

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities 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 these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

PRELIMINARY OFFICIAL STATEMENT

Dated November 2, 2012

Ratings:
S&P: "Applied For"
Moody's: "Applied For"
Fitch: "Applied For"
PSF Guarantee: "Conditionally Approved"
(See "Other Information - Ratings" and "The Permanent School Fund Guarantee Program" herein)

NEW ISSUE – Book-Entry Only

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

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

DALLAS INDEPENDENT SCHOOL DISTRICT
(Dallas County, Texas)

\$410,540,000*
UNLIMITED TAX REFUNDING BONDS, SERIES 2012

Dated Date: November 15, 2012

Due: August 15, as shown on Page 2

Interest Accrual Date: Delivery Date

PAYMENT TERMS . . . Interest on the \$410,540,000* Unlimited Tax Refunding Bonds, Series 2012 (the "Bonds") will accrue from the date of their delivery to the Underwriters (the "Delivery Date") and will be payable February 15 and August 15 of each year commencing on February 15, 2013, until maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued as fully registered obligations in the denominations of \$5,000 of principal amount or any integral multiple thereof for any one stated maturity. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry Only System described herein. Beneficial ownership of the Bonds may be acquired in authorized denominations thereof. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** The principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry Only System". The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE BONDS - Paying Agent/Registrar"). **The District has applied for and has received conditional approval for the Bonds to be guaranteed by the Permanent School Fund of Texas (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").**

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Chapter 1207, Texas Government Code, as amended, and an order (the "Bond Order") adopted by the Board of Trustees (the "Board") of the Dallas Independent School District (the "District") in which the Board delegated to certain officers of the District authority to complete the sale of the Bonds through the execution of a "Pricing Certificate" (the Bond Order and the Pricing Certificate together are referred to herein as the "Order"). The Bonds are direct obligations of the District, payable from a direct and continuing ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District, as provided in the Order (see "THE BONDS - Authority for Issuance").

PURPOSE . . . Proceeds from the sale of the Bonds will be used (1) to refund certain outstanding obligations of the District (the "Refunded Bonds") in advance of their maturity (see "PLAN OF FINANCING - Purpose" herein and Schedule I attached hereto for a detailed description of the Refunded Bonds) and (2) to pay the costs associated with the issuance of the Bonds.

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinions of Bracewell & Giuliani L.L.P., Dallas, Texas and West & Associates L.L.P., Dallas, Texas, as Co-Bond Counsel (see Appendix C, "Form of Co-Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by their Co-Counsel, McCall, Parkhurst & Horton L.L.P., Dallas, Texas and Mahomes Bolden PC, Dallas, Texas.

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on or about December 13, 2012* (the "Delivery Date").

MATURITY SCHEDULE
See Schedule on Page 2

BARCLAYS

SIEBERT BRANDFORD SHANK & CO., L.L.C.

BOSC, INC.

RAMIREZ & CO., INC.

A subsidiary of BOK Financial Corporation

RAYMOND JAMES | MORGAN KEEGAN

RBC CAPITAL MARKETS

SOUTHWEST SECURITIES

* Preliminary, subject to change.

MATURITY SCHEDULE*

CUSIP⁽¹⁾ Prefix: _____

Maturity (8/15)	Principal Amount	Interest Rate	Initial Yield	CUSIP ⁽¹⁾ Suffix	Maturity (8/15)	Principal Amount	Interest Rate	Initial Yield	CUSIP ⁽¹⁾ Suffix
2013	\$ 10,170,000				2023	\$ 21,960,000			
***	***	***	***	***	2024	23,765,000			
2015	10,105,000				2025	24,485,000			
2016	12,475,000				2026	26,300,000			
2017	15,590,000				2027	27,595,000			
2018	11,075,000				2028	27,860,000			
2019	11,800,000				2029	51,535,000			
2020	11,795,000				2030	54,165,000			
2021	9,370,000				2031	40,700,000			
2022	19,795,000								

(Accrued interest from the Delivery Date to be added)

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the District, the Underwriters nor the Co-Financial Advisors take any responsibility for the accuracy of CUSIP numbers.

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

* Preliminary, subject to change.

For purposes of compliance with Rule 15c2-12 of the Securities Exchange Act of 1934, as amended (“Rule 15c2-12”), this document constitutes an Official Statement of the District with respect to the Bonds that has been deemed “final” by the District as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

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

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

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

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

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

NEITHER THE DISTRICT NOR ITS CO-FINANCIAL ADVISOR NOR THE UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY ONLY SYSTEM OR THE AFFAIRS OF THE TEXAS EDUCATION AGENCY DESCRIBED UNDER “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”, AS SUCH INFORMATION HAS BEEN PROVIDED BY THE DEPOSITORY TRUST COMPANY AND THE TEXAS EDUCATION AGENCY, RESPECTIVELY.

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

THIS OFFICIAL STATEMENT CONTAINS “FORWARD-LOOKING” STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES, AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE, AND ACHIEVEMENTS TO BE DIFFERENT FROM FUTURE RESULTS, PERFORMANCE, AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.

TABLE OF CONTENTS

PRELIMINARY OFFICIAL STATEMENT SUMMARY	4	FINANCIAL INFORMATION	43
DISTRICT OFFICIALS, STAFF AND CONSULTANTS	6	TABLE 11 - SCHEDULE OF CHANGES IN NET ASSETS	43
ELECTED OFFICIALS	6	TABLE 11-A - SCHEDULE OF GENERAL FUND REVENUES AND	
SELECTED ADMINISTRATIVE STAFF	6	EXPENDITURE HISTORY	44
CONSULTANTS AND ADVISORS	6	TABLE 12 - CURRENT INVESTMENTS	48
INTRODUCTION	7	GENERAL FUND FINANCIAL, ACCOUNTING AND	
PLAN OF FINANCING	7	BUDGETARY STATUS	48
THE BONDS	8	TAX MATTERS	49
PERMANENT SCHOOL FUND GUARANTEE PROGRAM	14	CONTINUING DISCLOSURE OF INFORMATION	51
STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN		OTHER INFORMATION	52
TEXAS	25	RATINGS	52
CURRENT PUBLIC SCHOOL FINANCE SYSTEM	27	PENDING LITIGATION	52
TAX INFORMATION	31	REGISTRATION AND QUALIFICATION OF BONDS FOR SALE	52
TABLE 1 - VALUATION, EXEMPTIONS AND TAX SUPPORTED		LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC	
DEBT	36	FUNDS IN TEXAS	52
TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY	37	LEGAL MATTERS	53
TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY	38	CO-FINANCIAL ADVISOR	53
TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY	38	UNDERWRITING	53
TABLE 5 - TEN LARGEST TAXPAYERS	38	VERIFICATION OF ARITHMETICAL AND MATHEMATICAL	
TABLE 6 - ESTIMATED OVERLAPPING DEBT	39	COMPUTATIONS	54
DEBT INFORMATION	40	FORWARD-LOOKING STATEMENTS DISCLAIMER	54
TABLE 7 - PRO-FORMA TAX SUPPORTED DEBT SERVICE		MISCELLANEOUS	54
REQUIREMENTS	40	SCHEDULE OF REFUNDED BONDS	Schedule I
TABLE 8 - INTEREST AND SINKING FUND BUDGET		APPENDICES	
PROJECTION	41	GENERAL INFORMATION REGARDING THE DISTRICT	A
TABLE 9 - AUTHORIZED BUT UNISSUED UNLIMITED TAX		EXCERPTS FROM THE ANNUAL FINANCIAL REPORT	B
BONDS	41	FORM OF CO-BOND COUNSEL'S OPINION	C
TABLE 10 - OTHER OBLIGATIONS	41		

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

PRELIMINARY OFFICIAL STATEMENT SUMMARY

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

- THE DISTRICT**..... The Dallas Independent School District (the “District”) is located in Dallas County, Texas, and operates as an independent school district and political subdivision under the laws of the State of Texas (the “State”). The District encompasses approximately 384 square miles within Dallas County and has an enrollment of more than 157,000 and serves a population of approximately 1,207,420 (see “APPENDIX A – General Information Regarding the District”).
- THE BONDS** The \$410,540,000* Unlimited Tax Refunding Bonds, Series 2012 (the “Bonds”) are issued as serial bonds maturing on August 15 in the years 2013 and 2015 through 2031 (see “THE BONDS - Description of the Bonds”).
- PAYMENT OF INTEREST** Interest on the Bonds accrues from the date of their delivery to the Underwriters and is payable on February 15, 2013 and each August 15 and February 15 thereafter until maturity or prior redemption.
- AUTHORITY FOR ISSUANCE**..... The Bonds are being issued pursuant to the Constitution and general laws of the State, including Chapter 1207, Texas Government Code, as amended, and an order (the “Bond Order”) passed by the Board of Trustees (the “Board”) of the District. In the Bond Order, the Board delegated to certain officers of the District, 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” together with the “Pricing Certificate” are herein referred to as the “Order”) (see “THE BONDS - Authority for Issuance”).
- SECURITY FOR THE BONDS** The Bonds constitute direct obligations of the District, payable from a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, on all taxable property within the District (see “THE BONDS - Security and Source of Payment”).
- PERMANENT SCHOOL FUND**
GUARANTEE The District has applied for and has received conditional approval from the Texas Education Agency for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).
- OPTIONAL REDEMPTION** The District reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 20__, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 20__, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District may select the maturities of the Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed (see “THE BONDS - Optional Redemption”).
- DISTRICT GENERAL FUND**
FINANCIAL, ACCOUNTING AND
BUDGETARY STATUS The District previously determined the existence of, and is currently dealing with, certain financial, accounting and budgetary difficulties (see “General Fund Financial, Accounting and Budget Status”).
- TAX EXEMPTION** In the opinion of Co-Bond Counsel, under existing law, the interest on the Bonds will be excludable from gross income for federal income tax purposes and the Bonds are not private activity bonds. See “TAX MATTERS” herein for a discussion of the opinion of Co-Bond Counsel, including the alternative minimum tax consequences for corporations.
- USE OF PROCEEDS** Proceeds from the sale of the Bonds will be used to (1) refund certain outstanding obligations of the District (the “Refunded Bonds”) in advance of their maturity (see “PLAN OF FINANCING - Purpose” herein and Schedule I attached hereto for a detailed description of the Refunded Bonds) and (2) pay the costs associated with the issuance of the Bonds.

* Preliminary, subject to change.

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

BOOK-ENTRY ONLY

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

PAYMENT RECORD The District has never defaulted in payment of its tax supported debt.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ending ⁽¹⁾	District Population ⁽²⁾	Taxable Assessed Valuation ⁽⁴⁾	Per Capita Taxable Assessed Valuation	Tax Debt Outstanding at Fiscal Year End	Per Capita Tax Supported Debt	Ratio Tax Supported Debt to Taxable Assessed Valuation	% of Total Tax Collections
2009	1,306,350	\$ 81,831,436,253	\$ 62,641	\$ 1,789,060,000	\$ 1,370	2.19%	96.57%
2010	1,316,350	79,602,732,136	60,472	1,706,675,000	1,297	2.14%	97.77%
2011	1,316,350	76,367,430,952	58,015	2,600,555,000	1,976	3.41%	98.63%
2012	1,200,530 ⁽³⁾	75,153,117,545	62,600	2,539,445,000	2,115	3.38%	98.57%
2013	1,207,420	76,621,320,873	63,459	2,478,740,000 ⁽⁵⁾	2,053 ⁽⁵⁾	3.24% ⁽⁵⁾	⁽⁶⁾

- (1) The District’s fiscal year end is June 30th. Due to the timing of tax collection receipts, the District budgets for debt payments on a calendar year basis.
- (2) Source: North Central Texas Council of Governments.
- (3) Although the District experienced a decrease in residential population, its student enrollment has not experienced a similar decline.
- (4) As reported by the Dallas Central Appraisal District on the District’s annual State Property Tax Reports and such values are subject to change during ensuing year.
- (5) Projected, includes the Bonds plus the \$47,265,000* Unlimited Tax Refunding Bonds, Taxable Series 2012-A (the “2012-A Bonds”) expected to be issued concurrently with the Bonds and excludes the Refunded Bonds. Preliminary, subject to change.
- (6) In process of collection. Tax bills for Tax Year 2012 were mailed in October 2012 and become delinquent on February 1, 2013.

For additional information regarding the District, please contact:

Steve Korby Executive Director, Financial Services Dallas Independent School District 3700 Ross Avenue Dallas, Texas 75204 (972) 925-3802	or	Boyd London Jeff Robert First Southwest Company 325 N. St. Paul Street, Ste. 800 Dallas, Texas 75201 (214) 953-4000	or	Robert A. Estrada U.S. Williams Estrada Hinojosa & Co., Inc. 1717 Main Street, 47th Floor Dallas, Texas 75201 (214) 658-1670
--	----	--	----	---

* Preliminary, subject to change.

DISTRICT OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>Board of Trustees</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Lew Blackburn, Ph. D. President - District 5	11 Years	2013	Vice President - America Can
Adam Medrano 1st Vice President - District 8	6 Years	2014	Supervisor IV, City of Dallas
Eric Cowan 2nd Vice President - District 7	2 1/2 Years	2013	Director of Revenue Management, Rosewood Hotels & Resorts
Nancy Bingham Board Secretary - District 4	8 Years	2013	Retired Teacher
Elizabeth Jones Trustee - District 1	4 Months	2015	Professor & Associate Director - University of Texas at Dallas
Mike Morath Trustee - District 2	1 1/2 Years	2014	Consultant
Dan Micciche Trustee - District 3	4 Months	2015	Attorney - Akin, Gump, Strauss, Hauer & Feld L.L.P.
Carla Ranger Trustee - District 6	6 Years	2014	Retired Education Administrator
Bernadette Nutall Trustee - District 9	3 Years	2015	Executive Director - Circle of Support

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service with the District</u>
Mike Miles	Superintendent of Schools	4 Months ⁽¹⁾
Vacant	Chief of Staff	(2)
Vacant	Chief Financial Officer	(2)
Steve Korby	Executive Director, Financial Services	4 Years
Darlene Williams	Treasurer	13 Years
Marian Hamlett	Director, Accounting Services	4 Years

(1) Mr. Miles began his tenure as Superintendent of Schools on July 1, 2012.

(2) The District's Chief of Staff, who had primarily performed the duties of the Chief Financial Officer, recently resigned. Both staff positions are currently vacant as the District begins its search for replacement personnel. In the interim, other District Senior Staff have assumed the Chief Financial Officer's responsibilities.

CONSULTANTS AND ADVISORS

Co-Bond Counsel.....	Bracewell & Giuliani L.L.P. Dallas, Texas
Co-Bond Counsel.....	West & Associates L.L.P. Dallas, Texas
Co-Financial Advisor.....	First Southwest Company Dallas, Texas
Co-Financial Advisor.....	Estrada Hinojosa & Company, Inc. Dallas, Texas

**PRELIMINARY OFFICIAL STATEMENT
RELATING TO
DALLAS INDEPENDENT SCHOOL DISTRICT
(Dallas County, Texas)
\$410,540,000*
UNLIMITED TAX REFUNDING BONDS, SERIES 2012**

INTRODUCTION

This Official Statement, which includes the Schedule and Appendices hereto, provides certain information regarding the issuance of \$410,540,000* Unlimited Tax Refunding Bonds, Series 2012 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Order (hereinafter defined) authorizing the issuance and sale of the Bonds, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the Dallas Independent School District (the "District") and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District's Co-Financial Advisors, First Southwest Company, Dallas, Texas and Estrada Hinojosa & Company, Inc., Dallas, Texas.

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 "OTHER INFORMATION – Forward-Looking Statements Disclaimer").

The Board is scheduled to accept the Fiscal Year 2012 financial statement on November 19, 2012. The financial statement is expected to show a General Fund balance of at least \$200,000,000. Accordingly, the financial statement will likely not be included in the final Official Statement; however, the District will certify on the date of closing that the District's finances have not materially changed from the condition reported in the approved Fiscal Year 2011 financial statement that is included herein.

DESCRIPTION OF THE DISTRICT . . . The District is a political subdivision of the State of Texas (the "State") located in Dallas County, Texas, comprising approximately 384 square miles. The District is governed by a nine-member Board of Trustees (the "Board") who serve three-year staggered terms. Board members are elected by the qualified voters within each of the nine districts comprising the District. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates the administrative responsibility to the Superintendent of Schools who is the chief administrative officer of the District. Certain support services are supplied by consultants and advisors. For more information regarding the District, see "APPENDIX A – General Information Regarding the District." See "GENERAL FUND FINANCIAL, ACCOUNTING AND BUDGETARY STATUS" for a discussion of the District's current financial status.

PLAN OF FINANCING

PURPOSE . . . Proceeds from the sale of the Bonds will be used to (1) refund certain outstanding obligations of the District (the "Refunded Bonds") in advance of their maturity and (2) pay the costs associated with the issuance of the Bonds. See "PLAN OF FINANCING - Purpose" herein and Schedule I attached hereto for a detailed description and listing of the Refunded Bonds and their call dates.

TAXABLE SERIES 2012-A BONDS . . . Simultaneously with the issuance of the Bonds, the District intends to issue its \$47,256,000* Unlimited Tax Refunding Bonds, Taxable Series 2012-A Bonds (the "2012-A Bonds"). The proceeds of the 2012-A Bonds will be used to (1) refund certain additional outstanding obligations of the District in advance of their maturity and (2) pay the costs associated with the issuance of the 2012-A Bonds. A separate Official Statement will provide a detailed discussion of the 2012-A Bonds and the obligations refunded thereby. The transactions are not dependent on each other closing.

REFUNDED BONDS . . . The principal and interest due on the Refunded Bonds are to be paid on the interest payment dates and the redemption dates of such Refunded Bonds from funds to be deposited pursuant to an Escrow Agreement (the "Escrow Agreement") between the District and The Bank of New York Mellon Trust Company, N.A. (the "Escrow Agent"). The Order provides that from a portion of the proceeds of the sale of the Bonds received from the Underwriters and other available District funds, if any, the District will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds on their respective redemption dates. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and a portion of such funds shall be used to purchase obligations authorized by Chapter 1207, Texas Government Code, as amended (the "Escrowed Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

* Preliminary, subject to change.

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

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

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

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

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds will be dated November 15, 2012 and mature on August 15 in each of the years and in the amounts shown on page 2 of this Official Statement. The Bonds will accrue interest from the Delivery Date, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15, commencing on February 15, 2013, until maturity or prior redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Bonds are issued and the tax levied for their payment pursuant to authority conferred by the Constitution and the laws of the State of Texas, including Chapter 1207, Texas Government Code, as amended, and by the order (the "Bond Order") adopted by the Board. In the Bond Order, the Board delegated to certain officers of the District 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").

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

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

OPTIONAL REDEMPTION . . . The District reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 20__, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 20__, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District may select the maturities of the Bonds to be redeemed. If less than all the Bonds of any maturity are to be

redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed.

If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

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

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 holders. Any Bonds subject to conditional redemption and 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 by the District.

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 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 or 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 Ordinance 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 for redemption. See "THE BONDS - Book-Entry Only System" herein.

DEFEASANCE . . . The Order provides that the District may discharge its obligations to the registered owners of any or all of the Bonds to pay principal, interest, and redemption price thereon in any manner permitted by law. Under current State law, such discharge may be accomplished either by (i) depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium if any, and all interest to accrue on the Bonds to maturity or prior redemption or (ii) by depositing with a paying agent, or other authorized escrow agent, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; 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.

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

Under Current State Law, upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid and will cease to be outstanding obligations secured by the Order or treated as debt of the District for purposes of taxation or applying any limitation on the District's ability to issue debt or for any other purpose. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Upon defeasance, such defeased Bonds shall no longer be regarded to be outstanding or unpaid and the Bonds will no longer be guaranteed by the Texas Permanent School Fund.

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

BOOK-ENTRY ONLY SYSTEM . . . *This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District, the Co-Financial Advisors and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered Bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated

subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

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

EFFECT OF TERMINATION OF BOOK-ENTRY ONLY SYSTEM...In the event that the Book-Entry Only System is discontinued, printed certificates will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under “THE BONDS - Transfer, Exchange and Registration” below.

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

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

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

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

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 an substitution for a Bond which has been destroyed, stolen or lost, such new Bond will be delivered only (a) upon filing with the District and the Paying Agent/Registrar a certificate 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.

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

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

BONDHOLDERS' REMEDIES . . . The Order establishes as "events of default" (i) the failure to make payment of principal of or interest on any of the Bonds when due and payable; or (ii) default in the performance of observance of any other covenant, agreement or obligation of the District, which default materially and 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 sixty days after notice of such default is given by any Owner to the District. Under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the District to observe any covenant under the Order. Although a registered owner could presumably obtain a judgment against the District if a default occurred in any payment of the principal of or interest on any such Bonds, such judgment could not be satisfied by execution against any property of the District. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the District, to assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as they become due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. District of Mexia*, 197 S.W.3rd 325 (Tex. 2006) ("*Tooke*") that a waiver of sovereign immunity must be provided for by statute in "clear and unambiguous" language. In so ruling, the Court declared that statutory language such as "sue and be sued", in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver Act covers school districts and relates to contracts entered into by school districts for providing goods or services to school districts. The District is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings of local governments that relate to their borrowing powers are contracts covered by the Act. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract).

The Order does not provide for the appointment of a trustee to represent the interest of the holders of the Bonds upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Co-Bond Counsel will note that the rights of holders 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.

See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. Also see "THE BONDS - Book-Entry Only System" herein for a description of the duties of DTC with regard to ownership of Bonds.

Initially, the only registered owner of the Bonds will be Cede & Co., as DTC's partnership nominee (see "THE BONDS - Book-Entry Only System" herein).

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

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

HISTORY AND PURPOSE

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

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

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

The sole purpose of the PSF is to assist in the funding of public education for present and future generations. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividends produced by Fund investments flowed into the Available School Fund (the "ASF"), where they are distributed to local school districts based on average daily attendance. Any net gains from investments of the Fund accrue to the corpus of the PSF. Prior to the approval by the voters of the State of the Total Return Constitutional Amendment, costs of administering the PSF were allocated to the ASF. With the approval of the Total Return Constitutional Amendment, the administrative costs of the Fund have shifted from the ASF to the PSF. In fiscal year 2011, distributions to the ASF amounted to \$246.09 per student and the total amount distributed to the ASF was \$1.093 billion.

Audited financial information for the PSF is provided annually through the PSF Annual Report (the "Annual Report"), which is filed with the Municipal Securities Rulemaking Board ("MSRB"). The Annual Report includes the Message of the Executive Administrator of the Fund (the "Message") and the Management's Discussion and Analysis ("MD&A"). Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2011 and for a description of the financial results of the PSF for the year ended August 31, 2011, the most recent year for which audited financial information regarding the Fund is available. The 2011 Annual Report is incorporated herein and made a part hereof for all purposes, but the 2011 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2011 Annual Report or any other Annual Report. The TEA posts each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, the most recent disclosure for the Guarantee Program, the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (the "Investment Policy"), monthly updates with respect to the capacity of the Guarantee Program (collectively, the "Web Site

Materials”) on the TEA web site at www.tea.state.tx.us/psf and with the MSRB at www.emma.msrb.org. Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the Securities and Exchange Commission (“SEC”) under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund’s holdings of securities specified in Section 13(f), including exchange-traded (e.g., NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at www.sec.gov/edgar.shtml. A list of the Fund’s equity and fixed income holdings as of August 31, 2011 has been posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund’s securities lending program. Such list is incorporated herein and made a part hereof for all purposes.

THE TOTAL RETURN CONSTITUTIONAL AMENDMENT

The Total Return Constitutional Amendment approved a fundamental change in the way that distributions are made to the ASF from the PSF. The Total Return Constitutional Amendment requires that PSF distributions to the ASF be determined using a total-return-based formula instead of the current-income-based formula, which was used from 1964 to the end of the 2003 fiscal year. The Total Return Constitutional Amendment provides that the total amount distributed from the Fund to the ASF: (1) in each year of a State fiscal biennium must be an amount that is not more than 6% of the average of the market value of the Fund, excluding real property (the “Distribution Rate”), on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium (the “Distribution Measurement Period”), in accordance with the rate adopted by: (a) a vote of two-thirds of the total membership of the State Board of Education (“SBOE”), taken before the Regular Session of the Legislature convenes or (b) the Legislature by general law or appropriation, if the SBOE does not adopt a rate as provided by clause (a); and (2) over the ten-year period consisting of the current State fiscal year and the nine preceding state fiscal years may not exceed the total return on all investment assets of the Fund over the same ten-year period (the “Ten Year Total Return”). In April 2009, the Attorney General issued a legal opinion, Op. Tex. Att’y Gen. No. GA-0707 (2009) (“GA-0707”), at the request of the Chairman of the SBOE with regard to certain matters pertaining to the Distribution Rate and the determination of the Ten Year Total Return. In GA-0707 the Attorney General opined, among other advice, that (i) the Ten Year Total Return should be calculated on an annual basis, (ii) a contingency plan adopted by the SBOE, to permit monthly transfers equal in aggregate to the annual Distribution Rate to be halted and subsequently made up if such transfers temporarily exceed the Ten Year Total Return, is not prohibited by State law, provided that such contingency plan applies only within a fiscal year time basis, not on a biennium basis, and (iii) that the amount distributed from the Fund in a fiscal year may not exceed 6% of the average of the market value of the Fund or the Ten Year Total Return. In accordance with GA-0707, in the event that the Ten Year Total Return is exceeded during a fiscal year, transfers to the ASF will be halted. However, if the Ten Year Total Return subsequently increases during that biennium, transfers may be resumed, if the SBOE has provided for that contingency, and made in full during the remaining period of the biennium, subject to the limit of 6% in any one fiscal year. Any shortfall in the transfer that results from such events from one biennium may not be paid over to the ASF in a subsequent biennium as the SBOE would make a separate payout determination for that subsequent biennium.

In determining the Distribution Rate, the SBOE has adopted the goal of maximizing the amount distributed from the Fund in a manner designed to preserve “intergenerational equity.” Intergenerational equity is the maintenance of endowment purchasing power to ensure that endowment spending keeps pace with inflation, with the ultimate goal being to ensure that current and future generations are given equal levels of purchasing power. In making this determination, the SBOE takes into account various considerations, and relies particularly upon its external investment consultant, which undertakes a probability analysis for long term projection periods that includes certain assumptions. Among the assumptions used in the analysis are a projected rate of growth of the average daily scholastic attendance State-wide, the projected contributions and expenses of the Fund, projected returns in the capital markets and a projected inflation rate.

The SBOE established the Distribution Rate from the Fund to the ASF for fiscal years 2008 and 2009 at 3.5% and for fiscal years 2010 and 2011 at 2.5% of the average of the PSF market value during the respective Distribution Measurement Periods, which ended in November 2006 and November 2008, respectively. The decision of the SBOE regarding the Distribution Rate for 2008 through 2011 took into account a commitment by the SLB to transfer at least \$100 million per year in fiscal years 2008 through 2011. The distribution rate for fiscal years 2010 and 2011 produced total transfers of \$1.1535 billion to the ASF from the PSF during those years. 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. In July 2012, the SBOE set the Distribution Rate for the 2014-15 biennium at 3.3%, which is expected to produce an effective rate of 3.5% taking into account the broadening of the calculation base for the Fund that was effected by a 2011 State constitutional amendment, which amendment did not increase Fund revenues. The 2014-15 Distribution Rate determined by the Board in July 2012 will likely be reviewed again by the SBOE, and could be modified by the SBOE prior to the opening of the next legislative session in January 2013. 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 SBOE further modified the asset allocation policy for the Fund in July 2012 (the "2012 Asset Allocation"). 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%. In July 2012, the SBOE modified the 2010 Asset Allocation Policy by decreasing the equity allocation to 46%, increasing the fixed income allocation to 17%, and increasing the alternative asset allocation (which may include equity and fixed income investments as part of a variety of alternative investment strategies) to 37%. The 2012 Asset Allocation changes decreased the target for large cap equity investments from 21% to 18%, replaced a 4% allocation for international small cap equities with a 3% allocation for emerging international equities, reduced core fixed income bond investments from 15% to 12% and added a new 5% allocation for emerging market debt in the fixed income portfolio. In July 2012, the SBOE also realigned the management of certain of the five investment portfolios within the absolute return allocation of the alternative investments, which include hedge fund investments within externally managed portfolios. As a result of that investment strategy, the Fund pays a double layer of fees, to external managers and to the underlying hedge fund managers. The new alignments in two of the portfolios will create a strategic relationship between the external manager and investment staff of the PSF. In time, those relationships may result in internal management of those portfolios by the PSF, which would reduce management fees. 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 2012 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; management fees paid to external managers and embedded management fees for some fund investments; and limitations on the number and compensation of internal and external investment staff, which is subject to Legislative oversight. The Guarantee Program could also be impacted by changes in State or federal law or the implementation of new accounting standards.

MANAGEMENT AND ADMINISTRATION OF THE FUND

The Texas Constitution and applicable statutes delegate to the SBOE the authority and responsibility for investment of the PSF's financial assets. In investing the Fund, the SBOE is charged with exercising the judgment and care under the circumstances then

prevailing which persons of ordinary prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income therefrom as well as the probable safety of their capital. The SBOE has adopted a “Statement of Investment Objectives, Policies, and Guidelines of the Texas Permanent School Fund,” which is codified in the Texas Administrative Code beginning at 19 TAC section 33.1.

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

Texas law assigns control of the Fund’s land and mineral rights to the three-member SLB, which consists of the elected Commissioner of the General Land Office (“GLO”), an appointee of the Governor, and an appointee of the Attorney General. Administrative duties related to the land and mineral rights reside with the GLO, which is under the guidance of the Commissioner of the GLO. In 2007, the Legislature established the real estate special fund account of the PSF (the “Real Estate Account”) consisting of the land, mineral or royalty interest, real estate investment, or other interest, including revenue received from those sources, that is set apart to the PSF under the Texas Constitution and laws, together with the mineral estate in riverbeds, channels, and the tidelands, including islands. The investment of the Real Estate Account is subject to the sole and exclusive management and control of the SLB and the Land Commissioner, who is also the head of the GLO. The 2007 legislation that established the Real Estate Account, House Bill 3699 (“HB 3699”) presented constitutional questions regarding the respective roles of the SBOE and the SLB relating to the disposition of proceeds of real estate transactions to the ASF, among other questions. On April 9, 2008, the Attorney General issued a legal opinion, Op. Tex. Att’y Gen. No. GA-0617 (2008), at the request of the Chair of the SBOE advising, among other matters, that any proceeds from the sale of real estate that are not reinvested by the SLB in other real estate assets must be invested under the direction of the SBOE, and that the provisions of H.B. 3699 that permit the SLB to directly transfer real estate investment proceeds to the ASF (in lieu of transfer to the investment portfolio of the PSF under the management of the SBOE), would likely be determined by a court to be in violation of the State constitution. Amounts in the investment portfolio of the PSF are taken into account by the SBOE for purposes of determining the Distribution Rate. An amendment to the Texas Constitution was approved by State voters on November 8, 2011, which permits the SLB to make transfers directly to the ASF, see “2011 Constitutional Amendment” below.

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

As noted above, the Texas Constitution and applicable statutes make the SBOE responsible for investment of the PSF’s financial assets. By law, the Commissioner is appointed by the Governor, with Senate confirmation, and assists the SBOE, but the Commissioner can neither be hired nor dismissed by the SBOE. The Executive Administrator of the Fund is also hired by and reports to the Commissioner. Moreover, although the Fund’s Executive Administrator and his staff implement the decisions of and provide information to the School Finance/PSF Committee of the SBOE and the full SBOE, the SBOE can neither select nor dismiss the Executive Administrator. TEA’s General Counsel provides legal advice to the Executive Administrator and to the SBOE. The SBOE has also engaged outside counsel to advise it as to its duties over the Fund, including specific actions regarding the investment of the PSF to ensure compliance with fiduciary standards, and to provide transactional advice in connection with the investment of Fund assets in non-traditional investments.

THE GUARANTEE

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

In the event of default, holders of guaranteed bonds will receive all payments due from the corpus of the PSF. Following a determination that a district will be or is unable to pay maturing or matured principal or interest on any guaranteed bond, the Act requires the district to notify the Commissioner not later than the fifth day before the stated maturity date of such bond or interest payment. Immediately following receipt of such notice, the Commissioner must cause to be transferred from the appropriate account in the PSF to the Paying Agent/Registrar an amount necessary to pay the maturing or matured principal and interest. Upon receipt of funds for payment of such principal or interest, the Paying Agent/Registrar must pay the amount due and

forward the canceled bond or evidence of payment of the interest to the State Comptroller of Public Accounts (the "Comptroller"). The Commissioner will instruct the Comptroller to withhold the amount paid, plus interest, from the first State money payable to the district. The amount withheld will be deposited to the credit of the PSF. The Comptroller must hold such canceled bond or evidence of payment of the interest on behalf of the PSF. Following full reimbursement of such payment by the district to the PSF with interest, the Comptroller will cancel the bond or evidence of payment of the interest and forward it to the district. The Act permits the Commissioner to order a school district to set a tax rate sufficient to reimburse the Fund for any payments made with respect to guaranteed bonds, and also sufficient to pay future payments on guaranteed bonds, and provides certain enforcement mechanisms to the Commissioner, including the appointment of a board of managers or annexation of a defaulting district to another district.

If a district fails to pay principal or interest on a bond as it is stated to mature, other amounts not due and payable are not accelerated and do not become due and payable by virtue of the district's default. The Guarantee Program does not apply to the payment of principal and interest upon redemption of bonds, except upon mandatory sinking fund redemption, and does not apply to the obligation, if any, of a school district to pay a redemption premium on bonds.

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

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

CAPACITY LIMITS FOR THE GUARANTEE PROGRAM

The capacity of the Fund to guarantee bonds under the Guarantee Program is limited in two ways: by State law (the "State Capacity Limit") and by regulations and a notice issued by the Internal Revenue Service (the "IRS" and the "IRS Limit," respectively). Prior to May 20, 2003, the State Capacity Limit was equal to two times the lower of cost or fair market value of the Fund's assets, exclusive of real estate. During the 78th Regular Session of the Legislature in 2003, legislation was enacted that increased the State Capacity Limit by 25%, to two and one half times the lower of cost or fair market value of the Fund's assets as estimated by the SBOE and certified by the State Auditor, and eliminated the real estate exclusion from the calculation.

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

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

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

Since July 1991, when the SBOE amended the Guarantee Program Rules to broaden the range of bonds that are eligible for guarantee under the Guarantee Program to encompass most Texas school district bonds, the principal amount of bonds guaranteed under the Guarantee Program has increased sharply. In addition, in recent years a number of factors have caused an increase in the amount of bonds issued by school districts in the State. See the table “Permanent School Fund Guaranteed Bonds” below. The SBOE has approved and modified the Guarantee Program Rules in recent years, most recently in May 2010. Generally, the Guarantee Program Rules limit guarantees to certain types of notes and bonds, including, with respect to refunding bonds, a requirement that the bonds produce debt service savings, and that bonds issued for capital facilities must have been voted as unlimited tax debt of the issuing district. The Guarantee Program regulations include certain accreditation criteria for districts applying for a guarantee of their bonds, and limit guarantees to districts that have less than the amount of annual debt service per average daily attendance that represents the 90th percentile of annual debt service per average daily attendance for all districts, but such limitation will not apply to school districts that have enrollment growth of at least 25% over the previous five school years. Effective September 1, 2009, the Act provides that the SBOE may annually establish a percentage of the cost value of the Fund to be reserved from use in guaranteeing bonds. The capacity of the Guarantee Program in excess of any reserved portion is referred to herein as the “Capacity Reserve.” The Guarantee Program Rules provide for a minimum Capacity Reserve of no less than 5%, and provide that the amount of the Capacity Reserve may be increased by a majority vote of the SBOE. The Commissioner is authorized to change the Capacity Reserve, which decision must be ratified or rejected by the SBOE at its next meeting following any change made by the Commissioner. The Guarantee Program Rules are codified in the Texas Administrative Code at 19 TAC sections 33.65 et seq., and are available on the TEA web site at www.tea.state.tx.us/rules/tac/chapter033/index.html. The current Capacity Reserve is noted in the monthly updates with respect to the capacity of the Guarantee Program on the TEA web site at www.tea.state.tx.us/psf, which are also filed with the MSRB.

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

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

RATINGS OF BONDS GUARANTEED UNDER THE GUARANTEE PROGRAM

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

VALUATION OF THE PSF AND GUARANTEED BONDS

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

⁽¹⁾ SLB managed assets are included in the market value and book value of the Fund. In determining the market value of the PSF from time to time during a fiscal year, the TEA uses current, unaudited values for TEA managed investment portfolios and cash held by the SLB. Market values of land and mineral interests, and investments in externally managed real estate funds managed by the SLB are based upon information reported to the PSF by the SLB. Beginning in fiscal year 2009, the SLB reported that information to the PSF on a quarterly basis. The valuation of such assets at any point in time is dependent upon a variety of factors, including economic conditions in the State and nation in general, and the values of these assets, and, in particular, the valuation of mineral holdings administered by the SLB, can be volatile and subject to material changes from period to period. At

August 31, 2011, land, external real estate investments, mineral assets and cash managed by the SLB had book values of approximately \$352.24 million, \$1.41 billion, \$13.39 million and \$1.30 billion, respectively, and market values of approximately \$691.50 million, \$1.19 billion, \$2.37 billion and \$1.30 billion, respectively.

⁽²⁾ At July 30, 2012, the PSF had a book value of \$25,182,572,352 and a market value of \$31,206,409,363 (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 July 30, 2012, there were \$53,724,503,238 of bonds guaranteed under the Guarantee Program and the capacity of the Guarantee Program was \$75,547,717,056 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. In July 2012, the SBOE established a 3.3% Distribution Rate for the 2014-15 biennium (which could be changed by the SBOE prior to the commencement of the January 2013 legislative session).

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 2012-13 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, and the Distribution Rate for the 2014-15 biennium has been reduced to 3.3%, as described above. If the SBOE were to maintain a Distribution Rate in future years at the level set for 2012-13, prior to the enactment of the 2011 constitutional amendment, 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, 2012 (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 3.09%. 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 has begun increasing the PSF administrative staff in accordance with the 2011 legislative appropriation.

As of August 31, 2011, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property. Reference is made to the Annual Report for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

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

PSF CONTINUING DISCLOSURE UNDERTAKING

The SBOE has adopted an investment policy rule (the "TEA Rule") pertaining to the PSF and the Guarantee Program. The TEA Rule is codified in Section I of the TEA Investment Procedure Manual, which relates to the Guarantee Program. The most recent amendment to the TEA Rule was adopted by the SBOE on November 19, 2010, and is summarized below. Through the adoption of the TEA Rule and its commitment to guarantee the Bonds, the SBOE has made the following agreement for the benefit of the District and holders and beneficial owners of the Bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an "obligated person," within the meaning of SEC Rule 15c2-12 ("Rule 15c2-12"), with respect to the Bonds. Nothing in the TEA Rule obligates the Agency to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the Agency under the TEA Rule pertain solely to the Guarantee Program. The district issuing the guaranteed bonds has assumed the applicable obligation under Rule 15c-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such district undertakings. Under the TEA agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

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

ANNUAL REPORTS

The TEA will annually provide certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the Guarantee Program and the PSF of the general type included in this Official Statement under the heading "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM." The information also includes the Annual Report. The TEA will update and provide this information within six months after the end of each fiscal year.

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

State law or regulation. The financial statements of the Fund were prepared to conform to U.S. Generally Accepted Accounting Principles as established by the Governmental Accounting Standards Board.

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

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

MATERIAL EVENT NOTICES

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

AVAILABILITY OF INFORMATION

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

LIMITATIONS AND AMENDMENTS

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

The continuing disclosure agreement of the TEA is made only with respect to the PSF and the Guarantee Program. The District may make a continuing disclosure undertaking in accordance with Rule 15c2-12 with respect to its obligations arising under Rule

15c2-12 pertaining to financial and operating data concerning the District and notices of material events relating to the Bonds. A description of the District's undertaking, if any, is included elsewhere in the Official Statement relating to the Bonds.

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

COMPLIANCE WITH PRIOR UNDERTAKINGS

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

SEC EXEMPTIVE RELIEF

On February 9, 1996, the TEA received a letter from the Chief Counsel of the SEC that pertains to the availability of the "small issuer exemption" set forth in paragraph (d)(2) of Rule 15c2-12. The letter provides that Texas school districts which offer municipal securities that are guaranteed under the Guarantee Program may undertake to comply with the provisions of paragraph (d)(2) of Rule 15c2-12 if their offerings otherwise qualify for such exemption, notwithstanding the guarantee of the school district securities under the Guarantee Program. Among other requirements established by Rule 15c2-12, a school district offering may qualify for the small issuer exemption if, upon issuance of the proposed series of securities, the school district will have no more than \$10 million of outstanding municipal securities.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

LITIGATION RELATING TO THE TEXAS PUBLIC SCHOOL FINANCE SYSTEM

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

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

The intervening school district groups contended that funding for school operations and facilities was inefficient in violation of Article VII, Section 1 of the Texas Constitution, because children in property-poor districts did not have substantially equal access to education revenue. All of the plaintiff and intervenor school districts asserted that the Finance System could not

achieve "a general diffusion of knowledge" as required by Article VII, Section 1 of the Texas Constitution, because the Finance System was underfunded. The State, represented by the Texas Attorney General, made a number of arguments opposing the positions of the school districts, as well as asserting that school districts did not have standing to challenge the State in these matters.

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

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

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

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

FUNDING CHANGES IN RESPONSE TO WEST ORANGE-COVE II

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

CURRENT LITIGATION RELATED TO THE TEXAS PUBLIC SCHOOL FINANCE SYSTEM

Several lawsuits have been filed in District Courts of Travis County, Texas, which allege that the Finance System, as modified by legislation enacted by the Legislature since the decision in *West Orange Cove II*, and in particular, as modified by Senate Bill 1 in 2011 (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - 2011 Legislation"), has resulted in a funding system that violates principles established in *West Orange Cove I* and *West Orange Cove II*, and prior decisions of the Supreme Court relating to the constitutionality of the Finance System and several provisions of the Texas Constitution. In general, each suit presents the legal perspectives and arguments of the different coalitions of school districts represented, but as a general matter, each group has challenged the adequacy of funding provided by the Legislature for the Finance System, and the plaintiffs in each suit are seeking to have an injunction issued to the State and its officials to prevent the distribution of any funds under the current Finance System until a constitutional system is created and seek a declaration that changes in funding for the Finance System since the enactment of HB 1 have effectively converted the local M&O Tax into a state property tax in violation of the Texas Constitution. The defendants in the suits include State officials and the State Board of Education (the "State Defendants"). The first suit was filed on October 10, 2011, styled "The Texas Taxpayer & Student Fairness Coalition, et al. v. Robert Scott, Commissioner of Education et al." A second suit was filed on December 9, 2011, styled "*Calhoun County Independent School District, et al. v. Robert Scott, Commissioner of Education, et al.*" A third suit was filed on December 13, 2011, styled "*Edgewood Independent School District, et al. v. Robert Scott, Commissioner of Education, et al.*" 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 State Defendants have filed a general denial in the *Charter School Suit*. All five suits were consolidated by the 250th District Court of Travis County and trial began on October 22, 2012. Because the trial is ongoing, it is not possible to determine how the Court will rule on the merits of the suits referenced above, and it is not possible to determine if any party to the suits referenced above will appeal the Court's ruling. Furthermore, it is possible that additional plaintiffs will join the suits and that other, independent lawsuits may be filed challenging various aspects of the Finance System.

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

POSSIBLE EFFECTS OF LITIGATION AND CHANGES IN LAW ON DISTRICT BONDS

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

In the future, the Legislature could enact additional changes to the Finance System which could benefit or be a detriment to a school district depending upon a variety of factors, including the financial strategies that the district has implemented in light of past State funding systems. Among other possibilities, a district's boundaries could be redrawn, taxing powers restricted, State funding reallocated, or local ad valorem taxes replaced with State funding subject to biennial appropriation. In *Edgewood IV*, the Supreme Court stated that any future determination of unconstitutionality "would not, however, affect the district's authority to levy the taxes necessary to retire previously issued bonds, but would instead require the Legislature to cure the system's unconstitutionality in a way that is consistent with the Contract Clauses of the U.S. and Texas Constitutions" (collectively, the "Contract Clauses"). Consistent with the Contract Clauses, in the exercise of its police powers, the State may make such modifications in the terms and conditions of contractual covenants related to the payment of the Bonds as are reasonable and necessary for the attainment of important public purposes.

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

OVERVIEW

The following description of the Finance System is a summary of the Reform Legislation and the changes made by the State Legislature to the Reform Legislation since its enactment, including modifications made during the regular through third called sessions of the 79th Texas Legislature (collectively, the "2006 Legislative Session"), the regular session of the 81st Texas Legislature (the "2009 Legislative Session") and the regular and first called sessions of the 82nd Texas Legislature (collectively, the "2011 Legislative Session"). For a more complete description of school finance and fiscal management in the State, reference is made to Vernon's Texas Codes Annotated, Education Code, Chapters 41 through 46, as amended.

Funding for school districts in the State is provided primarily from State and local sources. State funding for all school districts is provided through a set of funding formulas comprising the "Foundation School Program," as well as two facilities financing programs. Generally, the Finance System is designed to promote wealth equalization among school districts by balancing State

and local sources of funds available to school districts. In particular, because districts with relatively high levels of property wealth per student can raise more local funding, such districts receive less State aid, and in some cases, are required to disburse local funds to equalize their overall funding relative to other school districts. Conversely, because districts with relatively low levels of property wealth per student have limited access to local funding, the Finance System is designed to provide more State funding to such districts. Thus, as a school district's property wealth per student increases, State funding to the school district is reduced. As a school district's property wealth per student declines, the Finance System is designed to increase its State funding.

A similar equalization system exists for facilities funding wherein districts with the same tax rate for debt service raise the same amount of combined State and local funding. Facilities funding for debt incurred in prior years is expected to continue in future years; however, State funding for new school facilities was not appropriated by the 82nd Texas Legislature for the 2012–13 fiscal biennium.

Local funding is derived from collections of ad valorem taxes levied on property located within each district's boundaries. School districts are authorized to levy two types of property taxes: a limited M&O tax to pay current expenses and an unlimited interest and sinking fund ("I&S") tax to pay debt service on bonds. Under current law, M&O tax rates are subject to a statutory maximum rate of \$1.17 per \$100 of taxable value for most school districts. Current law also requires school districts to demonstrate their ability to pay debt service on outstanding indebtedness through the levy of an ad valorem tax at a rate of not to exceed \$0.50 per \$100 of taxable property at the time bonds are issued. Once bonds are issued, however, districts may levy a tax to pay debt service on such bonds unlimited as to rate or amount (see "TAX INFORMATION – Tax Rate Limitations" herein). As noted above, because property values vary widely among school districts, the amount of local funding generated by the same tax rate is also subject to wide variation among school districts.

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

LOCAL FUNDING FOR SCHOOL DISTRICTS

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

STATE FUNDING FOR SCHOOL DISTRICTS

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

continue to be funded (but not the second year for NIFA for the 2012–13 fiscal biennium for districts that first became eligible for NIFA in the 2010–11 fiscal year).

Tier One and Tier Two allotments represent the State's share of the cost of M&O expenses of school districts, with local M&O taxes representing the district's local share. EDA and IFA allotments supplement a school district's local I&S taxes levied for debt service on eligible bonds issued to construct, acquire and improve facilities. Tier One and Tier Two allotments and existing EDA and IFA allotments are generally required to be funded each year by the Legislature. Since future-year IFA awards were not funded by the Legislature for the 2012–13 fiscal biennium, and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service on new bonds issued by districts to construct, acquire and improve facilities must be funded solely from local I&S taxes. State funding allotments may be adjusted in certain circumstances to account for shortages in State appropriations or to allocate available funds in accordance with wealth equalization goals.

Tier One allotments are intended to provide all districts a basic level of education necessary to meet applicable legal standards. Tier Two allotments are intended to guarantee each school district that is not subject to the wealth transfer provisions described below an opportunity to supplement that basic program at a level of its own choice; however, Tier Two allotments may not be used for the payment of debt service or capital outlay.

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

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

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

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

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

2006 LEGISLATION

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

2009 LEGISLATION

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

2011 LEGISLATION

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

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

WEALTH TRANSFER PROVISIONS

Some districts have sufficient property wealth per student in WADA ("wealth per student") to generate their statutory level of funding through collections of local property taxes alone. Districts whose wealth per student generates local property tax collections in excess of their statutory level of funding are referred to as "Chapter 41" districts because they are subject to the wealth equalization provisions contained in Chapter 41 of the Texas Education Code. Chapter 41 districts may receive State funds for certain competitive grants and a few programs that remain outside the Foundation School Program, as well as receiving ASATR until

their overall funding meets or exceeds their Target Revenue level of funding. Otherwise, Chapter 41 districts are not eligible to receive State funding. Furthermore, Chapter 41 districts must exercise certain options in order to reduce their wealth level to equalized wealth levels of funding, as determined by formulas set forth in the Reform Legislation. For most Chapter 41 districts, this equalization process entails paying the portion of the district's local taxes collected in excess of the equalized wealth levels of funding to the State (for redistribution to other school districts) or directly to other school districts with a wealth per student that does not generate local funds sufficient to meet the statutory level of funding; a process known as "recapture".

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

Under Chapter 41, a district has five options to reduce its wealth per student so that it does not exceed the equalized wealth levels: (1) a district may consolidate by agreement with one or more districts to form a consolidated district; all property and debt of the consolidating districts vest in the consolidated district; (2) a district may detach property from its territory for annexation by a property-poor district; (3) a district may purchase attendance credits from the State; (4) a district may contract to educate nonresident students from a property-poor district by sending money directly to one or more property-poor districts; or (5) a district may consolidate by agreement with one or more districts to form a consolidated taxing district solely to levy and distribute either M&O taxes or both M&O taxes and I&S taxes. A Chapter 41 district may also exercise any combination of these remedies. Options (3), (4) and (5) require prior approval by the transferring district's voters; however, Chapter 41 districts may apply ASATR funds to offset recapture and to achieve the statutory wealth equalization requirements, as described above, without approval from voters.

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

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

Student enrollment is projected to remain flat for fiscal years 2013 and 2014 (compared to fiscal year 2012), State funding will be reduced (as compared to fiscal year 2012) by approximately 2.4% during the 2013 fiscal year. For the 2013 fiscal year, the District decreased expenditures by approximately \$36 million by increasing student teacher ratios in Elementary grades (Pk-4), consolidating nine campuses, restructuring delivery of custodial services to market standards and reducing legal cost expenditures. At this time it is unclear if actions by the State legislature will have a financial impact for fiscal year 2014. The District will monitor State actions for the following biennium and make necessary adjustments. Although the District qualifies as a Chapter 41 district, the District's equalized wealth per student for 2012 is below the threshold that would require the District to exercise one of the wealth equalization options described above.

TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the District is the responsibility of the Dallas Central Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under Title I of the Texas Tax Code (the "Property Tax Code") to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount that would not exceed either 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, plus (b) the property's appraised value the preceding tax year, plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The District may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the District by petition filed with the Appraisal Review Board.

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

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

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

\$15,000; and an additional

\$10,000 for those 65 years of age or older, or the disabled. A person over 65 and disabled may receive only one \$10,000 exemption, and only one such exemption may be received per family, per residence homestead. State law also mandates a freeze on taxes paid on residence homesteads of persons who are 65 years of age or older or disabled, to the extent that such persons are eligible for the \$10,000 exemption. Such residence homesteads shall be appraised and taxes calculated as on any other property, but taxes shall never exceed the amount imposed in the first year in which the property received the \$10,000 exemption. The freeze on ad valorem taxes on the homesteads of persons who are 65 years of age or older or disabled is also transferable to a different residence homestead. If improvements (other than repairs or improvements required to comply with governmental requirements) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. A “disabled” person is one who is “under a disability for purposes of payment of disability insurance benefits under the Federal Old Age, Survivors and Disability Insurance”. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse and the spouse was at least 55 years of age at the time of the death of the individual’s spouse. Pursuant to a constitutional amendment approved by the voters on May 12, 2007, legislation was enacted to reduce the school property tax limitation imposed by the freeze on taxes paid on residence homesteads of persons who are 65 years of age or over or disabled to correspond to reductions in local school district tax rates from the 2005 tax year to the 2006 tax year and from the 2006 tax year to the 2007 tax year (see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – General”). The school property tax limitation provided by the constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years.

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

- (i) An exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision;
- (ii) An exemption of up to 20% of the market value of residence homesteads; minimum exemption \$5,000.

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

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

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

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000; provided, however, that beginning in the 2009 tax year, a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran’s residence homestead.

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

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

Article VIII, Section 1-j of the Texas Constitution provides for “freeport property” to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Notwithstanding such exemption, counties, school districts, junior college districts and cities may tax such tangible personal property provided official action to tax the same was taken before April 1, 1990. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal.

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

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

TAX RATE LIMITATIONS . . . A school district is authorized to levy maintenance and operation (“M&O”) taxes subject to approval of a proposition submitted to district voters. 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 5, 1956, pursuant to Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended (“Article 2784e-1”). Article 2784e-1 limits the District’s annual M&O tax rate based upon a comparison between the District’s outstanding bonded indebtedness and the District’s taxable assessed value per \$100 of assessed valuation. Article 2784e-1 provides for a reduction of \$0.10 for each one percent (1%) or major fraction thereof increase in bonded indebtedness beyond seven percent (7%) of assessed valuation of property in the District. This limitation is capped when the District’s bonded indebtedness is ten percent (10%) (or greater) of the District’s assessed valuation which would result in an annual M&O tax rate not to exceed \$1.20. Lastly, the Texas Attorney General in reviewing the District’s transcript of proceedings will allow the District to reduce the amount of its outstanding bonded indebtedness by the amount of funds (on a percentage basis) that the District receives in State assistance for the repayment of this bonded indebtedness (For example, if the District anticipates that it will pay 75% of its bonded indebtedness from State assistance, for the purposes of Article 2784e-1, the Texas Attorney General will assume that only 25% of the District’s bonded indebtedness is outstanding and payable from local ad valorem taxes). The bonded indebtedness of the District

after the issuance of the Bonds will be approximately 3.31% of the District's current taxable assessed valuation of property. See "TAX INFORMATION - Table 1 Valuation, Exemptions and Tax Supported Debt" herein.

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, or such lower rate as described in the preceding paragraph, and (B) the sum of (1) the rate of \$0.17, and (2) the product of the "State Compression Percentage" multiplied by \$1.50. The State Compression Percentage has been set, and will remain, at 66.67% for fiscal years 2007–08 through 2012–13. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For a more detailed description of the State Compression Percentage, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Local Funding for School Districts". Furthermore, a school district cannot annually increase its tax rate in excess of the district's "rollback tax rate" without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate. See "TAX INFORMATION - Public Hearing and Rollback Tax Rate."

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

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

PUBLIC HEARING AND ROLLBACK TAX RATE

In setting its annual tax rate, the governing body of a school district generally cannot adopt a tax rate exceeding the district's "rollback tax rate" without approval by a majority of the voters voting at an election approving the higher rate. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures and (2) a rate for debt service. 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.

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

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

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

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

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

DISTRICT APPLICATION OF TAX CODE . . . The District grants a state mandated \$15,000 general homestead exemption.

The District grants a state mandated \$10,000, plus a \$35,000 optional, residence homestead exemption for persons 65 years of age or older or the disabled.

The District grants an additional exemption of 10% (not less than \$5,000) 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 grants a freeport exemption.

The District taxes goods-in-transit.

TAX ABATEMENT POLICY . . . The District has entered into tax abatement agreements totaling \$47,365,081 of value added improvements to real property. Under the Guidelines and Criteria for Tax Abatements established by the District, only a maximum of 90% of the value added amount may be abated. The amount of State aid to the District which would be lost over the life of the abatement must be borne by the developer through a cash contribution.

The District participates in the following City of Dallas tax increment reinvestment zones at the indicated level of increment contributed to the zone:

- Reinvestment Zone 3 – Oakcliff Gateway Tax Increment Financing District – 71% participation
- Reinvestment Zone 4 – Cedars Tax Increment Financing District – 50% participation
- Reinvestment Zone 7 – Sports Arena Tax Increment Financing District – 50% participation

The District also has a 35% participation in the City of Farmers Branch Tax Increment Financing Zone #1.

TABLE 1 - VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT

2012/13 Market Valuation Established by the Dallas Central Appraisal District (excluding totally exempt property)		\$ 85,992,976,520
\$15,000 General Homestead Exemption Loss	\$ 2,355,334,525	
\$10,000 Over-65 Homestead Exemption Loss	462,671,319	
State Mandated Disabled Person Exemptions	70,964,613	
State Mandated Veteran Exemptions	45,308,949	
Local Option - Percentage Exemption Loss	3,111,867,985	
Local Option - Over 65 Exemption Loss	1,334,584,277	
Local Option - Disabled Exemption Loss	170,381,505	
Pollution Control Loss	5,910,883	
Abatement Value Loss	47,365,081	
Freeport Exemption Loss	1,434,164,768	
Productivity Loss	201,783,934	
Historical Exemption Loss	17,698,500	
Prorated Totally Exempt	22,335,320	
Capped Value Loss	<u>91,283,988</u>	<u>(9,371,655,647)</u>
2012/13 Certified Taxable Assessed Valuation		\$ 76,621,320,873
Debt Payable from Ad Valorem Taxes (as of 12/13/12)		
Outstanding Debt ⁽¹⁾	\$ 2,081,640,000	
The 2012 Bonds ⁽²⁾	410,540,000	
The 2012-A Bonds ⁽³⁾	<u>47,265,000</u>	
Debt Payable from Ad Valorem Taxes (as of 12/13/12) ⁽²⁾		\$ 2,539,445,000
Ratio Tax Supported Debt to 2012/13 Certified Taxable Assessed Valuation ⁽²⁾		3.31%
Current Estimated Population - 1,207,420 Per Capita Taxable Assessed Valuation - \$63,459 Per Capita Debt Payable from Ad Valorem Taxes - \$2,103		

(1) Excludes the Refunded Bonds.

(2) Preliminary, subject to change.

(3) The Series 2012-A Bonds are expected to be issued concurrently with the Bonds. Preliminary, subject to change.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Appraised Value for Fiscal Year Ended June 30,					
	2013		2012		2011	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 39,260,959,550	45.66%	\$ 39,699,441,220	46.95%	\$ 40,605,235,270	47.30%
Real, Residential, Multi-Family	8,126,458,410	9.45%	7,314,805,760	8.65%	7,033,739,090	8.19%
Real, Vacant Lots/Tracts	2,074,264,380	2.41%	2,308,962,540	2.73%	2,349,549,490	2.74%
Real, Acreage (Land Only)	192,387,170	0.22%	192,208,830	0.23%	196,157,480	0.23%
Real, Farm and Ranch Improvements	25,700,610	0.03%	30,281,230	0.04%	26,919,920	0.03%
Real, Commercial	21,864,091,170	25.43%	21,076,052,100	24.93%	21,838,131,410	25.44%
Real, Industrial	433,271,080	0.50%	431,476,090	0.51%	443,022,280	0.52%
Real & Tangible Personal, Utilities	1,566,654,690	1.82%	1,525,058,230	1.80%	1,543,091,460	1.80%
Tangible Personal, Commercial	10,209,751,670	11.87%	9,748,366,920	11.53%	9,523,995,550	11.10%
Tangible Personal, Industrial	1,948,726,070	2.27%	1,959,191,930	2.32%	2,031,170,940	2.37%
Real, Mobile Homes	28,170,130	0.03%	27,773,690	0.03%	28,999,350	0.03%
Residential, Inventory	6,363,160	0.01%	6,612,300	0.01%	6,612,300	0.01%
Special, Inventory	256,178,430	0.30%	230,737,680	0.27%	210,870,590	0.25%
Total Appraised Value Before Exemptions	\$ 85,992,976,520	100.00%	\$ 84,550,968,520	100.00%	\$ 85,837,495,130	100.00%
Less: Total Exemptions/Reductions	<u>(9,371,655,647)</u>		<u>(9,397,850,975)</u>		<u>(9,470,064,178)</u>	
Taxable Assessed Value	<u>\$ 76,621,320,873</u>		<u>\$ 75,153,117,545</u>		<u>\$ 76,367,430,952</u>	

Category	Taxable Appraised Value for Fiscal Year Ended June 30,			
	2010		2009	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 41,474,489,950	46.10%	\$ 42,119,313,080	45.39%
Real, Residential, Multi-Family	7,442,578,690	8.27%	7,611,535,890	8.20%
Real, Vacant Lots/Tracts	2,527,901,840	2.81%	2,765,008,370	2.98%
Real, Acreage (Land Only)	275,325,600	0.31%	288,856,210	0.31%
Real, Farm and Ranch Improvements	26,009,190	0.03%	29,363,570	0.03%
Real, Commercial	23,402,482,780	26.01%	25,375,135,640	27.35%
Real, Industrial	475,388,450	0.53%	430,806,530	0.46%
Real & Tangible Personal, Utilities	1,593,623,950	1.77%	1,664,767,490	1.79%
Real, Commercial	10,096,419,710	11.22%	9,949,753,780	10.72%
Real, Industrial	2,380,601,210	2.65%	2,258,023,810	2.43%
Real, Mobile Homes	28,119,520	0.03%	29,802,720	0.03%
Residential, Inventory	846,630	0.00%	822,670	0.00%
Special, Inventory	245,144,920	0.27%	263,020,230	0.28%
Total Appraised Value Before Exemptions	\$ 89,968,932,440	100.00%	\$ 92,786,209,990	100.00%
Less: Total Exemptions/Reductions	<u>(10,366,200,304)</u>		<u>(10,954,773,737)</u>	
Taxable Assessed Value	<u>\$ 79,602,732,136</u>		<u>\$ 81,831,436,253</u>	

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

TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY

Fiscal Year Ending ⁽¹⁾	District Population ⁽²⁾	Taxable Assessed Valuation ⁽³⁾	Taxable Assessed Valuation Per Capita	Tax Debt Outstanding at Fiscal Year End	Ratio of Tax Debt to Taxable Assessed Valuation	Tax Debt Per Capita
2009	1,306,350	\$ 81,831,436,253	\$ 62,641	\$ 1,789,060,000	2.19%	\$ 1,370
2010	1,316,350	79,602,732,136	60,472	1,706,675,000	2.14%	1,297
2011	1,316,350	76,367,430,952	58,015	2,600,555,000	3.41%	1,976
2012	1,200,530	75,153,117,545	62,600	2,539,445,000	3.38%	2,115
2013	1,207,420	76,621,320,873	63,459	2,478,740,000 ⁽⁴⁾	3.24% ⁽⁴⁾	2,053 ⁽⁴⁾

- (1) The District's fiscal year end is June 30th. Due to the timing of tax collection receipts, the District budgets for debt payments on a calendar year basis.
- (2) Source: North Central Texas Council of Governments.
- (3) As reported by the Dallas Central Appraisal District on the District's annual State Property Tax Reports and such values are subject to change during ensuing year.
- (4) Projected, includes the Bonds plus the 2012-A Bonds expected to issue concurrently with the Bonds, and excludes the Refunded Bonds. Preliminary, subject to change.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 6/30	Total Tax Rate	Local Maintenance	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2009	\$ 1.183402	\$ 1.040050	\$ 0.143352	\$ 943,732,752	95.65%	96.57%
2010	1.271340	1.040050	0.231290	979,714,539	96.42%	97.77%
2011	1.237811	1.040050	0.197761	912,283,518	96.93%	98.63%
2012	1.290347	1.040050	0.250297	936,131,014	97.78%	98.57%
2013	1.290347	1.040050	0.250297	959,655,168	0.10% ⁽¹⁾	0.19% ⁽¹⁾

- (1) Collections as of October 12, 2012. Tax bills for Tax Year 2012 are mailed in October 2012 and become delinquent on February 1, 2013.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2012/13 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Crescent TC Investors LP	Real Estate	\$ 686,264,748	0.90%
Oncor Electric Delivery	Electric Utility	590,291,940	0.77%
AT&T Communications	Telecommunications	582,957,946	0.76%
Northpark Land Partners LP	Real Estate	578,774,660	0.76%
Southwest Airlines Co.	Commercial Airline	465,747,029	0.61%
PC Village Apt Dallas LP	Real Estate	299,138,450	0.39%
Galleria Mall Investors LP	Real Estate	288,350,920	0.38%
Walmart	Retail	270,772,540	0.35%
Post Properties	Real Estate	208,687,570	0.27%
Teachers Insurance & Annuity	Insurance	189,505,900	0.25%
		<u>\$4,160,491,703</u>	<u>5.43%</u>

TABLE 6 - ESTIMATED OVERLAPPING DEBT

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

Taxing Jurisdiction	2012/13 Taxable Assessed Value	2012/13 Tax Rate	Total Tax Supported Debt as of 12/13/2012	Estimated % Applicable	District's Overlapping Tax Supported Debt as of 12/13/2012
Dallas ISD	\$ 76,621,320,873	\$1.290347	\$ 2,539,445,000 ⁽²⁾	100.00%	\$ 2,539,445,000 ⁽²⁾
Town of Addison	3,134,894,878	0.580000	90,905,000	93.52%	73,120,000
City of Balch Springs	641,476,584	0.803000	7,200,000	29.54%	2,126,880
City of Carrollton	8,906,668,661 ⁽¹⁾	0.617875	158,850,000	10.13%	16,091,505
City of Cockrell Hill	89,280,414	0.823145	0	97.73%	0
Dallas County	157,695,312,615	0.243100	121,605,000	48.04%	58,419,042
Dallas County Community College District	164,751,737,568	0.119375	374,265,000	46.18%	172,835,577
Dallas County Hospital District	157,850,172,270	0.271000	705,000,000	47.76%	336,708,000
City of Dallas	78,908,940,661	0.797000	1,644,077,336	78.62%	1,292,573,602
City of DeSoto	2,779,938,575	0.757400	85,675,000	19.27%	16,509,573
City of Duncanville	1,626,721,654	0.737692	21,145,000	0.27%	57,092
City of Farmers Branch	3,688,232,621	0.529500	24,330,000	38.29%	9,315,957
City of Garland	10,118,320,225	0.704600	495,184,750	1.68%	8,319,104
City of Glenn Heights	409,108,730 ⁽¹⁾	0.795000	5,590,000	0.01%	559
City of Hutchins	264,225,832	0.660907	8,640,000	81.88%	7,074,432
City of Lancaster	1,457,837,433	0.867500	87,550,000	2.06%	1,803,530
City of Mesquite	6,217,481,387 ⁽¹⁾	0.640000	119,000,000	1.74%	2,070,600
City of Seagoville	455,189,412	0.690853	5,462,691	89.86%	4,908,774
Total Direct and Overlapping Tax Supported Debt					\$ 4,541,379,226
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation					5.93%
Per Capita Direct and Overlapping Tax Supported Debt					\$ 3,761.23

(1) Represent 2011/12 data.

(2) Projected, includes the Bonds plus the 2012-A Bonds expected to be issued concurrently with the Bonds and excludes the Refunded Bonds. Preliminary, subject to change.

DEBT INFORMATION

TABLE 7 - PRO-FORMA TAX SUPPORTED DEBT SERVICE REQUIREMENTS

Calendar Year Ending ⁽¹⁾	Outstanding Debt ⁽²⁾			The Bonds ⁽³⁾			The 2012-A Bonds ⁽⁴⁾			Total Debt Service Requirements	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total		
2013	\$ 49,685,000	\$ 115,409,633	\$ 165,094,633	\$ 10,170,000	\$ 9,969,679	\$ 20,139,679	\$ 850,000	\$ 1,491,628	\$ 2,341,628	\$ 187,575,939	2.39%
2014	50,735,000	113,015,473	163,750,473	-	14,668,208	14,668,208	-	2,199,825	2,199,825	180,618,505	4.39%
2015	42,885,000	110,695,248	153,580,248	10,105,000	14,668,208	24,773,208	930,000	2,199,825	3,129,825	181,483,280	6.51%
2016	49,515,000	108,652,110	158,167,110	12,475,000	14,365,058	26,840,058	1,340,000	2,167,275	3,507,275	188,514,443	9.01%
2017	50,335,000	106,317,329	156,652,329	15,590,000	13,990,808	29,580,808	1,820,000	2,113,675	3,933,675	190,166,811	11.67%
2018	60,670,000	103,305,605	163,975,605	11,075,000	13,523,108	24,598,108	1,145,000	2,022,675	3,167,675	191,741,388	14.54%
2019	65,055,000	100,233,719	165,288,719	11,800,000	13,190,858	24,990,858	1,135,000	1,965,425	3,100,425	193,380,001	17.61%
2020	69,775,000	97,125,689	166,900,689	11,795,000	12,836,858	24,631,858	1,265,000	1,908,675	3,173,675	194,706,221	20.88%
2021	77,430,000	93,782,504	171,212,504	9,370,000	12,483,008	21,853,008	1,050,000	1,845,425	2,895,425	195,960,936	24.34%
2022	70,570,000	90,354,271	160,924,271	19,795,000	12,201,908	31,996,908	2,515,000	1,792,925	4,307,925	197,229,104	27.99%
2023	73,705,000	86,722,900	160,427,900	21,960,000	11,608,058	33,568,058	2,675,000	1,667,175	4,342,175	198,338,133	31.87%
2024	77,115,000	82,796,049	159,911,049	23,765,000	10,949,258	34,714,258	3,145,000	1,533,425	4,678,425	199,303,731	35.96%
2025	82,250,000	78,589,750	160,839,750	24,485,000	10,105,600	34,590,600	3,320,000	1,376,175	4,696,175	200,126,525	40.30%
2026	86,395,000	74,164,321	160,559,321	26,300,000	9,126,200	35,426,200	3,605,000	1,210,175	4,815,175	200,800,696	44.88%
2027	91,575,000	69,273,975	160,848,975	27,595,000	8,074,200	35,669,200	3,755,000	1,029,925	4,784,925	201,303,100	49.72%
2028	97,925,000	64,000,648	161,925,648	27,860,000	6,970,400	34,830,400	4,050,000	842,175	4,892,175	201,648,223	54.83%
2029	80,735,000	58,867,900	139,602,900	51,535,000	5,856,000	57,391,000	4,235,000	659,925	4,894,925	201,888,825	60.20%
2030	84,970,000	54,210,940	139,180,940	54,165,000	3,794,600	57,959,600	4,480,000	469,350	4,949,350	202,089,890	65.86%
2031	104,530,000	49,122,169	153,652,169	40,700,000	1,628,000	42,328,000	5,950,000	267,750	6,217,750	202,197,919	65.61%
2032	164,515,000	41,319,483	205,834,483							205,834,483	78.29%
2033	174,350,000	29,889,463	204,239,463							204,239,463	85.16%
2034	183,755,000	18,370,003	202,125,003							202,125,003	92.39%
2035	193,165,000	6,229,571	199,394,571							199,394,571	100.00%
	<u>\$ 2,081,640,000</u>	<u>\$ 1,752,448,751</u>	<u>\$ 3,834,088,751</u>	<u>\$ 410,540,000</u>	<u>\$ 200,010,012</u>	<u>\$ 610,550,012</u>	<u>\$ 47,265,000</u>	<u>\$ 28,763,428</u>	<u>\$ 76,028,428</u>	<u>\$ 4,520,667,190</u>	

(1) The District's fiscal year end is June 30th. However, due to the timing of tax collection receipts, the District budgets for debt payments on a calendar year basis.

(2) Excludes the Refunded Bonds.

(3) Interest has been calculated at a rate of 3.801% for purposes of illustration. Preliminary, subject to change.

(4) The 2012-A Bonds are expected to be issued concurrently with the Bonds. Interest has been calculated at a rate of 4.717% for purposes of illustration. Preliminary, subject to change.

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

Tax Supported Debt Service Requirements, Fiscal Year Ending 06/30/13		\$ 187,575,689
Unaudited Interest and Sinking Fund Balance as of 6/30/12	\$ 104,499,699	
Budgeted Interest and Sinking Fund Tax Levy Collections	<u>187,945,250</u>	<u>\$ 292,444,949</u>
Estimated Fund Balance, Fiscal Year Ending 06/30/13		<u><u>\$ 104,869,260</u></u>

(1) Preliminary, subject to change.

TABLE 9 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

<u>Purpose</u>	<u>Date Authorized</u>	<u>Amount Authorized</u>	<u>Amount Previously Issued</u>	<u>Unissued Balance</u>
School Building	1/19/2002	\$ 1,366,295,000	\$ 1,366,292,922.62	\$ 2,077.38

The District does not plan on issuing the remaining balance of these bonds.

ANTICIPATED ISSUANCE OF ADDITIONAL UNLIMITED TAX DEBT . . . Simultaneously with the issuance of the Bonds, the District intends to issue its Series 2012-A Bonds. After the issuance of the Bonds and the Series 2012-A Bonds, the District does not anticipate the issuance of additional unlimited-tax supported debt within the next 12 months.

TABLE 10 - OTHER OBLIGATIONS

Operating Leases

The District leases offices, copiers, computers, warehouse space and parking under non-cancelable operating leases. Rent expense including non-cancelable leases and other rent charges for the year ended June 30, 2012 was approximately \$15.1 million. Minimum future lease commitments on non-cancelable leases are summarized as follows:

<u>For the Year Ending June 30,</u>	<u>Minimum Future Lease Commitments</u>
2012	\$ 9,834,552
2013	8,557,270
2014	7,206,767
2015	1,819,610
2016	4,751
Thereafter	1,335
TOTAL	<u><u>\$ 27,424,285</u></u>

Qualified Zone Academy Maintenance Tax Notes

On October 1, 2001, the District issued \$6,880,000 of Qualified Zone Academy Maintenance Tax Notes, Series 2001. An additional \$1,120,000 of Qualified Zone Academy Maintenance Tax Notes, Series 2002, was issued on September 1, 2002. On September 20, 2008 the District issued \$20,000,000 of Maintenance Tax Notes, Series 2008. The amount outstanding for these combined notes as of June 30, 2012 was as follows:

Series	Maintenance Tax Notes Maturity or Mandatory Redemption Date	Yield Rates	Total Outstanding Principal Amount (in thousands)
2001	Principal due at maturity - Deposits made to escrow annually at May 1, 2002 to 2015	6.82%	\$ 5,914
2002	Principal due at maturity - interest due each February 15 and August 15 from February 15, 2003 to September 15, 2016	6.14%	1,120
2008	Principal due at maturity - interest due each February 15 and August 15 from February 15, 2009 to February 15, 2015	3.16%	7,540
TOTAL			\$ 14,574

Tax and Revenue Anticipation Notes

District has authorized the issuance of and entered into a purchase agreement regarding its \$50,000,000 Tax and Revenue Anticipation Notes, Series 2012 (the “TRANS”) pursuant to Chapter 1431, Texas Government Code, as amended. The TRANS would be issued for the payment of current operating expenses. Although authorized, the District does not currently anticipate issuing the TRANS. However, if the District does issue the TRANS, the TRANS would be paid in full not later than February 2013. Any TRANS issued by the District would be payable from the District’s ad valorem tax levied for maintenance purposes and would not be payable from the ad valorem taxes levied to pay the principal of and interest on the Bonds.

SEQUESTRATION TRANSPARENCY ACT OF 2012 . . . The American Recovery and Reinvestment Act of 2009 (“ARRA”) authorized the issuance of “build America bonds”, which permitted issuers to elect to receive payments equal to 35% payable on the “build America bonds”. The interest payable on “build America bonds” is subject to federal income taxation. Under the “build America bonds” program, the District currently receives payments from the Federal government with respect to its \$950,300,000 Unlimited Tax School Building Bonds, Taxable Series 2010C (Build America Bonds – Direct Payment to Issuer) (the “2010C Build America Bonds”). The payments are equal to 35% of the interest payable on the taxable debt (the “Federal Subsidy”). Under the Sequestration Transparency Act of 2012 (“STA”), the Federal Subsidy would be reduced. The STA is triggered by the failure of Congress to enact legislation to reduce the deficit by \$1.2 trillion, as required by the Budget Control Act of 2011, and will go into effect January 2, 2013 if a deficit reduction plan is not adopted by Congress. On September 13, 2012, the United States Office of Management and Budget issued a report (the “Report”) detailing the effects of sequestration for Fiscal Year 2013. While the Report is preliminary, it estimates that the Federal Subsidies would be reduced by 7.6%. At this time, the District does not believe the reduction in the Federal Subsidy would have a material impact on the District’s operations.

PENSION FUND AND OTHER BENEFITS . . . Pension funds for employees of Texas school districts, and any employee in public education in Texas, are administered by the Teacher Retirement System of Texas (the “System”). By statute, plan members must contribute 6.4% of their annual covered salary into the System, and the State of Texas contributes an amount equal to 6.644% of the District’s covered payroll. The District, on behalf of the State, contributes a portion of the State’s contribution on the portion member’s salary that exceeds the statutory minimum (For more detailed information concerning the retirement plan, see Appendix B, “Excerpts from the District’s Annual Financial Report” - Note K.)

In addition to participation in the System, the District provides health care coverage for its employees. For a discussion of the District’s medical benefit plan (see Appendix B, “Excerpts from the District’s Annual Financial Report” - Note L).

As a result of its participation in the System 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.

FINANCIAL INFORMATION

TABLE 11 - SCHEDULE OF CHANGES IN NET ASSETS

	Fiscal Year Ended June 30,				
	2011	2010	2009	2008	2007
Program Revenues:					
Charges for Services	\$ 8,550,698	\$ 9,271,949	\$ 10,109,863	\$ 9,820,678	\$ 9,487,746
Operating Grants & Contributions	364,591,060	351,454,735	280,834,205	266,954,979	258,011,697
Property Taxes	896,935,145	954,394,880	927,538,958	887,709,420	998,972,644
State Aid - Formula Grants	417,317,962	391,146,276	392,602,696	424,377,425	264,854,432
Grants and Contributions (Not Restricted)	35,162,278	40,952,513	20,359,723	11,738,655	5,457,848
Investment Earnings	3,125,832	3,079,368	8,844,949	16,470,476	25,200,633
Miscellaneous	636,479	(124,796) ⁽³⁾	(1,313,479) ⁽³⁾	0	0
Disposal of Capital Assets	0	(276,118) ⁽⁴⁾	(8,731,415) ⁽⁴⁾	0	0
Special Items	0	0	0	0	9,482,500 ⁽¹⁾
Total Revenues	\$ 1,726,319,454	\$ 1,749,898,807	\$ 1,630,245,500	\$ 1,617,071,633	\$ 1,571,467,500
Expenses:					
Instruction	\$ 918,670,306	\$ 914,472,120	\$ 929,388,824	\$ 947,516,694	\$ 842,211,888
Instructional Resource and Media Services	24,732,131	23,935,081	24,826,612	25,681,473	28,009,317
Curriculum & Staff Development	45,017,015	44,632,038	37,138,971	44,295,242	43,644,222
Instructional Leadership	28,885,789	24,822,153	23,795,617	24,228,778	23,917,179
School Leadership	84,065,159	79,490,680	84,301,765	86,231,024	81,421,654
Guidance, Counseling & Evaluation Services	63,488,723	59,630,524	60,939,150	59,463,862	54,186,061
Social Work Services	2,844,122	2,299,973	1,926,948	1,479,906	2,254,864
Health Services	18,252,622	17,363,982	16,722,030	19,176,368	15,916,986
Student Transportation	24,350,694	22,027,097	27,209,587	19,367,604	18,480,368
Food Services	84,684,667	75,750,540	72,934,030	73,587,637	69,187,401
Co-curricular/Extracurricular Activities	20,002,925	16,439,635	11,895,625	12,614,693	11,723,203
General Administration	53,147,300	52,742,750	42,583,250	44,792,325	36,497,765
Plant Maintenance and Operations	155,963,647	154,143,299	152,910,877	168,887,599	161,001,052
Security & Monitoring Services	21,348,002	20,346,170	16,825,756	17,843,175	17,472,481
Data Processing Services	40,833,190	29,336,406	20,235,055	23,343,511	22,551,939
Community Services	8,833,215	13,559,717	16,882,388	18,747,992	23,868,348
Interest and Fiscal Charges	112,597,583	85,075,051	80,960,896	68,332,722	76,165,858
Facilities Acquisition and Construction	231,271	1,057,517	220,411	4,859,998	10,159,043
Chapter 41 Payments	0	0	13,675,440	0	0
Payments to Juvenile Justice Alternative Education	709,194	700,744	730,787	634,959	629,987
Payments to Tax Increment Fund	3,610,740	4,029,110	5,337,315	4,355,716	2,954,107
Other Intergovernmental Charges	3,916,117 ⁽⁵⁾	3,760,526 ⁽⁵⁾	4,036,656 ⁽⁵⁾	0	0
Total Expenses	\$ 1,716,184,412	\$ 1,645,615,113	\$ 1,645,477,990	\$ 1,665,441,279	\$ 1,542,253,723
Increase (decrease) in net assets before transfers and special items	\$ 10,135,042	\$ 104,283,694	\$ (15,232,490) ⁽²⁾	\$ (48,369,646)	\$ 29,213,777
Beginning Net Assets	537,289,822	433,006,128	448,238,618	496,608,264	375,353,873
Prior Period Adjustments	0	0	0	0	92,040,614
Ending Net Assets	\$ 547,424,864	\$ 537,289,822	\$ 433,006,128	\$ 448,238,618	\$ 496,608,264

- (1) In October 2005, the District was ordered by the Texas Education Agency to annex Wilmer-Hutchins ISD. Such annexation took effect July 1, 2006. This amount represents the value of the capital assets acquired by the District as a result of the annexation.
- (2) Please see "GENERAL FUND FINANCIAL, ACCOUNTING AND BUDGETARY STATUS" for a discussion of the District's current financial status.
- (3) Loss on sale of personal property and legal settlements.
- (4) Revaluation of physical inventory.
- (5) Cost of tax collecting and property valuation paid to Dallas County Tax Office and Dallas County Appraisal District respectively. New account code was created in 2009 by the Texas Education Agency for this expense.

TABLE 11-A - SCHEDULE OF GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Years Ended June 30,				
	2011	2010	2009	2008	2007
Revenues:					
Local and Intermediate Sources	\$ 777,660,194	\$ 816,834,514	\$ 815,023,647	\$ 783,499,016	\$ 900,261,831
State Sources	417,317,962	391,146,276	392,602,696	424,377,425	264,854,432
Federal Sources	14,525,292	15,537,029	6,831,969	5,482,106	5,691,260
Total Revenues	\$ 1,209,503,448	\$ 1,223,517,819	\$ 1,214,458,312	\$ 1,213,358,547	\$ 1,170,807,523
Expenditures:					
Instruction	\$ 675,741,849	\$ 705,789,106	\$ 754,270,787	\$ 780,847,577	\$ 695,010,602
Instructional Resource and Media Services	23,075,616	22,952,862	22,860,985	22,704,483	22,353,404
Curriculum & Staff Development	10,450,152	11,398,034	12,399,207	14,989,248	14,185,332
Instructional Leadership	23,407,377	19,780,100	17,199,477	18,644,277	16,456,274
School Leadership	74,756,090	74,160,934	80,501,471	81,830,064	78,460,370
Guidance, Counseling & Evaluation Services	49,200,841	45,417,019	45,375,010	46,491,738	42,784,691
Social Work Services	2,540,821	2,200,648	1,304,846	1,481,390	1,893,863
Health Services	16,191,903	15,955,708	14,671,545	16,189,560	13,033,453
Student Transportation	22,966,333	20,867,759	24,282,687	17,530,741	16,178,389
Co-curricular/Extracurricular Activities	18,101,712	15,149,027	9,750,815	10,655,150	10,122,117
General Administration	44,470,284	46,164,297	39,292,561	43,516,700	32,703,453
Plant Maintenance and Operations	146,939,161	120,428,774	146,637,374	161,398,750	155,462,500
Security & Monitoring Services	18,976,461	18,191,408	16,432,578	18,589,575	18,383,925
Data Processing Services	34,929,638	22,151,024	18,188,868	21,762,482	19,884,312
Community Services	2,100,306	5,265,024	6,882,280	8,074,500	8,457,932
Debt Service	5,811,682	5,706,933	2,246,540	3,098,074	4,018,883
Facilities Acquisition and Construction	0	29,459	356,909	475,553	3,895,564
Chapter 41 Payments	0	0	13,675,440	0	0
Payments to Juvenile Justice AE	709,194	700,744	730,787	634,959	629,987
Payments to Tax Increment Fund	3,610,740	4,029,110	5,337,315	4,355,716	2,954,107
Other Intergovernmental Charges	3,916,117 ⁽¹⁾	3,760,526 ⁽¹⁾	4,036,656 ⁽¹⁾	0	0
Total Expenditures	\$ 1,177,896,277	\$ 1,160,098,496	\$ 1,236,434,138	\$ 1,273,270,537	\$ 1,156,869,158
Other Resources and (Uses) & Special Items	\$ 423,456	\$ (988,154)	\$ (568,736)	\$ 0	\$ 0
Excess (Deficiency) of					
Revenues Over Expenditures	\$ 32,030,627 ⁽²⁾	\$ 62,431,169 ⁽²⁾	\$ (22,544,562) ⁽²⁾	\$ (59,911,990)	\$ 13,938,365
Beginning Fund Balance on					
July 1	\$ 100,099,251	\$ 37,668,082	\$ 60,212,644	\$ 120,124,634	\$ 135,844,170
Prior Period Adjustment	2,968,381	0	0	0	(29,657,901)
Ending Fund Balance on					
June 30	\$ 135,098,259	\$ 100,099,251	\$ 37,668,082	\$ 60,212,644	\$ 120,124,634

- (1) Cost of tax collecting and property valuation paid to Dallas County Tax Office and Dallas County Appraisal District respectively. New account code was created in 2009 by the Texas Education Agency for this expense
- (2) Please see "GENERAL FUND FINANCIAL, ACCOUNTING AND BUDGETARY STATUS" for a discussion of the District's current financial status.

FINANCIAL POLICIES

Summary of Significant Accounting Policies . . . The District is a public education agency operating under the applicable laws and regulations of the State of Texas. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board ("GASB") and other authoritative sources identified in Statement on Auditing Standards No. 69 of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of the Texas Education Agency's Financial Accountability System Resource Guide, issued by the Texas Education Agency, and the requirements of contracts and grants of agencies from which it receives funds.

Basis of Presentation . . . Government-wide financial statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal Service fund activity is eliminated to avoid overstatement of revenues and expenses. The statements distinguish between governmental and business-type activities of the District.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore are clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. All taxes and revenues not classified as program revenues are presented as general revenues of the District.

Fund Financial Statements - Fund financial statements report detailed information about the District. Their focus is on major funds rather than reporting funds by type. Each major governmental aid fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Basis of Accounting . . . Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing related to 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 basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

Revenues from state and federal grants are recognized as earned when the related program expenditures are incurred. Revenues from local sources consist primarily of property taxes. Property tax revenues are recognized under the susceptible to accrual concept. Funds received but unearned are reflected as deferred revenues, and funds expended but not yet received are shown as receivables. For state entitlements, the District has adopted a budgetary basis of accounting for Foundation School Program revenues. Such entitlements are recorded as received.

Interest revenue and building rentals are recorded when earned since they are measurable and available. Other revenues such as fees, tuition, local food service revenue, and miscellaneous revenues are accounted for on the cash basis.

Expenditures are recognized in the accounting period in which the fund liability is incurred when measurable, except expenditures for debt service including unmatured interest on long-term debt. Expenditures for principal and interest on long-term debt are recognized when due.

Budgetary Data . . . The District is required by state law to adopt annual budgets for the General Fund, Debt Service Fund and the Food Service Special Revenue Fund, which is included within the Special Revenue Funds. The remaining Special Revenue Funds and the Capital Projects Fund adopt project-length budgets that do not correspond to the District's fiscal year. Each budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principals ("GAAP"). The budget is prepared and controlled at the function level.

The official school budget is prepared for adoption for required governmental funds prior to June 20 of the preceding fiscal year for the subsequent fiscal year beginning July 1. The Board formally adopts the budget at a public meeting held at least ten days after public notice has been given. Once adopted, the budget can be amended by subsequent Board action.

INVESTMENTS

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

LEGAL INVESTMENTS . . . Under 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 obligation, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, 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 (i) issued by a depository institution that has its main office or a branch office in the State of Texas, that are guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor, or the National Credit Union Share Insurance Fund, or its successor, or are secured by obligations described in clauses (1) through (6), including permissible mortgage-backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates, or secured in any other manner and amount provided by law for District deposits, or (ii) where (a) the funds are invested by the District through a depository institution that has its main office or branch office in the State of Texas and that is selected by the District; (b) the depository institution selected by the District arranges for the deposit of 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; (d) the depository institution selected by the District acts as a custodian for the District with respect to the certificates of deposit issued for the account of the District; and (e) at the same time that the funds are deposited and the certificates of deposit are issued for the account of the District, the depository institution selected by the District receives deposits from customers of other federally insured depository institutions, wherever located, that is equal to or greater than the funds invested by the District through the depository institution selected under clause (ii)(a) above, (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 governmental body or a third party designated by the governmental body; (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) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) 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 comply with the information requirements of the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and have a dollar weighted average stated maturity of 90 days or fewer 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 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, and conform to the requirements set forth in Sections 2256.016(b) and (c) of the Texas Government Code, as amended, relating to the eligibility of investment pools to receive and invest funds of investing entities. 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.

Governmental bodies in the State are authorized to implement securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) of the first paragraph under this subcaption, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized

investment rating firm not less than “A” or its equivalent, or (c) cash invested in obligations that are described in clauses (1) through (6) and (10) through (12) of the first paragraph under this subcaption, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the governmental body, held in the name of the governmental body and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution. The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

INVESTMENT POLICIES . . . Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment 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 funds’ investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

ADDITIONAL PROVISIONS . . . Under State law, the District is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Trustees; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District’s investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District’s investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the District’s entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the District’s investment policy; (6) provide specific investment training for the Treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in 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, prohibit the investment in mutual funds of any portion of bond proceeds, reserves and funds held for debt service, and prohibit the investment of funds in either a money market or non-money market mutual fund in an amount that exceeds 10% of the total assets of such fund; (9) require local government investment pools to conform to advisory board requirements and the additional requirements set forth in Sections 2256.016(b) and (c) of the Texas Government Code, as amended; and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

TABLE 12 - CURRENT INVESTMENTS

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

Description of Investment	Book Value	Market Value
LOGIC Investment Pool	\$ 33,732,225	\$ 33,732,225
Lone Star Investment Pool	106,468,060	106,468,060
TexPool	42,051,087	42,051,087
Texas CLASS Investment Pool	272,149,604	272,149,604
Texas Term DAILY Investment Pool	40,748,547	40,748,547
Money Market Funds/Mutual Funds	33,630,906	33,630,906
Escrow Account	4,881,653	5,001,073
Repurchase Agreements	220,162,694	236,870,532
TOTAL	\$ 753,824,776	\$ 770,652,034

GENERAL FUND FINANCIAL, ACCOUNTING AND BUDGETARY STATUS

The District determined in August, 2008 the existence of, and is currently dealing with, certain financial, accounting and budgetary difficulties with respect to the revenues and expenditures in the District's General Fund. Such matters have an adverse effect on the District's operations. However, the Bonds, together with the District's other unlimited tax bonds, are payable from and secured by an unlimited ad valorem tax on all taxable property in the District. The receipts from such tax are required to be deposited to the District's Interest and Sinking Fund for payment of the District's unlimited tax bonds, and such receipts may not be used for any other purpose. Set forth below is a brief description of the District's financial, accounting and budgetary issues that have been identified, the steps that have been taken to date and the plans for dealing with such matters on a going forward basis. Copies of audits can be accessed at www.dallasisd.org/Page/339.

The District's Annual Financial Report for the period ended June 30, 2007 (the "2007 Annual Financial Report"), was completed June 28, 2008. The 2007 Annual Financial Report included a detailed description of various accounting and control matters, including matters that were determined to be "material weaknesses" and matters that were considered to be "significant deficiencies". As a result, the District developed and began implementation of a comprehensive Corrective Action Plan (the "Plan") to address the matters in the 2007 Annual Financial Report. The Plan was part of a larger financial transformation plan begun by the District in March 2008. In June 2008 the Board of Trustees provided appropriations to commence implementation of a financial transformation plan. The District currently has one (1) material weakness related to purchasing violations that has been remediated and one (1) significant deficiency.

FY 2008 AND 2009 BUDGET DEFICIT

The District determined in September 2008, that for FY 2008, ended June 30, 2008, the District had a deficit in its General Fund of \$59.9 million. Such deficiency was primarily a result of the employment of significantly more staff in FY 2008 than was reflected in the FY 2008 budget. Such deficit was paid by the District out of its fund balance. As a result, the District's fund balance was reduced in FY 2008 from \$120 million to approximately \$60.1 million.

Because the FY 2008 deficit was not determined until after the FY 2009 Budget was adopted, the underestimation of expenditures was carried forward to the FY 2009 Budget. As a result, the District estimated that the FY 2009 budget as adopted in June, 2008 contained a deficit of \$74 million. The Board of Trustees on September 26, 2008 declared a Financial Exigency and on October 2, 2008 and approved a reduction in force ("RIF"). As a result of the RIF, early retirements and other budget actions, the actual deficit in FY 2009 was \$22 million. The deficit in FY 2009 was paid out of the District's fund balance, reducing the balance in the General Fund to \$37.7 million.

FY 2012 BUDGET AND AUDIT AND FY 2013 BUDGET

The FY2012 Budget was adopted by the Board of Trustees in June 2011. Under this Budget, the District continued to implement the measures prescribed by the financial transformation plan and procured additional funding sources to offset significant reductions in state and federal program revenues. The Annual Financial Report for the period ended June 30, 2012 has not been released as of the date of this Preliminary Official Statement. The District currently expects the FY 2012 Audit to show a fund balance of at least \$200,000,000.

The FY2013 Budget was adopted by the Board of Trustees in June 2012. The FY2013 Budget shows expenditures at least equal to revenues and projects an ending fund balance of \$200,000,000. For FY 2013 the District intends to transfer approximately \$20 million of federal subsidy payments from the issuance of its Series 2010C Bonds to its General Fund for certain operating purposes separate and apart from its balanced FY2013 Budget.

TAX MATTERS

TAX EXEMPTION

In the opinion of Bracewell & Giuliani L.L.P. and West & Associates LLP, Co-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 proceeds and the source of repayment, limitations on the investment of proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of 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 Order that it will comply with these requirements.

Co-Bond Counsel's opinion will assume continuing compliance with the covenants of 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 and, in addition, will rely on representations by the District, the District's Co-Financial Advisor and the Underwriters, with respect to matters solely within the knowledge of the District, the District's Co-Financial Advisor and the Underwriters, respectively, which Co-Bond Counsel has not independently verified. Co-Bond Counsel will further rely on the report (the “Report”) of Grant Thornton LLP, certified public accountants, regarding the mathematical accuracy of certain computations. If the District should fail to comply with the covenants in the Order or if the foregoing representations or the Report should be determined to be inaccurate or incomplete, 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, Co-Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Bonds.

Co-Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Co-Bond Counsel's knowledge of facts as of the date thereof. Co-Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Co-Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Co-Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Co-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 regarding 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 Bonds, 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”) will be 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” 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.

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB").

ANNUAL REPORTS . . . The District will provide certain updated financial information and operating data to the MSRB on an annual basis. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables numbered 1 through 5 and 7 through 12 and in Appendix B. The District will update and provide this information within six months after the end of each fiscal year ending in and after 2012.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by Securities Exchange Act of 1934, as amended, 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 audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation.

The District's current fiscal year end is June 30. Accordingly, it must provide updated information by the last day of December in each year following the end of its fiscal year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

DISCLOSURE EVENT NOTICES . . . The District shall notify the MSRB, in a timely manner not in excess of ten (10) business days after the occurrence of the event, of any of the following events with respect to the Obligations: (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 Obligations, or other material events affecting the tax status of the Obligations; (7) modifications to rights of holders of the Obligations, if material; (8) Obligation calls, if material, and tender offers; (9) Defeasances; (10) Release, substitution, or sale of property securing repayment of the Obligations, 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 Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, if material.

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

LIMITATIONS AND AMENDMENTS . . . The District has agreed to update information and to provide notices of 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 the Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders and beneficial owners of the Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (1) the agreement, as amended would have permitted an underwriter to purchase or sell the Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances, and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provisions of the Order that authorizes such amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the registered owners and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable

provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in type of information and data provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five (5) years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

OTHER INFORMATION

RATINGS

The presently outstanding tax supported debt of the District is rated "Aa2" by Moody's Investors Service, Inc. ("Moody's"), "A+" by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "AA" by Fitch, Inc. ("Fitch") without regard to credit enhancement. The District also has issues outstanding which are rated "Aaa" by Moody's, "AAA" by S&P and "AAA" by Fitch by virtue of the guarantee of the Permanent School Fund of the State of Texas. Applications for contract ratings on the Bonds have been made to Moody's, S&P and Fitch. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the respective view of such organization and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment such company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

PENDING LITIGATION

The District is a defendant in various lawsuits arising principally in the normal course of operations. In the opinion of the District's management, the potential losses, after insurance coverage, on all allegations, claims and lawsuits will not have a material effect on the District's financial position, results of operations or liquidity.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. 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. In accordance with the Public Funds Investment Act, Chapter 2256, Texas Government Code, the Bonds must be rated not less than "A" or its equivalent as to investment quality by a national rating agency in order for most municipalities or other political subdivisions or public agencies of the State of Texas to be authorized to invest in the Bonds, except for purchases for interest and sinking funds of such entities. See "OTHER INFORMATION -- Ratings" herein. Moreover, municipalities or other political subdivisions or public agencies of the State of Texas that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act may have other, more stringent requirements for purchasing securities, including the Bonds. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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.

LEGAL MATTERS

The District will furnish the Underwriters a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas as to the Bonds to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Co-Bond Counsel to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "Tax Matters" herein, including the alternative minimum tax on corporations, a form of which opinion is attached to this Official Statement as Appendix C. Though they represent the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Co-Bond Counsel have been engaged by and only represent the District in connection with the issuance of the Bonds. Co-Bond Counsel were not requested to participate, and did not take part, in the preparation of the Official Statement, and such firms have not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in capacity as Co-Bond Counsel, such firms have reviewed the information under the captions and subcaptions "PLAN OF FINANCING" (excluding the information under the subcaption "Sources and Uses of Proceeds"), "THE BONDS" (excluding the information under the subcaptions "Permanent School Fund Guarantee", "Book-Entry-Only System" and "Bondholders' Remedies"), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" (excluding the information under the subcaption "The School Finance System as Applied to the District"), "TAX INFORMATION - Tax Rate Limitations", "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (excluding the information under the subcaption "Compliance with Prior Undertakings"), "OTHER INFORMATION - Registration and Qualification of Bonds for Sale", "OTHER INFORMATION - Legal Investments and Eligibility to Secure Public Funds in Texas", and "OTHER INFORMATION - Legal Matters" (except for the last sentence of the first paragraph thereof) in the Official Statement and such firms are of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the provisions of the Order. The legal fee to be paid Co-Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriters by their Co-Counsel, McCall, Parkhurst & Horton L.L.P., Dallas, Texas and Mahomes Bolden PC, Dallas, Texas.

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

CO-FINANCIAL ADVISORS

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

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

UNDERWRITING

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

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

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

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

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

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by First Southwest Company and Estrada Hinojosa & Company, Inc. on behalf of the District relating to (a) computation of forecasted receipts of principal and interest on the Escrowed Securities and the forecasted payments of principal and interest to redeem the Refunded Bonds and (b) computation of the yield on the Bonds will be verified by Grant Thornton LLP, certified public accountants. Such computations will be based solely on assumptions and information supplied by First Southwest Company and Estrada Hinojosa & Company, Inc. on behalf of the District. Grant Thornton LLP will restrict its procedures to verifying the arithmetical accuracy of certain computations and will not make any study or evaluation of the assumptions and information on which the computations are based and, accordingly, will not express an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

The report will be relied upon by Co-Bond Counsel in rendering their opinions with respect to the tax-exemption of interest on the Bonds and with respect to the defeasance of the Refunded Bonds.

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

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

MISCELLANEOUS

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

The Order approves the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorizes its use in the reoffering of the Bonds by the Underwriters.

President, Board of Trustees
Dallas Independent School District

ATTEST:

Secretary, Board of Trustees
Dallas Independent School District

SCHEDULE I

SCHEDULE OF REFUNDED BONDS

The list of Refunded Bonds set forth below remains subject to change prior to the pricing and the sale of the Bonds. The District reserves the right to refund all or any portion of the obligations listed below and to refund obligations that are designated in the Order but that are not listed on this Schedule I.

**Dallas Independent School District
Unlimited Tax School Building and Refunding Bonds, Series 2003**

Original Dated Date	Original Maturity (February 15)	Principal Amount	Interest Rates	Amount Being Refunded	Principal Amount Remaining
June 15, 2003	2015	\$ 1,835,000	5.000%	\$ 1,835,000	\$ -
	2016	1,225,000	5.000%	1,225,000	-
	2017	940,000	5.000%	940,000	-
	2018	1,590,000	5.000%	1,590,000	-
	2019	2,580,000	5.000%	2,580,000	-
	2020	1,825,000	5.000%	1,825,000	-
	2021 ⁽¹⁾	1,110,000	5.000%	1,110,000	-
	2022 ⁽¹⁾	1,065,000	5.000%	1,065,000	-
	2023	2,415,000	5.000%	2,415,000	-
	2024 ⁽²⁾	1,255,000	5.000%	1,255,000	-
	2025 ⁽²⁾	1,055,000	5.000%	1,055,000	-
	2026 ⁽³⁾	1,060,000	4.500%	1,060,000	-
	2027 ⁽³⁾	1,600,000	4.500%	1,600,000	-
		<u>\$ 19,555,000</u>		<u>\$ 19,555,000</u>	<u>\$ -</u>

These maturities will be redeemed prior to maturity on February 15, 2013.

- (1) Represents mandatory sinking fund redemption amount of a term bond with a stated maturity of February 15, 2022.
- (2) Represents mandatory sinking fund redemption amount of a term bond with a stated maturity of February 15, 2025.
- (3) Represents mandatory sinking fund redemption amount of a term bond with a stated maturity of February 15, 2027.

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

Original Dated Date	Original Maturity (February 15)	Principal Amount	Interest Rates	Amount Being Refunded	Principal Amount Remaining
February 15, 2004	2029 ⁽¹⁾	\$ 23,105,000	4.500%	\$ 23,105,000	\$ -
	2030 ⁽¹⁾	24,290,000	4.500%	24,290,000	-
		<u>\$ 47,395,000</u>		<u>\$ 47,395,000</u>	<u>\$ -</u>

These maturities will be redeemed prior to maturity on February 15, 2014.

- (1) Represents mandatory sinking fund redemption amount of a term bond with a stated maturity of February 15, 2030.

SCHEDULE I

**SCHEDULE OF REFUNDED BONDS
(continued)**

The list of Refunded Bonds set forth below remains subject to change prior to the pricing and the sale of the Bonds. The District reserves the right to refund all or any portion of the obligations listed below and to refund obligations that are designated in the Order but that are not listed on this Schedule I.

**Dallas Independent School District
Unlimited Tax School Building and Refunding Bonds, Series 2004-A**

Original Dated Date	Original Maturity (August 15)	Principal Amount	Interest Rates	Amount Being Refunded by the Bonds	Amount Being Refunded by the 2012-A Bonds	Principal Amount Remaining
November 1, 2004	2015	\$ 7,830,000	3.650%	\$ 6,885,000	\$ 945,000	-
	2016	11,250,000	5.000%	9,890,000	1,360,000	-
	2017	15,315,000	5.000%	13,465,000	1,850,000	-
	2018	9,750,000	5.000%	8,570,000	1,180,000	-
	2019	9,675,000	5.000%	8,505,000	1,170,000	-
	2020	10,735,000	5.000%	9,435,000	1,300,000	-
	2021	9,005,000	5.000%	7,915,000	1,090,000	-
	2022	21,110,000	5.000%	18,555,000	2,555,000	-
	2023	22,510,000	5.000%	19,790,000	2,720,000	-
	2024	26,370,000	5.000%	23,180,000	3,190,000	-
	2025	27,835,000	5.000%	24,470,000	3,365,000	-
	2026	30,230,000	5.000%	26,575,000	3,655,000	-
	2027	31,475,000	5.000%	27,670,000	3,805,000	-
	2028	33,955,000	5.000%	29,850,000	4,105,000	-
	2029	35,625,000	5.000%	31,315,000	4,310,000	-
	2030 ⁽¹⁾	32,250,000	5.000%	28,350,000	3,900,000	-
	2031 ⁽¹⁾	42,750,000	5.000%	37,580,000	5,170,000	-
	2030 ⁽²⁾	5,670,000	4.625%	4,985,000	685,000	-
	2031 ⁽²⁾	7,515,000	4.625%	6,605,000	910,000	-
		<u>\$ 390,855,000</u>		<u>\$ 343,590,000</u>	<u>\$ 47,265,000</u>	<u>\$ -</u>

These maturities will be redeemed prior to maturity on August 15, 2014.

- (1) Represents mandatory sinking fund redemption amount of a 5.000% term bond with a stated maturity of August 15, 2031.
(2) Represents mandatory sinking fund redemption amount of a 4.625% term bond with a stated maturity of August 15, 2031.

APPENDIX A

GENERAL INFORMATION REGARDING THE DISTRICT

THE DISTRICT

The Dallas Independent School District (the “District”) is an independent school district and a political subdivision of the State, encompassing approximately 384 square miles primarily within the boundaries of the City of Dallas all within the County of Dallas. The District has an enrollment of approximately of over 157,000 and serves an estimated population of 1,207,420. The District’s staff currently consists of almost 20,000 employees. The City of Dallas is the county seat of Dallas County and ranks as one of the nation’s top three cities in number of conventions, trade and market shows. Dallas County is a national center for insurance, banking, electronics, conventions and aircraft manufacturing.

Along with the District, there are 48 college and university campuses in the Dallas metroplex area, enrolling over 220,000 students. Twenty-six campuses offer 4-year undergraduate degree programs, 19 offer 2-year associate degree programs and 22 offer advanced degrees.

DISTRICT FACILITIES

The physical facilities of the District include:

155	Elementary schools
32	Middle Schools
22	High schools
10	Magnet High Schools
8	Alternative School Programs
14	Athletic Facilities

Teacher/Student Ratio is: 1 teacher/24 students

DISTRICT ENROLLMENT

Grade	School Year				
	2007-08	2008-09	2009-10	2010-11	2011-12
Early Education	504	504	592	635	1,355
Pre-K	8,635	8,666	8,629	8,478	8,093
Kindergarten	13,555	13,547	13,382	13,611	13,767
1st Grade	14,633	14,261	13,986	13,899	14,153
2nd Grade	13,714	13,984	13,616	13,410	13,479
3rd Grade	12,854	13,120	13,450	12,996	13,022
4th Grade	12,372	12,171	12,449	12,893	12,596
5th Grade	11,801	11,905	11,831	12,132	12,655
6th Grade	10,511	10,621	10,648	10,480	10,743
7th Grade	10,872	10,143	10,341	10,383	10,225
8th Grade	9,921	10,519	10,070	10,273	10,355
9th Grade	13,637	12,807	12,291	11,191	10,739
10th Grade	9,561	9,535	9,664	10,164	8,794
11th Grade	8,051	8,195	8,460	8,592	8,735
12th Grade	7,183	7,374	7,702	8,025	8,144
TOTAL	157,804	157,352	157,111	157,162	156,855

Source: Texas Education Agency

EMPLOYMENT DATA

	Annual Averages				
	2012 ⁽¹⁾	2011	2010	2009	2008
Dallas County					
Civilian Labor Force	1,184,901	1,176,200	1,161,562	1,148,682	1,139,786
Total Employment	1,095,187	1,077,721	1,059,734	1,055,013	1,077,719
Unemployment	89,714	98,479	101,828	93,669	62,067
Percent Unemployment	7.6%	8.4%	8.8%	8.2%	5.4%
State of Texas					
Civilian Labor Force	12,555,694	12,451,504	12,269,727	11,968,199	11,653,877
Total Employment	11,662,069	11,464,525	11,264,748	11,071,106	11,079,931
Unemployment	893,625	986,979	1,004,979	897,093	573,946
Percent Unemployment	7.1%	7.9%	8.2%	7.5%	4.9%

Source: Texas Workforce Commission

(1) As of August, 2012.

APPENDIX B

EXCERPTS FROM THE
DALLAS INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2011

The information contained in this Appendix consists of excerpts from the Dallas Independent School District Annual Financial Report for the Year Ended June 30, 2011, and is not intended to be a complete statement of the District's financial condition. Reference is made to the complete Report for further information.

**Dallas Independent School District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2011**

This section of Dallas Independent School District's (the District's) annual financial report reflects management's discussion and analysis of the District's financial performance for the fiscal year ended June 30, 2011. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- On June 30, 2011, the District's assets exceeded its liabilities by \$547,424,864, an increase of 1.9% over the prior year. Of total net assets, \$178,932,482 was unrestricted.
- During the year, the District had expenses that were \$10,135,042 less than the \$1,726,319,454 generated in tax and other revenues for the governmental programs.
- The General Fund ended the year with a fund balance of \$135,098,259, an increase of \$34,999,008. The net increase in fund balance is 3% of total General Fund expenditures for the year. Approximately 76% of this increase is attributable to the \$26.5 million received from the Education Jobs Fund (Ed Jobs) Program.
- In May 2008, voters approved a \$1.35 billion bond program. During the year, \$226.8 million was issued under this authorization. The net proceeds were used to refund \$239.1 million of the District's debt. In December 2010, \$950.3 million was issued of taxable bonds under the American Recovery and Reinvestment Act (ARRA) of 2009, which will be used for school building construction and renovation. The District also issued and redeemed \$80.0 million in short term Tax Anticipation Notes to fund cash flow requirements during the year. In total, the District's long term debt increased by \$915.9 million from the prior year, an increase of 51.8%.
- The implementation of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, altered the District's classification of its Special Revenue Funds, which resulted in the reclassification of Campus Activity Funds to the General Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in *more detail* than the government-wide statements. The *governmental fund* statements reflect how *general government* services were financed in the *short term* as well as what remains for future spending. The *proprietary fund* statements offer short and long-term financial information about the activities the District operates like businesses. The *fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include *notes* that provide more detailed information regarding the financial statements. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

**Dallas Independent School District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2011**

Exhibit 1 summarizes the major features of the District's financial statements, including the portion of the District's government they cover and the types of information they contain. The remainder of this overview section explains the structure and contents of each of the statements.

**Exhibit 1
Major Features of the District's Government-Wide
and Fund Financial Statements**

Type of Statement	Government-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	<i>Entire District's government (except fiduciary funds) and the District's component units</i>	<i>The activities of the District that are not proprietary or fiduciary</i>	<i>Activities the District operates similar to private businesses</i>	<i>Instances in which the District is the trustee or agent for someone else's resources</i>
<i>Required financial statements</i>	<ul style="list-style-type: none"> • <i>Statement of net assets</i> • <i>Statement of activities</i> 	<ul style="list-style-type: none"> • <i>Balance sheet</i> • <i>Statement of revenues, expenditures and changes in fund balances</i> 	<ul style="list-style-type: none"> • <i>Statement of net assets</i> • <i>Statement of revenues, expenses and changes in fund net assets</i> • <i>Statement of cash flows</i> 	<ul style="list-style-type: none"> • <i>Statement of fiduciary assets and liabilities</i>
<i>Accounting basis and measurement focus</i>	<i>Accrual accounting and economic resources focus</i>	<i>Modified accrual accounting and current financial resources focus</i>	<i>Accrual accounting and economic resources focus</i>	<i>Accrual accounting and economic resources focus</i>
<i>Type of asset/liability information</i>	<i>All assets and liabilities, both financial and capital, short-term and long-term</i>	<i>Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included</i>	<i>All assets and liabilities, both financial and capital, and short-term and long-term</i>	<i>All assets and liabilities, both short-term and long-term</i>
<i>Type of inflow/outflow information</i>	<i>All revenues and expenses during the year, regardless of when cash is received or paid</i>	<i>Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter</i>	<i>All revenues and expenses during year, regardless of when cash is received or paid</i>	<i>Not applicable to agency fund</i>

**Dallas Independent School District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2011**

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the District's non-fiduciary assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities on the accrual basis regardless of when cash is received or paid.

The two government-wide statements report the District's *net assets* and how they have changed. Net assets, the difference between the District's assets and liabilities, is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's tax base.

The government-wide financial statements of the District are comprised of the *governmental activities*. The District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services, general administration, and plant maintenance and operations. Property taxes and grants finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds* rather than the District as a whole. Funds are a governmental accounting tool that the District uses to track specific sources of funding and spending for particular purposes. Some funds are required by State law and by bond covenants. The Board of Trustees establishes other funds to control and manage resources for specific purposes or to delineate the use of certain taxes and grants.

The District has three kinds of funds:

- *Governmental funds*—All of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* can readily be converted to cash flow and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps determine the availability of financial resources to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information immediately following the governmental funds statements that explain the relationship (or differences) between them. These include debt financing and capital projects.
- *Proprietary funds*—Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The District's three proprietary funds are internal service funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the various functions. The District uses the internal service fund to report activities for its risk management, graphics, and program evaluation and accountability programs.
- *Fiduciary funds*—The District is the *fiduciary* for certain funds. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We excluded these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

**Dallas Independent School District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2011**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

The District's net assets were \$547,424,864 at June 30, 2011. This represents an increase of \$10,135,042 from the prior year. Current and other assets increased by \$628,923,839 or 71.0%. This increase is primarily attributable to an investment of bond proceeds into a fully collateralized repurchase agreement. Capital assets increased by \$364,145,416 or 21.3% due to an increase in bond related construction activity. Current and long term liabilities increased by \$982,934,213 or 48% due to the issuance of bonds. (See Exhibit 2.)

**Exhibit 2
Net Assets
Governmental Activities**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Change Increase/ (Decrease)</u>	<u>% Change Increase/ (Decrease)</u>
Current and Other Assets	\$ 1,514,252,932	\$ 885,329,093	\$ 628,923,839	71.0%
Capital Assets	2,071,881,550	1,707,736,134	364,145,416	21.3%
Total Assets	<u>3,586,134,482</u>	<u>2,593,065,227</u>	<u>993,069,255</u>	
Current Liabilities	402,964,881	343,615,588	59,349,293	17.3%
Long Term Liabilities	2,635,744,737	1,712,159,817	923,584,920	53.9%
Total Liabilities	<u>3,038,709,618</u>	<u>2,055,775,405</u>	<u>982,934,213</u>	
Net assets:				
Invested in Capital Assets, net of related debt	301,973,476	309,032,133	(7,058,657)	(2.3%)
Restricted	66,518,906	66,830,947	(312,041)	(.5%)
Unrestricted	178,932,482	161,426,742	17,505,740	10.8%
Total Net Assets	<u>\$ 547,424,864</u>	<u>\$ 537,289,822</u>	<u>\$ 10,135,042</u>	1.9%

Investment in capital assets (e.g. land, buildings, furniture and equipment), less any related debt used to acquire those assets that is still outstanding is \$301,973,476. The District uses these capital assets to provide services to students; 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 because the capital assets are not available to liquidate these liabilities.

Of the remaining net assets, \$66,518,906 is restricted resources subject to external restrictions on how they are used and \$178,932,482 is unrestricted resources available to meet the District's ongoing obligations.

**Dallas Independent School District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2011**

**Exhibit 3
Changes in Net Assets
Governmental Activities**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Change Increase/ (Decrease)</u>	<u>% Change Increase/ (Decrease)</u>
Revenues:				
Program revenues:				
Operating grants and contributions	\$ 364,591,060	\$ 351,454,735	\$ 13,136,325	3.7%
Charges for services	8,550,698	9,271,949	(721,251)	(7.8%)
General revenues:				
Investment earnings	3,125,832	3,079,368	46,464	1.5%
Property taxes	896,935,145	954,394,880	(57,459,735)	(6.0%)
State aid	417,317,962	391,146,276	26,171,686	6.7%
Grants and contributions, unrestricted	35,162,278	40,952,513	(5,790,235)	(14.1%)
Other	636,479	-	636,479	-
Total Revenues	<u>1,726,319,454</u>	<u>1,750,299,721</u>	<u>(23,980,267)</u>	
Expenses				
Instruction	918,670,306	914,472,120	4,198,186	0.5%
Instruction resources and media services	24,732,131	23,935,081	797,050	3.3%
Curriculum and staff development	45,017,015	44,632,038	384,977	0.9%
Instructional leadership	28,885,789	24,822,153	4,063,636	16.4%
School leadership	84,065,159	79,490,680	4,574,479	5.8%
Guidance, counseling and evaluation services	63,488,723	59,630,524	3,858,199	6.5%
Social work services	2,844,122	2,299,973	544,149	23.7%
Health services	18,252,622	17,363,982	888,640	5.1%
Student transportation	24,350,694	22,027,097	2,323,597	10.5%
Food services	84,684,667	75,750,540	8,934,127	11.8%
Cocurricular/extracurricular activities	20,002,925	16,439,635	3,563,290	21.7%
General administration	53,147,300	52,742,750	404,550	0.8%
Plant administration and operations	155,963,647	154,143,299	1,820,348	1.2%
Security and monitoring services	21,348,002	20,346,170	1,001,832	4.9%
Data processing services	40,833,190	29,336,406	11,496,784	39.2%
Community services	8,833,215	13,559,717	(4,726,502)	(34.9%)
Debt service interest	112,597,583	85,075,051	27,522,532	32.4%
Facilities acquisition and construction	231,271	1,057,517	(826,246)	(78.1%)
Payments to agents/member district-shared services	8,236,051	8,490,380	(254,329)	(3.0%)
Other	-	400,914	(400,914)	(96.0%)
Total Expenses	<u>1,716,184,412</u>	<u>1,646,016,027</u>	<u>70,168,385</u>	
Increase (decrease) in net assets	10,135,042	104,283,694	(94,148,652)	(90.3%)
Net asset-beginning	537,289,822	433,006,128	104,283,694	24.1%
Net assets-ending	<u>\$ 547,424,864</u>	<u>\$ 537,289,822</u>	<u>\$ 10,135,042</u>	1.9%

**Dallas Independent School District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2011**

The District's total revenues decreased \$24.0 million, or 1.37%, over the prior year and the significant changes are as follows:

- The \$57.5 million decrease in property taxes is due to a decrease in the debt service tax rate from \$0.23129 to \$0.197761 per \$100 of assessed value, and a decrease in the assessed value for the fiscal year ended June 30, 2011.
- The \$26.2 million increase in state aid is due to the reduction in property tax collections for the fiscal year.

Grants and contributions, unrestricted, decreased \$5.8 million, or 14.1%, primarily due to the recognition of the Build America Bonds rebate of \$11.8 million which was primarily offset by the following one-time revenue items received during the prior year:

- Receipt of \$3.7 million from the Schools and Libraries Program of the Universal Service Fund, commonly referred to as "E-Rate".
- Receipt of \$3.6 million of refund of prior year overcharges from the company providing the District's bus transportation services.
- Upon receipt of additional information, the District revised its estimates of contingencies and liabilities resulting in a decrease of liabilities totaling \$7.0 million.

While the District's total expenses increased by \$70.2 million, or 4.3%, over the prior year, there were several significant changes in individual expense categories. The following categories experienced variances between June 30, 2011 and 2010:

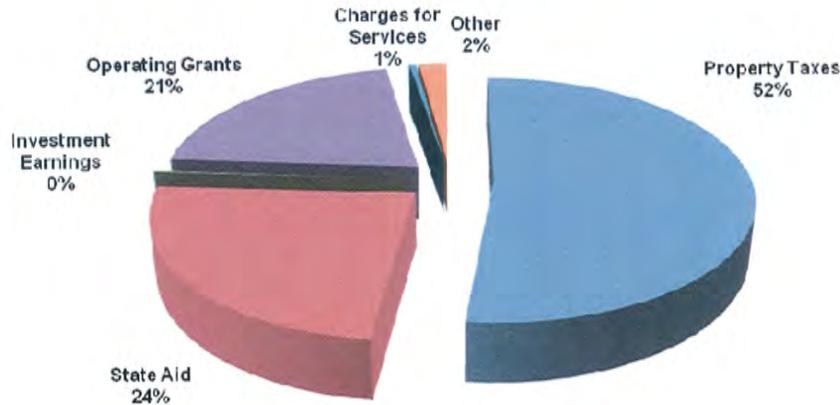
- Instructional leadership, school leadership, and guidance, counseling and evaluation functions increased \$12.5 million, or 7.6%, due to an increase in personnel costs.
- Student transportation expenses increased \$2.3 million, or 10.5%, primarily due to a renegotiation of the contracted rate that the District pays for basic student transportation services.
- Food services increased \$8.9 million, or 11.8%, primarily due to an increase in food cost.
- Cocurricular/extracurricular activities increased \$3.6 million, or 21.7%, primarily due to an increase in transportation cost.
- Data processing services expenses increased \$11.5 million, or 39.2%, due to increase in non-capitalizable software and equipment purchases and an increase in contractual services.
- Community services expenses decreased by \$4.7 million, or 34.9%, primarily due to a reduction in personnel costs.
- Debt service expenses increased \$27.5 million, or 32.4%, due primarily to the increase in the average total outstanding debt for the year.

**Dallas Independent School District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2011**

Other Financial Highlights

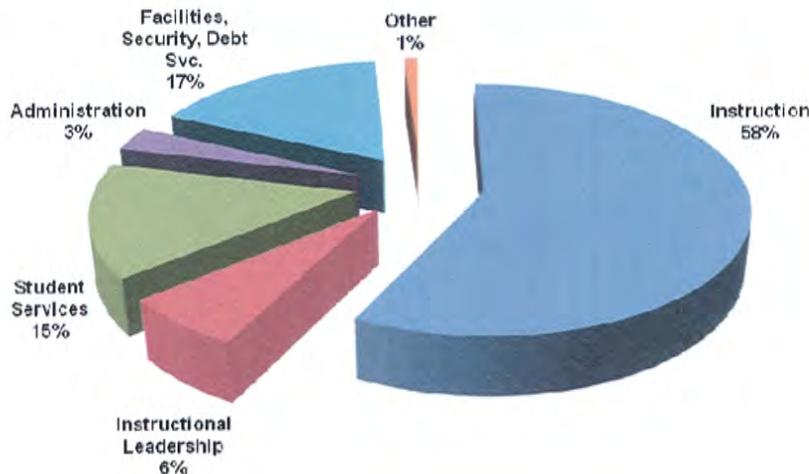
For the year ended June 30, 2011, the District's total revenues were \$1,726,319,454. Approximately 52% of the District's revenue was generated from property taxes, 24% was generated from state aid grants, 21% was generated from other operating grants and the remaining three percent was generated from miscellaneous revenue sources (See Exhibit 4).

**Exhibit 4
Sources of Revenue
Governmental Activities**



For the year ended June 30, 2011, the Districts' total cost of all programs and services was \$1,716,184,412. Approximately 58% of the District's governmental activities were dedicated to instructional areas. Combined with student services, such as counseling, nursing, and transportation services, 73% of governmental expenses were dedicated to direct student services. The costs to operate facilities, including utilities, security services and debt payments comprised 17% of the cost of all programs (See Exhibit 5).

**Exhibit 5
Expenditure Allocations
Governmental Activities**



**Dallas Independent School District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2011**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

For the fiscal year ending June 30, 2011, the District's governmental funds reported ending fund balances of \$1,163,550,542. Of this amount, \$121,707,356 constitutes unassigned fund balance available for use in activities at the District's discretion. The remainder of the fund balance is designated as non-spendable, restricted or assigned, to indicate that it is not available for new spending because it has already been committed to bond projects, debt service and other obligations of the District.

The General Fund is the chief operating fund of the District. At the end of the current fiscal year the unassigned fund balance of the General Fund was \$121,707,356. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned and total fund balance to the total fund expenditures. Unassigned fund balance represents 10.3% of the total General Fund expenditures, while total fund balance represents 11.5% of that same amount.

The District's General Fund balance increased \$32,030,627 primarily due to the receipt of \$26.5 million from the Education Jobs Fund (Ed Jobs). These federal funds were accounted for in a Non-Major Governmental Fund and paid for \$26.5 million of expenditures normally budgeted and expensed in the General Fund.

The Debt Service Fund has a total fund balance of \$112,010,068 all of which is restricted or assigned for the payment of debt service requirements. The Capital Projects Fund balance increased to \$890,031,724, primarily due to the Series 2010C bond issuance less facilities acquisition and construction costs expended during the year. Non-Major Governmental Fund has a total fund balance of \$26,410,491 representing a decrease for the current year of \$4,637,012. The decrease is attributable to the Food Service Fund which experienced a decrease in fund balance of \$4,747,634 resulting from budgeted fixed asset purchases.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year ended June 30, 2011, the Board amended the general fund operating budget on a monthly basis. These amendments fall into the following categories:

- Amendments approved shortly after the beginning of the new fiscal year for amounts reserved and designated in the prior year totaling \$15.3 million.
- Amendments approved for staff raises of \$11.6 million.
- Amendments to decrease estimates for federal revenue based upon the updated totaling \$9.8 million.
- Amendments to approve \$9.0 million for early resignation incentives.
- Amendments to decrease expense estimates by \$9.8 million based upon receipt of federal revenue.
- Balance neutral amendments during the year to properly align the budget with the expenditures.

After these adjustments, budgeted expenditures exceeded budgeted revenue by \$36.3 million in the final amended budget. Actual revenues exceeded actual expenditures by \$32 million.

The District's annual budgeted state program revenues for the General Fund are based upon projected enrollment applied to a state funding formula that has been in place since 2007. For the fiscal years ending June 30, 2011 and 2010, the state has kept the funding formula essentially the same as prior years' but \$43.2 million of the state's revenue commitment for the year ended June 30, 2011, was funded through federal ARRA Title XIV State Fiscal Stabilization Funds (SFSF). Because the SFSF funds are federal funds, the District is required to account for the funds separately in a separate non-major governmental fund.

**Dallas Independent School District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2011**

The District used the SFSF funds to pay \$43.2 million of allowable teacher salaries. However because these expenditures are normal operating expenditures of the District and have in previous years been accounted for in the General Fund, the District chose for the sake of consistency to continue to budget these revenues and expenditures in the General Fund. Additionally \$20.3 million function 11 expenditures were budgeted in the General Fund, but due to the receipt of \$26.5 million of Ed Jobs funds were paid from a Non-Major Governmental Fund.

Exhibit 6 reflects the District's revenue and expenditures with the SFSF funds included with the General Fund functional expenditures and is for informational purposes only (See Exhibit 6).

**Exhibit 6
District's General Fund Expenditures with SFSF Funds**

Data Control Codes	Final General Operating Budget	General Operating Actual	State Fiscal Stabilization Fund (SFSF) Actual	Combined General Operating and SFSF Actual	Variance with Final Budget Positive (Negative)
Revenues:					
State revenue	\$ 462,819,121	\$ 417,317,962	\$ 43,221,075	\$ 460,539,037	\$ (2,280,084)
Expenditures:					
11 Instruction	736,437,441	675,741,849	43,221,075	718,962,924	17,474,517

The food service fund budget was amended for the following reasons:

- Amendments approved shortly after the beginning of the new fiscal year for amounts reserved and designated in the prior year totaling \$2.0 million.
- Amendments approved for staff raises of \$0.4 million.

The debt service fund budget was amended for the following reasons:

- Amendments to adjust the budget for the issuance of refunding bonds and related expenditures totaling \$239.5 million.

**Dallas Independent School District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2011**

CAPITAL ASSETS

At the end of fiscal year 2011, the District had \$2.1 billion of capital assets, net of depreciation and loss on disposition of assets, including land, equipment, buildings, and vehicles. This amount represents a net increase of \$364.1 million or 21.3% over last year. (See Exhibit 7.)

**Exhibit 7
District's Capital Assets**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Change Increase/ (Decrease)</u>	<u>% Change Increase/ (Decrease)</u>
Land	\$ 189,399,883	\$ 173,516,986	\$ 15,882,897	9.2%
Buildings and improvements	2,407,104,169	2,210,770,243	196,333,926	8.9%
Furniture and equipment	197,400,994	180,675,978	16,725,016	9.3%
Construction in progress	315,350,415	128,162,604	187,187,811	146.1%
Total	<u>3,109,255,461</u>	<u>2,693,125,811</u>	<u>416,129,650</u>	
Accumulated depreciation	(1,037,373,911)	(985,389,677)	(51,984,234)	5.3%
Net Book Value	<u>\$ 2,071,881,550</u>	<u>\$ 1,707,736,134</u>	<u>\$ 364,145,416</u>	

For the year ended June 30, 2011, the District's capital spending totaled \$438.3 million in land, construction in progress, buildings and improvements and capital equipment. These expenditures were primarily expenditures resulting from the projects committed to in the 2008 bond program that the District is committed to constructing 15 new campuses, making additions to 12 existing campuses, and conducting renovations at more than 200 locations. In addition, \$22.1 million in building and capital equipment were retired during the year. For more information on the District's capital assets see Note G in the financial statements.

DEBT ADMINISTRATION

For the year ended June 30, 2011, the District had \$2.7 billion in long-term debt outstanding. This represents a net increase of \$917.6 million or 51.7%, over last year. (See Exhibit 8.)

**Exhibit 8
Long Term Debt**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Change Increase/ (Decrease)</u>	<u>% Change Increase/ (Decrease)</u>
Bonds and notes payable	\$ 2,628,389,962	\$ 1,730,108,246	\$ 898,281,716	51.9%
Workers compensation liability	8,921,450	7,292,895	1,628,555	22.3%
Deferred loss on refunding	(22,836,520)	(6,213,970)	(16,622,550)	267.5%
Premium on bonds	77,385,786	43,121,111	34,264,675	79.5%
Total	<u>\$ 2,691,860,678</u>	<u>\$ 1,774,308,282</u>	<u>\$ 917,552,396</u>	

Long-term debt increased \$917.6 million primarily from the issuance of Series 2010 bonds under the 2008 authorization less the refunding of the Series 1999 and 2008 bonds and scheduled debt payments.

**Dallas Independent School District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2011**

The District's bonds presently carry ratings as follows: Moody's Investor Series "Aaa", Standard & Poors "AAA" and Fitch "AAA" as guaranteed by the Permanent School Fund (PSF). The District's underlying bond ratings are Moody's "AA2", Standards & Poors "A+" and Fitch "AA".

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Budgetary resource allocations are distributed to campuses and central organizations that support the programs of the District. The District's budget process begins with the development of enrollment projections by the District's Initiatives and Planning Department. Enrollment projections are then used to determine initial campus allocations through the use of board approved staffing formulas. The District uses line-item and site-based budgetary approaches to provide campuses with a standard allocation based on student enrollment.

Enrollment projections also drive general operating staffing levels and non-position allocations. Staffing ratios adhere to the Texas Education Agency guidelines. Non-position formulas are also applied to each campus to support instructional programs. The board approves campus staffing formulas, non-campus staffing guidelines and non-position formulas.

Central organizations use a zero-based budgetary approach for allocation based on historical expenditures and services provided.

Enrollment projections for the year ended June 30, 2011, show enrollment numbers to remain relatively stable with no significant increases or decreases.

The District continues to be classified as a property wealthy district subject to the provisions of Chapter 41 of the Texas Education Code for the 2010-11 fiscal year and the District's equalized wealth level continues to be within the range not requiring a recapture payment.

On August 4, 2011, the District issued \$100,000,000 in multi-draw Tax Anticipation Notes (the "TANS"). The TANS were issued for the purpose of funding the District's cash flow requirements. Two "Request for Purchase" agreements were issued under the TANS on August 4, 2011 (\$65,000,000) and September 13, 2011 (\$35,000,000). The \$100,000,000 TANS are due by February 15, 2012.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District's Financial Services Department.

**Dallas Independent School District
Government-Wide Statement of Net Assets
June 30, 2011**

Exhibit A-1

Data Control Codes		Total Primary Government Governmental Activities June 30, 2011	Component Unit December 31, 2010
Assets:			
1110	Cash and cash equivalents	\$ 542,371,126	\$ 441,416
1120	Investments	651,278,952	-
1225	Property taxes receivable, net	30,211,149	-
1240	Due from other governments	248,767,174	-
1250	Accrued interest receivable	2,737	-
1260	Due from agency funds	502,837	-
1290	Other receivables, net	8,417,221	1,996,281
1300	Inventories	8,945,483	-
1490	Other current assets	756,823	-
1420	Bond issuance cost, net	22,999,430	-
	Capital assets, net:		
1510	Land	189,399,883	-
1520	Buildings and Improvements, net	1,511,247,481	-
1530	Furniture and equipment, net	55,883,771	-
1580	Construction in progress	315,350,415	-
1000	Total assets	<u>3,586,134,482</u>	<u>2,437,697</u>
Liabilities:			
2110	Accounts payable	103,606,419	29,266
2140	Other liabilities	2,015,782	-
2150	Payroll deductions and withholdings	12,944,468	-
2160	Accrued wages and benefits payable	152,113,369	-
2180	Due to other governments	107,061	-
2200	Accrued liabilities	9,264,569	-
2300	Unearned revenue	1,125,595	-
2430	Accrued interest	65,671,677	-
	Long-term liabilities-due within one year:		
2121	Bonds and notes payable	53,541,656	-
2123	Workers compensation	2,574,285	-
	Long-term liabilities-due beyond one year:		
2210	Workers compensation	6,347,165	-
2510	Bonds and notes payable	2,574,848,306	-
2511	Deferred loss on refunding of bonds	(22,836,520)	-
2512	Premium on bonds	77,385,786	-
2000	Total liabilities	<u>3,038,709,618</u>	<u>29,266</u>
Net assets (deficit):			
3200	Invested in capital assets, net of related debt	301,973,476	-
3800	Restricted for:		
	Debt Service	46,338,391	-
	Food Service	20,180,515	-
	Component Unit-Program Grants	-	2,477,962
3900	Unrestricted	178,932,482	(69,531)
3000	Total net assets	<u>\$ 547,424,864</u>	<u>\$ 2,408,431</u>

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

**Dallas Independent School District
Government-Wide Statement of Activities
For the Year Ended June 30, 2011**

Exhibit B-1

Data Control Codes	Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities Year Ended June 30, 2011	Component Unit Year Ended December 31, 2010
	Primary government governmental activities:					
11	Instruction	\$ 918,670,306	\$ 272,629	\$ 205,915,601	\$ (712,482,076)	
12	Instructional resources and media services	24,732,131	-	816,606	(23,915,525)	
13	Curriculum and staff development	45,017,015	-	34,899,983	(10,117,032)	
21	Instructional leadership	28,885,789	-	5,361,950	(23,523,839)	
23	School leadership	84,065,159	-	5,842,704	(78,222,455)	
31	Guidance, counseling, and evaluation services	63,488,723	-	13,310,544	(50,178,179)	
32	Social work services	2,844,122	-	293,065	(2,551,057)	
33	Health services	18,252,622	-	1,528,503	(16,724,119)	
34	Student transportation	24,350,694	-	1,386,036	(22,964,658)	
35	Food services	84,684,667	6,321,941	68,697,029	(9,665,697)	
36	Cocurricular/extracurricular activities	20,002,925	676,784	128,611	(19,197,530)	
41	General administration	53,147,300	-	8,011,188	(45,136,112)	
51	Plant maintenance and operations	155,963,647	1,279,344	7,080,178	(147,604,126)	
52	Security and monitoring services	21,348,002	-	2,182,412	(19,165,590)	
53	Data processing services	40,833,190	-	2,647,317	(38,185,873)	
61	Community services	8,833,215	-	6,477,606	(2,355,609)	
71	Interest and fiscal charges	112,597,583	-	-	(112,597,583)	
81	Facilities acquisition and construction	231,271	-	11,727	(219,544)	
95	Payments to juvenile justice alternative education	709,194	-	-	(709,194)	
97	Payments to tax increment fund	3,610,740	-	-	(3,610,740)	
99	Other intergovernmental charges	3,916,117	-	-	(3,916,117)	
	Total	\$ 1,716,184,412	\$ 8,550,698	\$ 364,591,060	\$(1,343,042,654)	
	Component unit:					
	Dallas Education Foundation	\$ 1,066,093	-	\$ 2,698,677		\$ 1,630,584
	General revenues:					
	Taxes:					
	Property taxes, levied and collected for general purposes				\$ 753,628,541	-
	Property taxes, levied and collected for debt service				143,306,604	-
	State aid grants not restricted to specific programs				417,317,962	-
	Grants and contributions not restricted to specific programs				35,162,278	-
	Investment earnings				3,125,832	1,902
	Miscellaneous - Other				636,479	-
	Total general revenues				1,353,177,696	1,902
	Change in net assets				10,135,042	1,632,486
	Net assets—beginning				537,289,822	775,945
	Net assets—ending				\$ 547,424,664	\$ 2,408,431

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

**Dallas Independent School District
Balance Sheet
Governmental Funds
June 30, 2011**

Exhibit C-1

Data Control Codes		General Fund	Debt Service Fund	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
Assets:						
1110-50	Cash and cash equivalents	\$ 124,141,183	\$ 99,094,547	\$ 319,135,396	\$ -	\$ 542,371,126
1120	Investments	-	-	651,278,952	-	651,278,952
1210-30	Property tax receivable, net	25,888,910	4,322,239	-	-	30,211,149
1250	Accrued interest	310	-	2,427	-	2,737
1260	Due from other funds	3,231,022	-	-	52,069,037	55,300,059
1240	Receivables from other governments	236,759,295	12,007,879	-	-	248,767,174
1290	Other receivables, net	6,080,602	-	2,135,163	161,456	8,377,221
1300	Inventories	6,045,274	-	-	2,900,209	8,945,483
1490	Other current assets-prepaid expenses	712,465	-	34,056	10,302	756,823
	Total assets	<u>\$ 402,859,061</u>	<u>\$ 115,424,665</u>	<u>\$ 972,585,994</u>	<u>\$ 55,141,004</u>	<u>\$ 1,546,010,724</u>
Liabilities and fund balances:						
Liabilities:						
2110	Accounts payable	\$ 16,864,759	\$ -	\$ 79,857,835	\$ 5,911,208	\$ 102,633,802
2120	Other liabilities	2,010,742	-	5,040	-	2,015,782
2150	Payroll deductions & withholdings	10,635,427	-	-	2,308,275	12,943,702
2160	Accrued wages and benefits payable	134,164,795	-	-	17,858,953	152,023,748
2170	Due to other funds	69,210,086	36,865	2,691,320	244,275	72,182,546
2180	Payable to other governments	32,073	-	-	74,988	107,061
2200	Accrued liabilities	7,996,013	-	75	1,207,219	9,203,307
2300	Deferred/Unearned revenue	26,846,907	3,377,732	-	1,125,595	31,350,234
	Total liabilities	<u>267,760,802</u>	<u>3,414,597</u>	<u>82,554,270</u>	<u>28,730,513</u>	<u>382,460,182</u>
Fund balances:						
Non-Spendable:						
3410	Inventories	6,045,274	-	-	2,136,349	8,181,623
3430	Prepaid items	712,465	-	34,056	10,302	756,823
Restricted:						
3450	Grants and donations	-	-	-	6,219,675	6,219,675
3450	Food service	-	-	-	18,044,165	18,044,165
3470	Capital projects	-	-	889,997,668	-	889,997,668
3480	Debt service	-	100,210,068	-	-	100,210,068
3590	Assigned	6,633,164	11,800,000	-	-	18,433,164
3600	Unassigned	121,707,356	-	-	-	121,707,356
	Total fund balances	<u>135,098,259</u>	<u>112,010,068</u>	<u>890,031,724</u>	<u>26,410,491</u>	<u>1,163,550,542</u>
	Total liabilities and fund balances	<u>\$ 402,859,061</u>	<u>\$ 115,424,665</u>	<u>\$ 972,585,994</u>	<u>\$ 55,141,004</u>	<u>\$ 1,546,010,724</u>

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

**Dallas Independent School District
 Reconciliation of the Governmental Funds Balance Sheet to the
 Government-Wide Statement of Net Assets
 June 30, 2011**

Exhibit C-1R

Total fund balances--governmental funds (from C-1)		\$ 1,163,550,542
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets net of accumulated depreciation, less assets held in internal service funds, are not financial resources and therefore are not reported as assets in governmental funds.		2,071,864,168
Some liabilities, including bonds payable, and claims and judgments are not due and payable in the current period and, therefore are not reported in the funds:		
Bonds and notes payable	(2,628,389,962)	
Deferred losses on refundings	22,836,520	
Premium on bonds	(77,385,786)	(2,682,939,228)
Accrued interest is not due and payable in the current period and therefore is not reported as a liability in the governmental funds.		(65,671,677)
Certain assets are not available to pay for current period expenditures and therefore are deferred in the funds.		30,224,639
Internal service funds are used by management to charge the costs of certain activities, such as workers' compensation. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets (see D-1).		7,396,990
Bond issue costs are recognized currently at the fund level, but are deferred costs under the full accrual method of accounting.		22,999,430
Total net assets--governmental activities (see A-1)		\$ 547,424,864

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

Dallas Independent School District
Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Funds
For the Year Ended June 30, 2011

Exhibit C-2

Data Control Codes		General Fund	Debt Service	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
Revenues:						
5700	Local and intermediate sources	\$ 777,660,194	\$ 145,129,553	\$ 5,841,081	\$ 8,850,687	\$ 937,481,515
5800	State program revenues	417,317,962	-	-	29,581,949	446,899,911
5900	Federal program revenues	14,525,292	11,800,000	-	332,393,476	358,718,768
	Total revenues	<u>1,209,503,448</u>	<u>156,929,553</u>	<u>5,841,081</u>	<u>370,826,112</u>	<u>1,743,100,194</u>
Expenditures:						
Current:						
11	Instruction	675,741,849	-	-	205,751,513	881,493,362
12	Instructional resources and media services	23,075,616	-	-	846,517	23,922,133
13	Curriculum and staff development	10,450,152	-	-	34,862,681	45,312,833
21	Instructional leadership	23,407,377	-	-	5,373,863	28,781,240
23	School leadership	74,756,090	-	-	5,845,866	80,601,956
31	Guidance, counseling, and evaluation services	49,200,841	-	-	13,314,549	62,515,390
32	Social work services	2,540,821	-	-	293,065	2,833,886
33	Health services	16,191,903	-	-	1,524,907	17,716,810
34	Student transportation	22,966,333	-	-	1,386,036	24,352,369
35	Food services	-	-	-	82,325,328	82,325,328
36	Cocurricular/extracurricular activities	18,101,712	-	-	166,933	18,268,645
41	General administration	44,470,284	-	-	8,193,030	52,663,314
51	Plant maintenance and operations	146,939,161	-	-	4,532,687	151,471,848
52	Security and monitoring services	18,976,461	-	-	2,185,202	21,161,663
53	Data processing services	34,929,638	-	1,840,705	2,483,413	39,253,756
61	Community services	2,100,306	-	-	6,452,696	8,553,002
Debt service:						
71	Principal on long-term debt	4,491,273	35,445,000	-	-	39,936,273
71	Interest and fiscal charges	1,320,409	85,720,357	11,903,394	-	98,944,160
Capital outlay:						
81	Facilities acquisition and construction	-	-	420,912,508	11,727	420,924,235
Intergovernmental charges:						
95	Payments for juvenile justice alternative education	709,194	-	-	-	709,194
97	Payments to tax increment fund	3,610,740	-	-	-	3,610,740
99	Other intergovernmental charges	3,916,117	-	-	-	3,916,117
	Total expenditures	<u>1,177,896,277</u>	<u>121,165,357</u>	<u>434,656,607</u>	<u>375,550,013</u>	<u>2,109,268,254</u>
	Excess (deficiency) of revenues over expenditures	31,607,171	35,764,196	(428,815,526)	(4,723,901)	(366,168,060)
Other Financing Sources (Uses):						
7911	Proceeds from issuance of bonds	-	226,810,000	950,300,000	-	1,177,110,000
7912	Sale of real or personal property	636,479	-	-	-	636,479
7915	Transfers in	-	-	-	86,889	86,889
7916	Premium (Discount) on issuance of bonds	-	34,602,429	11,903,394	-	46,505,823
8911	Transfers out	(213,023)	-	-	-	(213,023)
8949	Refunded bonds redeemed	-	(259,446,830)	-	-	(259,446,830)
7080	Total other financing sources (uses)	<u>423,456</u>	<u>1,965,599</u>	<u>962,203,394</u>	<u>86,889</u>	<u>964,679,338</u>
	Net change in fund balances	<u>32,030,627</u>	<u>37,729,795</u>	<u>533,387,868</u>	<u>(4,637,012)</u>	<u>598,511,278</u>
	Fund balances - beginning, as originally reported	100,099,251	74,280,273	356,643,856	34,015,884	565,039,264
	Change in Accounting Principle (See Note A)	2,968,381	-	-	(2,968,381)	-
	Fund balance, beginning, as restated	<u>103,067,632</u>	<u>74,280,273</u>	<u>356,643,856</u>	<u>31,047,503</u>	<u>565,039,264</u>
	Fund balances - ending	<u>\$ 135,098,259</u>	<u>\$ 112,010,068</u>	<u>\$ 890,031,724</u>	<u>\$ 26,410,491</u>	<u>\$ 1,163,550,542</u>

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

Dallas Independent School District
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balance – Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2011

Exhibit C-3

Net change in fund balances--total governmental funds (from C-2)	\$ 598,511,278
Amounts reported for governmental activities in the statement of activities (B-1) are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital asset additions (\$437,475,350) and net book value of capital asset disposals (\$1,285,059) exceeded depreciation (\$72,822,441) in the current period.	363,367,850
The net effect of various miscellaneous transactions involving capital assets (i.e. donations) increases net assets.	781,987
Repayment of bonds (\$35,445,000), loans (\$3,145,000) and capital leases (\$1,346,273), and refunded bond (\$239,080,000) are an expenditure in the governmental funds, but the repayment and refunded bonds reduces long-term liabilities in the statement of net assets.	279,016,273
Installment obligations provide current financial resources to governmental funds, but issuing bonds (\$1,177,110,000) and the related premium (\$46,505,823) and loans (\$187,989) increases long-term liabilities in the statement of net assets.	(1,223,803,812)
Accrued interest expense at the government wide level does not require the use of current financial resources and therefore is not reported as expenditure in governmental funds.	(33,294,202)
Bond issue costs and deferred losses on refunding are expensed at fund level but are deferred and amortized over the life of the related debt at the government-wide level.	40,195,598
Some property taxes and other revenue will not be collected within 60 days and, therefore they are not considered available revenues and are deferred in governmental funds. Deferred revenue decreased by this amount from the prior year.	(18,199,206)
Internal service funds are used by management to charge the costs of certain activities, such as medical self insurance and workman's compensation, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities (see D-2).	3,559,276
Change in net assets of governmental activities (B-1)	\$ 10,135,042

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

**Dallas Independent School District
Statement of Net Assets
Proprietary Funds
June 30, 2011**

Exhibit D-1

<u>Data Control Codes</u>		<u>Governmental Activities Internal Service Funds</u>
	Assets	
	Current Assets:	
1260	Due from other funds	\$ 17,385,324
1290	Other receivables, net	<u>40,000</u>
	Total current assets	<u>17,425,324</u>
	Noncurrent Assets:	
	Capital Assets	
	Furniture and Equipment, net	<u>17,382</u>
	Total Noncurrent assets	<u>17,382</u>
	Total Assets	<u>17,442,706</u>
	Liabilities and fund balances:	
	Liabilities	
	Current Liabilities:	
2110	Accounts payable	972,617
2120	Accrued liabilities-short-term	2,574,285
2150	Payroll deductions & withholdings	766
2160	Accrued wages and benefits payable	89,621
	Total current liabilities	<u>3,637,289</u>
	Long-term Liabilities:	
2200	Accrued liabilities-long-term	<u>6,408,427</u>
	Total Liabilities	<u>10,045,716</u>
	Net Assets	
3xxx	Invested in Capital Assets	17,382
3xxx	Unrestricted Net Assets	7,379,608
	Total net assets	<u>\$ 7,396,990</u>

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

Dallas Independent School District
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2011

Exhibit D-2

Data Control Codes		Governmental Activities Internal Service Funds
	Operating revenues:	
5754	Charges for services	\$ 17,565,950
	Total operating revenues	17,565,950
	Operating expenses:	
6100	Personnel services	12,490,105
6200	Contractual services	1,079,457
6300	Supplies	466,616
6400	Other operating expenses	96,630
	Total operating expenses	14,132,808
	Operating income	3,433,142
	Nonoperating revenues:	
	Transfers in	126,134
	Change in net assets	3,559,276
	Total net assets-beginning	3,837,714
	Total net assets-ending	\$ 7,396,990

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

**Dallas Independent School District
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2011**

Exhibit D-3

	<u>Governmental Activities Internal Service Funds</u>
Cash flows from operating activities:	
Cash received from user charges	\$ 11,848,176
Cash payments for payroll costs	(2,637,523)
Cash payments for insurance claims	(8,131,394)
Cash payments for suppliers	(1,205,393)
Net cash used for operating activities	<u>(126,134)</u>
Cash flows from non-capital financing activities:	
Transfers in	126,134
Net cash provided by non-capital financing activities	<u>126,134</u>
Net (decrease) in cash and cash equivalents	-
Cash and cash equivalents — beginning of year	<u>-</u>
Cash and cash equivalents — end of year	<u>\$ -</u>
Reconciliation of operating income to net cash used by operating activities:	
Operating income	\$ 3,433,142
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	4,422
Increase (decrease) in due from other funds	(5,717,774)
Increase (decrease) in accounts payable	432,888
Increase (decrease) in payroll deductions & withholdings	60
Increase (decrease) in accrued wages payable	52,322
Increase (decrease) in accrued expenses	1,668,806
Net cash used for operating activities	<u>\$ (126,134)</u>

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

**Dallas Independent School District
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2011**

Exhibit E-1

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 3,724,890
Total assets	\$ 3,724,890
 Liabilities	
Accounts payables	\$ 16,073
Due to General Fund	502,837
Due to student groups	3,205,373
Accrued liabilities	607
Total liabilities	\$ 3,724,890

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

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

Index

<u>Note</u>	<u>Page</u>
A. Summary of Significant Accounting Policies	25
B. Cash/Cash Equivalents and Investments	31
C. Local Revenues and Property Taxes	36
D. Receivables	38
E. Deferred/Unearned Revenue	38
F. Interfund Receivables, and Transfers	39
G. Capital Assets	41
H. Leases	43
I. Long-Term Obligations	43
J. General Fund Federal Source Revenue	49
K. Pension Plan Obligations	49
L. Risk Management	51
M. Other Post Employment Benefits	52
N. New Accounting Pronouncements	53
O. Litigation, Contingencies and Commitments	54
P. Subsequent Events	54

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Board of Trustees (the "Board") consists of nine members and has governance responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Dallas Independent School District (the "District"). The District receives funding from local, state, and federal government sources and must comply with the requirements of these funding sources. The District is not included in any other governmental reporting entity as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, issued by Governmental Accounting Standards Board ("GASB"), since Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

For financial reporting purposes, in conformance with governmental accounting standards, certain organizations warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. By applying the criteria set forth in GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement No. 14*, the District has determined that the Dallas Education Foundation ("the Foundation") is a discrete component unit of the District. The component unit that meets the criteria of GASB Statement No. 39 is reported as a discretely presented component unit in the primary government's financial statements.

The Foundation is a Texas non-profit corporation organized to unite the community and its resources, including individual, corporate and foundation philanthropy, to accomplish key District priorities. The Foundation is operated exclusively for charitable purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. All funds, whether income or principal, and whether acquired by gift or contribution are devoted to the charitable purpose. The Foundation collaborates with the District to achieve the mutual goals of the District, the Foundation and donors. The Foundation is governed by an 18 member Board of Directors, who represents a cross section of the community served by the District. The District Superintendent of Schools serves as an ex-officio member. The other members are independent of the District.

There were no other significant transactions between the District and the Foundation during the year ended June 30, 2011.

The Foundation financial statements are prepared in accordance with generally accepted accounting principles, as promulgated by the Financial Accounting Standards Board. A copy of the complete, separately audited financial statements as of December 31, 2010 of the Foundation can be obtained from Dallas Education Foundation at 3700 Ross Avenue, Box 108, Dallas, Texas 75204.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

Government-Wide and Fund Financial Statements

The government-wide financial statements consist of the statement of net assets and the statement of activities. These statements report information on all non-fiduciary activities of the District. The effect of the interfund activity in the government-wide statements eliminates services provided and used in the process of consolidation. Governmental activities are mainly supported by tax revenues and intergovernmental revenues.

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. All capital asset depreciation is reported as a direct expense of the functional program that benefits from the use of the capital assets. Program revenues include: 1) charges for services and tuition charged by a given function and 2) grants and contributions that are restricted to meeting operational requirements of a particular function. Taxes, state aid, grants and contributions not restricted to specific programs are properly excluded from program revenues and 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.

Basis of Accounting/Measurement Focus

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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 are met. The fiduciary fund financial statement do not have a measurement focus.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized, when they are susceptible to accrual, as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred. However, debt service expenditures, and claims and judgments, are recorded only when matured and payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under notes payable are reported as other financing sources. Property tax revenues and revenues received from the State of Texas and investment earnings are considered to be susceptible to accrual and so have been recognized as revenues in the current period. Property taxes collected within 60 days of year-end and included in revenue were \$5,250,716 and \$944,507 for the General Fund and Debt Service Funds, respectively.

Grant revenues and contributions are recognized when all eligibility requirements have been met. Grant funds received in advance are recorded as deferred revenue until earned. Contributions received with purpose restrictions are recorded as revenue and the related fund balance is designated until restrictions are satisfied. Amounts reported as program revenues include operating grants and contributions, food services user charges, rentals and tuition. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. The Texas Education Agency, through its application of state law, allocates state revenues to school districts by formula allocation. The District receives two allocations, a per capita allocation and a foundation program allocation. The District also recognizes revenues for the state's share of the contributions to the Teacher Retirement System of Texas. See Note K for additional information on the employee's retirement plan. Other state revenues are received through other state miscellaneous programs on an allocated basis. Charges for services and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

The District has accrued Foundation School Program revenues of approximately \$160,557,948 which is included in receivables from other governments in the Balance Sheet-Governmental Funds, to reflect cash that will be received in fiscal year 2012, which was generated by attendance and related expenditures in fiscal year 2011. If both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and unrestricted resources as needed.

The District reports the following major governmental funds:

- The General Fund is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.
- The Debt Service Fund, a budgeted fund, accounts for the use of ad valorem taxes and other revenues collected for the purposes of retiring bond principal and paying interest when due. The Debt Service Fund does not meet the quantitative criteria of a major fund, however, due to the qualitative significance of the fund, management has decided to present it as a major fund.
- The Capital Projects Fund is used to account for proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions.

The District reports the following proprietary funds:

- Internal Service Funds are used to account for services provided by one department to other departments of the District on a cost-reimbursement basis. For the District, these funds are used to provide workers' compensation insurance, unemployment insurance, printing services and program evaluation. Accrued liabilities include provisions for claims reported and claims incurred but not reported for workers' compensation insurance. The provision for reported claims is determined by estimating the amount that will ultimately be paid to each claimant. The provision for claims incurred but not yet reported is estimated based on the District's experience since the inception of the program.

Additionally, the District reports the following non-major funds:

- Special Revenue Funds are used to account for food services activities, federal and state financed programs and other local programs where unused balances are returned to the grantor at the close of specified project periods. The budget for the Food Services Fund is adopted by the Board each fiscal year.

The agency Fund is a fiduciary fund that is custodial in nature (assets equals liabilities) and is used to account for the activities of student groups. The student activity groups exist with the explicit approval of, and are subject to revocation, by the Board.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

Assets, Liabilities and Net Assets

Cash, Cash Equivalents and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with original maturities of three months or less from the date of acquisition. All investments in pools are considered cash equivalents.

Investments with maturities at the time of acquisition of over 12 months are recorded at fair value and can consist of certificates of deposit, U.S. Treasury instruments, U.S. Government agency obligations, commercial paper, investments in government sponsored enterprises, repurchase agreements and investments in local government public fund investment pools. Fair value is determined by the amount by which a financial instrument could be exchanged in a current transaction between willing parties. The District accrues interest on temporary investments based on the terms and effective interest rates of the specific investments.

Interfund Transaction and Receivables and Payables

Advances between funds are accounted for in the appropriate interfund receivable and payable accounts. All legally authorized transfers are appropriately treated as transfers and are included in the results of operations. Such balances are eliminated within the governmental activities for the government-wide financial statements.

Property Taxes

Property taxes are levied each October 1 on the assessed value as of the prior January 1 for all real and business personal property located in the District. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the subsequent year. On January 1 of each year a lien attaches to the property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes and historical experience of adjustments to tax receivables. Uncollectible taxes are written off according to the Texas Property Tax Code. See Note C for the discussion of the write off of uncollectible taxes in the current year.

Inventories and Prepaid Items

The consumption method is used to account for inventories of supplies and materials. Under this method, these items are carried in an inventory account of the respective fund at cost, using the weighted average method of accounting and are subsequently charged to expenditures when consumed or requisitioned. Although food commodities are received at no cost, their fair value is supplied by the Texas Department of Agriculture and is recorded as inventory on the date received. In the governmental funds, inventories and prepaid items are reported as non-spendable fund balance.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in the accounting system in order to assign the portion of the applicable appropriation, is employed in the governmental fund financial statements. Encumbrances, which have not been liquidated, are reported as an assigned portion of fund balance in the governmental funds.

Government-Wide Net Assets

Invested in capital assets, net of related debt – the component of net assets that represents capital assets less capital debt plus unspent bond proceeds of \$301,973,476.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

Restricted for debt service – the component of net assets that reports the difference between assets and liabilities of the Debt Service Funds net of accrued interest at June 30, that consists of assets with constraints placed on their use by the bond covenants of \$46,338,391.

Restricted for food service – the component of net assets that reports the difference between assets and liabilities of the Food Services Fund that consists of assets with constraints placed on their use by the Department of Agriculture and Texas Education Agency (“TEA”) of \$20,180,515.

Unrestricted – the difference between the assets and liabilities that is not reported in net assets invested in capital assets, net of related debt, net assets restricted for debt service, and net assets restricted for food service of \$178,932,482.

Governmental Fund Balances

The GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and clarifying the existing governmental fund type definitions. The statement establishes a hierarchy of fund balance classifications based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources. The District implemented GASB 54 for the fiscal year ended June 30, 2011. The implementation of GASB Statement No. 54 required the District to evaluate the classification of its Special Revenue Funds, which resulted in the reclassification of the Campus Activity Fund to the General Fund. Due to the nature and source of its revenue (i.e. revenue is not legally restricted), it was determined that it does not meet the criteria of a Special Revenue Fund. The beginning fund balances of the general fund and non-major governmental funds were restated for implementation of this new standard.

According to the District’s fund balance policy, as amended for the implementation of GASB Statement No. 54, fund balance is comprised of the following components:

Nonspendable fund balance – assets that will never convert to cash, such as inventory and prepaid items.

Restricted fund balance – the portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions imposed by parties outside the District at June 30, 2011.

Committed fund balance – the portion of fund balance that reflects resources whose use is limited based upon resolutions by the District’s Board of Trustees. At June 30, 2011, the District had no committed fund balance.

Assigned fund balance – the portion of fund balance that reflects resources whose use is limited by its intended use. At June 30, 2011, the Superintendent of Schools and Chief Financial Officer, with authority delegated by the Board of Trustees, assigned fund balance as follows:

	Governmental Funds
Campus activity funds	\$ 2,766,640
Encumbrances	3,866,524
Debt service fund	11,800,000
Total	\$ 18,433,164

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

Unassigned fund balance – the portion of fund balance in excess of nonspendable, restricted, committed and assigned.

Capital Assets

Capital assets, which include land, buildings, furniture and equipment, and construction in progress are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Construction cost includes direct and all indirect costs. Donated capital assets are recorded at estimated fair 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, and land and construction in progress are not depreciated. Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

Asset Classification	Useful Life in Years
Buildings and Building Improvements	40
Heavy Installed Equipment	20
Portable Buildings and Building Systems	15
Furniture	10
Trucks and Vans	7
Equipment:	
Maintenance Equipment	15
Grounds and Custodial Equipment	12
Instructional Equipment	10
Kitchen Equipment	10
Servers, Communications Systems, Audio/Visual	7
Automobiles	5
Computers and Copiers	3
Software	3

Compensated Absences

Certain employees are entitled to receive accrued vacation and compensatory pay in a lump-sum cash payment upon termination of employment with the District. The amount of \$2,189,579 (wages and benefits) represents the recorded liability for employees vested in accumulated vacation and compensatory pay. The General Fund and Special Revenue Funds are used to liquidate compensated absences.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. 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. Cost of issuance, as well as gains or losses on refunding, are capitalized and amortized over the shorter of the life of the new issuance or the life of the existing debt using the straight-line interest method, which approximates the interest method. Premiums and discounts are amortized over the life of the related debt using the effective interest method.

In the fund financial statements, bond premiums and discounts, as well as bond issuance costs are recognized in the governmental funds, 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.

Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Data Control Codes

In accordance with the Financial Accountability System Resource Guide published by the Texas Education Agency (the "TEA"), the District has adopted and installed an accounting system which meets the minimum requirements prescribed by the State Board of Education and has been approved by the state auditor. The TEA requires the display of these codes in the financial statements filed with the TEA in order to ensure accuracy in building a statewide database for policy development and funding plans.

NOTE B: CASH, CASH EQUIVALENTS AND INVESTMENTS

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the School Depository Act. The depository bank deposits for safekeeping and trust with The Bank of New York Mellon, under a tri-party collateral agreement between the District, the depository bank and The Bank of New York Mellon, approved pledged securities, as authorized by Chapter 2257, Collateral for Public Funds of the Government Code, in an amount sufficient to protect the District's funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC"). In order to maximize return on cash balances, the District uses consolidated bank accounts from which all disbursements are made, with cash in excess of the District's total daily requirement being invested for future needs.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

At June 30, 2011, the net carrying amount of the District's cash deposits, excluding student activity fund deposits of \$3,724,890, was \$88,580,064. The bank balance of \$94,598,696 was on deposit with the contracted depository bank. District funds in non-interest bearing accounts are protected pursuant to the Dodd-Frank Insurance Provision of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("the Act"). The Act provides that through December 31, 2012, the FDIC will insure in full the noninterest-bearing transaction accounts of all government/public sector depositors. In addition, for the period from July 21, 2011 and through December 31, 2012, District funds are also insured up to \$250,000 for the combined amount of all time and savings accounts, and up to an additional \$250,000 for the combined total of all interest-bearing Demand Deposit Accounts (DDA's). Interest bearing accounts were collateralized by pledged United States government securities with a fair value of \$51,553,250 at June 30, 2011, held by The Bank of New York Mellon. Because The Bank of New York Mellon holds the pledged securities in trust on behalf of the District, the deposits were deemed collateralized under Texas law. Secondary campuses activity funds were centralized and were on deposit with the contracted depository. Non-centralized agency and activity funds were in separate noninterest-bearing bank accounts in the name of the schools, and as such, have full FDIC coverage under The Act, after \$250,000 FDIC coverage per bank account up to 100% of the bank balance per bank account. At June 30, 2011, cash on hand in Agency Funds totaled \$3,724,890 and was on deposit with the contracted depository and separate bank accounts. The District's Agency Fund bank balance on June 30, 2011, was covered by federal depository insurance or by collateral held in the District's name.

The District's component unit had an unrestricted cash balance of \$441,416. The component unit places its temporary cash investments with creditworthy, high quality financial institutions. These cash investments from time to time exceed federally insured limits.

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

- a. Depository bank: Bank of America, N.A.
- b. The date of highest deposit was September 28, 2010, with combined cash and certificates of deposit balance of \$107,343,354.
- c. On September 28, 2010, the amount of bonds, securities pledged, and FDIC coverage was \$117,422,554.
- d. The FDIC coverage portion of the collateral listed above was \$500,000.
- e. The District had no occasions during the year of not being sufficiently collateralized, in which the pledged collateral requirement was less than the collateral requirement.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

The Texas legislature passed the Public Funds Investment Act of 1995 ("Public Funds Investment Act") which authorizes the District to invest its excess funds in the following:

- Obligations of the United States or its agencies and instrumentalities,
- Obligations of the State of Texas or its agencies,
- Other obligations guaranteed by the United States or the State of Texas or their agencies and instrumentalities,
- Public funds investment pools,
- No load money market funds with a weighted average maturity of 90 days or less
- Fully collateralized repurchase agreements,
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality not less than an "A", or its equivalent, by a nationally recognized investment rating firm,
- Commercial paper having a stated maturity of 270 days or fewer from the date of issuance and is not rated less than A-1 or P-1 by two nationally recognized credit rating agencies or one nationally recognized credit agency and is fully secured by an irrevocable letter of credit.
- Guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas Public Funds Investment Act in an amount equal to the bond proceeds,
- Guaranteed or secured certificates of deposit, issued by state and national banks domiciled in Texas, and insured by federal depository insurance or secured by the obligations mentioned above, and
- Bonds issued, assumed or guaranteed by the State of Israel.

The Public Funds Investment Act requires an annual review and approval of investment policies and practices. The review disclosed that in this area of investment practices, management reports and establishment of appropriate policies, the District materially adhered to the requirements of the Public Funds Investment Act. Additionally, investment practices of the District were in accordance with local policies, which are no more restrictive than state statutes.

In January 2011, the District invested \$500 million from the \$950.3 million proceeds of the "Dallas Independent School District Unlimited Tax School Building Bonds, Taxable Series 2010C" (the Bonds) in a fully collateralized flexible repurchase agreement (flex-repo) with Bayerische Landesbank (BayernLB or BLB). BayernLB or "Bayerische Landesbanken" (Bavarian State Bank) is a publicly regulated bank based in Munich, Germany, which is one of the eight "Landesbanken" (State Banks), and the eighth-largest financial institution in Germany. BLB deposits the District's investment earnings into the flex-repo account at the end of each month at a fixed investment rate of .64% per annum, calculated on a 360-day year basis. Additionally, BLB deposits for safekeeping and trust with Wells Fargo Bank direct obligations of the United States of America and direct obligations of any agency or instrumentality of the United States of America at a security ratio of 102%. As of June 30, 2011, the balance in the flex-repo account was collateralized by a combination of cash, federal agency securities (Tennessee Valley Authority) and Government Sponsored Enterprise mortgage/asset securities (FHLMC, FNMA, GNMA, SBA, and the US Department of Veterans Affairs). Withdrawals of cash (draws) are allowed from the BLB flex-repo account twice per month, with a two day advance notice to BLB. Draws are timed to coincide with the cash flow needs of the district's bond program, and all funds are expected to be withdrawn from the BLB flex-repo by September 2014, the final repurchase date stated in the flex-repo agreement, with the last draw currently anticipated to occur in December 2013. The flex-repo agreement ends on the termination date which, per the agreement, means the earlier of: (a) the date on which BLB repurchases all purchased securities with the invested money's at the applicable repurchase price; (b) the date on which no Bonds remain outstanding; (c) the date on which BLB elects to optionally terminate the agreement due to (i) a payment default with respect to the Bonds, or (ii) a complete or partial purchase in lieu of redemption of the Bonds; or, (d) the final purchase date stated in the agreement of September 30, 2014.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

Cash withdrawn from the BLB flex-repo account that is not used immediately for bond expenditures, or to reimburse the District's general fund for bond expenditures, will be immediately reinvested in another investment account designated for the bond proceeds of the "Dallas Independent School District Unlimited Tax School Building Bonds, Taxable Series 2010C."

As of June 30, 2011, the following are the District's cash equivalents and investments, with respective maturities and credit quality:

Type of Investment	Book Value	Percent	Fair Value	Percent	Maturity Amount	Maturity in 0-6 Months	Credit Rating S&P/Moody's
Money markets and mutual funds	\$ 9,744,864	0.9%	\$ 9,744,864	0.9%	\$ 9,744,864	\$ 9,744,864	A 1/P1
Investment pools:							
Texas Class	178,957,292	14.9%	178,957,292	14.9%	178,957,292	178,957,292	AAA/Aaa
LOGIC	21,405,805	1.8%	21,405,805	1.8%	21,405,805	21,405,805	AAA/Aaa
Lone Star	165,957,119	13.9%	165,957,119	13.9%	165,957,119	165,957,119	AAA/Aaa
TexPool	44,360,787	3.7%	44,360,787	3.7%	44,360,787	44,360,787	AAA/Aaa
TexasDAILY	33,365,195	2.8%	33,365,195	2.8%	33,365,195	33,365,195	AAA/Aaa
Total Investment pools	444,046,198	37.1%	444,046,198	37.1%	444,046,198	444,046,198	
Cash	47,405,057	4.0%	47,405,057	4.0%	47,405,057	47,405,057	N/A
Cash in Savings	44,899,897	3.7%	44,899,897	3.7%	44,899,897	44,899,897	N/A
Total Cash	92,304,954	7.7%	92,304,954	7.7%	92,304,954	92,304,954	
Total cash and cash equivalents	546,096,016	45.6%	546,096,016	45.6%	546,096,016	546,096,016	
Repurchase Agreements:							
BLB Flex-Repo - final repo date 9-30-2014	501,361,494	41.9%	501,361,494	41.9%	501,361,494	-	(1) N/A
Securities:							
Freddie Mac	149,917,458	12.5%	149,989,550	12.5%	150,000,000	150,000,000	AAA/Aaa
Total Investments	651,278,952	54.4%	651,351,044	54.4%	651,361,494	150,000,000	
Total cash, cash equivalents and investments	\$ 1,197,374,968	100.0%	\$ 1,197,447,060	100.0%	\$ 1,197,457,510	\$ 696,096,016	

(1) See maturity information below.

As required by GASB Statement No. 31, the District recognizes the unrealized gain/loss on investments with a maturity date greater than one year from the acquisition date and investments that are callable. As of June 30, 2011, the remaining cash equivalents and securities in the District's portfolio all had maturity dates of less than one year from their acquisition date, except for the flex-repo of \$500 million that has a final repurchase date stated in the agreement of September 30, 2014.

The "Cash in Savings" is an Analyzed Business Investment Account that earns interest deposited monthly on the average daily balance in the account. This account allows a maximum of six withdrawals per month. The balance in the account is collateralized daily in accordance with the requirements of the Public Funds Collateral Act and the tri-party collateral agreement between Dallas Independent School District, Bank of America and Bank of New York Mellon. As of June 30, 2011 the interest earning rate for the account was 30 basis points.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

Interest Rate Risk: In accordance with the District's investment policy, investments are made in a manner that ensures the preservation of capital in the overall portfolio, and offsets during a twelve month period any market price losses resulting from interest-rate fluctuations by income received from the balance of the portfolio. The District has an investment of bond proceeds in a flexible repurchase agreement with BayernLB (BLB) at a fixed investment rate of .64% per annum for a period stated in the agreement not to exceed September 30, 2014. This investment incurs a minimal risk that the Federal Reserve interest rate may increase above .64% per annum between now and September 2014 (from 0.0-0.25% at June 30, 2011). The District's investment strategy states that no individual transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio.

Credit Risk: State law limits investments in commercial paper to not less than A1-P1 or equivalent rating by at least two nationally recognized credit rating agencies. The District's investments in Local Government Public Fund Investment Pools ("LGIP's") include: Texas Class, LOGIC, Lone Star, TexPool and TexasDAILY. These are all public funds investment pools and money markets operating in full compliance with the Public Funds Investment Act. These pools are operated in a manner consistent with SEC Rule 2a-7 of the Investment Company Act of 1940 (the "1940 Act"). All are rated "AAA" money market funds by Standard and Poor's. The Bank of America Money Market Reserves is a no-load money market fund that maintains weighted-average maturity of 90-days or less. This money market fund invests only in first-tier securities. Under SEC Rule 2a-7 of the 1940 Act, a first-tier security is a debt instrument that is an eligible investment for money market funds and has received a rating in the highest short-term category from a nationally recognized statistical rating organization. On August 5, 2011, Standard and Poors, one of three nationally recognized raters of US debt and securities, downgraded the rating of long-term US sovereign debt from AAA to AA+ for the first time since 1941 with a negative outlook. The two other national raters, Moody's and Fitch, continue to have the highest ratings, but also have the debt on their watch lists. Included in the District's investment portfolio is \$149,917,458 that was downgraded from AAA to AA+ by S&P subsequent to year end.

Concentration of Credit Risk: The District's investment portfolio is 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. The \$500 million BLB flex-repo is at one bank; however, it is fully collateralized.

Custodial Credit Risk – deposits: This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. All deposits, not covered by FDIC insurance, held in the depository bank, Bank of America, were fully collateralized. Additionally, all funds in the District's flexible repurchase agreement for the investment of bond proceeds with BayernLB were fully collateralized with securities held by the collateral custodian, Wells Fargo Bank.

Custodial Credit Risk – investments: This is the risk that, in the event of failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All funds in the District's flexible repurchase agreement for the investment of bond proceeds with BLB were fully collateralized with securities held by the collateral custodian, Wells Fargo Bank. The Freddie Mac investments are held in trust with Texas Class.

Foreign Currency Risk: As of June 30, 2011, there are no foreign currency investments in the District's portfolio.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

NOTE C: LOCAL REVENUES AND PROPERTY TAXES

Local revenues are comprised of the following:

	General Fund	Debt Service Fund	Capital Projects Fund	Non-Major Funds	Total Governmental Funds
Property taxes	\$ 764,344,921	\$ 145,028,087	\$ -	\$ -	\$ 909,373,008
Food services	-	-	-	5,722,347	5,722,347
Gifts and bequests	134,432	-	2,882,255	1,456,376	4,473,063
Campus activity funds	4,378,864	-	-	-	4,378,864
Interest income	600,435	101,466	2,423,914	17	3,125,832
Tuition, fees and cocurricular	899,437	-	-	688,126	1,587,563
Rental Income	1,279,344	-	17,809	-	1,297,153
Other	6,022,761	-	517,103	983,821	7,523,685
Totals	\$ 777,660,194	\$ 145,129,553	\$ 5,841,081	\$ 8,850,687	\$ 937,481,515

Property Taxes

The District's ad valorem property tax is levied each October 1 on the assessed value as of the prior January 1 for all real and business personal property located in the District. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the subsequent year. On January 1 of each year a tax lien attaches to the property to secure the payment of all taxes, penalties, and interest ultimately imposed. The assessed value of the roll on January 1, 2011 was \$95,357,746,590. After deductions of all exemptions and reductions provided by law and those granted by the District, the levy for the 2011 fiscal year was based on property values of \$75,985,949,045.

The tax rates assessed for the year ended June 30, 2011, to finance General Fund operations and the payment of principal and interest on long-term debt were \$1.04005 and \$0.197761 per \$100 valuation, respectively, for a total of \$1.237811 per \$100 valuation. The resolution levying the ad valorem taxes specifies the individual tax rates for the General Fund and Debt Service Funds. Current tax collections for the year ended June 30, 2011, were 96.93% of the tax levy.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. The District has provided an allowance for estimated uncollectible property taxes and estimated adjustments within the General Fund and Debt Service Funds of \$45,538,440 and \$6,077,884 respectively, based upon historical collection experience and historical experience of adjustments to tax receivables.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

The Texas Property Tax Code, directs tax collectors to cancel and remove from the tax rolls real property taxes that have been delinquent more than 20 years and personal property taxes that have been delinquent more than 10 years. Additionally, the Texas Property Tax Code provides that personal property may not be seized and a suit may not be filed to collect a tax on personal property that has been delinquent more than four years.

The City of Dallas has established 16 Tax Increment Financing Zones as authorized under Chapter 311 of the Texas Property Tax Code in which the District has authority to levy taxes on real property. The City of Farmers Branch has established one Tax Increment Finance Zone as authorized under Chapter 311 of the Texas Property Tax Code in which the District has authority to levy taxes on real property. The District currently participates financially in three of the City of Dallas Tax Increment Financing Zones and the City of Farmers Branch Tax Increment Financing Zone.

The captured property values and property taxes payable to the Tax Increment Financing Zones are summarized as follows:

	<u>Captured Values</u>	<u>Taxes Collected/ Paid (\$1.04005/\$100)</u>
City of Dallas:		
Oak Cliff Gateway Tax Incremental Financing District	\$ 59,458,929	\$ 606,852
Cedars Tax Incremental Financing District	46,873,491	276,393
Sports Arena Tax Incremental Financing District	439,222,136	2,717,812
City of Farmers Branch:		
Tax Incremental Financing District #1	2,176,050	9,683
 Totals	 <u>\$ 547,730,606</u>	 <u>\$ 3,610,740</u>

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

NOTE D: RECEIVABLES

Property tax receivable as of June 30, 2011, for the District's major funds and non-major funds in the aggregate including the applicable allowances for uncollectible accounts are as follows:

	<u>General</u>	<u>Debt Service</u>	<u>Totals</u>
Property taxes	\$ 71,427,350	\$ 10,400,123	\$ 81,827,473
Less: Allowance for uncollectible	(45,538,440)	(6,077,884)	(51,616,324)
Totals	<u>\$ 25,888,910</u>	<u>\$ 4,322,239</u>	<u>\$ 30,211,149</u>

The \$1,996,281 component unit receivables for unconditional promises are due in less than one year.

NOTE E: DEFERRED/UNEARNED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

At the end of fiscal year 2011, the various components of deferred and unearned revenue reported in the General Fund, Debt Service Funds, Capital Projects Fund and non-major governmental funds were as follows:

	<u>General</u>	<u>Debt Service</u>	<u>Non-Major</u>	<u>Totals</u>
Deferred:				
Property taxes	\$ 20,638,194	\$ 3,377,732	\$ -	\$ 24,015,926
Medicaid/SHARS	5,736,422	-	-	5,736,422
Gifts and bequests	472,291	-	-	472,291
Unearned	-	-	1,125,595	1,125,595
Totals	<u>\$ 26,846,907</u>	<u>\$ 3,377,732</u>	<u>\$ 1,125,595</u>	<u>\$ 31,350,234</u>

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

NOTE F: INTERFUND RECEIVABLES, AND TRANSFERS

Interfund balances at June 30, 2011, consisted of the following individual fund receivables and payables:

Fund	Receivables	Payables
General Fund:		
Non-Major Governmental Funds	\$ -	\$ 52,069,037
Debt Service Fund	36,865	-
Capital Projects Fund	2,691,320	-
Internal Service	-	17,141,049
Agency Fund	502,837	-
	<u>3,231,022</u>	<u>69,210,086</u>
Debt Service Fund:		
General Fund	-	36,865
Capital Projects Fund:		
General Fund	-	2,691,320
Non-Major Governmental Funds:		
General Fund	52,069,037	-
Internal Service Fund	-	244,275
Internal Service Fund:		
General Fund	17,141,049	-
Non-Major Governmental Fund	244,275	-
	<u>17,385,324</u>	<u>-</u>
Agency Fund:		
General Fund	-	502,837
	<u>-</u>	<u>502,837</u>
Totals	<u>\$ 72,685,383</u>	<u>\$ 72,685,383</u>

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

The interfund receivable and payable between General Fund and Special Revenue Fund occurs when expenditures take place before the reimbursement is received from the granting agency. The interfund balances between General Fund and Capital Projects Fund, Debt Service Funds, Agency Fund, and Internal Service Fund occur due to payments made from the General Fund operating account on behalf of these funds. The interfund balances between Internal Service Fund, General Fund and Non-Major Governmental Fund occur due to recording of workers' compensation liabilities recorded but not yet funded. Transfers occur monthly, unless significantly larger payments are noted and the transfer occurs more frequently. All interfund balances are expected to be repaid within the next fiscal year.

Interfund transfers are comprised of the following:

	Transfers In		
	Non-Major Governmental	Internal Service Fund	Transfers Out
Transfers Out - General Fund	\$ 86,899	\$ 126,134	\$ 213,023

Interfund transfers were made to offset operating losses in internal service funds and to establish a special revenue fund.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

NOTE G: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 is as follows:

	Balance at July 1, 2010	Additions	Transfers	Deletions	Balance at June 30, 2011
Capital assets, not being depreciated:					
Land	\$ 173,516,986	\$ 15,882,897	\$ -	\$ -	\$ 189,399,883
Construction in progress	128,162,604	409,304,324	(222,116,513)	-	315,350,415
Total capital assets, not being depreciated	<u>301,679,590</u>	<u>425,187,221</u>	<u>(222,116,513)</u>	<u>-</u>	<u>504,750,298</u>
Capital assets, being depreciated:					
Building and improvements	2,210,770,243	330,500	202,082,139	(6,078,713)	2,407,104,169
Furniture and equipment	180,675,978	12,737,240	20,034,374	(16,046,598)	197,400,994
Total capital assets, being depreciated	<u>2,391,446,221</u>	<u>13,067,740</u>	<u>222,116,513</u>	<u>(22,125,311)</u>	<u>2,604,505,163</u>
Less accumulated depreciation for:					
Buildings and improvements	843,511,299	57,278,856	-	(4,933,467)	895,856,688
Furniture and equipment	141,878,378	15,545,630	-	(15,906,785)	141,517,223
Total accumulated depreciation	<u>985,389,677</u>	<u>72,824,486</u>	<u>-</u>	<u>(20,840,252)</u>	<u>1,037,373,911</u>
Total capital assets, being depreciated, net	<u>1,406,056,544</u>	<u>(59,756,746)</u>	<u>222,116,513</u>	<u>(1,285,059)</u>	<u>1,567,131,252</u>
Capital assets, net	<u>\$1,707,736,134</u>	<u>\$ 365,430,475</u>	<u>\$ -</u>	<u>\$ (1,285,059)</u>	<u>\$ 2,071,881,550</u>

Capital assets include assets recorded in Internal Service Funds, net of depreciation, of \$17,382.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

Depreciation expense was charged to functions of government activities as follows:

		Depreciation Expense
11	Instruction	\$ 43,213,327
12	Instructional resources and media services	880,661
13	Curriculum and staff development	357,363
21	Instructional leadership	232,076
23	School leadership	3,757,520
31	Guidance, counseling and evaluation services	1,218,002
32	Social work services	18,174
33	Health services	592,505
35	Food services	5,474,027
36	Curriculum/extracurricular activities	1,782,666
41	General administration	493,093
51	Plant maintenance and operations	4,941,963
52	Security and monitoring services	485,134
53	Data processing services	8,756,956
61	Community services	303,041
81	Facilities acquisition and construction	317,978
	Total	\$ 72,824,486

Depreciation is allocated to functions of governmental activities by specific identification whenever possible. Depreciation related to campus facilities is allocated to functions based on the relative square footage of the respective functional areas. Technology equipment is allocated in total to data processing services.

The District has active construction projects. These projects include new school construction and renovation of existing facilities. The total construction commitments as of June 30, 2011 are \$348,818,794 for projects under the bond programs.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

NOTE H: LEASES

The District leases offices, copiers, computers, warehouse space and parking under non-cancelable operating leases. Rent expense including non-cancelable leases and other rent charges for the year ended June 30, 2011 was approximately \$6,818,000. Minimum future lease commitments on non-cancelable leases are summarized as follows:

For the Year Ending June 30		Minimum Future Lease Commitments
2012	\$	5,362,059
2013		3,792,692
2014		1,927,350
2015		1,626,387
2016		280,288

NOTE I: LONG-TERM OBLIGATIONS

Long-term debt includes par bonds, contractual obligations, notes payable, long-term loans, maintenance tax notes and provisions for workers' compensation liability. Bond premiums and deferred loss on refundings are amortized using the effective interest method.

General Obligation Bonds

These bonds are secured by ad valorem taxes levied against all taxable property and are serviced, with the exception of the contractual obligation bonds, by Debt Service Funds with an apportionment of the ad valorem tax levy. Interest rates on the bonds range from 1.25% to 6.25% and are due through 2035.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

At June 30, 2011, \$99,094,547 in cash equivalents is restricted in the Debt Service Fund to service the outstanding bonds.

Series	Bond Series Name - General Obligation Bonds Maturity or Mandatory Redemption Date	Interest Rates	Original Issue Amount (in thousands)	Total Outstanding Principal Amount (in thousands)
2002	Unlimited Tax School Building and Refunding Bonds - Serially in varying amounts from August 15, 2003 to February 15, 2022	4.00% - 5.50%	\$ 335,594	\$ 34,340
2003	Unlimited Tax School Building and Refunding Bonds - Serially in varying amounts from February 15, 2004 to February 15, 2027	1.75% - 5.00%	156,665	21,565
2004	Unlimited Tax School Building Bonds - Serially in varying amounts from August 15, 2004 to August 15, 2030	3.00% - 5.00%	300,000	240,385
2004A	Unlimited Tax School Building and Refunding Bonds - Serially in varying amounts from August 15, 2005 to August 15, 2031	3.00% - 5.00%	400,000	398,205
2005	Unlimited Tax Refunding Bonds - Serially in varying amounts from August 15, 2008 to August 15, 2014	5.25%	44,135	25,040
2006	Unlimited Tax School Building Bonds - Serially in varying amounts from August 15, 2007 to August 15, 2032	4.00% - 5.00%	290,205	281,555
2008	Unlimited Tax School Building Bonds- Serially in varying amounts from February 15, 2010 to February 15, 2034	5.00% - 6.25%	393,325	374,995
2009	Unlimited Tax Refunding Bonds- Serially in varying amounts from August 15, 2009 to August 15, 2014	2.00% - 5.00%	100,760	56,875
2010	Unlimited Tax Refunding Bonds- Serially in varying amounts from February 15, 2011 to February 15, 2021	1.25% - 5.00%	156,730	155,920
2010B	Unlimited Tax Refunding Bonds- Serially in varying amounts from February 15, 2013 to February 15, 2018	3.00% - 5.50%	70,080	70,080
2010C	Unlimited Tax School Building Bonds- Serially in varying amounts from February 15, 2018 to February 15, 2026 and Term Bonds due 2030 and 2035	4.05% - 6.00%	950,300	950,300
Total				<u>\$ 2,609,260</u>

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

Maintenance Tax Notes

On October 1, 2001, the District issued \$6,880,000 of Qualified Zone Academy Maintenance Tax Notes, Series 2001. An additional \$1,120,000 of Qualified Zone Academy Maintenance Tax Notes, Series 2002, was issued on September 1, 2002. On September 20, 2008 the District issued \$20,000,000 of Dallas Independent School District Maintenance Tax Notes, Series 2008. The amount outstanding for Maintenance Tax Notes as of June 30, 2011 was as follows:

<u>Series</u>	<u>Maintenance Tax Notes Maturity or Mandatory Redemption Date</u>	<u>Yield Rates</u>	<u>Total Outstanding Principal Amount (in thousands)</u>
2001	Principal due at maturity - deposits made to escrow annually at May 1, 2002 to May 2015	6.82%	\$ 5,700
2002	Principal due at maturity - interest due each February 15 and August 15 from February 15, 2003 to September 15, 2016	6.14%	1,120
2008	Principal due at maturity - interest due each February 15 and August 15 from February 15, 2009 to February 15, 2015	3.16%	10,845
Total			\$ 17,665

The Maintenance Tax Notes are paid from the General Fund.

Long-term Notes Payable

As of June 30, 2011, the accompanying government-wide financial statements include property under notes payable with a principal balance due of \$1,464,912. The 2008 notes payable were used to acquire equipment and services for the District's student information systems. Notes payable expenditures for the year ended June 30, 2011 were \$1,346,273, representing principal payments that have been reflected as debt service expenditures in the General Fund of the accompanying fund financial statements.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

The following is a summary of the changes in the District's long-term debt for the year ended June 30, 2011:

Description	Long-Term Liabilities Outstanding July 1, 2010 (in thousands)	Additions and Interest Accretion (in thousands)	Retired/ Refunded (in thousands)	Long-Term Liabilities Outstanding June 30, 2011 (in thousands)	Amount Due Within One Year From June 30, 2011 (in thousands)
General obligation					
bonds:					
Series 2002	\$ 205,095	\$ -	\$ 170,755	\$ 34,340	\$ 9,195
Series 2003	34,170	-	12,605	21,565	795
Series 2004	294,400	-	54,015	240,385	3,445
Series 2004A	400,000	-	1,795	398,205	-
Series 2005	31,850	-	6,810	25,040	7,240
Series 2006	284,690	-	3,135	281,555	1,465
Series 2008	374,995	-	-	374,995	-
Series 2009	81,475	-	24,600	56,875	25,900
Series 2010	-	156,730	810	155,920	1,475
Series 2010B	-	70,080	-	70,080	-
Series 2010C	-	950,300	-	950,300	-
Total General Obligation Bonds	1,706,675	1,177,110	274,525	2,609,260	49,515
Maintenance Tax Notes Payable:					
Series 2001-QZAB	5,512	188	-	5,700	-
Series 2002-QZAB	1,120	-	-	1,120	-
Series 2008-SSYS/Vehicles	13,990	-	3,145	10,845	3,305
Total maintenance tax notes	20,622	188	3,145	17,665	3,305
Long-term Notes Payable					
IBM Master Agreement-2006	646	-	646	-	-
IBM Supplement-2008	2,165	-	700	1,465	722
Total Long-term Notes Payable	2,811	-	1,346	1,465	722
Total Bonds and Notes Payable	1,730,108	1,177,298	279,016	2,628,390	53,542
Other long-term obligations:					
Workers compensation	7,314	7,152	5,545	8,921	2,574
Deferred losses on refunding	(6,214)	(20,860)	(4,238)	(22,836)	-
Premium on bonds	43,121	46,506	12,241	77,386	-
	44,221	32,798	13,548	63,471	2,574
Totals	\$ 1,774,329	\$ 1,210,096	\$ 292,564	\$ 2,691,861	\$ 56,116

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

For governmental activities, claims and judgments are generally liquidated by General Fund resources.

Debt Service Requirements

The annual requirements to pay principal and interest on the bond obligations and notes payable outstanding as of June 30, 2011, are as follows:

Year Ended June 30,	Principal (in thousands)	Interest (in thousands)	Total Requirements (in thousands)
2012	\$ 53,542	\$ 155,435	\$ 208,977
2013	55,953	140,297	196,250
2014	54,695	137,679	192,374
2015	57,230	135,022	192,252
2016	64,125	132,283	196,408
2017-2021	388,410	611,103	999,513
2022-2026	493,805	505,287	999,092
2027-2031	666,495	350,355	1,016,850
2032-2035	795,315	120,475	915,790
	<u>2,629,570</u>	<u>\$ 2,287,936</u>	<u>\$ 4,917,506</u>
Accreted interest to maturity (see note below)	(1,180)		
Totals	<u>\$ 2,628,390</u>		

Note: The \$1,180,256 of accreted interest to maturity represents the difference between the accreted value at June 30, 2011 of the invested escrow account at U.S. Bank and Trust of \$5,699,744 and the debt due at maturity of \$6,880,000 for the 2001 Qualified Zone Academy Bonds. The District deposits \$344,321 payments into the escrow account annually at May 1, and these annual deposits plus the interest earned on the escrow account will pay the \$6,880,000 debt at maturity on May 1, 2015, with pay off due on October 16, 2015.

In prior years, the District legally defeased certain bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for these defeased bonds are not included in the District's basic financial statements. The total amount of defeased bonds that remain outstanding at June 30, 2011 is \$270,685,000.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

Debt Issuance

The District issued the following debt during fiscal year 2010-2011:

On July 15, 2010, the District approved \$80,000,000 in multi-draw "Dallas Independent School District and Revenue Tax Anticipation Notes, Series 2010" (the "TANS"). Two draws totaling \$80,000,000 were executed, as follows: (1) \$30,000,000 draw on August 10, 2010 at a rate of .97634%; (2) \$50,000,000 draw on September 9, 2010 at a rate of .93589%. The total proceeds, less issuance costs of \$132,048, were used to provide for the seasonal cash flow needs of the District's general fund operations. The principal (\$80,000,000) and interest (\$341,072) was due in total on February 11, 2011, and was repaid in full on February 11, 2011 by the General Fund.

In August 2010 the District issued \$156,730,000 in "Unlimited Tax Refunding Bonds, Series 2010" with interest rates ranging from 1.25% to 5.00%. The District received a net premium of \$22,549,737 on the issuance of the Series 2010 bonds. The total proceeds, less the issuance costs and underwriter's discount of \$468,930 and \$863,776, respectively, were used to refund \$153,630,000 of the Dallas Independent School District Unlimited Tax School Building and Refunding Bonds, Series 2002 and \$12,295,000 of the Dallas Independent School District Unlimited Tax School Building Bonds, Series 2003. Principal and interest payments are due each February 15 and August 15, beginning February 15, 2011 and ending February 15, 2021. The total interest requirements on these bonds, with interest rates ranging from 1.25% to 5.00%, aggregate \$47,492,800 as of June 30, 2011. The net proceeds were placed in an escrow account with an escrow agent for the purpose of paying all future debt service payments of the Series 2002 and 2003 Bonds when due. As a result, the refunded bonds are considered to be defeased and the liability had been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$14,514,040. The amount is being netted against the new debt and amortized over the remaining life of the refunded debt issued. This advanced refunding was undertaken to reduce total debt service payments over the next 17 years by \$22,308,583 and resulted in an economic gain of \$18,297,252.

In December 2010, the District issued \$70,080,000 in "Dallas Independent School District Unlimited Tax Refunding Bonds, Series 2010B" with interest rates ranging from 3.00% to 5.50%. The District received a net premium of \$12,052,692 on the issuance of the Series 2010B bonds. The total proceeds, less the issuance costs and underwriter's discount of \$272,000 and \$520,327, respectively, were used to refund \$17,125,000 of the Dallas Independent School District Unlimited Tax School Building and Refunding Bonds, Series 2002, \$52,730,000 of the Dallas Independent School District Unlimited Tax School Building Bonds, Series 2004, and \$3,300,000 of the "Unlimited Tax School Refunding Bonds, Series 2009. Principal and interest payments are due each February 15 and August 15, beginning August 15, 2011 and ending August 15, 2018. The total interest requirements of these bonds, with interest rates ranging from 3.00% to 5.50%, aggregate \$23,209,606 as of June 30, 2011. The net proceeds were placed in an escrow accounting with an escrow agent for the purpose of paying all future debt service payments of the Series 2002, 2003 and 2009 Bonds when due. As a result, the refunded bonds are considered to be defeased and the liability had been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$6,346,059. The amount is being netted against the new debt and amortized over the remaining life of the refunded debt issued. This advanced refunding was undertaken to reduce total debt service payments over the next 10 years by \$1,045,835 and resulted in an economic gain of \$1,524,106.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

In December 2010, the District issued \$950,300,000 in "Dallas Independent School District Unlimited Tax School Building Bonds, Series 2010C" (Build America Bonds – Direct Payment to Issuer) with interest rates ranging from 4.05% to 6.00%. These taxable bonds, created by the American Recovery and Reinvestment Act of 2009, carry a 35% federal tax subsidy on interest costs. The District will deposit any federal tax subsidy revenue received into the Debt Service Fund for the payment of currently outstanding debt service interest due for the Build America Bonds. The District received a net premium of \$11,903,394 on the issuance of the Series 2010C bonds. The total proceeds, less the issuance costs and underwriter's discount of \$2,090,660 and \$9,812,734, respectively, are to be used for school building construction and renovation. Principal and interest payments are due each February 15 and August 15, beginning August 15, 2011 and ending August 15, 2035. The total interest requirements of these bonds, with interest rates ranging from 4.05% to 6.00%, aggregate \$1,169,108,484 as of June 30, 2011. The \$950,300,000 proceeds were invested in local government investment pools (Texas Class, Lonestar, Texas Term and TexPool) and U.S. Government Agencies. In January 2011, \$500,000,000 of the \$950,300,000 proceeds was deposited into a fully collateralized Flexible Repurchase Agreement account with Bayerische Landesbank (BLB) at a rate of .64% for a period of thirty-six months.

Arbitrage

The Federal Tax Reform Act of 1986 requires issuers of tax exempt debt to make payments to the United States Treasury of investment income received at yields that exceed the issuer's tax-exempt borrowing rates. The U.S. Treasury requires payment for each issue every five years. The estimated liability is updated annually for any tax-exempt issuances or changes in yields until such time payment of the calculated liability is due. At June 30, 2011, the District had no liability for arbitrage.

NOTE J: GENERAL FUND FEDERAL SOURCE REVENUE

Federal revenues recorded in the General Fund consist of the following:

Junior ROTC	\$	1,917,775
Medicaid/SHARS		8,308,201
Indirect cost reimbursement		4,126,154
Other federal		173,162
 Total		 <u><u>\$ 14,525,292</u></u>

NOTE K: PENSION PLAN OBLIGATIONS

Teacher Retirement System of Texas

Plan Description - All employees of the District employed for one-half or more of the standard workload and who are not exempted from membership under the Texas Government Code, Title 8, Subtitle C, Section 822.002, participate in the Teacher Retirement System of Texas (the "System"), a multiple-employer Public Employee Retirement System ("PERS"). It is a cost-sharing PERS with one exception: all risks and costs are not shared by the District, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System's annual financial report and other required disclosure information are available by writing to the Teacher Retirement System of Texas Communications Department, 1000 Red River, Austin, Texas 78701-2698 or by calling (800) 223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

The System operates primarily under the provisions of Texas Constitution, Article XVI Section 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 requirements are as follows:

Normal – Age 65 with 5 years of service or when the sum of member’s age and years of credit equals or exceeds 80.

Reduced – Age 55 with at least 5 years of credited service or any age below 50 with 30 or more years of credit service.

Funding Policy

By statute, plan members must 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. For members of the retirement system entitled to the minimum salary for certain personnel under Section 16.056, Texas Education Code, the District will pay the state’s contribution on the portion of the member’s salary that exceeds the statutory minimum. The District’s employees’ contributions to the System for the years ending June 30, 2011, June 30, 2010, and June 30, 2009, were \$63,826,382, \$63,115,624 and \$64,255,930, respectively, equal to the required contributions for each year. Other contributions made from Federal and private grants and from the District for salaries above the statutory minimum for the years ending June 30, 2011, June 30, 2010 and June 30, 2009 were \$23,237,719, \$22,471,332 and \$22,523,356, respectively, equal to the required contributions for each. In addition, the District has recorded, in the General Fund, approximately \$41.7 million in revenue and expenditures for pension contributions paid on behalf of the District by the state.

Staff and Teacher Attendance Reward Plan

Plan Description – The District contributes to the Staff and Teacher Attendance Reward Plan (“STAR” or “Plan”). The Plan is a retirement savings plan available under Section 401(a) of the Internal Revenue Code, established by the Education Service Center Region 10. The District’s Board has the authority for amending plan provisions including establishing and amending contribution requirements. The Board appoints an employee as the Plan Administrator. The Plan’s annual financial report and other required disclosure information are available by writing The STAR Plan Record Keeper JEM Resource Partners, 900 S. Capital of Texas Highway, Suite 350, Austin, TX 78746. Under plan provisions, employees are automatically enrolled in STAR if he or she is an employee who is an active and contributing member of the Teacher Retirement System of Texas, contributes to the District’s 457(b) plan or the 403(b) Tax Sheltered Annuity plan maintained by the District and has missed five days or less from work during the period September 1 to August 31 for each year.

The District contributes for teacher positions as follows:

Days Missed	District Contribution
3 - 5 days	50% of employee deferrals up to \$500 annually
2 days	75% of employee deferrals up to \$700 annually
0 - 1 day	100% of employee deferrals up to \$1,000 annually

The District contributes for non-teacher positions as follows:

Days Missed	District Contribution
3 - 5 days	50% of employee deferrals up to \$200 annually
2 days	75% of employee deferrals up to \$300 annually
0 - 1 day	100% of employee deferrals up to \$400 annually

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

A participant is 25% vested in his or her account after attaining two credited years of service, 50% vested after three years, and 100% vested after attaining four credited years of service in the Plan. A participant shall receive a Year of Service under the Plan for each Plan Year in accordance to the Service Requirements under the Teacher Retirement System of Texas (TRS). Upon meeting the requirements of "qualification of unreduced retirement" in accordance with the TRS , obtaining normal retirement age or upon death or permanent disability, a participant shall be 100% vested regardless of years of service. For the year ended June 30, 2011, the District contributed \$1,553,122 to the plan.

On May 26, 2011, the Board of Trustees voted to temporarily cease contributions to the plan for the plan year beginning September 1, 2011.

NOTE L: 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. There were no significant reductions in insurance coverage from the prior year. The District purchases commercial insurance to cover general liabilities. There were significant reductions in insurance claims from the prior year. Reductions were the result of mandatory limited duty, medical case management, claim audits, safety training and other safety incentives, medical and hospital bill auditing and the implementation of the wellness program. There have been no claim settlements in excess of insurance coverage in the last three years.

Workers' Compensation

Beginning in 1989, the District moved from a self-insured workers' compensation program administered by a third party to a self-insured program administered by the District. The District currently reports all of its risk management activities in its Internal Service Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The provision for reported claims and for claims incurred but not yet reported is determined by District management. During the year, the District entered into an agreement with a third party to contract directly with medical providers for their worker's compensation program and their injured employees. At June 30, 2011, the accrued liability for workers' compensation self-insurance of \$8.9 million includes incurred but not reported claims.

This liability 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 necessarily result in an exact amount. This liability is the District's best estimate based on available information.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

Changes in the reported liability resulted from the following:

Fiscal Year	Balance at Beginning of Year	Current Year Claims and Changes in Estimates	Claims Payments	Balance at End of Year
2009 - 2010	\$ 10,667,749	\$ 2,627,738	\$ (5,981,582)	\$ 7,313,905
2010 - 2011	7,313,905	7,152,461	(5,544,916)	8,921,450

Health Insurance

The Board of Trustees approved the District's participation in the Texas Retirement System ("TRS") Active Care Health Insurance Program as sponsored by the Teacher Retirement System of Texas and administered by Blue Cross Blue Shield of Texas and Medco Health (pharmacy) effective January 1, 2004. This is a premium-based plan: payments are made on a monthly basis for all covered employees.

Medicare Part D

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the years ended June 30, 2011 and 2010, these on-behalf payments were \$2,698,557 and \$2,517,342, respectively, and were recorded as equal revenues and expenditures in the General Fund.

NOTE M: OTHER POST- EMPLOYMENT BENEFITS

Plan Description

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

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

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 the years ended June 30, 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. The District recorded revenue and expenditures in the General Fund of \$10.0 million for contributions paid on behalf of the District by the state for TRS-Care. District contributions were \$5,485,319, \$6,410,175 and \$6,525,993 for the years ended June 30, 2011, 2010 and 2009, respectively, which equaled the required contributions each year.

NOTE N: NEW ACCOUNTING PRONOUNCEMENTS

Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is effective for the District beginning in fiscal year 2013. This Statement addresses how to account for and report service concession arrangements (SCAs) by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators.

Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No.34*, which is effective for the District beginning in fiscal year 2013. This Statement improves financial reporting for a governmental financial reporting entity by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of the entity.

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is effective for the District beginning in fiscal year 2013. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance included in the FASB and AICPA pronouncements issued on or before November 30, 1989. This Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source.

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, is effective for the District for the year ending June 30, 2013. The standard will standardize the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position, rather than net assets.

Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*, is effective for the District for the year ending June 30, 2012. This standard will clarify the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced.

The District has not evaluated the impact of these statements.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

NOTE O: LITIGATION, CONTINGENCIES AND COMMITMENTS

The District is a defendant in various lawsuits arising principally in the normal course of operations. In the opinion of the District's management, the potential losses, after insurance coverage, on all allegations, claims, and lawsuits will not have a material effect on the District's financial position, results of operations or liquidity.

The District participates in a number of federal and state financial assistance programs. Although the District's grant programs have been audited in accordance with the provisions of the Single Audit Act through June 30, 2011, these programs are subject to financial and compliance audits by the grantor agencies. The District is also subject to audit by the TEA of the attendance data upon which payments from the agency are based. These audits could result in questioned costs or refunds to be paid back to the granting agencies.

The District has established and recorded a liability of \$2.9 million for the above mentioned amounts expected to be repaid to the granting agencies, and TEA.

Additionally, the District is in the process of an internal investigation of a federally funded tutoring program for expenditures incurred during fiscal years 2010 and 2011. Based upon preliminary procedures performed, the District has estimated the range of expected losses to be between \$1.0 million and \$2.5 million.

NOTE P: SUBSEQUENT EVENTS

On August 4, 2011, the District issued \$100,000,000 in multi-draw Tax Anticipation Notes (the "TANS"). The TANS were issued for the purpose of funding the District's cash flow requirements. Two "Request for Purchase" agreements were issued under the TANS on August 4, 2011 (\$65,000,000) and September 13, 2011 (\$35,000,000). The \$100,000,000 TANS are due by February 15, 2012.

APPENDIX C

FORM OF CO-BOND COUNSEL'S OPINION

[Form of Co-Bond Counsel Opinion]

[Closing Date]

\$ _____

DALLAS INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX REFUNDING BONDS
SERIES 2012

WE HAVE represented the Dallas Independent School District (the “Issuer”), as its co-bond counsel in connection with an issue of bonds (the “Bonds”) described as follows:

DALLAS INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX REFUNDING BONDS, SERIES 2012, dated _____, 2012 in the principal amount of \$_____.

The Bonds mature, bear interest and may be transferred and exchanged as set out in the Bonds and in the Order adopted by the Board of Trustees of the Issuer authorizing their issuance and the Pricing Certificate authorized therein (together, the “Order”).

WE HAVE represented the Issuer as its co-bond counsel for the purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income 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 Issuer or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the Issuer’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

IN OUR CAPACITY as co-bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the authorization and issuance of Bonds, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Issuer; an escrow agreement (the “Escrow Agreement”) between the Issuer and The Bank of New York Mellon Trust Company N.A., as escrow agent (the “Escrow Agent”); a report (the “Report”) of Grant Thornton LLP, Certified Public Accountants (the “Verification Agent”), verifying the sufficiency of the deposits made with the Escrow Agent for defeasance of the obligations being refunded (the “Refunded Bonds”) and the mathematical accuracy of certain computations of the yield on the Bonds and obligations acquired with the proceeds of the Bonds; and customary certificates of officers, agents and representatives of the Issuer, and other public officials, and other certified showings relating to the authorization and issuance of the Bonds. We have also examined executed Bond No. 1.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

- (A) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Bonds constitute valid and legally binding obligations of the Issuer;
- (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, and the total indebtedness of the District, including the Bonds, does not exceed any constitutional, statutory or other limitations; and
- (C) Firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Bonds pursuant to the Escrow Agreement, and therefore, the Refunded Bonds are deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor in such Escrow Agreement.

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; and
- (2) The Bonds are not “private activity bonds” within the meaning of the Internal Revenue Code of 1986, as amended (the “Code”), and 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.

In providing such opinions, we have assumed with your permission the truth and accuracy as to factual matters of all statements and certifications made to us by the Issuer and the Underwriters. We have relied on representations of the Issuer, the Issuer’s Financial Advisor, and the Underwriters with respect to matters solely within the knowledge of the Issuer, the Issuer’s Financial Advisor, and the Underwriters, respectively, which we have not independently verified, and have assumed 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. We have further relied on the Report of the Verification Agent regarding the mathematical accuracy of certain computations. If such representations or the Report are determined to be inaccurate or incomplete or the Issuer 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 ownership of, receipt of interest on, 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 U.S. 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).

The opinions set forth above 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 Internal Revenue Service (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 Issuer as the taxpayer. We observe that the Issuer 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.

Financial Advisory Services
Provided By

FirstSouthwest 

ESTRADA • HINOJOSA
INVESTMENT BANKERS