, the District had $67,670,697 of accumulated accretion on capital appreciation bonds.
[B] Does not include any limited tax obligations payable from the Maintenance & Operations tax rate of the District.
[C] Includes the Bonds. Preliminary, subject to change.
[D] Based on 2012/13 Certified Appraised Values.
Source: Texas Municipal Reports and District's Audited Financial Statements.

Table 4
PROPERTY TAX RATES AND COLECTIONS

Tax Year	Taxable Assessed Valuation	Tax Rate	Percent Collections[A] Current	Percent Collections[A] Total	Fiscal Year Ended
2006	$ 8,935,737,912	$1.6440	98.41%	100.17%	08-31-07
2007	9,826,982,907	1.3485	98.56%	102.62%	08-31-08
2008	10,171,224,602	1.3910	98.13%	99.28%	08-31-09
2009	9,706,163,218	1.4250	97.67%	99.02%	08-31-10
2010	9,179,590,117	1.4650	98.36%	99.86%	08-31-11
	Five Year Average.............................		**98.23%**	**100.19%**	
2011	$ 8,991,335,164	$1.4650	97.66% [B]	98.04% [B]	08-31-12

[A] Excludes Penalties and Interest.
[B] Collections as of May 31, 2012.
Sources: District's Audited Financial Statements, State Property Tax Reports, District's Tax Office and District records. Certified values are subject to change throughout the year as contested values are resolved and the Dallas Central Appraisal District updates records.

Table 5
TAX RATE DISTRIBUTION[A]

	2011/12	2010/11	2009/10	2008/09	2007/08
Local Maintenance	$1.0400	$1.0400	$1.0200	$1.0200	$1.0000
Interest & Sinking Fund	0.4250	0.4250	0.4050	0.3710	0.3485
Total	**$1.4650**	**$1.4650**	**$1.4250**	**$1.3910**	**$1.3485**

[A] See discussion under "TAX RATE LIMITATIONS" in the Official Statement. See also "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – The School Finance System as Applied to the District" in the Official Statement for a discussion of the proposed 2012/13 tax rates.
Sources: District's Audited Financial Statements and District records.

Table 6
HISTORICAL TOP TEN TAXPAYERS

PRINCIPAL TAXPAYERS AND THEIR 2011/12 TAXABLE ASSESSED VALUATIONS

Name Of Taxpayer	Type Of Property	Taxable Assessed Valuation	Percent Of T.A.V.
Verizon	Utility	$ 218,969,880	2.44%
TIAA Realty Inc.	Real Estate - Office Building	130,750,370	1.45%
Texas Utilities	Utility	83,692,830	0.93%
Dr. Pepper Bottling Co.	Manufacturing	73,708,910	0.82%
SP Millennium Center LP	Real Estate - Office Building	68,000,000	0.76%
4150 North Mac Arthur	Real Estate	61,192,950	0.68%
Frito Lay Inc.	Manufacturing	47,892,280	0.53%
San Mar Corporation	Imprintable Sportswear	47,156,080	0.52%
LPC Northwest PH1 LP	Real Estate	44,000,000	0.49%
Exxon Mobil	Petroleum	43,222,170	0.48%
Total		**$ 818,585,470**	**9.10%**

PRINCIPAL TAXPAYERS AND THEIR 2010/11 TAXABLE ASSESSED VALUATIONS

Name Of Taxpayer	Type Of Property	Taxable Assessed Valuation	Percent Of T.A.V.
Verizon	Utility	$ 197,790,770	2.15%
TIAA Realty Inc.	Real Estate - Office Building	134,783,470	1.47%
Texas Utilities	Utility	81,391,050	0.89%
SP Millennium Center LP	Real Estate - Office Building	73,559,000	0.80%
4150 North Mac Arthur	Real Estate	71,512,950	0.78%
Dr. Pepper Bottling Co.	Manufacturing	70,739,950	0.77%
LPC Northwest PH1 LP	Real Estate	51,930,000	0.57%
Frito Lay Inc.	Manufacturing	47,982,120	0.52%
Owens Corning	Manufacturing	42,152,450	0.46%
Simon Property Group	Real Estate	42,077,680	0.46%
Total		**$ 813,919,440**	**8.87%**

PRINCIPAL TAXPAYERS AND THEIR 2009/10 TAXABLE ASSESSED VALUATIONS

Name Of Taxpayer	Type Of Property	Taxable Assessed Valuation	Percent Of T.A.V.
Verizon	Utility	$ 221,966,850	2.29%
TIAA Realty Inc.	Real Estate - Office Building	153,182,510	1.58%
BF Las Colinas LP	Real Estate - Hotel (Four Seasons)	86,687,980	0.89%
Texas Utilities	Utility	81,330,650	0.84%
Dr. Pepper Bottling Co.	Manufacturing	74,714,850	0.77%
SP Millennium Center LP	Real Estate - Office Building	73,559,000	0.76%
Owens Corning	Manufacturing	59,210,790	0.61%
SP4 Las Colinas LP	Real Estate - Office Building	57,497,080	0.59%
Equastone	Real Estate	53,884,620	0.56%
Frito Lay Inc.	Manufacturing	48,111,960	0.50%
Total		**$ 910,146,290**	**9.38%**

Source: Dallas Central Appraisal District, State Property Tax Reports and District records.

Table 7
CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY

Property Use Category	Total Tax Roll for Fiscal Years 2011/12	2010/11	2009/10	2008/09	2007/08
Real Property					
Single-Family Residential	$ 3,944,777,040	$ 4,021,975,590	$ 4,122,180,320	$ 4,203,481,730	$ 4,114,433,040
Multi-Family Residential	1,018,497,310	1,003,401,560	1,113,614,900	1,199,868,690	1,179,963,620
Vacant Lots/Tracts	256,000,700	267,992,640	240,573,470	258,255,320	216,621,930
Acreage (Land Only)	9,270,480	7,898,680	43,465,650	52,432,650	46,006,560
Farm and Ranch Improvements	206,800	593,100	2,722,210	3,178,680	3,178,680
Commercial and Industrial	2,483,339,350	2,622,010,120	2,833,220,150	3,102,652,750	2,990,620,920
Oil & Gas	5,248,840	7,045,980	5,680,470	-	-
Inventory	49,406,090	48,120,270	71,350,090	86,542,130	82,701,250
Tangible Personal Property					
Business	1,421,964,720	1,404,322,430	1,458,260,200	1,437,524,180	1,387,567,190
Mobile Homes	9,810,040	10,840,480	7,669,170	7,655,310	7,264,600
Real & Tangible Personal Property					
Utilities	245,228,490	237,238,890	255,614,700	273,044,710	265,836,840
Total Real & Tang. Per. Prop.	**$ 9,443,749,860**	**$ 9,631,439,740**	**$ 10,154,351,330**	**$ 10,624,636,150**	**$ 10,294,194,630**
Less Exemptions:					
Residential Homestead	$ 353,419,270	$ 353,218,882	$ 350,174,004	$ 346,621,433	$ 343,978,161
10% Residential Cap	4,526,094	6,211,166	8,591,182	22,246,205	34,917,789
Over 65/Disabled Persons	73,906,521	73,567,317	71,655,991	70,565,388	68,847,281
Disabled/Deceased Veterans	8,946,012	8,453,380	7,453,920	3,966,720	4,197,200
Pollution Control	2,462,783	2,602,462	2,796,327	2,539,402	1,388,862
Productivity Loss	9,154,016	7,796,416	7,516,688	7,472,400	13,882,430
Tax Abatement Loss	-	-	-	-	-
Total Exemptions	**$ 452,414,696**	**$ 451,849,623**	**$ 448,188,112**	**$ 453,411,548**	**$ 467,211,723**
Taxable Assessed Valuation	**$ 8,991,335,164**	**$ 9,179,590,117**	**$ 9,706,163,218**	**$ 10,171,224,602**	**$ 9,826,982,907**

Source: State Property Tax Reports. Certified values are subject to change throughout the year as contested values are resolved and the Dallas Central Appraisal District updates records.

Table 8
PERCENTAGE TOTAL ASSESSED VALUATION BY CATEGORY

Property Use Category	Percent of Total Tax Roll for Fiscal Years 2011/12	2010/11	2009/10	2008/09	2007/08
Real Property					
Single-Family Residential	41.77%	41.76%	40.60%	39.56%	39.97%
Multi-Family Residential	10.78%	10.42%	10.97%	11.29%	11.46%
Vacant Lots/Tracts	2.71%	2.78%	2.37%	2.43%	2.10%
Acreage (Land Only)	0.10%	0.08%	0.43%	0.49%	0.45%
Farm and Ranch Improvements	0.00%	0.01%	0.03%	0.03%	0.03%
Commercial and Industrial	26.30%	27.22%	27.90%	29.20%	29.05%
Oil & Gas	0.06%	0.07%	0.06%	0.00%	0.00%
Inventory	0.52%	0.50%	0.70%	0.81%	0.80%
Tangible Personal Property					
Business	15.06%	14.58%	14.36%	13.53%	13.48%
Mobile Homes	0.10%	0.11%	0.08%	0.07%	0.07%
Real & Tangible Personal Property					
Utilities	2.60%	2.46%	2.52%	2.57%	2.58%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Source: State Property Tax Reports.

Table 9

2011/12 TOTAL TAX RATES OF OVERLAPPING POLITICAL ENTITIES

Dallas, City of…………………………………………………………………	$0.797000
Dallas County…………………………………………………………………	$0.253100
Dallas County Community College District……………………………………	$0.099670
Dallas County Flood Control District #1………………………………………	$2.900000
Dallas County Hospital District………………………………………………	$0.271000
Dallas County Utility and Reclamation District………………………………	$2.120000
Grand Prairie, City of…………………………………………………………	$0.669998
Irving, City of…………………………………………………………………	$0.598600
Irving Flood Control District Section I…………………………………………	$0.430000

Source: Dallas Central Appraisal District.

Table 10

VALUATION AND UNLIMITED TAX DEBT HISTORY

Fiscal Year	Taxable Assessed Valuation	Percent Increase/ (Decrease) In Taxable Assessed Valuation Over Prior Fiscal Year	Principal Amount Of Unlimited Tax Debt Outstanding At End Of Fiscal Year(A)(B)	Ratio Of Unlimited Tax Debt To Taxable Assessed Valuation(A)(B)
2007/08	$ 9,826,982,907	9.97%	$ 461,081,610	4.69%
2008/09	10,171,224,602	3.50%	509,297,217	5.01%
2009/10	9,706,163,218	(4.57%)	491,825,810	5.07%
2010/11	9,179,590,117	(5.43%)	535,590,140	5.83%
2011/12	8,991,335,164	(2.05%)	553,666,600 (C)	6.16% (C)
2012/13	9,095,092,708	1.15%	537,202,377 (C)	5.91% (C)

(A) Does not include any limited tax debt obligations payable from the District's Maintenance & Operations tax rate.

(B) Excludes interest accreted on outstanding capital appreciation bonds. At August 31, 2011, the District had $67,670,697 of accumulated accretion on capital appreciation bonds.

(C) Projected. Includes the Bonds. Preliminary, subject to change.

Source: District records and State Property Tax Reports.

Table 11
OUTSTANDING UNLIMITED TAX DEBT SERVICE

Year(A)	Outstanding Debt Requirements(B) Principal	Outstanding Debt Requirements(B) Interest	Plus: The Bonds(C) Principal	Plus: The Bonds(C) Interest	Total Debt Service Requirements	Percent Of Principal Retired Total Debt Service
2011/12	$ 17,123,540.00	$ 29,033,987.53	$ -	$ -	$ 46,157,527.53	
2012/13	16,119,223.20	29,080,623.08	345,000.00	634,427.78	46,179,274.06	
2013/14	15,611,431.90	29,506,733.13	1,910,000.00	568,900.00	47,597,065.03	
2014/15	19,673,623.45	27,215,035.33	810,000.00	514,500.00	48,213,158.78	
2015/16	19,906,698.00	27,010,973.28	845,000.00	481,400.00	48,244,071.28	16.18%
2016/17	20,515,623.18	26,471,963.72	880,000.00	446,900.00	48,314,486.90	
2017/18	20,830,000.00	26,065,862.52	920,000.00	410,900.00	48,226,762.52	
2018/19	25,645,000.00	21,251,297.52	960,000.00	368,500.00	48,224,797.52	
2019/20	26,565,000.00	20,350,066.27	1,010,000.00	319,250.00	48,244,316.27	
2020/21	27,495,000.00	19,421,289.40	1,060,000.00	267,500.00	48,243,789.40	38.23%
2021/22	28,490,000.00	18,419,496.90	1,115,000.00	213,125.00	48,237,621.90	
2022/23	29,570,000.00	17,349,207.52	1,175,000.00	155,875.00	48,250,082.52	
2023/24	19,900,000.00	26,069,099.40	1,235,000.00	95,625.00	47,299,724.40	
2024/25	20,135,000.00	25,833,335.65	1,295,000.00	32,375.00	47,295,710.65	
2025/26	20,660,000.00	25,477,781.89	-	-	46,137,781.89	59.88%
2026/27	19,255,000.00	25,072,180.64	-	-	44,327,180.64	
2027/28	19,510,000.00	24,621,801.89	-	-	44,131,801.89	
2028/29	35,105,000.00	8,799,768.76	-	-	43,904,768.76	
2029/30	37,000,000.00	6,892,384.38	-	-	43,892,384.38	
2030/31	27,215,000.00	5,370,094.90	-	-	32,585,094.90	84.07%
2031/32	25,675,000.00	4,060,455.08	-	-	29,735,455.08	
2032/33	15,335,000.00	3,025,591.71	-	-	18,360,591.71	
2033/34	7,190,000.00	2,452,713.68	-	-	9,642,713.68	
2034/35	7,570,000.00	2,071,913.38	-	-	9,641,913.38	
2035/36	7,975,000.00	1,668,698.18	-	-	9,643,698.18	95.24%
2036/37	8,405,000.00	1,241,638.93	-	-	9,646,638.93	
2037/38	8,855,000.00	791,447.73	-	-	9,646,447.73	
2038/39	4,810,000.00	424,291.95	-	-	5,234,291.95	
2039/40	5,090,000.00	144,072.45	-	-	5,234,072.45	100.00%
TOTAL	**$ 557,230,139.73**	**$ 455,193,806.80**	**$ 13,560,000.00**	**$ 4,509,277.78**	**$ 1,030,493,224.31**	

(A) Represents debt service payments from September 1 through August 31.

(B) Does not include the Federal BABs subsidy which is equal to 35% of the interest cost on the District's Series 2010B Taxable Bonds.

(C) Debt service on the Bonds is calculated at an interest rate of 2.65% for illustrative purposes only. Preliminary, subject to change.

Note: Table 11 does not include any potential funding the District may receive from the State of Texas from either the Instructional Facilities Allotment and/or Existing Debt Allotment Programs. For fiscal year ended August 31, 2011, the District received $7,755,173 of State funding assistance from a combination of these programs and has budgeted to receive $9,260,602 from these programs during fiscal year ending August 31, 2012. The amount of State funding aid for debt service may substantially differ from year to year, depending on a number of factors, including amounts, if any, appropriated for that purpose by the Texas Legislature from time to time. Table 11 does not include any limited tax obligations payable from the District's Maintenance & Operations tax rate.

Table 12
INTEREST & SINKING FUND BUDGET INFORMATION[A]

Tax Supported Debt Service Requirements, Fiscal Year Ending 8-31-12		$ 46,432,628 [B]
Interest and Sinking Fund Balance at 8-31-11	$ 13,614,669	
Existing Debt Allotment & Instructional Facilities Allotment State Assistance	9,260,602	
Local Taxes & Other Revenues	36,028,731	58,904,002
Projected Interest and Sinking Fund Balance at 8-31-12		$ 12,471,374

[A] Based on District's adopted budget for 2011/12.
[B] Includes paying agent fees and other debt administration costs, in addition to bond debt service.

Table 13
AUTHORIZED BUT UNISSUED BONDS

After the issuance of the Bonds, the District will have no authorized but unissued bonds remaining from its November 6, 2007 election or any other election.

The District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and maintenance taxes. For information on non-bonded, long-term liabilities of the District, see Note 8 to the audited financial statements of the District.

Table 14
TAX ADEQUACY - UNLIMITED TAX DEBT SERVICE REQUIREMENTS

Principal and Interest Requirements, 2011/12	$ 46,157,528 [A]
$0.5179 Tax Rate at 98.0% Collection Produces	$ 46,161,415 [B]
Maximum Principal and Interest Requirements, Year 2016/17	$ 48,314,487 [A]
$0.5421 Tax Rate at 98.0% Collection Produces	$ 48,318,408 [B]

[A] Represents projected debt service payments from September 1 through August 31, without including the Federal Subsidy the District anticipates receiving on its Series 2010B Taxable Bonds. Includes the Bonds. Preliminary, subject to change.
[B] Based upon 2012/13 taxable assessed valuation of $9,095,092,708.

Note: Table 14 does not include any potential funding the District may receive from the State of Texas from either the Instructional Facilities Allotment and/or Existing Debt Allotment Programs. For fiscal year ended August 31, 2011, the District received $7,755,173 of State funding assistance from a combination of these programs and has budgeted to receive $9,260,602 from these programs during fiscal year ending August 31, 2012. The amount of State funding aid for debt service may substantially differ from year to year, depending on a number of factors, including amounts, if any, appropriated for that purpose by the Texas Legislature from time to time. Table 14 does not include any limited tax obligations payable from the District's Maintenance & Operations tax rate.

Table 15
COMBINED GENERAL OPERATING FUND BALANCE SHEET

	Fiscal Year Ending August 31,				
	2011	2010	2009	2008	2007
Assets:					
Cash & Temporary Investments	$ 73,816,162	$ 71,381,476	$ 83,031,884	$ 67,956,891	$ 69,755,231
Receivables:					
Property Taxes - Delinquent	5,207,758	5,432,725	4,541,529	3,914,279	6,686,606
Allowance for Uncollectible Taxes	(1,789,872)	(1,862,751)	(1,544,292)	(1,195,189)	(2,438,892)
Due from Other Governments	8,193,976	8,331,840	611,245	10,624,086	4,421,564
Accrued Interest	92,066	225,241	996,304	940,982	861,659
Due From Other Funds	4,358,091	4,570,359	2,453,648	1,415,412	1,188,828
Other Receivables	2,186,047	1,685,167	1,249,266	1,184,129	970,565
Inventories, at Cost	654,755	706,659	843,171	989,716	1,158,176
Deferred Expenditures	403,976	548,922	254,133	246,081	198,110
Other Current Assets	-	9,453	5,666	2,980	17,701
Total Assets	**$ 93,122,959**	**$ 91,029,091**	**$ 92,442,554**	**$ 86,079,367**	**$ 82,819,548**
Liabilities and Fund Equity:					
Liabilities:					
Accounts Payable	$ 2,988,045	$ 3,128,403	$ 2,104,265	$ 1,369,421	$ 1,366,413
Payroll Deductions & Withholdings	545,292	1,008,566	825,576	451,071	457,734
Accrued Wages Payable	5,614,161	5,898,581	5,665,099	5,337,765	5,000,998
Due to Other Funds	845,771	-	-	207,201	3,479,808
Due to Other Governments	2,249	2,374	128	8,300	2,171
Deferred Revenue	3,710,076	3,905,144	3,342,958	3,082,637	4,732,708
Total Liabilities	**$ 13,705,594**	**$ 13,943,068**	**$ 11,938,026**	**$ 10,456,395**	**$ 15,039,832**
Fund Equity:					
Nonspendable Fund Balances					
Inventory	$ 654,755	$ 706,659	$ 843,171	$ 989,716	$ 1,158,176
Prepaid Items	403,976	548,922	254,133	246,081	198,110
Outstanding Encumbrances	-	796,362	992,406	638,099	678,354
Assigned Fund Balances					
Construction	4,479,121	4,479,121	-	-	-
Campus Activity Funds	2,396,029	-	-	-	-
Other Assigned Fund Balances	869,190	2,172,523	3,222,165	3,076,965	3,144,327
Unreserved, Undesignated Fund Balance:	70,614,294	68,382,436	75,192,653	70,672,111	62,600,749
Total Fund Equity	**$ 79,417,365**	**$ 77,086,023**	**$ 80,504,528**	**$ 75,622,972**	**$ 67,779,716**
Total Liabilities & Fund Equity	**$ 93,122,959**	**$ 91,029,091**	**$ 92,442,554**	**$ 86,079,367**	**$ 82,819,548**

Source: District's Audited Financial Statements and District records.

Table 16
COMPARATIVE STATEMENT OF GENERAL OPERATING FUND REVENUES AND EXPENDITURES

	Fiscal Year Ending August 31,				
	2011	**2010**	**2009**	**2008**	**2007**
Beginning Fund Balance	**$ 77,086,023**	**$ 80,504,528**	**$ 75,622,972**	**$ 67,779,716**	**$ 53,456,057**
Revenues:					
Local Sources	$ 96,769,157	$ 99,315,200	$ 106,782,845	$ 101,874,858	$ 124,073,908
State Program Revenues	131,442,707	123,965,761	122,914,126	117,027,220	91,213,758
Federal Program Revenues	3,872,674	2,587,615	1,911,260	1,224,432	664,241
Total Revenues	**$ 232,084,538**	**$ 225,868,576**	**$ 231,608,231**	**$ 220,126,510**	**$ 215,951,907**
Expenditures:					
Instruction	$ 147,015,630	$ 143,007,278	$ 143,852,543	$ 136,671,077	$ 128,889,943
Instructional Resources & Media Services	2,624,685	2,672,405	4,294,545	4,132,675	3,879,006
Curriculum & Instructional Staff Development	2,733,164	2,166,470	1,012,968	1,865,497	1,936,118
Instructional Leadership	4,234,840	4,194,008	4,090,731	3,881,131	3,664,767
School Leadership	17,807,769	17,708,115	17,403,489	16,256,129	15,346,192
Guidance, Counseling & Evaluation Services	12,393,490	11,855,572	11,028,657	9,363,065	8,823,941
Social Work Services	414,143	388,975	446,818	452,623	399,004
Health Services	2,495,145	2,441,208	2,181,145	2,244,232	1,951,856
Student (Pupil) Transportation	3,108,165	3,114,298	2,640,033	2,439,417	2,064,770
Food Services	299,472	279,679	287,334	272,420	240,078
Co-Curricular/Extracurricular Activities	4,999,416	4,745,227	4,541,517	4,492,092	3,890,697
General Administration	7,108,795	7,011,913	6,755,748	6,607,065	6,113,018
Plant Maintenance & Operations	16,848,218	21,355,009	19,381,617	17,916,759	17,667,278
Security & Monitoring Services	2,844,050	2,841,046	2,514,519	2,214,373	1,697,844
Data Processing Service	3,017,524	3,105,234	2,988,008	2,695,379	2,739,576
Community Service	372,314	412,848	310,509	228,548	162,434
Facilities Acquisition and Construction	3,720	3,450	1,719	-	-
Payments to JJAEP	64,752	91,036	176,431	166,095	121,135
Payments to TIF	1,010,907	1,414,723	2,347,460	498,713	-
Other Governmental Charges	531,534	535,803	505,598	-	-
Total Expenditures	**$ 229,927,733**	**$ 229,344,297**	**$ 226,761,389**	**$ 212,397,290**	**$ 199,587,657**
Other Resources and (Uses):					
Other Financing Sources	$ 174,537	$ 57,216	$ 34,714	$ 114,036	$ 5,576
Other Financing Uses	-	-	-	-	(2,046,167) (B)
Total Other Resources and (Uses)	**$ 174,537**	**$ 57,216**	**$ 34,714**	**$ 114,036**	**$ (2,040,591)**
Excess / (Deficiency) of Revenues & Other Sources Over/(Under) Expenditures & Other Uses	$ 2,331,342	$ (3,418,505)	$ 4,881,556	$ 7,843,256	$ 14,323,659
Fund Balance, End of Year(A)	**$ 79,417,365**	**$ 77,086,023**	**$ 80,504,528**	**$ 75,622,972**	**$ 67,779,716**

(A) Includes Reserved, Designated and Undesignated Fund Balance. See also "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – The School Finance System as Applied to the District" in the Official Statement for a discussion of the projected General Fund balance at August 31, 2012 and the 2013 General Fund budget.

(B) Other Financing Uses in 2007 reflect a transfer to District's Health Insurance Internal Service Fund to offset a beginning fund balance deficit in that fund.

Table 17
CHANGE IN NET ASSETS[(A)]

	Fiscal Year Ending August 31,				
Revenues:	**2011**	**2010**	**2009**	**2008**	**2007**
Program Revenues					
Charges for Services	$ 4,643,979	$ 4,979,080	$ 5,253,508	$ 5,218,845	$ 6,586,599
Operating Grants and Contributions	74,113,382	72,112,849	45,924,732	38,828,216	32,270,600
Total Program Revenues	$ 78,757,361	$ 77,091,929	$ 51,178,240	$ 44,047,061	$ 38,857,199
General Revenues					
Maintenance & Operations Taxes	$ 90,847,221	$ 93,248,521	$ 97,024,305	$ 91,437,264	$ 114,148,984
Debt Service Taxes	37,126,703	37,025,527	34,961,198	32,112,354	26,892,668
State Grants	139,197,880	129,868,903	127,466,060	123,663,032	99,077,027
Investment Earnings	871,377	1,870,376	4,993,990	7,590,752	7,551,678
Miscellaneous	2,849,167	2,074,380	3,040,957	1,702,558	1,764,629
Total General Revenues	$ 270,892,348	$ 264,087,707	$ 267,486,510	$ 256,505,960	$ 249,434,986
Total Revenues……………………………………	**$ 349,649,709**	**$ 341,179,636**	**$ 318,664,750**	**$ 300,553,021**	**$ 288,292,185**
Expenses:					
Instruction	$ 202,027,719	$ 202,902,605	$ 180,232,180	$ 168,804,073	$ 156,793,863
Instructional Resources and Media Services	5,395,741	5,268,387	4,975,486	4,710,352	4,427,356
Curriculum and Instructional Staff Development	5,230,001	5,052,148	3,558,753	3,923,766	3,295,719
Instructional Leadership	5,302,420	5,767,304	5,155,792	5,225,582	4,932,500
School Leadership	19,274,337	19,227,696	18,327,617	17,269,721	16,069,867
Guidance, Counseling and Evaluation Services	14,456,133	14,526,771	13,188,546	11,014,134	10,134,028
Social Work Services	452,483	421,492	454,045	451,833	391,517
Health Services	2,677,435	2,668,537	2,546,835	2,352,144	2,070,801
Student (Pupil) Transportation	4,462,792	3,894,410	3,498,826	3,294,523	3,141,164
Food Services	17,047,841	16,353,277	15,973,273	13,916,614	12,864,427
Co-Curricular / Extracurricular Activities	6,243,463	5,244,068	4,968,072	4,905,015	4,291,034
General Administration	7,248,095	7,239,959	7,214,596	7,024,356	6,831,531
Plant Maintenance and Operations	21,587,242	22,197,037	20,296,508	18,582,655	18,259,089
Security and Monitoring Services	2,849,399	2,835,972	2,615,072	2,221,348	1,671,357
Data Processing Services	3,549,859	3,369,105	3,574,010	3,704,739	3,978,718
Community Services	1,246,312	1,336,533	1,177,345	1,088,711	858,752
Debt Service - Interest and Fiscal Charges	28,495,578	27,919,340	24,205,191	22,865,771	21,739,963
Facilities Acquisition and Construction	-	3,450	3,469	-	-
Payments to JJAEP	64,752	91,036	176,431	166,095	121,135
Payments to TIF	1,010,907	1,414,723	2,347,460	498,713	-
Other Governmental Charges	531,534	535,803	505,598	-	-
Total Expenses……………………………………	**$ 349,154,043**	**$ 348,269,653**	**$ 314,995,105**	**$ 292,020,145**	**$ 271,872,821**
Increase/(Decrease) in Net Assets	$ 495,666	$ (7,090,017)	$ 3,669,645	$ 8,532,876	$ 16,419,364
Beginning Net Assets	$ 51,606,091	$ 58,696,108	$ 55,026,463	$ 46,493,587	$ 30,074,223
Ending Net Assets ………………………………	**$ 52,101,757**	**$ 51,606,091**	**$ 58,696,108**	**$ 55,026,463**	**$ 46,493,587**

[(A)] Financial operations for all governmental activities in accordance with GASB Statement No. 34.
Source: District's Audited Financial Statements and District records.

APPENDIX B

GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY

GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY

Located in west Dallas County, Texas, the Irving Independent School District (the "District") includes the major portion of the City of Irving (the "City") and portions of the cities of Dallas and Grand Prairie. The District encompasses 48.5 square miles and has a student enrollment of 34,851. An estimated 216,970 people live within the District's boundaries.

The District is governed by a seven member Board of Trustees (the "Board"). The Board of Trustees serve three-year staggered terms with at large elections being held every year. Board policy and decisions are decided by a majority vote of the Board. The Superintendent of Schools is selected by the Board; other District officials are employed as a result of action by the Superintendent and the Board.

The District owns and operates 38 instructional facilities which are fully accredited by the Texas Education Agency. Students attend classes in air-conditioned schools complete with cafeterias, library/media centers and gymnasiums. The number and types of instructional facilities are as follows:

Alternative Programs, Career Center and Special Education Facilities	3
Early Childhood Facilities	3
Elementary Schools	20
Middle Schools	8
High Schools	4
Total	**38**

In addition, the District owns and operates additional facilities which include an administration building, a maintenance service center, a safety and security department, a technology and staff development center, an instructional media center and an athletic stadium.

DISTRICT ENROLLMENT INFORMATION

Scholastic Enrollment History – Peak Enrollment

Year	Enrollment	Increase/ (Decrease)	Percent Change
2002/03	30,714	793	2.65%
2003/04	31,423	709	2.31%
2004/05	32,143	720	2.29%
2005/06	32,836	693	2.16%
2006/07	33,124	288	0.88%
2007/08	33,189	65	0.20%
2008/09	33,223	34	0.10%
2009/10	33,798	575	1.73%
2010/11	34,289	491	1.45%
2011/12[(A)]	34,851	562	1.63%

[(A)] Enrollment as of September 29, 2011.
Source: District records.

Projected Student Enrollment

Year	Enrollment	Increase/ (Decrease)	Percent Change
2012/13	35,312	461	1.30%
2013/14	35,512	200	0.60%
2014/15	35,712	200	0.60%
2015/16	35,812	100	0.30%
2016/17	35,912	100	0.30%

Source: District projections.

Peak Student Enrollment By Grades

Year	EE	PK	K	1	2	3	4	5	6	7	8	9	10	11	12	Total
2002/03	---	1,482	2,447	2,514	2,417	2,387	2,399	2,311	2,396	2,386	2,185	2,601	1,963	1,744	1,482	30,714
2003/04	---	1,748	2,326	2,686	2,441	2,462	2,329	2,379	2,374	2,415	2,298	2,494	2,185	1,717	1,569	31,423
2004/05	133	1,743	2,559	2,531	2560	2,440	2,358	2,405	2,433	2,377	2,322	2,752	2,139	1,852	1,539	32,143
2005/06	109	1,792	2,652	2,724	2,502	2,524	2,351	2,516	2,304	2,460	2,338	2,813	2,163	1,893	1,695	32,836
2006/07	104	1,837	2,564	2,769	2,585	2,450	2,449	2,418	2,443	2,351	2,330	3,123	2,055	1,897	1,749	33,124
2007/08	99	1,876	2,703	2,743	2626	2,581	2,378	2,401	2,362	2,423	2,311	3,074	2,055	1,905	1,652	33,189
2008/09	100	1,744	2,664	2,734	2,581	2,568	2,463	2,423	2,326	2,347	2,402	2,979	2,173	1,935	1,784	33,223
2009/10	125	1,824	2,580	2,772	2,608	2,613	2,468	2,459	2,387	2,361	2,345	3,091	2,169	2,110	1,886	33,798
2010/11	107	1,913	2,628	2,707	2,756	2,595	2,538	2,512	2,433	2,392	2,377	2,997	2,259	2,053	2,023	34,289
2011/12[A]	111	2,017	2,696	2,688	2,715	2,758	2,574	2,578	2,409	2,486	2,431	3,138	2,144	2,187	1,919	34,851

[A] Enrollment as of September 29, 2011.
Source: District records.

Peak Student Enrollment By School Type

Year	Elementary Schools (Grades EE-5)	Middle Schools (Grades 6-8)	High Schools (Grades 9-12)	Total Enrollment
2002/03	15,957	6,967	7,790	30,714
2003/04	16,371	7,087	7,965	31,423
2004/05	16,729	7,132	8,282	32,143
2005/06	17,170	7,102	8,564	32,836
2006/07	17,176	7,124	8,824	33,124
2007/08	17,407	7,096	8,686	33,189
2008/09	17,313	7,043	8,867	33,223
2009/10	17,470	7,402	8,926	33,798
2010/11	17,764	7,244	9,281	34,289
2011/12[A]	18,137	7,326	9,388	34,851

[A] Enrollment as of September 29, 2011.
Source: District records.

EMPLOYMENT OF THE DISTRICT

Teachers	2,407
Administrators	717
Teacher Aids & Secretaries	717
Auxiliary Employees	826
Total Number of Employees	**4,667**

The District employs a staff of approximately 4,667. Beginning with the 2011/12 school year, entry level teachers without advanced degrees earn $49,000 annually. Teachers with advanced degrees and longevity can earn between $50,500 and $73,446 annually. All teachers receive life and health insurance benefits worth approximately $300 monthly.

Source: District records.

PRESENT SCHOOL FACILITIES

Location	Student Enrollment[A]	Functional Capacity[B]	Excess (Over)/Under Capacity	Grades Served
Irving High School	2,335	2,975	640	9-12
MacArthur High School	2,615	2,950	335	9-12
Nimitz High School	2,374	3,225	851	9-12
Jack E. Singley Academy	1,671	1,750	79	9-12
High School Total	**8,995**	**10,900**	**1,905**	
Austin Middle School	946	1,350	404	6-8
Bowie Middle School	942	1,325	383	6-8
Crockett Middle School	619	1,350	731	6-8
de Zavala Middle School	893	1,350	457	6-8
Houston Middle School	979	1,400	421	6-8
Johnson Middle School	933	1,350	417	6-8
Lamar Middle School	955	1,350	435	6-8
Travis Middle School	1,040	1,475	17	6-8
Middle School Total	**7,307**	**10,950**	**3,643**	
Barton Elementary	807	1,078	271	K-5
Brandenburg Elementary	927	1,034	107	K-5
Britain Elementary	740	1,232	492	K-5
Brown Elementary	860	1,144	284	K-5
Davis Elementary	886	1,122	236	K-5
Elliott Elementary	706	1,122	416	K-5
Farine Elementary	751	1,122	371	K-5
FM Gilbert Elementary	846	1,100	254	K-5
Good Elementary	863	1,056	193	K-5
John Haley Elementary	739	1,100	361	K-5
Thomas Haley Elementary	755	1,034	279	K-5
Hanes Elementary	736	968	232	K-5
Johnston Elementary	771	1,056	285	K-5
Keyes Elementary	842	1,166	324	K-5
Lee Elementary	737	1,078	341	K-5
Lively Elementary	890	1,100	210	K-5
Schulze Elementary	770	1,078	308	K-5
Stipes Elementary	673	1,056	383	K-5
Townley Elementary	792	1,078	286	K-5
Townsell Elementary	917	1,056	139	K-5
Elementary School Total	**16,008**	**21780**	**5,772**	
Clifton Early Childhood[C]	718	800	82	PK
Kinkeade Early Childhood[C]	720	800	80	PK
Pierce Early Childhood[C]	674	800	126	PK
Early Childhood Schools Total[C]	**2,112**	**2,400**	**288**	
Juvenile Justice Alternative Ed. Program	20	--	--	--
Union Bower Center for Learning	367	394	27	6-12
Wheeler Development Center	42	50	8	1-5
Learning Centers Total	**429**	**444**	**35**	
Total	**34,851**	**46,474**	**11,623**	

[A] Enrollment as of September 29, 2011.
[B] Includes student capacity of portable building at such campus.
[C] Students attending Early Childhood Schools attend in two-half day sessions.
Source: District records.

CITY OF IRVING, TEXAS – ECONOMIC AND DEMOGRAPHIC INFORMATION

Location

The City of Irving (the "City") is located in the Dallas-Fort Worth metropolitan area in the western portion of Dallas County. Bisected by U. S. Highway 183, Irving has easy access to Interstate 35 that accesses the north and south, and Interstate 30 that accesses the east and west. Other nearby cities include Dallas to the east on U.S. Highway 183, Arlington to the southwest on Interstate 30, Coppell to the north on Interstate 35 and Grand Prairie to the south on Interstate 30.

Approximate Mileage from Irving to:	Miles
D/FW International Airport	Borders City Limits
Alliance Airport	15
Dallas	10
Fort Worth	20

The City had a 2000 U.S. Census population of 191,615 and a 2010 U.S. Census population of 216,920, reflecting a 13.2% increase over the decade. The 2012 estimated population for the City is 218,850.

Master Planned Developments

The City of Irving offers approximately 30 million square feet of commercial and retail space. An additional 25 million square feet are devoted to industrial/warehouse space. Of the City's 67.6 square miles, more than 15,000 acres are dedicated to master-planned developments.

Las Colinas is home to more than 2,000 companies, including the global headquarters for five Fortune 500 companies and offices of more than 45 others. This 12,000-acre development offers 23 million square feet of commercial office space, 8.9 million square feet of light industrial space, and 1.3 million square feet of retail space. In addition, Las Colinas is home to more than 4,630 single-family homes, 13,900 multifamily units and has 4,220 hotel rooms within its boundaries. Finally, there are approximately 4,500 acres of parks, bike and horse paths, nature trails, lakes and Old-World style Venetian canals that connect the office towers and specialty shops.

Las Colinas' focal point is the 960-acre Urban Center, which is home to the world-famous Mustangs of Las Colinas sculpture, high-rise office buildings, the Omni Mandalay Hotel, Mandalay Canal and Columbus Luxury Apartments. The Las Colinas development is also the location of the Dallas Communications Complex, North Lake College, Las Colinas Equestrian Center, and Four Seasons Resort and Club.

DFW Freeport is a 550-acre international business community located east of DFW International Airport with 7.5 million square feet of office space, 2.8 million square feet of flexible office space, and 2.9 million square feet of distribution space – all with a direct link to DFW Airport's freight terminals. DFW Freeport is zoned for three principal land uses: a business park, an office park and retail/recreational center. Tenants of this business community include Allstate, American Honda, Computer Sciences Corporation, DeVry University, Nissan Motor Acceptance Corporation, Northrop Grumman, Wendy's International and Xerox.

Foreign Trade Zone No. 39 is a 621-acre business park located within DFW Airport's boundaries. The business park boasts two air cargo distribution centers and an airport-owned warehouse that offers services from cold storage to customs brokering. Businesses in the development can easily access U.S. Customs, the U.S.D.A, U.S. Fish & Wildlife Service and NAFTA. Resident companies have direct access to SH 114 and convenient access to I-635. Resident companies include: Amazon.com, Arizona Tile, Broder Bros., DHL, FedEx, Hitachi America, International Paper, Life Sciences, NEC America, Pratt & Whitney, Siemens, Stock Building Supply and Trans Trade.

SH 161 Corridor is a business district developed by the City that is a vital link in Irving's transportation network. Located south of DFW Airport, the area has easy access to the Bush Turnpike, giving Irving excellent access to Dallas' northern suburbs. Future plans call for the extension of SH 161 south to I-20. This is an area targeted to support future development in the City. Current tenants of this business community include Bell Sports, Deloitte Consulting, Hoss Equipment, LSG Skychef, Vermeer Equipment of Texas, Conexis, Drees Homes, HD Vest Financial Services, Mosaic Sales Solution and Conley Design Group.

Valley Ranch is a 2,500-acre, multi-use, master-planned community of 30 distinct neighborhoods with 4,100 single-family homes, 21 apartment communities and several shopping centers. There are more than 140 businesses in the community. Valley Ranch offers 75 acres of parks and greenbelts and five miles of hiking and biking trails. In addition, Valley Ranch is home of the Dallas Cowboys headquarters and practice facilities.

Source: Greater Irving-Las Colinas Chamber of Commerce.

Major Employers

The following table includes a list of employers in the City who have 500 employees or more as reported by the North Central Texas Council of Governments.

Name of Company	Name of Company	Name of Company
AAA Texas LLC	Citigroup	Microsoft Corporation
Abbott Laboratories	Commercial Metals	Minyard Food Stores Inc.
Ace Cash Express	Computer Science Corp.	MMC Group
ADEA Solutions, Inc.	Connexions	Mothers Against Drunk Drivers
ADT	CVS Caremark	NCH Corp.
Aegis Communications Group, LLC	DFW International Airport	NEC America Inc.
Allstate Insurance Company	Dr. Pepper/7-Up Bottling	Neiman Marcus Direct
Archon Group LP	EMC Mortgage Corp	Nissan Motor Acceptance Corp.
Associates First Capital Corp	Exxon Mobile	Nokia
AT&T	Federal Aviation Administration	North Lake College
AviallBoeing	FedEx Freight	Oracle Corp.
Banc Tec	First Horizon Home Loans	Quest Diagnostic Inc.
Baylor Medical Center at Irving	Four Seasons Hotel	Supermedia
Bearingpoint Inc.	Frito-Lay Inc.	TXU
Boy Scouts of America	Gordon's Jewelers	TXU Electric Delivery
Caris Diagnostics Inc.	Holt Cat	TXU Energy
Central Freight Lines, Inc.	Irving ISD	University of Dallas
Certified Laboratories Inc.	Liberty Mutual	Verizon Communications Inc.
Chemsearch Corp	Mantek	VHA Inc.
Christus Health	Medco Health Solutions of Irving	Xerox Corp.
Citicorp Credit Services	MHA Group	YRC Worldwide Inc.

Source: North Central Texas Council of Governments.

Higher Education

Irving has four institutions of higher learning within the City proper. These fully accredited institutions of higher learning are the University of Dallas, the University of Phoenix, North Lake Community College and DeVry Institute of Technology. More than 30 other institutions of higher education are located within an hour's drive of Irving, including:

Public Universities	Private Colleges and Universities
Dallas County Community College System	Art Institute of Dallas
Tarrant County College System	Austin College
Texas Women's University	Baylor College of Dentistry
University of North Texas	Baylor University School of Nursing
University of Texas at Arlington	Dallas Baptist University
University of Texas at Dallas	Paul Quinn College
University of Texas Health Sciences Center at Dallas	Southern Methodist University
University of Texas Southwestern Medical Center at Dallas	Southwestern Baptist Theological Seminary
	Texas Christian University
	Texas Wesleyan University

Source: Greater Irving-Las Colinas Chamber of Commerce.

Healthcare

Las Colinas Medical Center is a full-service hospital with a 24-hour emergency room, inpatient medical and surgical care, an intensive care unit, a neonatal ICU, and complete radiological and diagnostic services. The hospital boasts a 3,000-square-foot sports-medicine center, a floor dedicated to women's services and outpatient surgical facilities.

Baylor Medical Center at Irving, a major branch of the non-profit Baylor Health Care System, houses a cancer center and center for children with special needs, as well as, a nationally recognized diabetes program. The hospital has full inpatient and emergency services and a 127,000-square-foot medical office building on its campus. Baylor Irving has consistently been rated one of D/FW's top medical centers for coronary bypass, angioplasty and general heart-attack care by the Texas Health Information Council.

Source: Greater Irving-Las Colinas Chamber of Commerce.

DALLAS COUNTY, TEXAS – ECONOMIC AND DEMOGRAPHIC INFORMATION

Location

Dallas County is located in north central Texas and is strategically central to the economic region including the State of Texas, Louisiana, Arkansas, Oklahoma, and New Mexico. The County encompasses an area of 900 square miles. The County is a national center for insurance, banking, electronics, conventions, aircraft manufacturing and trade shows. The 2010 U.S. Census population for the County was 2,368,139, a 6.7% increase over 2000. The estimated 2012 population for the County is 2,385,990.

Top Employers

The following table includes a list of employers in the County who have 1,000 employees or more as reported by the North Central Texas Council of Governments.

Name of Company	Name of Company	Name of Company
Abbott Laboratories	Dallas County Hospital District	Nortel Networks
ABM Janoritial Services	Dallas County Sheriff's Office	Parkland Health & Hospital System
ACS Retail Services	DeLoitte & Touche LP	Pilgrim's Pride Corp.
Aegis Communications Group Inc	DFW International Airport	Poly-America Inc.
Affiliated Computer Services Inc.	Dallas Community College District	Pricewaterhouse Coopers
Allstate Insurance Co.	Environmental Protection Agency	Pulte Homes
American Airlines Center	Ernst & Young LLP	Quality Homes
Archon Group LP	Federal Reserve Bank of Dallas	Quest Diagnostics Inc.
Army & Air Force Exchange Services	Federal Government – IRS	Raytheon/E-Systems Inc.
Associates First Capital Corp.	Furmanite Corp.	Rosewood Hotels
AT&T	GLI Holding Corp.	Santander Consumer USA Inc.
Bank of America	GEICO Insurance Co.	Sears Logistics Services
Baylor Medical Center at Garland	Girling Health Care Inc.	Sheraton Dallas Hotel
Baylor Medical Center at Irving	Halliburton Energy Services	Southern Methodist University
Baylor Medical Center at Dallas	Hilton Anatole Hotel	Southwest Airlines
Blue Cross and Blue Shield of Texas	IBM Corp.	Stevens Transport Inc.
Brinker International	JB Hunt Transporation	Swift Transportation
CAP Gemini America Inc.	JPMorgan Chase	TD Industries
Central Freight Lines Inc.	KMPG LLP	Texas Health and Human Services
Children's Medical Center	Kronos International	Texas Health Presbyterian Hospital
Citicorp Credit Services Inc.	Laboratory Corporation America	Texas Instruments Inc.
Citigroup	Lennox International Inc.	U.S. Postal Services
City of Dallas	Lockheed Martin	United Parcel Services Inc.
City of Mesquite	Mary Kay Cosmetics Inc.	UT Southwestern Medical Center
Comerica Bank	Medical City Dallas	VA North Texas Health Care System
Commscope	Methodist Medical Center Dallas	Verizon
Compucom Systems Inc.	Microsoft Corporation	Visiting Nurses Association Texas
Conwell Corporation	Nations BroadBand Inc.	Vought Aircraft Industries Inc.
Credit Solutions	NEC America Inc.	YRC Worldwide Inc.
Dallas Area Rapid Transit	Neiman Marcus Direct	

Source: North Central Texas Council of Governments.

Transportation

Air - Dallas/Fort Worth International Airport, just 17 miles from downtown Dallas, is the third busiest airport in the world, as measured by total landings and take-offs. Over 56 million passengers traveled through the DFW Airport in 2009. The DFW Airport offers 171 non-stop service routes with 41 international destinations and 136 nonstop domestic routes. Some 154,000 passengers move through the airport on a daily basis. The DFW area is also served by Love Field, which is located only seven miles from downtown Dallas. Love Field is the headquarters of Southwest Airlines and served more than 7.7 million passengers in 2009.

Rail **-** Dallas is a major hub for hundreds of rail routes. Major railroads that serve the Dallas area include: Burlington Northern Santa Fe Railway and Union Pacific.

Amtrak provides passenger train service at Union Station in downtown Dallas with four lines: Chicago, Los Angeles, Houston and San Antonio.

Dallas Area Rapid Transit (DART) **-** DART provides express transportation between suburban communities and downtown Dallas through an extensive network of DART Rail, Trinity Rail Express and bus services. In addition, DART operates a system of high occupancy vehicle ("HOV") lanes. A total of more than 220,000 passengers are served daily on the train and bus routes which provide service in Dallas and 12 surrounding cities. More than 145,000 commuters use our HOV lanes each weekday. On July 30, 2012, DART initiated light rail service to the City of Irving with a 5.4-mile light rail section which add three new stations to the DART rail system in the City: University of Dallas, Las Colinas Urban Center and the Irving Convention Center.

Source: Greater Dallas Chamber of Commerce, Dallas Area Rapid Transit.

Comparative Unemployment Rates

	2008	2009	2010	2011	2012(A)
City of Irving	4.8%	7.5%	7.5%	7.2%	6.3%
Dallas County	5.5%	8.2%	8.8%	8.4%	7.3%
State of Texas	4.9%	7.6%	8.2%	7.9%	6.9%
United States of America	5.8%	9.3%	9.6%	8.9%	7.9%

(A) As of May 2012.
Source: Labor Market Information Department, Texas Workforce Commission.

APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

[Form of Bond Opinion]

[Closing Date]

$____________
IRVING INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS
SERIES 2012

WE HAVE ACTED as bond counsel for Irving Independent School District (the “District”), in connection with the bonds hereinafter described (the “Bonds”):

> IRVING INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2012, dated August 1, 2012, in the aggregate principal amount of $____________.
>
> The Bonds mature, bear interest, are subject to redemption prior to maturity, and may be transferred and exchanged as set out in the Bonds and in the order (the “Bond Order”) adopted by the Board of Trustees of the District on July 16, 2012 authorizing their issuance and the pricing certificate authorized therein (collectively, the “Order”).

WE HAVE ACTED as bond counsel for the sole purpose of rendering our opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the District’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of proceedings pertaining to the Bonds on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the District; customary certificates of officers, agents and representatives of the District and other public officials; and other certified showings relating to the authorization and issuance of the Bonds. We have also examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the “Code”), court decisions, Treasury Regulations and published rulings of the Internal Revenue Service (the “Service”) as we have deemed relevant. We have also examined executed Bond No. 1 of this issue. Capitalized terms used herein, unless otherwise defined, have the meanings set forth in the Order adopted by the District with respect to the issuance of the Bonds.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

(A) The transcript of proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective, and therefore, the Bonds constitute valid and legally binding obligations of the District; and

(B) A continuing ad valorem tax, without limit as to rate or amount, has been levied and pledged irrevocably to the payment of the principal of and interest on the Bonds.

THE RIGHTS OF THE OWNERS of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

IT IS OUR FURTHER OPINION that:

(1) Interest on the Bonds is excludable from gross income for federal income tax purposes under existing law.

(2) The Bonds are not “private activity bonds” within the meaning of the Code, and, as such, interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Bonds will be included in the “adjusted current earnings” of a corporation (other than an S corporation, regulated investment company, REIT, or REMIC) for purposes of computing its alternative minimum tax liability.

In providing such opinions, we have relied on representations of the District, the District’s financial advisor, and the underwriters with respect to matters solely within the knowledge of the District, the District’s financial advisor and the underwriters, respectively, which we have not independently verified. In addition, we have assumed for purposes of this opinion continuing compliance with the covenants in the Order pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. In the event such representatives are determined to be inaccurate or incomplete or the District fails to comply with the foregoing provisions of the Order, interest on the Bonds could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership, or disposition of the Bonds.

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the “branch profits tax” on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Bonds).

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 these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective, Moreover, our opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer. We observe that the District has covenanted in the Order not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

APPENDIX D

AUDITED FINANCIAL STATEMENT
FOR THE YEAR ENDED AUGUST 31, 2011

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Trustees
Irving Independent School District
Irving, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Irving Independent School District, Texas (the District) as of and for the year ended August 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Irving Independent School District, Texas, as of August 31, 2011, and the respective changes in financial position, and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2012, on our consideration of the Irving Independent School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis (on pages 15 through 25) and the budgetary comparison schedules (on page 63 through 65) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, other supplementary information, required T.E.A. section, and statistical section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and in addition to the other supplementary information, required T.E.A. schedules listed in the table of contents, are not a required part of the basic financial statements of the District. Such information, excluding the statistical section marked unaudited on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
January 18, 2012

As management of the Irving Independent School District (the "District"), we offer readers of the District's basic financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2011. We encourage readers to consider the information presented here in conjunction with the District's financial statements and in conjunction with additional information that we have furnished in our letter of transmittal.

FINANCIAL HIGHLIGHTS

- General revenues accounted for $270,892,348, or 77%, of all fiscal year 2011 revenues. Program-specific revenues in the form of charges for services and grants and contributions accounted for $78,757,361, or 23%, of total fiscal year 2011 revenues.

- The District had $349,154,043 in expenses related to governmental activities. $78,757,361 of these expenses was offset by program-specific charges for services or grants and contributions. General revenues of $270,892,348 were adequate to provide for the remaining costs of these programs, resulting in a $495,666 increase in net assets.

- Among major funds, the General Fund had $232,084,538 in fiscal year 2011 revenues, which primarily consisted of state aid and property taxes, and $229,927,733 in expenditures. The General Fund's fund balance increased $2,331,342, from $77,086,023 as of August 31, 2010 to $79,417,365 as of August 31, 2011.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements and required supplementary information. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business. These statements include the statement of net assets and the statement of activities. These provide information about the activities of the District as a whole and present a long-term view of the District's property and debt obligations and other financial matters.

The statement of net assets presents information on all of the District's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unpaid salary).

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation, and operation of non-instructional services. The government-wide financial statements can be found on pages 27 – 28 of this report.

Fund financial statements. The *fund financial statements* report the District's operations in more detail than the government-wide statements by providing information about the District's major funds, as opposed to the District as a whole as presented in the government-wide financial statements. The District's major funds are the general fund, food service fund, debt service fund, and capital projects fund. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District and how the sales revenues covered the expenses of the goods or services. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.

The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the District. 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 basic governmental fund financial statements can be found on pages 30 – 36 of this report.

Notes to the basic financial statements. The notes provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements. The notes to the financial statements can be found on pages 41 – 61 of this report.

Other information. The combining and individual fund statements contain even more information about the District's individual funds. The section labeled compliance schedules contains data used by monitoring or regulatory agencies, such as TEA, for assurance that the District is using funds supplied in compliance with the terms of grants.

The combining and individual fund statements referred to earlier are presented immediately following the general fund and food service fund budgetary comparison.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by $52,101,757 as of August 31, 2011. This is an increase of $495,666 over the prior year, indicating an overall positive position for the District.

A portion of the District's net assets represents resources subject to external restrictions on how they may be used. As of August 31, 2011, the District's restricted net assets for food service were $6,710,687 and restricted net assets for future debt service payments were $4,549,566. Unrestricted net assets can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. As of August 31, 2011, the District's unrestricted net assets were $35,907,568.

Net assets invested in capital assets net of related debt was $4,933,936. The District uses capital assets to provide services; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following table presents a summary of the District's net assets for the fiscal years ended August 31, 2011 and August 31, 2010.

Table I
Net Assets
Governmental
Activities

	2011	2010	Difference
Current and other assets	$ 210,536,143	$ 254,208,679	$ (43,672,536)
Capital assets (net)	504,230,272	454,938,684	49,291,588
Total assets	714,766,415	709,147,363	5,619,052
Current liabilities	49,349,249	34,170,321	15,178,928
Long-term liabilities	613,315,409	623,370,951	(10,055,542)
Total liabilities	662,664,658	657,541,272	5,123,386
Invested in capital assets, Net of related debt	4,933,936	3,431,449	1,502,487
Restricted	11,260,253	11,297,829	(37,576)
Unrestricted	35,907,568	36,876,813	(969,245)
Total net assets	$ 52,101,757	$ 51,606,091	$ 495,666

The following are significant current-year transactions that have had an impact on the statement of net assets:

- Total assets increased due to cash invested in the completion of a new energy-efficient middle school: a net zero middle school. Fifteen other major building construction projects were also completed to contribute to the increase in total assets.
- Total liabilities increased, primarily due to the District's issuance of $22 million of newly issued voter authorized bonds from the November, 2007 election.

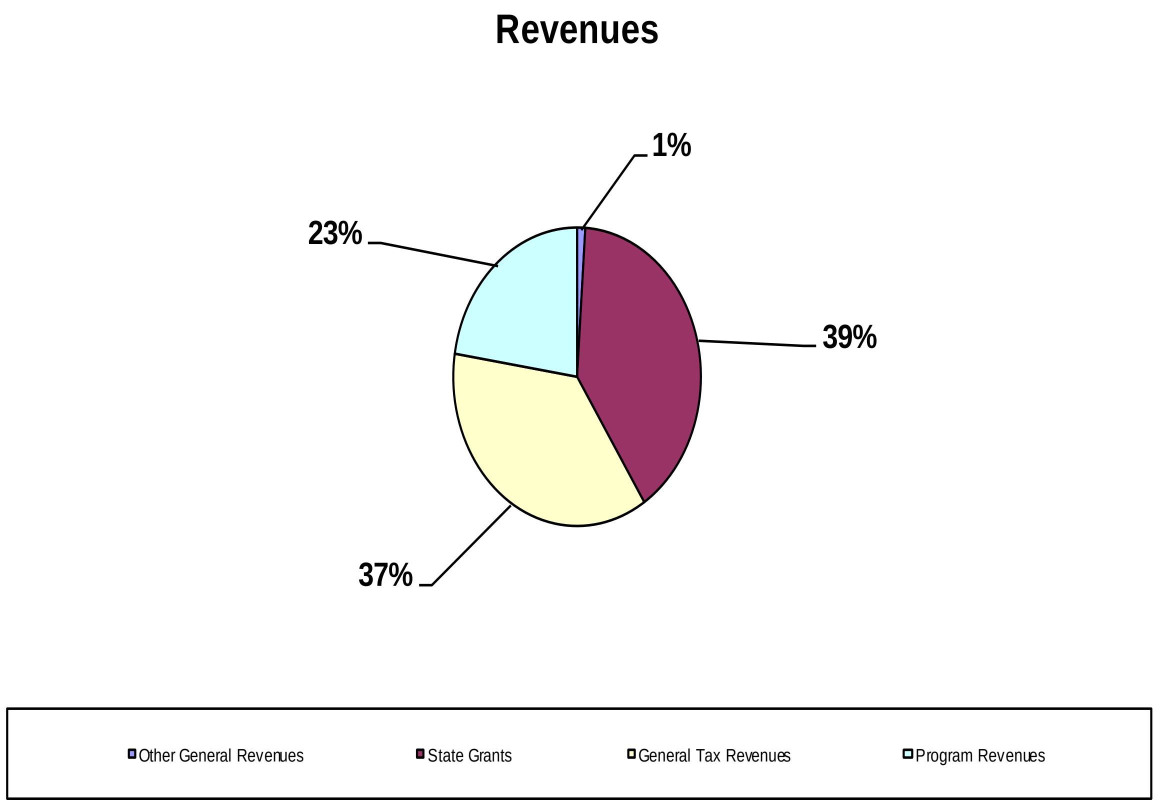
The District's total revenues for the fiscal year ended August 31, 2011 were $349,649,709. The total cost of all programs and services was $349,154,043. The following table presents a summary of the changes in net assets for the fiscal years ended August 31, 2011 and August 31, 2010.

Table II
Change in Net Assets
Governmental
Activities

	2011	2010	Difference
Revenues:			
Program revenues:			
Charges for services	$ 4,643,979	$ 4,979,080	$ (335,101)
Operating grants and contributions	74,113,382	72,112,849	2,000,533
General revenues:			
Maintenance and operations taxes	90,847,221	93,248,521	(2,401,300)
Debt service taxes	37,126,703	37,025,527	101,176
State grants	139,197,880	129,868,903	9,328,977
Investment earnings	871,377	1,870,376	(998,999)
Miscellaneous	2,849,167	2,074,380	774,787
Total revenue	349,649,709	341,179,636	8,470,073
Expenses:			
Instruction, curriculum, and media services	212,653,461	213,223,140	(569,679)
Instructional and school leadership	24,576,757	24,995,000	(418,243)
Student support services, child nutrition and co-curricular activities	45,340,147	43,108,555	2,231,592
General administration	7,248,095	7,239,959	8,136
Plant maintenance, security, and data processing	27,986,500	28,402,114	(415,614)
Community services	1,246,312	1,336,533	(90,221)
Interest and fiscal charges	28,495,578	27,919,340	576,238
Other Facility Costs	-	3,450	(3,450)
Intergovernmental charges	596,286	626,839	(30,553)
Payments to TIF	1,010,907	1,414,723	(403,816)
Total expenses	349,154,043	348,269,653	884,390
Change in net assets	495,666	(7,090,017)	7,585,683
Beginning Net Assets	51,606,091	58,696,108	(7,090,017)
Ending Net Assets	$ 52,101,757	$ 51,606,091	$ 495,666

Net assets of the District's governmental activities increased from $51,606,091 to $52,101,757, or $495,666.

The District's reliance upon tax revenues is demonstrated by the graph below, which indicates that 37% of total revenues for governmental activities come from local taxes.



The District's total revenues this year were $349,649,709, up $8,470,373 from the prior year. A significant part of this increase is from increased state revenue which is generated by an increase in ADA (Average Daily Attendance) and by the state covering the loss of revenue from the decline in property tax values. This increase in revenues, while holding expenditures to prior year levels, allowed the District to see an overall increase in net assets.

The cost of all governmental activities this year was $349,154,043. However, as shown in the statement of activities, the amount that our taxpayers ultimately financed for these activities through district taxes was $127,973,924 because some of the costs were paid by those who directly benefited from the programs ($4,643,979), by other governments and organizations that subsidized certain programs with grants and contributions ($74,113,382), or by state aid ($139,197,880), investment income ($871,377), and other miscellaneous income ($2,849,167).

The following table presents the total cost of the District's major functional activities and the net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs):

	Total Expenses	Net Expenses
Instruction, curriculum, and media services	$ 212,653,461	$ 165,600,352
Instructional and school leadership	24,576,757	22,390,003
Student support services, child nutrition and co-curricular activities	45,340,147	22,571,965
General Administration	7,248,095	7,090,032
Plant maintenance, security, and data processing	27,986,500	23,324,992
Community services	1,246,312	361,699
Interest and fiscal charges	28,495,578	28,495,578
Intergovernmental charges	596,286	583,616
Payments to TIF	1,010,907	(21,555)
Total expenses	$ 349,154,043	$ 270,396,682

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported a combined fund balance of $165,626,046, which is a decrease of $45,564,132 from the prior year.

The schedule below indicates the fund balance by fund type as of August 31, 2011 and August 31, 2010.

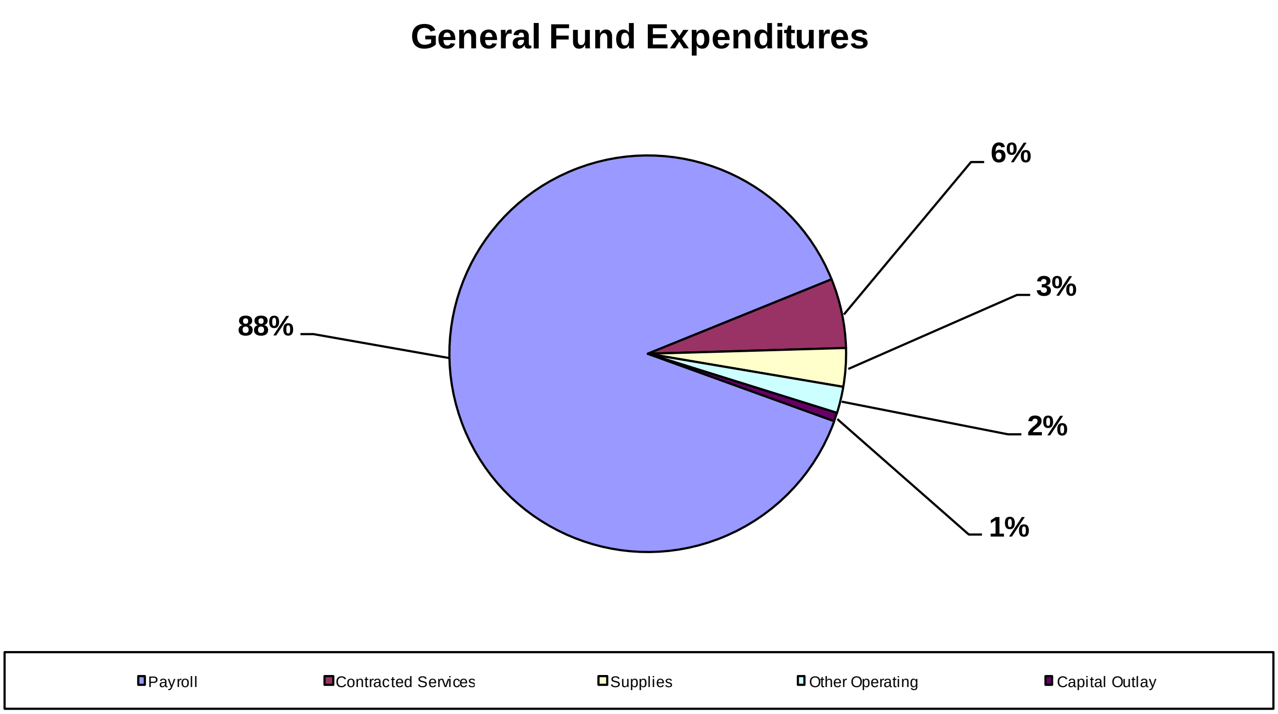
	Fund Balance August 31, 2011	Fund Balance August 31, 2010	Change in Fund Balance
General Fund	$ 79,417,365	$ 77,086,023	$ 2,331,342
Food Service	6,710,687	7,398,104	(687,417)
Debt Service	13,614,669	14,620,052	(1,005,383)
Capital Projects	65,746,211	112,060,012	(46,313,801)
Other Funds	137,114	25,987	111,127
Total	$ 165,626,046	$ 211,190,178	$ (45,564,132)

General Fund

The fund balance of the General Fund increased $2,331,342 from the prior year. The District's original budget plan was to use $6.5 million of fund balance. An increase of $8.8 million from the budgeted fund balance can be explained as follows: $1.8 million more state revenue from increased student attendance and lower property values was realized than what was originally expected. An additional $1.7 million was received from the District's participation in the School Health and Related Services (SHARS) program, from the final settle-up from the 2009 SHARS Cost Report. General Fund expenditures decreased $5.2 million over what was originally budgeted.

The District is a service entity; therefore, the largest portions of the General Fund expenditures are related to payroll and contracted services such as utilities, as illustrated below.

Expenditures by Object	August 31, 2011 Amounts	August 31, 2010 Amounts	Increase (Decrease) from Prior Year
Payroll	$ 202,994,680	$ 198,471,877	$ 4,522,803
Contracted Services	13,094,685	16,796,501	(3,701,816)
Supplies	7,238,057	7,337,632	(99,575)
Other Operating	4,974,157	5,479,126	(504,969)
Capital Outlay	1,626,154	1,259,161	366,993
Total	$ 229,927,733	$ 229,344,297	$ 583,436



Food Service Fund

The fund balance of the Food Service fund decreased $687,417 from the prior year. This represented a planned use of fund balance for kitchen equipment at the new "Net Zero" middle school which opened in August, 2011.

Debt Service Fund

The Debt Service fund balance decreased $1,005,383. This represented a planned use of fund balance and was $252,674 less than the original budgeted use of fund balance. The District was able to increase its state funding in the current year with an additional entitlement from the state for the IFA (Instructional Facilities Allotment) program to reduce its anticipated use of fund balance.

Capital Projects Fund

The Capital Projects fund balance decreased $46,313,801 from the prior year due to the use of funds spent during the year for the completion of construction projects. Although these and other capital expenditures reduce available fund balances as projects are completed, they create new assets for the District as reported in the statement of net assets and as discussed in Note 5 in the financial statements.

BUDGETARY HIGHLIGHTS

Over the course of the year, budget amendments are necessary to realign funds, which will increase and/or decrease various function levels and object series within the budget. All necessary budget amendments, which change the function level for appropriations and object series for revenues, are formally approved by the School Board and recorded in the board minutes each month. The difference between the original budget and the final amended budget were necessary amendments for changes in situations and estimates. Expenditures had budget amendments reducing the appropriation budget, $19,763,862. Revenues had budget amendments of $19,378,644. The major components of these changes are reflected on Exhibit G-1 and the key factors for the changes can be summarized as follows:

$1,852,767 increase in state revenue, for better than anticipated student growth and average daily attendance and an increase in FTE's for special student populations.

$21,008,290 decrease in revenue and expenditures for recording state foundation funds from the General Operating Fund to the federal ARRA stabilization grant fund. Separate fund accounting was required by the state.

$575,000 increase in SHARS (School Health and Related Services) program revenues, due to an increase in reimbursements received for the year.

$747,566 decrease in Tax Increment Finance Zone payments to the City of Irving as a result of the decrease in values of properties located within the Zone, from lawsuit settlements.

$138,533 increase in contracted services for legal fees.

A positive variance, from actual to final budget, of $1,681,380 is noted for Federal Program Revenues and is the result of the 2009 cost settle up for the SHARS program that was not known at the time of the final budget amendments to the Board of Trustees.

A positive variance, from actual to final budget, of $1,510,995 is noted for function 11 expenditures and is attributed to less stipends and extra duty pay and associated TRS-On Behalf charges than anticipated and department and campus savings on supplies and material budgets.

A positive variance, from actual to final budget, of $1,011,840 is noted for function 51 expenditures and is attributed to savings from vacant positions and related benefits.

A positive variance, from actual to final budget, of $948,947 is noted for function 53 expenditures and the majority is attributed to e-rate reimbursements on internet services from prior years.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of August 31, 2011, the District had invested $504,230,272 in capital assets, net of accumulated depreciation of $273,374,914, including land and improvements, facilities, and equipment for instruction, transportation, athletics, administration, and maintenance. This amount represents a net increase in capitalized cost of $49,291,588 from last year. The increase is primarily due to completing various construction projects and equipment acquisitions. The total depreciation expense for the year was $22,068,923. The following schedule presents capital asset balances net of depreciation for the fiscal year ended August 31, 2011:

Land and Improvements	$	31,771,477
Furniture and Equipment		22,899,707
Buildings and Improvements		437,800,351
Construction in Progress		11,758,737
Total	$	504,230,272

More detailed information about the District's capital assets is presented in Note 5 in the financial statements.

Debt

As of August 31, 2011, the District had $624,900,837 in general obligation bonds payable and $3,106,263 in claims payable. The District had $16,383,540 in bonds payable that are due within one year. The District continues to have favorable general obligation bond ratings indicated by Aa2 and AA+ rating from Moody's Investors Service and Standard & Poor’s Ratings Group, respectively. State statutes currently limit the amount of general obligation debt a District may issue to 10% of its total assessed valuation. The current debt limitation for the District is $904,569,381, which is more than the District’s outstanding general obligation debt.

Additional information on the District's long-term debt can be found in Note 8 in the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the 2011-2012 budget and 2011 tax rates. One of those factors was the economy. Going into the 2011 tax year the District experienced a 2.1% decrease in property values. This is the third year of a decrease in property values after several years of increasing values.

With 59% of the District's tax base in commercial and business personal property, this was the third year in a row that the District experienced a significant decrease (5.8%) in its values. The residential property values for the 2012 fiscal year decreased with a decline in values of 2.2%.

The decrease in property values was offset by an increase in state revenue for the General Fund as provided for under current state law, but this does not apply to the Debt Service Fund. Since the state of Texas was faced with a budget shortfall for the new biennium, $4 billion was cut from the public education system. Legislation was passed under Senate Bill 1 that reduced the District’s state foundation revenue for next year by $12 million, as compared to what would have been received under House Bill 3646. The District responded to this significant budget cut by declaring a financial exigency and reducing 322.5 staff positions from all areas of staffing from central administration, the classroom, and facilities and maintenance staff. With this drastic measure the District was able to balance the budget for fiscal year 2012 for the General Operating Fund, without the use of its fund balance.

The maintenance and operating tax rate of $1.04 is the same as last year. A total of 4 cents above $1.00 is allowable at the local level, under provisions of HB 1. The District is now at its maximum maintenance and operating tax rate for the second year in a row and will remain at this rate until the Board of Trustees decide to call for a tax ratification election to access up to 13 additional pennies.

The debt service tax rate remains the same as last year at $.425 with the District making the decision to use $422,045 of its ample fund balance reserve to maintain the same tax rate.

The District will continue to review its priorities to maintain the level of service to its children and taxpayers for future budget years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office at Irving Independent School District, 2621 W. Airport Freeway, Irving, Texas, 75062.

IRVING
Independent School District

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE
FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS
AUGUST 31, 2011

DATA CONTROL CODES		GOVERNMENTAL ACTIVITIES
	ASSETS	
1110	Cash & Cash Equivalents	$ 157,391,180
1120	Investments	25,000,000
1220	Delinquent Taxes Receivable - Net of Estimated Uncollectible Taxes	4,759,107
1240	Due from Other Governments	13,597,932
1250	Accrued Interest	244,433
1290	Other Receivables	2,502,155
1310	Inventories	1,400,562
1410	Deferred Expenses	5,640,774
1510	Land	19,987,459
1515	Land Improvements	19,376,411
1520	Buildings and Improvements	620,217,802
1580	Construction in Progress	11,758,737
1530	Furniture and Equipment	106,264,777
1570	Accumulated Depreciation	(273,374,914)
1000	TOTAL ASSETS	714,766,415
	LIABILITIES	
2110	Accounts Payable and Claims Liabilities	22,251,482
2150	Payroll Deductions and Withholdings	545,292
2160	Accrued Wages Payable	5,614,161
2140	Interest Payable	3,137,589
2180	Due to Other Governments	44,148
2300	Unearned Revenue	563,858
	Due Within One Year:	
2121	Bonds Payable	16,383,540
2123	Claims Payable	809,179
	Noncurrent Liabilities:	
	Due in More than One Year:	
2800	Claims Payable	2,297,084
2510	Bonds Payable	611,018,325
2000	TOTAL LIABILITIES	662,664,658
	NET ASSETS	
3800	Invested in Capital Assets, Net of Related Debt	4,933,936
3840	Restricted for Food Service	6,710,687
3850	Restricted for Debt Service	4,549,566
3430	Unrestricted Net Assets	35,907,568
3000	TOTAL NET ASSETS	$ 52,101,757

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

IRVING INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2011

EXHIBIT B-1

Data Control Codes	Functions/Programs	1 Expenses	2 Charges for Services	3 Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Total Governmental Activities
	Governmental Activities:				
11	Instruction	$ 202,027,719	$ 543,735	$ 42,011,180	$ (159,472,804)
12	Instructional Resources and Media Services	5,395,741	-	1,942,198	(3,453,543)
13	Curriculum Development and Instructional Staff Development	5,230,001	-	2,555,996	(2,674,005)
21	Instructional Leadership	5,302,420	-	1,060,044	(4,242,376)
23	School Leadership	19,274,337	-	1,126,710	(18,147,627)
31	Guidance, Counseling, and Evaluation Services	14,456,133	-	1,825,060	(12,631,073)
32	Social Work Services	452,483	-	48,806	(403,677)
33	Health Services	2,677,435	-	130,186	(2,547,249)
34	Student (Pupil) Transportation	4,462,792	-	816,614	(3,646,178)
35	Food Services	17,047,841	2,508,940	15,918,726	1,379,825
36	Co-Curricular/Extracurricular Activities	6,243,463	1,413,786	106,064	(4,723,613)
41	General Administration	7,248,095	-	158,063	(7,090,032)
51	Plant Maintenance and Operations	21,587,242	177,518	4,311,760	(17,097,964)
52	Security and Monitoring Services	2,849,399	-	60,361	(2,789,038)
53	Data Processing Services	3,549,859	-	111,869	(3,437,990)
61	Community Services	1,246,312	-	884,613	(361,699)
71	Debt Service - Interest and Fiscal Charges	28,495,578	-	-	(28,495,578)
95	Payments to Juvenile Justice Alternative Education Program	64,752	-	1,376	(63,376)
97	Payments to TIF	1,010,907	-	1,032,462	21,555
99	Other Intergovernmental Charges	531,534	-	11,294	(520,240)
	Total Governmental Activities	$ 349,154,043	$ 4,643,979	$ 74,113,382	$ (270,396,682)

Data Control Codes	General Revenues:	
	Taxes:	
MT	M & O Property Taxes	90,847,221
DT	Debt Service Property Taxes	37,126,703
SF	State Aid - Not Restricted to Specific Programs	139,197,880
IE	Investment Income	871,377
MI	Miscellaneous	2,849,167
TG	Total General Revenues and Direct Allocation	270,892,348
CN	Change in Net Assets	495,666
NB	Net Assets - Beginning	51,606,091
NE	Net Assets - Ending	$ 52,101,757

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

FUND FINANCIAL STATEMENTS

IRVING

Independent School District

IRVING INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2011

DATA CONTROL CODES		MAJOR GENERAL	MAJOR FOOD SERVICE
	ASSETS		
	Current Assets:		
1110	Cash & Cash Equivalents	$ 63,816,162	$ 8,036,000
1120	Investments	10,000,000	-
	Receivables:		
1220	Property Taxes - Delinquent	5,207,758	-
1230	Allowance for Uncollectible Taxes	(1,789,872)	-
1240	Due from Other Governments	8,193,976	-
1250	Accrued Interest	92,066	-
1260	Due from Other Funds	4,358,091	-
1290	Other Receivables	2,186,047	-
1310	Inventories, at cost	654,755	193,802
1410	Deferred Expenditures	403,976	-
1000	TOTAL ASSETS	$ 93,122,959	$ 8,229,802
	LIABILITIES		
	Current Liabilities:		
2110	Accounts Payable	$ 2,988,045	$ 1,519,115
2150	Payroll Deductions and Withholdings	545,292	-
2160	Accrued Wages Payable	5,614,161	-
2170	Due to Other Funds	845,771	-
2180	Due to Other Governments	2,249	-
2300	Deferred Revenue	3,710,076	-
2000	TOTAL LIABILITIES	13,705,594	1,519,115
	FUND BALANCES		
	Nonspendable		
3410	Inventory	654,755	193,802
3430	Prepaid Items	403,976	-
	Restricted		
3450	Food Service	-	6,516,885
3450	Grant Funds	-	-
3470	Capital Acquisition and Contractual Obligation	-	-
3480	Retirement of Long-Term Debt	-	-
	Assigned		
3550	Construction	4,479,121	-
3590	Campus Activity Funds	2,396,029	-
3590	Other Assigned Fund Balance	869,190	-
3600	Unassigned	70,614,294	-
3000	TOTAL FUND BALANCE	79,417,365	6,710,687
4000	TOTAL LIABILITIES AND FUND BALANCE	$ 93,122,959	$ 8,229,802

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

MAJOR		NONMAJOR	TOTALS
DEBT SERVICE	CAPITAL PROJECTS	OTHER FUNDS	GOVERNMENTAL FUNDS
$ 12,513,763	$ 67,812,533	$ 259,296	$ 152,437,754
-	15,000,000	-	25,000,000
1,721,132	-	-	6,928,890
(379,911)	-	-	(2,169,783)
1,043,866	-	4,360,090	13,597,932
-	152,367	-	244,433
-	-	-	4,358,091
118,064	-	193,500	2,497,611
-	-	-	848,557
-	-	-	403,976
$ 15,016,914	$ 82,964,900	$ 4,812,886	$ 204,147,461
$ -	$ 17,218,689	$ 132,619	$ 21,858,468
-	-	-	545,292
-	-	-	5,614,161
61,024	-	4,229,586	5,136,381
-	-	41,899	44,148
1,341,221	-	271,668	5,322,965
1,402,245	17,218,689	4,675,772	38,521,415
-	-	-	848,557
-	-	-	403,976
-	-	-	6,516,885
-	-	137,114	137,114
-	65,746,211	-	65,746,211
13,614,669	-	-	13,614,669
-	-	-	4,479,121
-	-	-	2,396,029
-	-	-	869,190
-	-	-	70,614,294
13,614,669	65,746,211	137,114	165,626,046
$ 15,016,914	$ 82,964,900	$ 4,812,886	$ 204,147,461

IRVING
Independent School District

IRVING INDEPENDENT SCHOOL DISTRICT
EXHIBIT C-1R
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
AUGUST 31, 2011

Total Fund Balances - Governmental Funds		$ 165,626,046
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. The cost of the assets is $777,599,135, and the accumulated depreciation is $273,370,677.		504,228,458
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		4,759,107
Internal Service Funds are used by the district's management to charge the cost of health insurance, workers compensation, unemployment, and benefits administration to the funds. The assets and liabilities of the Internal Service Funds are included with governmental activities.		2,790,802
Bonds payable are not due and payable in the current period and therefore are not reported as liabilities in the funds. Bonds payable and related accounts at year-end consist of:		
Bonds Payable	$ (624,900,837)	
Premium/Discount on Bonds Payable	(7,595,100)	
Deferred Loss on Refunding Bonds	5,094,072	
Interest Payable	(3,137,589)	
Bond Issuance Costs	5,236,798	(625,302,656)
Net Assets - Governmental Activities		$ 52,101,757

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

IRVING INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2011

DATA CONTROL CODES		MAJOR GENERAL	MAJOR FOOD SERVICE
	REVENUES		
5700	Local and Intermediate Sources	$ 96,769,157	$ 2,515,749
5800	State Program Revenues	131,442,707	110,412
5900	Federal Program Revenues	3,872,674	15,802,248
5020	TOTAL REVENUES	232,084,538	18,428,409
	EXPENDITURES		
	Current:		
0011	Instruction	147,015,630	-
0012	Instructional Resources and Media Services	2,624,685	-
0013	Curriculum Development and Instructional Staff Development	2,733,164	-
0021	Instructional Leadership	4,234,840	-
0023	School Leadership	17,807,769	-
0031	Guidance, Counseling, and Evaluation Services	12,393,490	-
0032	Social Work Services	414,143	-
0033	Health Services	2,495,145	-
0034	Student (Pupil) Transportation	3,108,165	-
0035	Food Services	299,472	16,681,437
0036	Co-Curricular/Extracurricular Activities	4,999,416	789,756
0041	General Administration	7,108,795	-
0051	Plant Maintenance and Operations	16,848,218	587,681
0052	Security and Monitoring Services	2,844,050	-
0053	Data Processing Services	3,017,524	-
0061	Community Services	372,314	-
	Debt Service:		
0071	Principal on Long-Term Debt	-	-
0072	Interest and Charges on Long-Term Debt	-	-
0073	Bond Issuance Costs and Fees	-	-
	Intergovernmental:		
0081	Facilities Acquisition and Construction	3,720	1,056,952
0095	Payments to Juvenile Justice Alternative Education Program	64,752	-
0097	Payments to TIF	1,010,907	-
0099	Intergovernmental Charges	531,534	-
6030	TOTAL EXPENDITURES	229,927,733	19,115,826
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	2,156,805	(687,417)
	OTHER FINANCING SOURCES		
7912	Proceeds from Sale of Capital Assets	174,537	-
7911	Issuance of Bonds	-	-
7080	TOTAL OTHER FINANCING SOURCES	174,537	-
1200	Net Change in Fund Balances	2,331,342	(687,417)
0100	Fund Balance - September 1 (Beginning)	77,086,023	7,398,104
3000	Fund Balance - August 31 (Ending)	$ 79,417,365	$ 6,710,687

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

MAJOR		NONMAJOR	TOTALS
DEBT SERVICE	CAPITAL PROJECTS	OTHER FUNDS	GOVERNMENTAL FUNDS
$ 37,324,470	$ 1,093,328	$ 386,132	$138,088,836
7,755,173	-	6,006,501	145,314,793
-	753,747	45,923,363	66,352,032
45,079,643	1,847,075	52,315,996	349,755,661
-	6,153,168	38,799,799	191,968,597
-	925,513	1,886,040	5,436,238
-	-	2,483,885	5,217,049
-	959	970,268	5,206,067
-	145,513	748,612	18,701,894
-	474	1,562,259	13,956,223
-	-	40,025	454,168
-	3,241	77,287	2,575,673
-	627,315	750,570	4,486,050
-	2,631	-	16,983,540
-	123,360	-	5,912,532
-	59,278	7,260	7,175,333
-	132,309	3,954,290	21,522,498
-	8,020	-	2,852,070
-	1,121,593	47,833	4,186,950
-	-	876,741	1,249,055
14,720,670	-	-	14,720,670
31,130,392	-	-	31,130,392
233,964	-	-	233,964
-	60,497,502	-	61,558,174
-	-	-	64,752
-	-	-	1,010,907
-	-	-	531,534
46,085,026	69,800,876	52,204,869	417,134,330
(1,005,383)	(67,953,801)	111,127	(67,378,669)
-	-	-	174,537
-	21,640,000	-	21,640,000
-	21,640,000	-	21,814,537
(1,005,383)	(46,313,801)	111,127	(45,564,132)
14,620,052	112,060,012	25,987	211,190,178
$ 13,614,669	$ 65,746,211	$ 137,114	$ 165,626,046

IRVING INDEPENDENT SCHOOL DISTRICT **EXHIBIT C-3**
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		$ (45,564,132)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays ($71,403,910) exceeded depreciation ($22,068,923) in the current period.		49,334,987
The disposal of capital assets is not recognized in the governmental funds.		(42,190)
Because some property taxes will not be collected for several months after the district's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues, net of bad debt, increased by this amount this year.		(243,336)
Internal Service Funds are used by the district's management to charge the cost of health insurance, workers compensation, unemployment, and benefits administration to the funds. The net revenue (expense) of the Internal Service Funds is reported with governmental activities.		1,060,889
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		14,720,670
Bond issuances and refundings and related costs are shown as "Other Sources" and "Other Uses" in the governmental funds, but are shown on the statement of net assets with related costs amortized over the life of the bonds. Differences consist of the following:		
Bond Proceeds	$ (21,640,000)	
Bond Issue Costs	233,964	
Amortization of Issue Costs	(279,374)	
Amortization of Refunding Loss	(460,381)	
Amortization of Bond Premium/Discount	858,086	(21,287,705)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. Differences consist of the following:		
Change in Accrued Interest	$ 778,811	
Interest Accretion	(7,691,658)	
Accretion Retirement	9,429,330	2,516,483
Change in Net Assets - Governmental Activities		$495,666

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

IRVING INDEPENDENT SCHOOL DISTRICT **EXHIBIT D-1**
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AUGUST 31, 2011

DATA CONTROL CODES		GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	ASSETS	
	Current Assets:	
1110	Cash and Temporary Investments	$ 4,953,426
1260	Due from Other Funds	845,771
1290	Other Receivables	4,544
1310	Inventories, at cost	552,005
	Total Current Assets	6,355,746
	Non-Current Assets:	
1500	Furniture and Equipment, net	1,814
	Total Non-Current Assets	1,814
1000	TOTAL ASSETS	6,357,560
	LIABILITIES	
	Current Liabilities:	
2110	Accounts Payable	392,715
2170	Due to Other Funds	67,481
2200	Accrued expenses	299
2800	Claims Due Within One Year	2,344,827
	Total Current Liabilities	2,805,322
	Noncurrent Liabilities:	
	Claims Due in More than One Year	761,436
	Total Long-Term Liabilities	761,436
2000	TOTAL LIABILITIES	3,566,758
	NET ASSETS	
3800	Invested in Capital Assets	1,814
3900	Unrestricted Net Assets	2,788,988
3000	TOTAL NET ASSETS	$ 2,790,802

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

IRVING INDEPENDENT SCHOOL DISTRICT **EXHIBIT D-2**
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2011

DATA CONTROL CODES		GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	OPERATING REVENUES	
5700	Charges for Services	$ 22,465,821
5020	Total Operating Revenues	22,465,821
	OPERATING EXPENSES	
6100	Payroll Costs	303,259
6200	Professional/Contracted Services	209,643
6300	Supplies and Materials	64,065
6400	Claims, Administration, and Other Expenses	20,833,002
6030	Total Operating Expenses	21,409,969
	OPERATING INCOME	1,055,852
	NON-OPERATING REVENUES	
7955	Interest Income	5,037
	CHANGE IN NET ASSETS	1,060,889
0100	Total Net Assets - September 1 (Beginning)	1,729,913
3000	Total Net Assets - August 31 (Ending)	$ 2,790,802

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

IRVING INDEPENDENT SCHOOL DISTRICT **EXHIBIT D-3**
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2011

	GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities:	
Cash Received for Premiums and Services	$ 22,465,821
Cash Paid to Employees	(300,313)
Cash Paid for Claims and Administration, and Other Costs	(21,833,909)
Net Cash Provided by Operating Activities	331,599
Cash Flows from Financing Activities:	
Cash Received from Other Funds	(845,771)
Net Cash Provided by Noncapital Financing Activities	(845,771)
Cash Flows from Investing Activities:	
Interest Received	5,037
Net Cash Provided by Investing Activities	5,037
Net Decrease in Cash and Cash Equivalents	(509,135)
Cash and Cash Equivalents at Beginning of the Year	5,462,561
Cash and Cash Equivalents at End of the Year	$ 4,953,426
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating income	$ 1,055,852
Adjustments to Reconcile Operating income to Net Cash Provided by Operating Activities	
Depreciation	1,210
Change in Current Assets and Liabilities:	
Increase in Other Receivables	(4,544)
Increase in Inventories	(384,152)
Decrease in Accounts Payable and Claims Liability	(27,110)
Increase in Accrued Expenses	299
Decrease in Long-term Claims Reserve	(309,956)
	(724,253)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 331,599

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

EXHIBIT E-1

	AGENCY FUNDS
ASSETS	
Cash and Temporary Investments	$ 808,352
TOTAL ASSETS	$ 808,352
LIABILITIES	
Accounts Payable	$ 492,019
Due to Student Groups	316,333
TOTAL LIABILITIES	$ 808,352

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Irving Independent School District's (the "District") basic financial statements have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units in conjunction with the Texas Education Agency's (TEA) Financial Accountability System Resource Guide (FASRG). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

A. REPORTING ENTITY

The Board of Trustees, a seven-member group, has financial accountability for all activities related to public elementary and secondary education within the jurisdiction of the District. Because members of the board are elected by the public, they have the authority to make decisions and to appoint administrators and managers. The District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. In addition, there are no component units which meet the financial accountability criteria as defined in Governmental Accounting Standards Board Statement No. 14 and amended by GASB 39 which are included in the District's reporting entity.

The District receives funding from local, state and federal government sources and is required to comply with the requirements of these funding source entities.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. As a general rule, the effect of interfund activity has been eliminated from these statements. An exception to this general rule would be amounts that are reasonably equivalent in value to the interfund services provided. The *governmental activities* are supported by tax revenues and intergovernmental revenues. The District has no *business-type activities* that 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*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

B. GOVERNMENT-WIDE AND FUND ACCOUNTING STATEMENTS, cont'd.

The District reports the following Major Funds:

General Fund - This fund is established to account for resources financing the fundamental operations of the District, in partnership with the community, in enabling and motivating students to reach their full potential. All revenues and expenditures not required to be accounted for in other funds are included here. This is a budgeted fund and any fund balances are considered resources available for current operations. Fund balances may be appropriated by the Board of Trustees to implement its responsibilities.

Food Service Fund - This fund is established to account for Food Service Program transactions. The District's Food Service Fund is considered a special revenue fund since it meets the following criteria: (1) User fees are charged to supplement the National School Lunch Program (NSLP), (2) The General Fund subsidizes the Food Service Program for all expenditures in excess of NSLP, and (3) The District does not consider the Food Service Program completely self-supporting. Food Service fund balances are used exclusively for child nutrition program purposes.

Debt Service Fund - This governmental fund is established to account for payment of principal and interest on long-term general obligation debt and other long-term debts for which a tax has been dedicated. This is a budgeted fund and a separate bank account is maintained. Any unused sinking fund balances are transferred to the General Fund after all of the related debt obligations have been met.

Capital Projects Fund - This governmental fund is established to account for proceeds, on the modified accrual basis, from the sale of bonds and other resources to be used for Board authorized acquisition, construction or renovation, and furnishing and equipping of major capital facilities. Upon completion of a project, any unused bond proceeds are transferred to the Debt Service Fund and are used to retire related bond principal.

The District reports the following Proprietary Funds:

Internal Service Funds - The District utilizes Internal Service Funds to account for its health, workers' compensation, unemployment, benefit administration for self-insurance plans, science kit refurbishment, district-wide print shop, and for the Irving.net project to improve connectivity between schools and the community. The General Fund is contingently liable for liabilities of these funds. Sub-fund accounting is employed to maintain the integrity of these activities of the District. See Note 1 (O), (P), (Q), (R), and (S) for additional discussion of the District's self-insurance plans.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's internal service funds are charges to other funds for services. Operating expenses for internal service funds include the cost of providing the services, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

B. GOVERNMENT-WIDE AND FUND ACCOUNTING STATEMENTS, cont'd.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Agency Funds - These custodial funds are used to account for activities of student groups and other organizational activities requiring clearing accounts and are accounted for on the accrual basis. Financial resources for the Agency Funds are recorded as assets and liabilities; therefore, these funds do not include revenues and expenditures and have no fund equity. If any unused resources are declared surplus by the student groups, they are transferred to the General Fund with a recommendation to the Board for an appropriate utilization through a budgeted program.

C. BASIS OF ACCOUNTING/MEASUREMENT FOCUS

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

Governmental fund financial statements are reported using 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 government considers 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, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State of Texas 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 earned to the extent of the expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until the related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount. In accordance with the Financial Accountability System Resource Guide (FASRG), the District has adopted and installed an accounting system that exceeds the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure presented in the Accounting Code Section of the FASRG. Mandatory codes are utilized in the form provided in that section.

D. BUDGETARY DATA

Formal budgetary accounting is employed for the General, Food Service, and Debt Service funds, as required in TEA's FASRG. The budget is prepared and controlled at the fund and function level (See Note 1 in the Notes to Required Supplementary Information). The official school budget is prepared for adoption for required Governmental Funds prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The Board of Trustees formally adopts the budget at a public meeting held at least ten days after public notice has been given.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, Food Service Special Revenue Fund and Debt Service Fund. The remaining special revenue funds and the Capital Projects Fund adopt project-length budgets, which do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles. The budget was properly amended throughout the year by the Board of Trustees. Such amendments are before the fact and are reflected in the official minutes of the Board.

E. ENCUMBRANCE ACCOUNTING

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at August 31 and encumbrances outstanding at that time are either canceled or provided for in the subsequent year's budget. Outstanding encumbrances at August 31, 2011 that were subsequently provided for in the 2011-2012 budget totaled $869,190 for the General Fund, $151,496 for the Food Service Fund, and $3,430,994 for the Capital Projects Fund. These amounts are reflected as reserves of fund balance in those funds.

F. DEPOSITS AND INVESTMENTS

Cash and Cash Equivalents - For purposes of the Statement of Cash Flows, the Internal Service Funds consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments - Other investments are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

G. DUE FROM (TO) OTHER FUNDS

Interfund receivables and payables arise from interfund transactions and are recorded in all affected funds in the period in which transactions are executed in the normal course of operations. See Note 10 for additional discussion of interfund receivables and payables.

H. INVENTORIES

The consumption method is used to account for inventories of food products, school supplies and athletic equipment. Under this method, these items are carried in an inventory account of the respective fund at cost, using the first-in, first-out method of accounting and are subsequently charged to expenditures when consumed. Inventories in the Capital Projects Fund represent computers purchased with bond funds but not yet distributed to the schools. The General Fund and Capital Projects inventories are offset by a fund balance reserve indicating that they are unavailable as current expendable financial resources. The Food Service (Special Revenue Fund) commodity inventories received through the U.S. Department of Agriculture are recognized as revenue.

I. DEFERRED EXPENDITURES

Deferred expenditures of $403,976 in the General Fund are prepaid items, which benefit the next school year. Deferred expenses on government-wide financial statements include these prepaid items and bond issuance costs of $5,236,798, net of accumulated amortization of $233,964. These bond issuance costs will be amortized using the straight-line method over the life of the bonds.

J. CAPITAL ASSETS

Capital assets, which include land, buildings, furniture and equipment, and construction in progress, are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as land, land improvements, buildings with an initial cost of any amount and furniture and equipment with an initial individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed. Land and construction in progress are not depreciated.

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

Assets	Years
Buildings and Improvements	40
Land Improvements	20
Portable Buildings	20
Furniture, Fixtures & Equipment	10
Computer Equipment	5
Software	3
Automobiles	5
Food Service Equipment	15

K. LONG TERM DEBT

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Deferred losses on refundings are amortized over the shorter of the life of the old debt or the life of the new debt.

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

L. FUND EQUITY

The District has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*. The objective of the statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing government fund type definitions. The statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balance classifications, under GASB 54 are Nonspendable, Restricted, Committed, Assigned, and Unassigned. These classifications reflect not only the nature of funds, but also provide clarity to the level of restriction placed upon fund balance. Fund balance can have different levels of constraint, such as external versus internal compliance requirements. Unassigned fund balance is a residual classification within the General Fund. The General Fund should be the only fund that reports a positive unassigned balance. In all other funds, unassigned is limited to negative residual fund balance.

In accordance with GASB 54, the District classifies governmental fund balances as follows:

> Nonspendable -- includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes inventories and prepaid items.
>
> Restricted -- includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts restricted due to constitutional provisions or enabling legislation. This classification includes the child nutrition program, retirement of long term debt, construction programs and other federal and state grants.
>
> Committed -- includes fund balance amounts that are constrained for specific purposes that are internally imposed by the District through formal action of the highest level of decision making authority. Committed fund balance is reported pursuant to resolution passed by the District's Board of Trustees.

L. FUND EQUITY, cont'd.

Assigned -- includes fund balance amounts that are self-imposed by the District to be used for a particular purpose. Fund balance can be assigned by the District's Board, the Superintendent, or the Associate Superintendent of Business Services.

Unassigned -- includes residual positive fund balance within the General Fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

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

Minimum Fund Balance Policy

It is the desire of the Board to attempt to maintain a fund balance in the General Fund that is approximately 16.67% of General Fund expenditures, excluding any nonspendable fund balance.

M. VACATION AND SICK LEAVE

Vacations are to be taken within the same year they are earned, and any unused days at the end of the year are forfeited. Therefore, no liability has been accrued in the accompanying basic financial statements. Employees of the District are entitled to sick leave based on category/class of employment. Sick leave is allowed to be accumulated but does not vest, therefore, a liability for unused sick leave has not been recorded in the accompanying basic financial statements.

N. DATA CONTROL CODES

Data control codes refer to the account code structure prescribed by the Texas Education Agency, Financial Accountability System Resource Guide.

O. HEALTH CARE

The health self-insurance plan was established September 1, 1992. The revenues of this fund are received from both the General and Special Revenue Funds and its expenses are comprised of administrative fees, stop-loss coverage and claims paid on behalf of District employees. The District contributed $297 per month per employee to the plan, for a total of $15,695,024. The employees, at their option, may authorize payroll withholdings to pay premiums for dependents' health insurance coverage. Health claim payments are processed by a third party administrator acting on behalf of the District. As of August 31, 2011, the total liabilities of the health self-insurance fund of $1,790,750 includes accounts payable of $255,102 and current health claim short-term liabilities of $1,535,648 representing claims reported but not paid and incurred but not reported. The net assets of the health self-insurance fund were $437,274.

O. HEALTH CARE, cont'd.

Claims incurred after September 1, 2002 are subject to an individual stop-loss of $200,000 per participant annually and $1,000,000 lifetime maximum benefit for the PPO plan and $200,000 per participant annually and unlimited lifetime maximum benefit for the OAP plan. Individual employee health claims are self-insured by the District up to $200,000 annually and stop-loss benefits above $200,000 are provided by Blue Cross Blue Shield of Texas, up to an aggregate district-wide attachment point of $23,318,879.

The latest financial statements available for Blue Cross Blue Shield of Texas are filed with the Texas State Board of Insurance, Austin, Texas, and are public records. The District does not provide any post-retirement health benefits to its employees. Changes in the medical claims liability amounts in fiscal 2010 and 2011 are presented below:

	Beginning of Fiscal-Year Liability	Current-Year Claims & Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2010 Medical	$ 1,257,266	$ 19,626,373	$ 19,349,854	$ 1,533,785
2011 Medical	$ 1,533,785	$ 17,415,958	$ 17,414,095	$ 1,535,648

P. SELF-INSURED WORKERS' COMPENSATION

On September 1, 1992, the District established its self-funded Workers' Compensation program. The District currently maintains a self-insured retention of $500,000 per occurrence and purchases excess coverage to statutory limits from Midwest Employer's Casualty Company. Claims administration is currently provided by the third party administrator Tristar Inc., and the Texas Association of School Boards maintains claims processing for liabilities between September 1, 1986 and July 31, 1992.

The total liabilities for the Workers' Compensation self-insurance fund of $1,570,685 include incurred but not reported claims in the amount of $1,570,615 (of which $809,179 is expected to be paid within one year,) and accounts payable of $70. The claims liability reported in the fund at August 31, 2011 is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements, and the amount of loss can be reasonably estimated. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the liability does not result necessarily in an exact amount. Professional Actuarial Services, Inc. through its actuarial review of the Workers' Compensation self-insurance program, projected an estimated discounted liability of $1,570,615 as of August 31, 2011 for the ultimate loss reserve of the fund. The fund had net assets as August 31, 2011 of $1,533,643.

P. SELF-INSURED WORKERS' COMPENSATION, cont'd.

Changes in the workers' compensation claims liability amounts in fiscal 2010 and 2011 are presented below:

	Beginning of Fiscal-Year Liability	Current-Year Claims & Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2010 Workers' Compensation	$ 989,759	$ 1,902,465	$ 1,011,653	$ 1,880,571
2011 Workers' Compensation	$ 1,880,571	$ 720,620	$ 1,030,576	$ 1,570,615

Q. SELF-INSURED UNEMPLOYMENT

The District through a reimbursement program provides unemployment insurance protection through the Texas Workforce Commission (TWC), should an employee experience a job loss through no fault of his own. As a reimbursing employer (IISD employees receive unemployment benefits directly from the Texas Workforce Commission), the District refunds unemployment benefit claims on a quarterly basis to TWC. Unemployment liabilities have been established at $105,612 for claims reported and not paid, and the net deficit as of August 31, 2011 was ($15,963).

R. BENEFITS ADMINSTRATION

Benefit administrative expenses for the self-insurance programs are funded at the rate of $1 per month per employee. Benefit administration liabilities of $0 for accounts payable were recorded at year end. The August 31, 2011 net assets were $20,022.

S. RISK MANAGEMENT

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 year 2005, the District executed an Interlocal agreement with the TASB Risk Management Fund. There were no significant reductions in coverage in the past fiscal year with no settlements exceeding insurance coverage.

NOTE 2. DEPOSITS AND INVESTMENTS

Under Texas state law, a bank serving as the school depository must have a bond or, in lieu thereof, deposited or pledged securities with the District or an independent third party agent, in an amount equal to the highest daily balance of all deposits the District may have during the term of the depository contract, less any applicable FDIC insurance.

At August 31, 2011, the carrying amount of the District's cash, not including fiduciary funds, was $42,870 including petty cash funds of $42,870. The bank balance was $1,520,868. During 2010-2011, the District's combined deposits were fully insured by federal depository insurance or collateralized with securities pledged to the District and held in the District's name by the District's agent. In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

NOTE 2. DEPOSITS AND INVESTMENTS, cont'd.

1. Name of bank: Comerica, Texas – Irving.
2. Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was $67,493,676 and occurred on September 29, 2010.
3. Largest combined collected cash account balance required to be collateralized amounted to $20,214,499 and occurred on September 29, 2010.
4. Total amount of FDIC coverage at the time of the largest combined balance was $250,000.

State statutes and Board policy authorize the District to invest in: (1) obligations of the U.S. or its agencies and instrumentalities, (2) obligations of the State of Texas or its agencies, (3) other obligations guaranteed by the U.S. or the State of Texas or their agencies and instrumentalities, (4) obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent, (5) guaranteed or secured certificates of deposit issued by state or national banks domiciled in Texas, and (6) fully collateralized repurchase agreements. Temporary investments are reported at cost or fair market, and are secured, when necessary, by the Federal Deposit Insurance Corporation (FDIC) or obligations that comply with the Public Funds Collateral Act. The District's investment policies and types of investments are governed by the Public Funds Investment Act (PFIA). The District's management believes that it complied with the requirements of the PFIA and the District's investment policies. The investments owned at period-end are held by the District or its agent in the District's name (Category 1 securities). The District holds securities at fair value.

The investments held at period-end are as follows:

	Fair Value	WAM
Cash and Imprest Funds	$ 367,840	1 Day
Certificates of Deposit	25,000,000	443 Days
Investments in Texpool	14,120,791	44 Day
Investments in TexStar	9,159,990	45 Day
Investments in Lone Star	5,931,134	39 Day
Investments in Texas Class	57,011,929	40 Day
Investments in LOGIC	71,607,848	53 Day
Total	$ 183,199,532	101 Days

TexPool, LOGIC, TexSTAR, Lone Star Investment Pool, and Texas CLASS are local government investment pools which operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. These types of local government investment pools use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in these pools is the same as the value of the shares in each pool.

The Texas Local Government Investment Pool ("TexPool"), Local Government Investment Cooperative ("LOGIC"), Texas Short Term Asset Reserve Program ("TexSTAR") and Lone Star Investment Pool are organized in conformity with the Interlocal Cooperation Act, Chapter 791 of

NOTE 2. DEPOSITS AND INVESTMENTS, cont'd.

the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. LOGIC and TexSTAR are co-administered by JP Morgan Chase & Co. and First Southwest Asset Management under an agreement with their Boards of Directors. The Texas Comptroller of Public Accounts is the sole officer, director, and shareholder of the Texas Treasury Safekeeping Trust Company, which is authorized to operate TexPool. In addition, the TexPool Advisory Board advises on TexPool's Investment Policy. This Board is composed equally of participants in TexPool and other persons who do not have a business relationship with TexPool who are qualified to advise TexPool.

Lone Star Investment Pool is administered by First Public which is a wholly owned subsidiary of the Texas Association of School Boards (TASB). First Public is also a registered broker-dealer with the Securities and Exchange Commission. The Lone Star Investment Pool is overseen by a Board of Trustees comprised of pool participants.

Texas CLASS (Texas Cooperative Liquid Assets Security System) was organized in March 1996 under a trust agreement executed by and among Texas local governmental entities in accordance with the Public Funds Investment Act, and the Texas Government Code and remains in full compliance with Chapter 2256. The fund is administered by Cutwater Investor Services Corp. and is rated AAA by Standard & Poor's Rating Services. Furthermore, Cutwater Investor Services Corp. provides specialized investment opportunities and a broad range of services to state and local governments, academic institutions, and other public and private-sector investors.

The Government Accounting Standards Board issued Statement No. 40, Deposit and Investment Risk Disclosures to address common deposit and investment risk related to credit risk, custodial risk, concentration of credit risk, interest rate risk, and foreign currency risk. The District employs various strategies to address these risks.

Interest rate risk occurs whenever rising interest rates will cause a fixed income security to lose fair value. The District manages its exposure to interest rate fluctuations and interest rate risk through its investment policy, through diversity of issuer and maturity and by limiting final maturity of its investments between two and five years, with most purchases less than two years. The District's investment policy states under the Diversity section that, "The investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific issuer." Therefore, it manages interest rate risk by laddering the portfolio so that agency positions are not concentrated in one time frame or in one issuer, thereby reducing the overall volatility of the portfolio.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law and the District's investment policy limits the District's investments to high quality rated instruments that have been evaluated by agencies such as Standard and Poor's or Moody's Investor Service. The District controls and monitors credit risk by purchasing only quality rated instruments or investing in local government investment pools that have been evaluated by Standard and Poor's, Fitch, or Moody's Investors Service and complies with the Public Funds Investment Act. The Public Funds Investment Act limits investments in commercial paper to A1P1 ratings issued by at least two of the nationally

NOTE 2. DEPOSITS AND INVESTMENTS, cont'd.

recognized statistical rating organizations (NRSROs) and this is reflected in the investment policy of the District. The school district currently has no commercial paper. The local government investment pools that the District uses are also rated by the NRSROs. Lone Star and Texas CLASS are rated AAA by Standard & Poor's. TexPool and TexSTAR are rated AAAm by Standard & Poor's.

Custodial credit risk-deposits occur when deposits are not covered by depository insurance and they are uncollateralized or the collateral is held by the financial institution or their trust department but not in the District's name. The District's investment policy requires the District to control this risk by employing a third party, the Federal Reserve Bank, to hold the collateral for the District in the District's name.

Custodial credit risk-investments occur whenever investments are held by the counterparty's trust department but not in the District's name. The District's investment policy requires the District to control this risk by trading all securities on a delivery vs. payment basis through the Federal Reserve book entry system and safekeeping them with a third party, Bank of America, registered in the District's name.

Concentration of credit risk is the risk associated with holding investments that are not in pools and in excess of 5% of the total portfolio. As of August 31, 2011 the District held securities with a zero par amount, which is 0.00% of the total portfolio and $25,000,000 of certificates of deposit, which is 13.67% of the portfolio. All Agency securities held by the District are rated AAA by Standard and Poor's or Moody's Investors Service. The District controls this risk by laddering the portfolio, limiting the final maturity of each investment between two and five years through its investment policy with most purchases under two years, and by diversifying between agency types when possible.

Foreign currency risk is the risk of loss due to fluctuations in the exchange rate. The District has no exposure to foreign currency risk.

NOTE 3. PROPERTY TAXES

Property taxes are considered available when they become due and receivable within the current accounting period or within 60 days thereafter. The District levies taxes on October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by the lien date, February 1 of the year following the October 1 levy date. The assessed value of the property tax roll on January 1, 2010, upon which the levy for the 2010-2011 fiscal year was based, was $9,162,488,657. The roll was subsequently decreased to a year-end assessed value of $9,045,693,812. Taxes not paid by June 30 are subject to both penalty and interest charges plus 20% delinquent collection fees for attorney costs.

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 $.425 per $100 valuation, respectively, for a total of $1.465 per $100 valuation.

NOTE 3. PROPERTY TAXES, cont'd.

Current tax collections for the year ended August 31, 2011 were 98.36% of the year-end adjusted 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 on historical experience in collecting 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. As of August 31, 2011, property taxes receivable, net of estimated uncollectible taxes, totaled $3,417,886 and $1,341,221 for the General and Debt Service Funds, respectively.

The District elected to participate in a tax increment reinvestment zone with the City of Irving in August 1999. By terms of the participation agreement with the City, the District will contribute 100% of ad valorem taxes collected on the increased assessed valuation of real property in the tax increment reinvestment zone in excess of the tax increment base value established for the zone on 1/1/98. In return, the City will reimburse the District 75% of the taxes collected for the zone to pay for district projects identified in the project plan to be constructed in the zone for educational facilities and maintenance for operating such facilities. The 25% retained by the City will be used to pay for infrastructure in the zone to promote economic development in the zone, specifically that portion of the tax increment reinvestment zone that encompasses the boundaries of the District.

A total of $1,032,462 in tax levy was collected for the zone in the current fiscal year because the assessed valuation of real property in the reinvestment zone was greater than the tax increment base value as provided for in the participation agreement. Under current state funding laws, as well as a "hold harmless" provision in the participation agreement, the District will remain revenue neutral with respect to the total revenue from local ad valorem taxes and state sources. The District can expect to receive funds for each year it contributes to the tax increment reinvestment zone.

NOTE 4. DUE FROM OTHER GOVERNMENTS

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. All federal grants included below in Federal & State Special Revenue Funds are passed through the TEA and are reported on the financial statements as Due from Other Governments. Furthermore, there are times when overpayments are received from a State agency and money may be due to a State agency.

Balances at August 31, 2011 consisted of the following Due from Other Governments:

Fund:		
General Operating Fund	$	8,193,976
Debt Service Fund		1,043,866
Federal & State Special Revenue Funds		4,360,090
Total	$	13,597,932

NOTE 5. CAPITAL ASSETS

Capital asset activity, as reported in governmental activities, for the year ended August 31, 2011 was as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital Assets not depreciated:					
Land	$ 19,358,463	$ 628,996	$ -	$ -	$ 19,987,459
Construction in Progress	32,434,217	11,500,629	-	(32,176,109)	11,758,737
Total Capital Assets not depreciated	51,792,680	12,129,625	-	(32,176,109)	31,746,196
Capital Assets depreciated:					
Land Improvements	18,399,594	976,817	-	-	19,376,411
Buildings and Improvements	540,114,251	48,618,442	(691,000)	32,176,109	620,217,802
Furniture and Equipment	97,699,122	9,679,026	(1,113,371)	-	106,264,777
Total Capital Assets depreciated	656,212,967	59,274,285	(1,804,371)	32,176,109	745,858,990
Total Capital Assets	708,005,647	71,403,910	(1,804,371)	-	777,605,186
Less Accumulated Depreciation for:					
Land Improvements	6,667,368	925,025	-	-	7,592,393
Buildings and Improvements	172,263,574	10,806,627	(652,750)	-	182,417,451
Furniture and Equipment	74,136,021	10,338,480	(1,109,431)	-	83,365,070
Total Accumulated Depreciation	253,066,963	22,070,132	(1,762,181)	-	273,374,914
Governmental Activities Capital Assets, Net	$ 454,938,684	$49,333,778	$ (42,190)	$ -	$ 504,230,272

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
Instruction	$ 17,213,098
Instructional Resources & Media Services	851,983
Curriculum Development & Instructional Staff Development	13,957
Instructional Leadership	100,822
School Leadership	746,822
Guidance, Counseling & Evaluation Services	518,397
Health Services	109,015
Student Transportation	27,171
Food Services	994,753
Co-Curricular/Extracurricular Activities	589,734
General Administration	135,783
Plant Maintenance & Operations	440,865
Security & Monitoring Services	13,930
Data Processing Services	312,592
Internal Service Funds	1,210
Total Depreciation Expense, Governmental Activities	$ 22,070,132

NOTE 6. RETIREMENT PLAN

The Teacher Retirement System of Texas is a cost sharing multiple employer public-employee retirement system (PERS). However, all risks and costs are not shared by the District but are a liability of the State of Texas. By statute, the State of Texas contributes to the retirement system an amount equal to the current authorized rate times the aggregate annual compensation of all members of the retirement system during that fiscal year. The System's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698 or by calling (800) 223-8778.

For members of the retirement system entitled to the minimum salary for certain school personnel under Section 21.402 of the Texas Education Code and for members who would have been entitled to the state minimum salary under former Section 16.056, Texas Education Code, the District shall pay the state's contribution on the portion of the member's salary that exceeds the statutory minimum, if the District's effective tax rate for maintenance and operations is less than 125 percent of the statewide average for the tax year that ended in the preceding school year. The District is subject to the statutory minimum payment for the fiscal year.

All employees of public, state-supported educational institutions in Texas who are employed for half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Subtitle C § 822.002 are covered by TRS membership. The Teacher Retirement System of Texas administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school system of Texas. It operates primarily under the provisions of Texas Constitution, Article § XVI, 67 and Texas Government Code, Title 8, Subtitle C.

The system also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapter 803 and Chapter 805, respectively.

Service Retirement:

1) Normal
   a) Age 65 with 5 years of service
   b) Age 60 with 20 years of service
   c) Age 50 with 30 years of service
   d) Effective September 1, 1997 - any combination of age plus years of service which equals 80
2) Reduced
   a) Age 55 with at least 5 years of service
   b) Any age below 50 with 30 years of service

A member is fully vested after five years of creditable service and entitled to any benefit for which eligibility requirements have been met.

Under provisions in State law, plan members are required to contribute 6.4% of their annual covered salary and the State of Texas contributes an amount equal to 6.644% of the District's covered payroll. The District's employees' contributions to the System for the years ending August 31, 2011, 2010 and 2009 were $13,315,174, $13,056,769, and $11,875,070, respectively, equal to the required contribution for each year. Other contributions the District made for salaries above the statutory minimum for the years ending August 31, 2011, 2010, and

NOTE 6. RETIREMENT PLAN, cont'd.

2009 were $3,058,269, $2,844,882, and $2,582,004, respectively, equal to the required contribution for each year. Contributions to the System by the State on behalf of the District for the years ending August 31, 2011, 2010 and 2009 were $11,859,712, $11,464,531, and $10,622,072, respectively, equal to the required contributions for each year.

The District recognized contributions made by the State on behalf of the District as revenues and expenditures in the General Fund in the current period.

NOTE 7. RETIREE HEALTH PLAN

Plan Description. The Irving 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 78701-2698, or by calling (800)-223-8778.

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 $2,080,496, $2,040,121, and $1,855,479, respectively, the active member contributions were $1,352,310, $1,326,091, and $1,205,993, respectively, and the District's contributions were $1,144,281, $1,122,079, and $1,020,465, respectively, which equaled the required contributions each year. The District recognized these payments as revenues and expenditures in the General Fund in the current period.

NOTE 7. RETIREE HEALTH PLAN, cont'd.

Contributions Made. Contributions made by the State, the District and its employees, and the District's covered payroll for the fiscal years 2011, 2010, and 2009 are as follows:

	2011	2010	2009
Covered payroll	$ 208,049,596	$ 204,012,053	$ 185,547,876
Contributions made by the State	11,303,830	11,023,853	10,161,328
Retirement plan rate	6.644%	6.58%, 6.644%	6.58%
Retiree health care rate	1.00%	1.00%	1.00%
Medicare Part D	553,480	501,468	446,280
District required and actual Contributions to TRS & TRS-Care	4,202,550	3,966,961	3,602,469
Employee contributions to TRS & TRS-Care	14,667,485	14,382,860	13,081,062

NOTE 8. LONG-TERM LIABILITIES

Long-term liabilities include actuarially determined claims liabilities (which are typically liquidated by the Internal Service Fund). These liabilities are detailed as follows:

	Beginning 9/1/2010	Increases	Decreases	Balance 8/31/2011	Current Portion
Claims Payable	$ 989,759	$ 18,136,578	$ 16,020,074	$ 3,106,263	$ 2,344,827

Long-term debt also includes par bonds, capital appreciation (deep discount) serial bonds, and variable rate bonds as follows:

Description	Interest Rate Payable	Amounts Original Issue	Bonds Outstanding at 09/01/2010	Issued (Retired)	Interest Accretion	Accreted Interest Retirements	Bonds Outstanding at 08/31/2011
1997 School Building	5.00%-5.20%	125,003,220	3,390,634	(1,640,000)	79,366	(1,830,000)	-
1997A Refunding	4.85%-5.42%	33,140,000	40,464,072	(3,115,000)	1,999,020	(3,070,000)	36,278,092
2001 School Building	4.00%-5.50%	27,390,000	1,385,000	(1,160,000)	-	-	225,000
2002 School Building	2.09%-6.03%	130,853,959	34,666,829	(4,275,670)	1,588,939	(2,319,330)	29,660,768
2003 School Building	2.00%-5.00%	51,882,264	7,482,491	(865,000)	142,301	(630,000)	6,129,792
2004A School Building	Variable	20,000,000	15,300,000	-	-	-	15,300,000
2004B School Building	Variable	20,000,000	15,300,000	-	-	-	15,300,000
2005 Refunding	3.00%-5.25%	92,425,000	90,070,000	(180,000)	-	-	89,890,000
2006 Refunding	3.95%-5.46%	66,472,786	78,531,126	(235,000)	3,671,034	-	81,967,160
2007 Refunding	3.65%-4.40%	109,045,000	112,393,989	(95,000)	196,036	(425,000)	112,070,025
2007A School Building	3.87%-5.00%	20,000,000	15,955,000	(395,000)	-	-	15,560,000
2008 School Building	2.00%-5.00%	87,020,000	80,160,000	(2,170,000)	-	-	77,990,000
2009 School Building	3.00%-5.25%	66,106,018	66,135,038	(590,000)	14,962	(1,155,000)	64,405,000
2010A School Building	3.625%-5.000%	18,485,000	18,485,000	-	-	-	18,485,000
2010B Build America Bonds	5.561%-5.661%	40,000,000	40,000,000	-	-	-	40,000,000
2011 Qualified School Construction Bond	0%	21,640,000	-	21,640,000	-	-	21,640,000
Total Bonded Indebtedness			619,719,179	6,919,330	7,691,658	(9,429,330)	624,900,837
Less Current Portion							16,383,540
Long term portion as of August 31, 2011							608,517,297
Premium/Discounts/Loss on Refunding			2,898,733	(397,705)	-	-	2,501,028
Total Long Term Bonds Payable							611,018,325

NOTE 8. LONG-TERM LIABILITIES, cont'd.

Debt service principal requirements to maturity (below) exclude accumulated accretion of $67,670,697, which is included in the interest column:

Year Ended August 31	Principal	Interest	Total Requirements
2012	$ 16,383,540	$ 29,052,838	$ 45,436,378
2013	16,134,223	29,117,911	45,252,134
2014	15,626,432	29,543,196	45,169,628
2015	19,688,623	27,250,673	46,939,296
2016	19,921,698	27,045,786	46,967,484
2017-2021	121,150,624	113,718,779	234,869,403
2022-2026	118,805,000	113,283,921	232,088,921
2027-2031	138,615,000	70,839,980	209,454,980
2032-2036	63,745,000	13,279,372	77,024,372
2037-2040	27,160,000	2,601,451	29,761,451
Totals	$ 557,230,140	$ 455,733,907	$ 1,012,964,047

There are a number of limitations and restrictions contained in the various general obligation bond indentures. The District is in compliance with all limitations and restrictions at August 31, 2011.

NOTE 9. DEBT ISSUANCES AND DEFEASED DEBT

On March 15, 2011, the District issued $21,640,000 Series 2011 Unlimited Tax Qualified School Building Bonds (QSCB) bearing no interest. This issuance was made possible due to the passage of the American Recovery and Reinvestment Act of 2009 which authorized the Qualified School Construction Bond Program. The program allows school districts and charter schools to obtain interest-free or very-low interest financing for qualified construction projects.

The District must spend 100 percent of the QSCB proceeds within three years of the sale of the bonds and must expect to enter into a binding commitment with a third party to spend at least 10 percent of the proceeds within six months. Issuers must also comply with arbitrage rebate and information reporting requirements and with the requirements of the Davis-Bacon Act. The District was in compliance with the bond requirements at year end.

In prior years, the District issued refunding bonds for the purpose of restructuring outstanding debt service requirements or decreasing the total debt service payments. These refunding issues defeased selected general obligation and maintenance bonds. The total principal outstanding of the insubstance defeased debt as of August 31, 2011 is $124,385,623.

NOTE 10. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

In the fund financial statements, interfund balances are the results of normal transactions between funds and will be liquidated in the subsequent fiscal year. These balances at August 31, 2011 consisted of the following individual fund receivables and payables:

Fund	Receivable	Payable	Reason
General Fund:			
Debt Service Fund	$ 61,024	$ -	To clear negative cash.
Other Nonmajor Funds	4,229,586	-	To clear negative cash.
Science Kit Refurbishment	67,481	-	To clear negative cash.
Health Fund	-	845,771	To clear negative cash.
Debt Service Fund:			
General Fund	-	61,024	To clear negative cash.
Other Nonmajor Funds:			
General Fund	-	4,229,586	To clear negative cash.
Internal Service:			
General Fund	-	67,481	To clear negative cash.
General Fund	845,771	-	To clear negative cash.
	$ 5,203,862	$ 5,203,862	

NOTE 11. LITIGATION, COMMITMENTS, AND CONTINGENCIES

The District is a party to various legal actions, none of which is believed by administration to have a material effect on the financial condition of the District. Accordingly, no provision for losses has been recorded in the accompanying financial statements for such contingencies.

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 that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money 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 financial statements for such contingencies.

The District was obligated at August 31, 2011 for 2 major construction projects. These projects cover Phase II construction and renovations at one middle school and one elementary school. The District was obligated for $524,146 relating to these projects as of August 31, 2011.

NOTE 12. LOCAL, INTERMEDIATE, AND OUT-OF-STATE REVENUES – GOVERNMENTAL FUNDS

During the current year, local, intermediate and out-of-state revenues for the fund statements consisted of the following:

	General Fund	Food Service Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Other Funds	Total
Property Taxes	$ 90,184,374	$ -	$ 36,804,925	$ -	$ -	$126,989,299
Food Sales	-	2,507,679	-	-	-	2,507,679
Food Service-Vending	-	1,261	-	-	-	1,261
Investment Income	313,780	6,809	197,767	347,984	-	866,340
Energy Efficiency Rebates	-	-	-	745,344	-	745,344
Income	906,185	-	321,778	-	-	1,227,963
Co-curricular	-	-	-	-	-	
Student Activities	1,413,786	-	-	-	-	1,413,786
Other	3,951,032	-	-	-	386,132	4,337,164
Total	$ 96,769,157	$ 2,515,749	$ 37,324,470	$ 1,093,328	$ 386,132	$138,088,836

NOTE 13. DEFERRED REVENUE

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

	General Fund	Debt Service Fund	Nonmajor Other Funds	Total
Net Tax Revenue	$ 3,417,886	$ 1,341,221	$ -	$ 4,759,107
Taxes Paid in Advance	8,164	-	-	8,164
Laptop Computer Fees	258,750	-	-	258,750
Appliance Fees	24,825	-	-	24,825
Other	451	-	-	451
AP/IB Program	-	-	40,736	40,736
Regional State Deaf	-	-	230,932	230,932
Total Deferred Revenue	$ 3,710,076	$ 1,341,221	$ 271,668	$ 5,322,965

For government-wide financial statements, deferred revenue relating to taxes is recognized as revenue.

NOTE 14. NET ASSET DEFICIT

A net asset deficit of $15,963 exists in the unemployment fund resulting from an increase in costs and claims. It is expected that changes in the economy will provide positive net assets.

NOTE 15. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended August 31, 2011, expenditures exceeded appropriations in the Co-Curricular/Extracurricular Activities function of the Food Service Fund by $674,256. These expenditures were offset by less than anticipated expenditures in the Food Services function, which had appropriations exceeding expenditures by $1,245,590.

NOTE 16. NEW ACCOUNTING PRONOUNCEMENTS

The GASB issued Statement No. 64, Accounting and Financial Reporting for Derivative Instruments, which will be effective for periods beginning after June 15, 2011. The Statement clarifies the existing requirements for the termination of hedge accounting. This statement applies to all state and local governments and amends Statement 53, paragraphs 22d and 82. The District has no derivative instruments. In the future if there is a situation that applies to this Statement, the District will account for it appropriately.

The GASB issued Statement No. 63, Accounting and Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, which will be effective for periods beginning after December 15, 2011. The Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The District will evaluate the impact of the standard on its Financial Statements and will take the necessary steps to implement it.

The GASB issued Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements, which will be effective for periods beginning after December 15, 2011. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The District will evaluate the impact of the standard on its Financial Statements and will take the necessary steps to implement it.

NOTE 17. SUBSEQUENT EVENTS

The District has evaluated all events or transactions that occurred after August 31, 2011 up through January 18, 2012, the date the financial statements were issued. During this period there were no subsequent events requiring disclosure.