OFFICIAL STATEMENT DATED MARCH 6, 2013

	Series 2013A	Series2013B
Moody's:	"Aaa"	"Aa2"
S&P:	"AAA"	"AA-"
PSF:	Approved	N/A

See "OTHER INFORMATION - RATINGS" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM FOR THE SERIES 2013A BONDS" herein

NEW ISSUE - Book-Entry-Only

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

HUMBLE INDEPENDENT SCHOOL DISTRICT
(Harris County, Texas)

$8,250,000 **Unlimited Tax Refunding Bonds** **Series 2013A** **(PSF)**	**$23,950,000** **Unlimited Tax Refunding Bonds** **Series 2013B** **(Non-PSF)**

Dated: March 15, 2013 **Due: February 15, as shown on inside cover**

This Official Statement is provided to furnish information in connection with the offering by the Humble Independent School District (the "District") of its Unlimited Tax Refunding Bonds, Series 2013A (the "Series 2013A Bonds") and Unlimited Tax Refunding Bonds, Series 2013B (the "Series 2013B Bonds" and, together with the Series 2013A Bonds, the "Bonds").

The Bonds will mature as shown on the inside cover page hereof. Interest on the Bonds will accrue from March 15, 2013 (the "Dated Date"), and will be payable on February 15 and August 15 of each year commencing August 15, 2013, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein. 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 Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 1207, Texas Government Code, Chapter 1371, Texas Government Code, and an order authorizing the issuance of the Bonds (the "Bond Order"). The Bonds are direct obligations of the District, payable from a continuing ad valorem tax levied by the District, without legal limit as to maximum rate or amount, on all taxable property located within the District, as provided in the Bond Order and the pricing certificate executed pursuant thereto (the "Pricing Certificate," and together with the Bond Order, the "Order"). See "THE BONDS - AUTHORITY FOR ISSUANCE."

An application has been filed and the District has received preliminary approval for the Series 2013A Bonds to be guaranteed by the Permanent School Fund Guarantee Program of the State of Texas. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM FOR THE SERIES 2013A BONDS." **The Series 2013B Bonds will not be guaranteed by the Permanent School Fund Guarantee Program of the State of Texas.**

Proceeds from the sale of the Series 2013A Bonds will be used to (i) refund a portion of the District's outstanding debt, as more particularly described in SCHEDULE II – REFUNDED BONDS (the "Series 2013A Refunded Bonds") in order to lower the overall debt service requirements of the District and (ii) pay the costs of issuance associated with the issuance of the Series 2013A Bonds. Proceeds from the sale of the Series 2013B Bonds will be used to (i) refund a portion of the District's outstanding debt, as more particularly described in SCHEDULE II – REFUNDED BONDS (the "Series 2013B Refunded Bonds") in order to lower the overall debt service requirements of the District and (ii) pay the costs of issuance associated with the issuance of the Series 2013B Bonds. See "PLAN OF FINANCING."

SEE MATURITY SCHEDULE ON INSIDE COVER

The District reserves the right, at its option, to redeem the Series 2013B Bonds having stated maturities on or after February 15, 2024 in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2023 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. See "THE BONDS - OPTIONAL REDEMPTION."

The Bonds are offered for delivery when, as and if issued and received by the underwriters listed below (the "Underwriters") and subject to the approving opinion of the Attorney General of the State and the opinions of Bracewell & Giuliani LLP, Houston, Texas, Bond Counsel. See APPENDIX C, "FORMS OF BOND COUNSEL OPINIONS." Certain legal matters will be passed upon for the Underwriters by Bates and Coleman, PC, Houston, Texas, Counsel for the Underwriters. It is expected that the Bonds will be available for delivery through the facilities of DTC on April 3, 2013.

RAYMOND JAMES

BOSC, Inc.
A Subsidiary of BOK Financial Corporation

HUTCHINSONSHOCKEYERLEY&CO.

Loop Capital Markets **Southwest Securities** **Wells Fargo Securities**

MATURITY SCHEDULE

$8,250,000
Humble Independent School District
(Harris County, Texas)
Unlimited Tax Refunding Bonds, Series 2013A
(PSF)

Maturity Date 2/15	Principal Amount	Interest Rate	Price or Yield[a]	Cusip No.[b]
2014	$ 685,000	2.000 %	0.270 %	445047 AW3
2015	335,000	2.000	0.390	445047 AX1
2016	385,000	1.500	0.520	445047 AY9
2017	815,000	1.500	0.660	445047 AZ6
2018	1,030,000	2.000	0.900	445047 BA0
2019	1,010,000	2.000	1.180	445047 BB8
2020	1,285,000	3.000	1.440	445047 BC6
2021	1,330,000	3.000	1.670	445047 BD4
2022	1,375,000	3.000	1.880	445047 BE2

(Accrued interest from March 15, 2013 to be added)

$23,950,000
Humble Independent School District
(Harris County, Texas)
Unlimited Tax Refunding Bonds, Series 2013B
(Non-PSF)

Maturity Date 2/15	Principal Amount	Interest Rate	Price or Yield[a]	Cusip No.[b]
2014	$ 425,000	2.000 %	0.330 %	445047 BF9
2015	1,655,000	1.500	0.400	445047 BG7
2016	1,670,000	1.500	0.600	445047 BH5
2017	1,710,000	2.500	0.760	445047 BJ1
2018	1,735,000	4.000	1.030	445047 BK8
2019	1,805,000	4.000	1.330	445047 BL6
2020	2,700,000	5.000	1.600	445047 BM4
2021	2,850,000	5.000	1.840	445047 BN2
2022	2,975,000	5.000	2.050	445047 BP7
2023	3,125,000	5.000	2.230	445047 BQ5
2024 [c]	3,300,000	5.000	2.330	445047 BR3

(Accrued interest from March 15, 2013 to be added)

(a) The initial yields are established by and are the sole responsibility of the Underwriters, and may subsequently be changed.
(b) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. CUSIP Numbers are included solely for the convenience of the purchasers of the Bonds. None of the District, the Financial Advisor, or the Underwriters shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein. This data is not intended to create a database and does not serve in any way as a substitute CUSIP Service.
(c) The District reserves the right, at its option, to redeem the Series 2013B Bonds having stated maturities on or after February 15, 2024 in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2023 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. See "THE BONDS – OPTIONAL REDEMPTION."

DISTRICT OFFICIALS, STAFF AND CONSULTANTS

BOARD OF TRUSTEES

Name	Title	Term Expires	Occupation
Mr. Charles Cunningham	President	May 2013	CenterPoint Energy - commercial relations manager
Mr. Brent Engelage	Vice President	May 2013	Physical therapist
Mr. Robert Scarfo	Secretary	May 2015	Insperity - director of credit services
Mr. Robert Sitton	Parliamentarian	May 2013	Edward Jones Investments - financial advisor
Mr. Keith Lapeze	Member	May 2013	Attorney
Dr. Bonnie Longnion	Member	May 2013	Adjunct professor & retired college administrator
[vacant](1)	Member		

(1) This position will be filled at an election to be held on May 11, 2013.

SELECTED ADMINISTRATIVE STAFF

Name	Position	Length of Service
Dr. Guy Sconzo	Superintendent of Schools	11 Years
Ms. Lynn Lynn	Chief Financial Officer	12 Years
Ms. Marilyn Farrell	Director, Budget	11 Years
Ms. Janice Himpele	Director, Tax Assessor/Collector	6 Years

CONSULTANTS AND ADVISORS

Bracewell & Giuliani LLP, Houston, Texas .... Bond Counsel

Whitley Penn LLP, Houston, Texas... Auditors

First Southwest Company .... Financial Advisor

USE OF INFORMATION IN THIS OFFICIAL STATEMENT

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

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

Certain information set forth herein has been obtained from the District and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor (hereafter defined). The information and expressions of opinion contained herein 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.

NONE OF THE DISTRICT, THE FINANCIAL ADVISOR OR THE UNDERWRITERS MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM OR THE AFFAIRS OF THE TEXAS EDUCATION AGENCY DESCRIBED UNDER "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM FOR THE SERIES 2013A BONDS."

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 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. NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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 THESE SECURITIES HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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

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

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

TABLE OF CONTENTS

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

OFFICIAL STATEMENT SUMMARY

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

THE DISTRICT............................. Humble Independent School District (the "District") is a political subdivision located in Harris County, Texas. The District is approximately 90 square miles in area. See "INTRODUCTION - DESCRIPTION OF DISTRICT."

THE BONDS................................. The Bonds are issued as $8,250,000 Unlimited Tax Refunding Bonds, Series 2013A (the "Series 2013A Bonds") and $23,950,000 Unlimited Tax Refunding Bonds, Series 2013B (the "Series 2013B Bonds" and, together with the Series 2013A Bonds, the "Bonds"). The Series 2013A Bonds mature on February 15 in each year from 2014 through 2022, and the Series 2013B Bonds mature on February 15 in each year from 2014 through 2024, in the amounts indicated on the inside cover page of this Official Statement. See "THE BONDS - DESCRIPTION OF THE BONDS."

PAYMENT OF INTEREST .... Interest on the Bonds accrues from March 15, 2013 and is payable August 15, 2013, and each February 15 and August 15 thereafter until maturity or prior redemption. See "THE BONDS - DESCRIPTION OF THE BONDS" and "THE BONDS - OPTIONAL REDEMPTION."

AUTHORITY FOR ISSUANCE.......... The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly Chapter 1207, Texas Government Code, Chapter 1371, Texas Government Code, an order authorizing the issuance of the Bonds (the "Bond Order") and a pricing certificate executed pursuant thereto (the "Pricing Certificate," and together with the Bond Order, the "Order"). See "THE BONDS - AUTHORITY FOR ISSUANCE."

SECURITY FOR THE BONDS .... The Bonds constitute direct obligations of the District, payable from a continuing ad valorem tax levied by the District, without legal limit as to maximum rate or amount, on all taxable property within the District. Additionally, the payment of principal and interest on the Series 2013A Bonds is expected to be guaranteed by the Permanent School Fund of the State of Texas. See "THE BONDS - SECURITY AND SOURCE OF PAYMENT."

PERMANENT SCHOOL FUND GUARANTEE .... An application has been filed and the District has received conditional approval for the Series 2013A Bonds to be guaranteed by the Permanent School Fund Guarantee Program of the State of Texas. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM FOR THE SERIES 2013A BONDS." **The Series 2013B Bonds will not be guaranteed by the Permanent School Fund Guarantee Program of the State of Texas.**

REDEMPTION .... The District reserves the right, at its option, to redeem the Series 2013B Bonds having stated maturities on and after February 15, 2024, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2023, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. See "THE BONDS – OPTIONAL REDEMPTION."

TAX EXEMPTION........................... In the opinion of Bond Counsel, 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" for a discussion of the opinion of Bond Counsel, including a description of the alternative minimum tax consequences for corporations.

USE OF PROCEEDS .... Proceeds from the sale of the Series 2013A Bonds will be used to (i) refund a portion of the District's outstanding debt, as more particularly described in SCHEDULE II – REFUNDED BONDS (the "Series 2013A Refunded Bonds") in order to lower the overall debt service requirements of the District and (ii) pay the costs of issuance associated with the issuance of the Series 2013A Bonds. Proceeds from the sale of the Series 2013B Bonds will be used to (i) refund a portion of the District's outstanding debt, as more particularly described in SCHEDULE II – REFUNDED BONDS (the "Series 2013B Refunded Bonds") in order to lower the overall debt service requirements of the District and (ii) pay the costs of issuance associated with the issuance of the Series 2013B Bonds. See "PLAN OF FINANCING."

RATINGS .... The Series 2013A Bonds are rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") by virtue of the guarantee of the PSF. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM FOR THE SERIES 2013A BONDS." The Series 2013B Bonds and the presently outstanding unenhanced tax-supported debt of the District are rated "Aa2" by Moody's and "AA-" by S&P. **The Series 2013B Bonds will not be guaranteed by the Permanent School Fund Guarantee Program of the State of Texas.** See "OTHER INFORMATION - RATINGS."

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

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended June 30	Estimated District Population[(1)]	Taxable Assessed Valuation[(2)]	Per Capita Taxable Assessed Valuation	Tax Supported Debt Outstanding at End of Year	Per Capita G.O. Tax Debt	Ratio of Tax Supported Debt to Taxable Assessed Valuation
2009	146,527	$10,414,226,700	$71,074	$571,265,000	$3,899	5.49%
2010	161,006	10,624,062,726	65,986	624,200,000	3,877	5.88%
2011	172,036	10,564,977,883	61,412	628,835,000	3,655	5.95%
2012	172,290	10,666,905,256	61,912	611,985,000	3,552	5.74%
2013	177,666	10,739,169,544	60,446	591,255,000 [(3)]	3,328 [(3)]	5.51% [(3)]

(1) Source: Year 2009-2012 – The District's Annual Financial Reports; Year 2013 – Estimated based on Average Daily Attendance.
(2) Source: The District
(3) Projected. Includes the Bonds and excludes the Refunded Bonds.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	Fiscal Year Ended June 30				
	2012	2011	2010	2009	2008
Beginning General Fund	$ 70,463,503	$ 84,572,963	$ 83,787,711	$ 54,464,977	$ 55,530,884
Total Revenues & Other Sources	258,433,302	240,658,011	254,571,078	256,490,625	222,699,665
Total Expenditures & Other Uses	241,540,678	254,767,471	253,785,826	227,167,891	223,765,572
Ending General Fund	$ 87,356,127	$ 70,463,503	$ 84,572,963	$ 83,787,711	$ 54,464,977

For additional information regarding the District, please contact:

Ms. Lynn Lynn Chief Financial Officer Humble Independent School District P. O. Box 2000 Humble, Texas 77347-2000 (281) 641-8014	or	Mr. C. Terrell Palmer Senior Vice President First Southwest Company 700 Milam Street, Suite 500 Houston, Texas 77002 (713) 651-9850

OFFICIAL STATEMENT

relating to

HUMBLE INDEPENDENT SCHOOL DISTRICT
(Harris County, Texas)

$8,250,000 Unlimited Tax Refunding Bonds Series 2013A (PSF)	$23,950,000 Unlimited Tax Refunding Bonds Series 2013B (Non-PSF)

INTRODUCTION

This Official Statement, which includes the Schedules and Appendices hereto, provides certain information in connection with the offering by the Humble Independent School District (the "District") of its Unlimited Tax Refunding Bonds, Series 2013A (the "Series 2013A Bonds") and Unlimited Tax Refunding Bonds, Series 2013B (the "Series 2013B Bonds" and, together with the Series 2013A Bonds, the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the order of the Board of Trustees of the District authorizing the issuance of the Bonds (the "Bond Order") and the pricing certificate executed by the District pursuant thereto (the "Pricing Certificate," and together with the Bond Order, the "Order"), except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to such documents. Copies of such documents may be obtained from the District's Financial Advisor, First Southwest Company, Houston, Texas. For additional information regarding the District see "APPENDIX A – GENERAL INFORMATION REGARDING THE DISTRICT."

DESCRIPTION OF THE DISTRICT

The District is a political subdivision located in Harris County, Texas. The District is governed by a seven-member Board of Trustees (the "Board") who serve staggered three-year terms with elections being held in May of each year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. The District covers approximately 90 square miles in Harris County, encompassing the City of Humble.

PLAN OF FINANCING

PURPOSE

Proceeds from the sale of the Series 2013A Bonds will be used to (i) refund a portion of the District's outstanding debt, as more particularly described in SCHEDULE II – REFUNDED BONDS (the "Series 2013A Refunded Bonds") in order to lower the overall debt service requirements of the District and (ii) pay the costs of issuance associated with the issuance of the Series 2013A Bonds.

Proceeds from the sale of the Series 2013B Bonds will be used to (i) refund a portion of the District's outstanding debt, as more particularly described in SCHEDULE II – REFUNDED BONDS (the "Series 2013B Refunded Bonds") in order to lower the overall debt service requirements of the District and (ii) pay the costs of issuance associated with the issuance of the Series 2013B Bonds.

SERIES 2013A REFUNDED BONDS

The Series 2013A Refunded Bonds and the interest due thereon are to be paid on the scheduled redemption date from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent for the Series 2013A Refunded Bonds").

The Order provides that on the Delivery Date the District will deposit the proceeds of the sale of the Series 2013A Bonds with the Paying Agent for the Series 2013A Refunded Bonds an amount, together with other lawfully available funds, if any, which will be sufficient to accomplish the discharge and final payment of the Series 2013A Refunded Bonds. The funds deposited with the Paying Agent for the Series 2013A Refunded Bonds are irrevocably pledged to the payment of principal of and interest on the Series 2013A Refunded Bonds.

Grant Thornton LLP, Certified Public Accountants (the "Verification Agent"), will verify at the time of delivery of the Series 2013A Bonds to the Underwriters that the funds deposited with the Paying Agent for the Series 2013A Refunded Bonds will be sufficient to pay, when due, the principal of and interest on the Series 2013A Refunded Bonds on their scheduled redemption date. Such funds will not be available to pay the debt service on the Bonds. See "VERIFICATION OF ARITHMETICAL COMPUTATIONS."

By the deposit of the funds with the Paying Agent for the Series 2013A Refunded Bonds, the District will have effected the defeasance of the Series 2013A Refunded Bonds pursuant to the terms of Chapter 1207, Texas Government Code, as amended, and the order authorizing the issuance of the Series 2013A Refunded Bonds. It is the opinion of bond counsel that as a result of such defeasance and in reliance upon the report of the Verification Agent, the Series 2013A Refunded Bonds will be outstanding only for the purpose of receiving payments from the funds deposited with the Paying Agent for the Series 2013A Refunded Bonds, and the Series 2013A Refunded Bonds will not be deemed as being outstanding obligations of the District payable from the sources and secured in the manner provided in the order authorizing their issuance or for any other purpose. Upon defeasance of the Series 2013A Refunded Bonds, the payment of such Series 2013A Refunded Bonds will no longer be guaranteed by the Permanent School Fund Guarantee Program of the State of Texas.

SERIES 2013B REFUNDED BONDS

The Series 2013B Refunded Bonds and the interest due thereon are to be paid on the scheduled redemption date from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Escrow Agent") pursuant to an escrow agreement (the "Series 2013B Escrow Agreement") between the District and the Escrow Agent.

The Order provides that on the Delivery Date the District will deposit the proceeds of the sale of the Series 2013B Bonds with the Escrow Agent an amount, together with other lawfully available funds, if any, which, when added to the investment earnings thereon, will be sufficient to accomplish the discharge and final payment of the Series 2013B Refunded Bonds. Such funds will be held by the Escrow Agent in an escrow account (the "Series 2013B Escrow Fund") and used to purchase a portfolio of securities authorized by the order authorizing the issuance of the Series 2013B Refunded Bonds (the "Series 2013B Escrow Securities"). Under the Series 2013B Escrow Agreement, the Series 2013B Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Series 2013B Refunded Bonds.

The Verification Agent will verify at the time of delivery of the Series 2013B Bonds to the Underwriters that the Series 2013B Escrow Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Series 2013B Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Series 2013B Refunded Bonds on their scheduled redemption date. Such maturing principal of and interest on the Series 2013B Escrow Securities will not be available to pay the debt service on the Bonds. See "VERIFICATION OF ARITHMETICAL COMPUTATIONS."

By the deposit of the Series 2013B Escrow Securities and cash with the Escrow Agent pursuant to the Series 2013B Escrow Agreement, the District will have effected the defeasance of the Series 2013B Refunded Bonds pursuant to the terms of Chapter 1207, Texas Government Code, as amended, and the order authorizing the issuance of the Series 2013B Refunded Bonds. It is the opinion of bond counsel that as a result of such defeasance and in reliance upon the report of the Verification Agent, the Series 2013B Refunded Bonds will be outstanding only for the purpose of receiving payments from the Series 2013B Escrow Securities and cash held for such purpose by the Escrow Agent, and the Series 2013B Refunded Bonds will not be deemed as being outstanding obligations of the District payable from the sources and secured in the manner provided in the order authorizing their issuance or for any other purpose. The Series 2013B Refunded Bonds are not guaranteed by the Permanent School Fund Guarantee Program of the State of Texas.

SOURCES AND USES OF FUNDS

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

	Series 2013A	Series 2013B
Sources of Funds:		
Principal Amount of Bonds	$8,250,000.00	$23,950,000.00
Accrued Interest	9,945.00	49,511.25
Original Issue Premium	543,371.45	4,205,578.75
Transfer from Interest and Sinking Fund	10,000.00	50,000.00
Total	$8,813,316.45	$28,255,090.00
Uses of Funds		
Deposit with Paying Agent for Series 2013A Refunded Bonds	$8,711,214.03	
Deposit to Escrow Fund	-	$27,975,201.29
Deposit to Interest and Sinking Fund	9,945.00	49,511.25
Underwriters' Discount	34,480.00	102,169.50
Cost of Issuance[(1)]	57,677.42	128,207.96
Total	$8,813,316.45	$28,255,090.00

(1) Includes legal fees, financial advisory fees, rating agency fees, fees of the Paying Agent/Registrar, fees of the Escrow Agent, and other costs of issuance.

THE BONDS

Description of the Bonds

The Bonds are dated March 15, 2013, and mature on February 15 in each of the years and in the amounts shown on the inside cover page hereof. Interest will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15, commencing August 15, 2013. The definitive Bonds will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity for each series 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 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 "BOOK-ENTRY-ONLY SYSTEM" herein.

Authority for Issuance

The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 1207, Texas Government Code, Chapter 1371, Texas Government Code, and the Order.

Security and Source of Payment

The Bonds are direct obligations of the District and principal and interest on the Bonds are payable from a continuing ad valorem tax levied by the District, without legal limit as to maximum rate or amount, on all taxable property located within the District, as provided in the Order.

Permanent School Fund Guarantee for the Series 2013A Bonds

In connection with the sale of the Series 2013A Bonds, the District has submitted an application to the Texas Education Agency, and has received conditional approval from the Commissioner of Education, for the guarantee of the Series 2013A Bonds under the Guarantee Program for School District Bonds (Chapter 45, Subchapter C, of the Texas Education Code). Subject to meeting certain conditions discussed under the heading "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM FOR THE SERIES 2013A BONDS" herein, the Series 2013A Bonds will be guaranteed by the corpus of the Permanent School Fund of the State of Texas in accordance with the terms of the Guarantee Program for School District Bonds. In the event of default, registered owners will receive all payments due from the corpus of the Permanent School Fund. The Series 2013B Bonds will not be guaranteed by the Permanent School Fund Guarantee Program of the State of Texas.

In the event the District defeases any of the Series 2013A Bonds, the payment of such defeased Series 2013A Bonds will cease to be guaranteed by the Permanent School Fund of the State of Texas. See "THE BONDS - Defeasance."

Optional Redemption

The District reserves the right, at its option, to redeem the Series 2013B Bonds having stated maturities on or after February 15, 2024, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2023, 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 Bonds 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.

The District reserves the right, in the case of a 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 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 Registrar instructing the 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 Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Bonds subject to conditional redemption and such redemption has been rescinded shall remain outstanding.

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. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

DEFEASANCE

The District reserves the right to defease the Bonds in any manner now or hereafter authorized by law.

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 commercial bank or trust company organized under the laws of the United States or any state 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.

TRANSFER, EXCHANGE AND REGISTRATION

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "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.

RECORD DATE FOR INTEREST PAYMENT

The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the last business day of the preceding month.

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

BONDHOLDERS' REMEDIES

The Order does not specifically provide any remedies to a registered owner if the District defaults on the payment of the principal of or interest on the Bonds, nor does it provide for the appointment of a trustee to protect and enforce the interest of the registered owners upon the occurrence of such a default. If a registered owner of a Bond does not receive payment of principal or interest when due, the registered owner may seek a writ of mandamus from a court of competent jurisdiction requiring the District to levy and collect taxes. The mandamus remedy, however, may be impractical and difficult to enforce. There is no provision for the acceleration of maturity of principal of a Bond in the event of a default. A registered owner of a Bond could file suit against the District if a default occurred in the payment of principal of or interest on any such Bonds; however, a suit for monetary damages could be vulnerable to the defense of sovereign immunity and any judgment could not be satisfied by execution against any property of the District. The enforcement of a claim for the payment of a Bond also would be subject to the applicable provisions of the Federal bankruptcy laws and to any other statutes affecting the rights of creditors of political subdivisions and may be limited by general principles of equity.

BOOK-ENTRY-ONLY SYSTEM

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

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for the Bonds, in the aggregate principal amount of such issue, 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 Bonds 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 an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (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).

Redemption proceeds, principal, and interest 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 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 securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of District or 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.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Paying Agent/Registrar, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Paying Agent/Registrar. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Paying Agent/Registrar's DTC account.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but District takes no responsibility for the accuracy thereof.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM FOR THE SERIES 2013A BONDS

The information below concerning the State 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 should not be construed as a representation by the District.

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 2012, distributions to the ASF amounted to $221.04 per student and the total amount distributed to the ASF was $1.021 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"). The Annual Report for the year ended August 31, 2012, when filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 ("Rule 15c2-12") of the federal Securities and Exchange Commission (the "SEC"), as described herein, and simultaneously posted to the PSF web site, as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended August 31, 2012 is derived from the audited financial statements of the PSF, which are included in the Annual Report when it is filed and posted. Reference is made to the Annual Report, when filed, for the complete Message and MD&A for the year ended August 31, 2012 and for a description of the financial results of the PSF for the year ended August 31, 2012, the most recent year for which audited financial information regarding the Fund is available. The 2012 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2012 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 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 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund's securities lending program. Such list, when filed, 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 November 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. 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 Chair of the SBOE has filed a request with the Attorney General with respect to the authority of the SBOE to select certain investments and select and contract with investment managers and other third party providers of investment services in connection with the direct management of alternative investments through investment vehicles to be created by the SBOE, in lieu of contracting with external managers for such services, as has been the recent practice of the PSF. In particular, the SBOE Chair has presented questions pertaining to whether the SBOE can undertake such activities without complying with the competitive process required by the State Purchasing and General Services Act, given the unique nature of such investments and services. The opinion request is available for review at https://www.oag.state.tx.us/opinions/opinions/50abbott/rq/2012/pdf/RQ1092GA.pdf. 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, 2012, the Fund was invested as follows: 54.33% in public market equity investments; 21.33% in fixed income investments; 10.04% in absolute return assets; 1.71% in private equity assets; 2.45% in real estate assets; 7.13% in risk parity assets; 2.96% in real return assets; and 0.05% 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 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. 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 PROGRAM

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

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 8/31	Book Value[(1)]	Market Value[(1)]
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	29,643,439,794
2012	25,161,994,845 [(2)]	31,284,851,266 [(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, 2012, land, external real estate investments, mineral assets and cash managed by the SLB had book values of approximately $341.10 million, $1.65 billion, $13.40 million and $1.38 billion, respectively, and market values of approximately $673.92 million, $1.55 billion, $2.18 billion and $1.34 billion, respectively.

(2) At November 30, 2012, the PSF had a book value of $25,171,202,517 and a market value of $31,674,486,091 (in each case, based on unaudited data).

Permanent School Fund Guaranteed Bonds

At 8/31	Principal Amount[(1)]
2008	$49,860,572,025
2009	50,032,724,439
2010	49,301,683,338
2011	52,653,930,546
2012	53,634,455,141 [(2)]

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(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, 2012, 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 $90,343,555,115, of which $36,709,099,974 represents interest to be paid. At November 30, 2012, there were $54,016,477,578 of bonds guaranteed under the Guarantee Program and the capacity of the Guarantee Program was $75,513,607,551 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, 2012

The following discussion is derived from the Annual Report for the year ended August 31, 2012, 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, when filed, 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, 2012, 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 2012 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 2012, the total Fund balance was $28.8 billion. Fund balance increased $1.86 billion from the prior year primarily attributable to the increase in the fair value of the PSF(SBOE) equities and alternative investments, the (PSF(SLB) real assets 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 9.45%, 10.17%, 2.80% and 7.30% 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 12.20%, 6.08%, and 1.25% 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, 2012, the PSF(SBOE) portion of the Fund had diversified into emerging market large cap 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, emerging market debt and emerging international equities securities will be strategically added commensurate with the economic environment and the goals and objectives of the SBOE. As of August 31, 2012, the SBOE had approved and the PSF(SBOE) made capital commitments to externally managed real estate funds in the amount of $926.4 million and capital commitments to two private equity limited partnerships in the total amount of $1.3 billion. Unfunded commitments at August 31, 2012, were $344.4 million in real estate and $878.99 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. The PSF(SLB) makes investments in certain limited partnerships that legally commit it to possible future capital contributions. At August 31, 2012, the remaining commitments totaled approximately $761.

The PSF(SBOE)'s investment in equity securities experienced a return of 11.29% during the fiscal year ended August 31, 2012. The PSF(SBOE)'s investment in fixed income securities produced a return of 6.57% during the fiscal year and absolute return investments yielded a return of 3.69%. The PSF(SBOE) real estate and private equity investments returned 7.38% and 5.43%, respectively. Risk parity assets produced a return of 13.11%, while real return assets yielded 8.49%. Combined, all PSF(SBOE) asset classes produced an investment return of 9.44% for the fiscal year ended August 31, 2012, outperforming the target index by approximately 57 basis points. All PSF(SLB) real assets (including cash) returned 12.20% for the fiscal year ending August 31, 2012.

For fiscal year 2012, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled $2.95 billion, a decrease of $782.1 million from fiscal year 2011 earnings of $3.73 billion. This decrease reflects the performance of the securities markets in which the Fund was invested in fiscal year 2012 In fiscal year 2012, 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, decreased 6.6% for the fiscal year ending August 31, 2012. This decrease is primarily attributable to the decrease in the costs of gas supplies purchased for resale under the State Energy Marketing Program.

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 2011 and 2012, this distribution to the ASF totaled $1.093 billion and $1.021 billion, respectively.

At the end of the 2012 fiscal year, PSF assets guaranteed $53.634 billion in bonds issued by 800 local school districts. Since its inception in 1983, the Fund has guaranteed 4,587 school district bond issues totaling $103.4 billion in principal amount. During the 2012 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program increased by 98, or 3.9%. The dollar amount of guaranteed school bond issues outstanding increased by $980.6 million or 1.9%. The guarantee capacity of the Fund increased by $1.125 billion, or 1.5%, during fiscal year 2012 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 November 2012, the SBOE established a 3.3% Distribution Rate for the 2014-15 biennium.

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

The impact of the increase in the base against which the Distribution Rate is applied will be an increase in the distributions from the PSF to the ASF, provided that there are no reductions in the percentage established biennially by the SBOE to be the Distribution Rate. For the 2012-13 biennium, the Distribution Rate has been set by the SBOE at 4.2%. Given the increase in the calculation base effected by the November 8, 2011 constitutional amendment, the effect on transfers made by the SBOE in 2012-13 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 2013.

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, 2012, 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, and other litigation arising in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, 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 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 FOR THE SERIES 2013A BONDS." 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 remand by the Supreme Court back to the District Court in West Orange-Cove I, 285 other school districts were added as plaintiffs or intervenors. The plaintiffs joined the intervenors in their Article VII, Section 1 claims that the Finance System was inadequate and unsuitable, but not in their claims that the Finance System was inefficient.

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

The intervening school district groups contended that funding for school operations and facilities was inefficient in violation of Article VII, Section 1 of the Texas Constitution, because children in property-poor districts did not have substantially equal access to education revenue. All of the plaintiff and intervenor school districts asserted that the Finance System could not achieve "[a] general diffusion of knowledge" as required by Article VII, Section 1 of the Texas Constitution, because the Finance System was underfunded. The State, represented by the Texas Attorney General, made a number of arguments opposing the positions of the school districts, as well as asserting that school districts did not have standing to challenge the State in these matters.

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

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

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

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

FUNDING CHANGES IN RESPONSE TO WEST ORANGE-COVE II

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

CURRENT LITIGATION RELATED TO THE TEXAS PUBLIC SCHOOL FINANCE SYSTEM

As described below, during 2011 and 2012, several lawsuits were filed in District Courts of Travis County, Texas, which alleged 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 presented the legal perspectives and arguments of the different coalitions of school districts represented, but as a general matter, each group challenged the adequacy of funding provided by the Legislature for the Finance System, and the plaintiffs in each suit sought 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 sought 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. vs. 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 filed an answer with respect to the each of the first four suits filed, denying the plaintiff's allegations, and all of such suits were assigned to the 250th District Court of Travis County. 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 asserted 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 agreed with the arguments of the school districts in the first four suits filed that the Finance System is unconstitutional and also sought to have an injunction issued against the State Defendants in the same manner as the first four suits. The Charter School Suit added 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 also filed a general denial in the Charter School Suit.

All five suits were consolidated by the 250th District Court of Travis County (the "District Court"), and the trial commenced on October 22, 2012. On February 4, 2013, the District Court rendered a preliminary ruling generally as follows: (i) the Finance System is inefficient "in that it fails to provide substantially equal access to revenues necessary to provide a general diffusion of knowledge;" (ii) the Finance System is not "adequately funded" and arbitrarily funds districts at different levels below the amount required to provide for a general diffusion of knowledge; (iii) the Finance System has created a Statewide property tax in violation of the Texas Constitution because districts lack "meaningful discretion" in setting their tax rates, as exemplified by the ruling that low property wealth districts are forced to tax at or near the maximum M&O tax rate of $1.17 to meet State education standards and other districts cannot lower their M&O tax rate without compromising their ability to meet State education standards nor can they raise their M&O tax rate because they are either legally or practically unable to do so.

In the preliminary ruling, the District Court did not grant nor address the injunctive relief sought by any of the plaintiffs, and the Court declined any relief to Texans for Real Efficiency and Equity in Education, who had argued that greater competition could result in a more efficient public school finance system. In response to arguments on behalf of the State's charter schools, the District Court held that it is within the discretion of the Legislature, and not unconstitutional, to fund charter schools differently from other public schools.

The February 4, 2013 ruling of the District Court is preliminary, and the District Court indicated that it would be four to six weeks before the ruling is finalized by an omnibus order of the District Court containing findings of fact and conclusions of law. The District Court's ruling is qualified for direct appeal to the Texas Supreme Court, and commentary by the Texas Education Commissioner shortly after the District Court's ruling was released on February 4, 2013 suggested that the State Defendants will appeal the final District Court order directly to the Texas Supreme Court.

If any of the Constitutional findings in the District Court's ruling are upheld after exhausting all appeals, it is the responsibility of the Legislature to modify the Finance System in accordance with court findings. The Legislature meets in regular session for a 140-day period every two years, and the Legislature is currently in a regular session, which is scheduled to conclude May 27, 2013; therefore it may be necessary for the Texas Governor to call a special legislative session if a final appeal of the District Court's ruling is not complete by end of the current regular session, and such appeal requires legislative action.

The District can make no representations or predictions concerning the effect this litigation or the current ruling by the District Court, and any appeals, 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 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 a debt service tax, within the limits prescribed by law, would be adversely affected by any such litigation or legislation. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM."

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

GENERAL

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

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

Local funding is derived from collections of ad valorem taxes levied on property located within each district's boundaries. School districts are authorized to levy two types of property taxes: a limited maintenance and operations ("M&O") tax to pay current expenses and, in the case of the District, a limited interest and sinking fund ("I&S") tax to pay debt service on bonds. See "TAX RATE LIMITATIONS." 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 I&S 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 within applicable legal limits, if any. 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.

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. Elections held in certain school districts under older laws, however, may subject M&O tax rates in such districts to other limitations.

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 was increased to $33.95, but only for the 2011-12 fiscal year.

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

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

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

2006 LEGISLATION

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

2009 LEGISLATION

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

2011 LEGISLATION

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

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

WEALTH TRANSFER PROVISIONS

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

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

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

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

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

The District's wealth per student for the 2012-13 school year is less than the equalized wealth value. Accordingly, the District has not been required to exercise one of the permitted wealth equalization options. As a district with wealth per student less than the equalized wealth value, the District may benefit in the future by agreeing to accept taxable property or funding assistance from or agreeing to consolidate with a property-rich district to enable such district to reduce its wealth per student to the permitted level.

A district's wealth per student must be tested for each future school year and, if it exceeds the maximum permitted level, must be reduced by exercise of one of the permitted wealth equalization options. Accordingly, if the District's wealth per student should exceed the maximum permitted level in future school years, it will be required each year to exercise one or more of the wealth reduction options. If the District were to consolidate (or consolidate its tax base for all purposes) with a property-poor district, the outstanding debt of each district could become payable from the consolidated district's combined property tax base, and the District's ratio of taxable property to debt could become diluted. If the District were to detach property voluntarily, a portion of its outstanding debt (including the Bonds) could be assumed by the district to which the property is annexed, in which case timely payment of the Bonds could become dependent in part on the financial performance of the annexing district.

2013 LEGISLATIVE SESSION

On January 8, 2013, the Texas Legislature convened in general session until May 27, 2013. Thereafter, the Governor may call one or more additional special sessions. During this time, the Texas Legislature may enact laws that materially change current public school finance or affect ad valorem tax matters. The District can make no representation regarding any actions the Texas Legislature may take.

TAX RATE LIMITATIONS

A school district is authorized to levy 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 March 7, 1959, pursuant to Article 2784e-1, Texas Revised Civil Statues 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 5.02% of the District's current taxable assessed valuation of property. See "AD VALOREM TAX PROCEDURES – 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 was 66.67% for fiscal years 2007-08, 2008-09 and 2009-10. For fiscal year 2010-11 and thereafter, the Commissioner is required to determine the state compression percentage for each fiscal year which is based on the amount of State funds appropriated for distribution to the District for the current fiscal year (for a more detailed description of the state compression percentage, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - GENERAL"). The state compression percentage has been set and will remain at 66.67% through fiscal year 2012-2013. 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. On November 22, 2008, the District held a successful tax rate election to increase the M&O tax rate by thirteen cents bringing the total M&O tax rate to the $1.17/$100 of assessed valuation cap. See "AD VALOREM TAX PROCEDURES – 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 a proposition submitted to the voters under Section 45.003(b)(1), Texas Education Code, as amended, or prior law. In the case of the District, the I&S Tax Rate may not exceed $1.00 and the sum of the M&O Tax and the Debt Service Tax may not exceed $1.70. See "THE BONDS – SECURITY AND SOURCE OF PAYMENT" and "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS."

Chapter 45 of the Texas Education Code, as amended, requires a district to demonstrate to the Texas Attorney General that it has the prospective ability to pay debt service on a proposed issue of bonds, together with debt service on other outstanding "new debt" of the district, from a tax levied at a rate of $0.50 per $100 of assessed valuation before bonds may be issued. In demonstrating the ability to pay debt service at a rate of $0.50, a district may take into account State allotments to the district which effectively reduce the district's local share of debt service. Once the prospective ability to pay such tax has been shown and the bonds are issued, a district may levy a tax to pay debt service subject only to limitations imposed by District voters. Taxes levied to pay debt service on bonds approved by district voters at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds) are not subject to the foregoing threshold tax rate test. In addition, taxes levied to pay refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the $0.50 tax rate test; however, taxes levied to pay debt service on such bonds are included in the calculation of the $0.50 tax rate test as applied to subsequent issues of "new debt." The Series 2013A Bonds and the Series 2013B Bonds are issued as refunding bonds pursuant to Chapter 1207, Texas Government Code, 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.

AD VALOREM TAX PROCEDURES

AD VALOREM TAX LAW

The appraisal of property within the District is the responsibility of the Harris County Appraisal District (the "Appraisal District"). Excluding agricultural and open space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Property Tax Code to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law further limits the appraised value of a residence homestead for a tax year to an amount that would not exceed either the lesser of (1) the property's market value for the most recent tax year in which it was appraised or (2) 110% of the appraised value of the residence homestead for the preceding tax year plus 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 appointed by the local administrative district judge for Harris County. The Appraisal District is required to appraise 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 Texas Property Tax Code for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

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

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

> $15,000; and an additional $10,000 for those 65 years of age or older, or the disabled. A person over 65 and disabled may receive only one $10,000 exemption, and only one such exemption may be received per family, per residence homestead. State law also mandates a freeze on taxes paid on residence homesteads of persons 65 years of age or older which receive the $10,000 exemption. Such residence homesteads shall be appraised and taxes calculated as on any other property, but taxes shall never exceed the amount imposed in the first year in which the property received the $10,000 exemption. The freeze on ad valorem taxes on the homesteads of persons 65 years of age or older for general elementary and secondary public school purposes is also transferable to a different residence homestead. If improvements (other than maintenance or repairs) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years.

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

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

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

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. Disabled veterans (and their surviving spouses) who receives 100% disability compensation from the United States Department of Veterans Affairs or its successor due to a service-connected disability and a rating of 100% disabled or of individual un-employability are 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 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. The District currently exempts "freeport property."

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

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. 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. See "– PUBLIC HEARING AND ROLLBACK TAX RATE." 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 tax increment financing zone 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 zone of its intention to create the zone and the zone is created and has 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.

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) the M&O tax rate and (2) the I&S tax rate. 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 I&S rate, or (B) the sum of (1) the district's effective M&O 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 I&S rate. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - LOCAL FUNDING FOR SCHOOL DISTRICTS." 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 M&O 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	Cumulative Interest[(b)]	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	27[(a)]	6	33

(a) Includes penalty of 15% assessed after July 1 in order to defray attorney and collection expenses.
(b) Interest continues to accrue after July 1 at the rate of 1% per month until paid.

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

DISTRICT APPLICATION OF TAX CODE

The District grants an exemption to the market value of the residence homestead of persons 65 years of age or older of $30,000; the disabled are also granted an exemption of $25,000. The District has not granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of $5,000. See TABLE 1 for a listing of the amounts of the exemptions described above.

Ad valorem taxes are not levied by the District against the exempt value of residence homesteads for the payment of debt. The District does not tax nonbusiness personal property. The District does not permit split payments, and discounts are not allowed. The District does tax freeport property. The District has not adopted a tax abatement policy.

TAX INCREMENT REINVESTMENT ZONE

The City of Houston has designated certain property within the city and also within the boundaries of the District as a tax increment reinvestment zone known as Reinvestment Zone Number Ten (the "TIRZ"). The TIRZ contains approximately 1,783 acres of residential property in the Lake Houston area. In 1999, the District entered into an inter-local agreement with the TIRZ (the "Agreement") whereby the District has agreed to contribute its ad valorem tax revenue on all increases in the assessed valuation of property covered by the Agreement over its assessed valuation in 1999, on the condition that the TIRZ use a portion of this incremental tax revenue for educational facilities and school support expenses. The adjustments to the property value within the TIRZ are reflected in the District's net assessed valuation as provided in this Official Statement.

TABLE 1 - VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT

2012/2013 Market Valuation Established by Harris County Appraisal District (Excludes Totally Exempt Property)		$ 12,594,748,524
Less Exemptions/Reductions at 100% Market Value:		
Residential Homestead Exemptions (State Mandated)	$ 610,943,878	
Disabled Veteran's Exemptions	29,973,385	
Over 65, Surviving Spouse and/or Disabled Homestead Exemptions	124,532,443	
Tax Exempt	917,050,664	
Abatements and Other Exemptions	173,078,610	$ 1,855,578,980
2012/2013 Taxable Assessed Valuation Established by Harris County Appraisal District		$ 10,739,169,544 (1)
Debt Payable from Ad Valorem Taxes as of 3/15/2013:		
Outstanding Unlimited Tax Bonds	$ 594,380,000	
Plus: The Series 2013A Bonds	8,250,000	
Plus: The Series 2013B Bonds	23,950,000	
Less: The Refunded Bonds	(35,325,000)	$ 591,255,000
Less: Interest and Sinking Fund Balance as of 12/31/2012		51,720,513 (2)
Net Debt Payable from Ad Valorem Taxes as of 3/15/2013		$ 539,534,487
Ratio of Tax Supported Debt to Taxable Assessed Valuation		5.02%

2013 Estimated Population - 177,666 (3)
Per Capita Taxable Assessed Valuation - $60,446
Per Capita Funded Debt - $3,037

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(1) Source: The Appraisal District.
(2) Unaudited
(3) Estimated based on Average Daily Attendance.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

	Taxpayers By Classification (Fiscal Year)					
	2013		2012		2011	
Category	Assessed Valuation	% of Total	Assessed Valuation	% of Total	Assessed Valuation	% of Total
Residential	$ 8,352,013,272	77.77%	$ 8,327,981,827	78.07%	$ 8,271,446,718	78.29%
Commercial & Industrial	1,950,772,049	18.17%	1,883,768,525	17.66%	1,823,965,953	17.26%
Commerical & Residential Acreage	184,995,848	1.72%	190,984,454	1.79%	203,589,076	1.93%
Undeveloped Land	117,828,115	1.10%	130,112,927	1.22%	122,504,919	1.16%
Utilities, Minerals & Pipelines	133,560,260	1.24%	134,057,523	1.26%	143,471,217	1.36%
Taxable Assessed Value	$10,739,169,544	100.00%	$10,666,905,256	100.00%	$10,564,977,883	100.00%

	Taxpayers By Classification (Fiscal Year)			
	2010		2009	
Category	Assessed Valuation	% of Total	Assessed Valuation	% of Total
Residential	$ 8,166,185,980	76.87%	$ 7,991,135,853	76.73%
Commercial & Industrial	1,968,131,161	18.53%	1,902,944,942	18.27%
Commerical & Residential Acreage	221,041,865	2.08%	266,051,977	2.55%
Undeveloped Land	128,159,560	1.21%	107,957,939	1.04%
Utilities, Minerals & Pipelines	140,544,160	1.32%	146,135,989	1.40%
Taxable Assessed Value	$10,624,062,726	100.00%	$10,414,226,700	100.00%

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

(1) Source: The Appraisal District.

TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY

Fiscal Year Ended June 30	Estimated District Population[(1)]	Taxable Assessed Valuation[(2)]	Taxable Assessed Valuation Per Capita	Tax Supported Debt Outstanding at End of Year	Ratio of Tax Supported Debt to Taxable Assessed Valuation	Tax Supported Debt Per Capita
2009	146,527	$10,414,226,700	$71,074	$571,265,000	5.49%	$3,899
2010	161,006	10,624,062,726	65,986	624,200,000	5.88%	3,877
2011	172,036	10,564,977,883	61,412	628,835,000	5.95%	3,655
2012	172,290	10,666,905,256	61,912	611,985,000	5.74%	3,552
2013	177,666	10,739,169,544	60,446	591,255,000 [(3)]	5.51% [(3)]	3,328 [(3)]

(1) Source: Year 2009-2012 – The District's Annual Financial Reports; Year 2013 – Estimated based on Average Daily Attendance.
(2) Source: The District
(3) Projected. Includes the Bonds and excludes the Refunded Bonds.

TABLE 4 - TAX RATE DISTRIBUTION

Tax Year	2012	2011	2010	2009	2008
Local Maintenance	$ 1.170	$ 1.170	$ 1.170	$ 1.170	$ 1.170
Debt Service Fund	0.350	0.350	0.350	0.350	0.350
Total Tax Rate	$ 1.520	$ 1.520	$ 1.520	$ 1.520	$ 1.520

TABLE 5 - TWENTY LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2012/2013 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Centerpoint Energy, Inc	Utility	$ 73,115,341	0.68%
GGP Deerbrook L.P.	Shopping Center	58,298,313	0.54%
Wal Mart	Retailer	43,911,815	0.41%
Cole Mt Humble TX LLX	Shopping Center	42,678,683	0.40%
IVC Deerbrook LLC	Shopping Center	41,022,159	0.38%
Kingwood Gardens Assoc LLC	Apartments	34,000,000	0.32%
Lawler Foods	Wholesale Bakery	30,122,227	0.28%
Mid America Apartments LP	Apartments	32,692,359	0.30%
Beltway Eagle Apartments	Apartments	29,981,682	0.28%
Kingwood Country Club LLC	Country Club	26,324,279	0.25%
Target Corporation	Retailer	25,123,245	0.23%
Central Telephone Co of Texas	Utility	21,680,970	0.20%
4855 Magnolia Cove Dr LLC	Apartments	20,422,943	0.19%
SC Waterford Fall Creek Owner LP	Apartments	19,210,000	0.18%
Calistoga Harbor Cove LLC	Apartments	19,138,644	0.18%
Timberlakes Lighthouse	Apartments	18,071,178	0.17%
Alta Pine Forest LP	Apartments	17,621,412	0.16%
LTF Real Estate Company Inc	Fitness Clubs	17,575,403	0.16%
WRI Retail Pool I LP	Shopping Center	17,563,908	0.16%
Woodland Hills LLC	Apartments	17,500,000	0.16%
		$ 606,054,561	5.63%

Source: Harris County Appraisal District.

TABLE 6 - TAX ADEQUACY

2013 Principal and Interest Requirements	$	50,269,390
Less: Budgeted IFA and EDA Payments		(5,740,760)
Less: Budgeted TIRZ Payments and Interest Earnings		(6,033,937)
Net 2013 Principal and Interest Requirements	$	38,494,693
$0.3621 Tax Rate on 2012/2013 Assessed Valuation at 99% Collection Produces		38,497,668
Maximum Principal and Interest Requirements (2018)	$	56,030,451
Less: Budgeted IFA and EDA Payments		(5,740,760)
Less: Budgeted TIRZ Payments and Interest Earnings		(6,033,937)
Net Maximum Principal and Interest Requirements (2018)	$	44,255,754
$0.4163 Tax Rate on 2012/2013 Assessed Valuation at 99% Collection Produces		44,260,091
Average Principal and Interest Requirements (2013-2035)	$	42,709,646
Less: Budgeted IFA and EDA Payments		(5,740,760)
Less: Budgeted TIRZ Payments and Interest Earnings		(6,033,937)
Net Average Principal and Interest Requirements (2013-2035)	$	30,934,949
$0.2910 Tax Rate on 2012/2013 Assessed Valuation at 99% Collection Produces		30,938,474

* Includes the Bonds and excludes the Refunded Bonds.

TABLE 7 - ESTIMATED OVERLAPPING DEBT

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

	Net Debt		Percent Over-	Amount
Taxing Entity	Amount	As of	lapping	Overlapping
El Dorado Utility District [1]	$ 2,599,180	09/30/12	100.00	$ 2,599,180
Harris County	2,228,458,306	02/29/12	3.80	84,681,416
Harris County Dept of Education	7,980,000	08/31/11	3.80	303,240
Harris County Flood Control District	91,076,282	02/29/12	3.80	3,460,899
Harris Co. MUD #46 [1]	7,090,844	05/31/12	100.00	7,090,844
Harris Co. MUD #49 [1]	19,010,031	11/15/12	100.00	19,010,031
Harris Co. MUD #106 [1]	22,316,676	01/20/12	100.00	22,316,676
Harris Co. MUD #109 [1]	18,299,321	05/31/12	100.00	18,299,321
Harris Co. MUD #132 [1]	5,202,321	05/31/12	100.00	5,202,321
Harris Co. MUD #151 [1]	10,667,482	05/31/12	100.00	10,667,482
Harris Co. MUD #152 [1]	12,436,121	05/31/12	100.00	12,436,121
Harris Co. MUD #153 [1]	18,737,657	03/31/12	100.00	18,737,657
Harris Co. MUD #278 [1]	34,999,893	01/12/12	100.00	34,999,893
Harris Co. MUD #290 [1]	37,341,351	08/25/11	100.00	37,341,351
Harris Co. MUD #342 [1]	13,122,649	01/31/12	100.00	13,122,649
Harris Co. MUD #344 [1]	23,733,776	01/31/12	100.00	23,733,776
Harris Co. MUD #361 [1]	12,919,939	05/31/12	100.00	12,919,939
Harris Co. MUD #400 [1]	29,143,271	10/24/11	100.00	29,143,271
Harris Co. MUD #412 [1]	25,329,665	03/20/12	100.00	25,329,665
Harris Co. MUD #450 [1]	4,642,769	03/31/11	100.00	4,642,769
Harris Co. Toll Road	-	02/29/12	3.80	-
Harris Co. WC&ID #96 [1]	43,458,095	09/04/12	100.00	43,458,095
Houston, City of	2,962,330,044	06/30/11	3.05	90,351,066
Humble, City of	2,217,968	01/31/10	93.24	2,068,033
Lone Star College System	516,389,161	08/31/11	9.06	46,784,858
Port of Houston Authority	704,419,397	12/31/11	3.80	26,767,937
Trail of Lakes MUD [1]	21,801,120	03/26/12	100.00	21,801,120
Total Overlapping Debt:				$ 617,269,610
Humble Independent School District Debt:				591,255,000 [4]
Total Direct and Overlapping Debt:				$ 1,208,524,610
Ratio of Total Direct and Overlapping Debt to FY 2012/13 Assessed Valuation				11.25%
Total Direct and Overlapping Debt per Capita [3] [4]				$ 6,802
Fiscal Year 2012/13 Assessed Valuation per Capita [2] [3]				$ 60,446

Source of information: Texas Municipal Reports.

(1) Each of these municipal utility districts and water districts affects a distinct area of the District; they do not overlap one another.

(2) The certified assessed valuation for Tax Year 2012 is $10,739,169,544.

(3) The estimated population as of January 1, 2013 is 177,666.

(4) Includes the Bonds and excludes the Refunded Bonds.

DEBT INFORMATION

TABLE 8 - I&S FUND TAX SUPPORTED DEBT SERVICE REQUIREMENTS

FYE	Currently Outstanding Debt [2]			Less: Refunded	Plus: The Series 2013A Bonds			Plus: The Series 2013B Bonds			Total
6/30[1]	Principal	Interest	Debt Service	Bonds	Principal	Interest	Debt Service	Principal	Interest	Debt Service	Debt Service
2013	$ 17,605,000	$ 32,664,390	$ 50,269,390								$ 50,269,390
2014	16,865,000	33,248,965	50,113,965	$ (2,202,269)	$ 685,000	$ 182,325	$ 867,325	$ 425,000	$ 907,706	$ 1,332,706	50,111,728
2015	19,180,000	34,686,603	53,866,603	(4,278,269)	335,000	185,200	520,200	1,655,000	981,725	2,636,725	52,745,259
2016	21,205,000	34,606,916	55,811,916	(4,313,663)	385,000	178,500	563,500	1,670,000	956,900	2,626,900	54,688,654
2017	24,590,000	30,055,856	54,645,856	(4,750,698)	815,000	172,725	987,725	1,710,000	931,850	2,641,850	53,524,734
2018	32,260,000	24,892,249	57,152,249	(4,936,398)	1,030,000	160,500	1,190,500	1,735,000	889,100	2,624,100	56,030,451
2019	31,985,000	23,471,705	55,456,705	(4,900,123)	1,010,000	139,900	1,149,900	1,805,000	819,700	2,624,700	54,331,183
2020	29,840,000	22,026,570	51,866,570	(4,855,713)	1,285,000	119,700	1,404,700	2,700,000	747,500	3,447,500	51,863,058
2021	31,345,000	20,638,730	51,983,730	(4,878,138)	1,330,000	81,150	1,411,150	2,850,000	612,500	3,462,500	51,979,243
2022	32,690,000	19,140,330	51,830,330	(4,864,363)	1,375,000	41,250	1,416,250	2,975,000	470,000	3,445,000	51,827,218
2023	31,940,000	17,569,525	49,509,525	(3,446,250)				3,125,000	321,250	3,446,250	49,509,525
2024	32,905,000	15,988,445	48,893,445	(3,465,000)				3,300,000	165,000	3,465,000	48,893,445
2025	33,800,000	14,411,450	48,211,450								48,211,450
2026	35,520,000	12,725,200	48,245,200								48,245,200
2027	37,180,000	10,953,200	48,133,200								48,133,200
2028	39,120,000	9,098,200	48,218,200								48,218,200
2029	36,530,000	7,146,450	43,676,450								43,676,450
2030	38,435,000	5,324,450	43,759,450								43,759,450
2031	22,265,000	3,407,450	25,672,450								25,672,450
2032	23,285,000	2,298,950	25,583,950								25,583,950
2033	15,730,000	1,147,575	16,877,575								16,877,575
2034	5,910,000	374,550	6,284,550								6,284,550
2035	1,800,000	85,500	1,885,500								1,885,500
	$611,985,000	$375,963,259	$987,948,259	$ (46,890,880)	$8,250,000	$1,261,250	$ 9,511,250	$23,950,000	$7,803,231	$ 31,753,231	$982,321,860

(1) The District's current fiscal year end is June 30. For a schedule of debt service requirements calculated with a year end of August 31, see Schedule I hereto.
(2) Does not include the Bonds or non-capitalized leases (see "TABLE 12-OTHER OBLIGATIONS").

TABLE 9 - MAINTENANCE AND OPERATING TAX SUPPORTED DEBT

The District currently has no outstanding maintenance and operating tax supported debt.

TABLE 10 - INTEREST AND SINKING FUND BUDGET PROJECTION

Estimated Tax Supported Debt Service Requirements, Fiscal Year Ending June 30, 2013		$ (50,269,390) (1)
Interest and Sinking Fund Balance, June 30, 2012	$37,613,815 (2)	
Budgeted Interest and Sinking Fund Tax Levy	36,763,357	
Budgeted IFA and EDA Payments	5,740,760	
Budgeted Net TIRZ Receipts	6,004,937	
Budgeted Investment Income	29,000	86,151,869
Estimated Interest and Sinking Fund Balance, June 30, 2013		$ 35,882,479

(1) Includes the Bonds and excludes the Refunded Bonds.
(2) Audited.

TABLE 11 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

Purpose	Date Authorized	Amount Authorized	Issued To Date (1)	Unissued Balance
School Buildings	5/10/2008	$244,920,000	$89,000,000	$155,920,000

(1) Includes premium charged against voted authorization.

TABLE 12 - OTHER OBLIGATIONS

Non-Capitalized Leases

Fiscal Year Ended	Total Requirements
2013	$ 621,122
2014	620,621
2015	42,489
Total	$ 1,284,232

PENSION FUND

Pension funds for employees of Texas school districts, and any employee in public education in Texas, are administered by the Teacher Retirement System of Texas (the "System"). The individual employees contribute a fixed amount of their salary to the System, currently 6.40%, and the State of Texas contributes funds to the System based on statutory required minimum salary for certified personnel, except any District personnel paid by federally funded programs. (For more detailed information concerning the retirement plan, see APPENDIX B, "EXCERPTS FROM THE DISTRICT'S ANNUAL FINANCIAL REPORT" - NOTES TO FINANCIAL STATEMENTS, III. OTHER INFORMATION, D. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS).

FINANCIAL INFORMATION

TABLE 13 - GENERAL FUND REVENUES AND EXPENDITURES HISTORY

	Fiscal Year Ended, June 30				
	2012	2011	2010	2009	2008
GENERAL OPERATING FUND					
Revenue and Other Resources:					
Local, Intermediate, and Out-of-State	$ 125,580,851	$ 124,083,037	$ 124,307,770	$ 122,334,914	$ 104,352,350
State Sources	132,239,241	115,954,903	129,050,365	133,225,904	117,377,534
Federal Sources	528,785	384,916	473,445	309,689	285,211
Other Sources	84,425	235,155	739,498	620,118	684,570
Total Revenues and Other Resources	258,433,302	240,658,011	254,571,078	256,490,625	222,699,665
Expenditures and Other Uses:					
Instruction Service	146,162,547	147,216,171	159,269,933	144,490,191	142,085,557
Instructional Related Service	24,496,499	25,109,653	19,581,704	17,593,808	16,563,191
Pupil Services	28,578,172	28,289,308	27,763,386	25,425,890	25,790,264
Administration	6,267,203	6,221,551	6,126,522	5,835,878	5,837,542
Plant Maintenance, Operation	23,482,752	30,238,198	25,014,973	23,196,685	23,958,068
Other Uses	12,553,505	17,692,590	16,029,308	10,625,439	9,530,950
Total Expenditures and Other Uses	241,540,678	254,767,471	253,785,826	227,167,891	223,765,572
Excess (Deficit) of revenues and other resources over expenditures and other uses	16,892,624	(14,109,460)	785,252	29,322,734	(1,065,907)
Beginning Fund Balance	70,463,503	84,572,963	83,787,711	54,464,977	55,530,884
Ending Fund Balance	$ 87,356,127	$ 70,463,503	$ 84,572,963	$ 83,787,711	$ 54,464,977
DEBT SERVICE FUND					
Revenues and Other Resources:					
Local Sources	$ 46,029,496	$ 44,756,424	$ 48,232,795	$ 41,571,936	$ 31,241,193
State Sources	6,216,844	5,083,447	5,216,950	7,815,769	7,917,950
Other Resources	77,758	37,853,024	124,801	1,521,044	36,749,106
Total Revenues and Other Resources	52,324,098	87,692,895	53,574,546	50,908,749	75,908,249
Expenditures and Other Uses:					
Debt Service	49,851,515	47,460,603	49,267,984	47,813,197	44,726,858
Other Uses	0	40,300,029	1,659,764	1,492,738	31,056,764
Total Expenditures and Other Uses	49,851,515	87,760,632	50,927,748	49,305,935	75,783,622
Excess (Deficit) of revenues and other resources over expenditures and other uses	2,472,583	(67,737)	2,646,798	1,602,814	124,627
Beginning Fund Balance	35,141,232	35,208,969	32,562,171	30,959,357	30,834,730
Ending Fund Balance	$ 37,613,815	$ 35,141,232	$ 35,208,969	$ 32,562,171	$ 30,959,357

TABLE 14 - HISTORY OF HUMBLE INDEPENDENT SCHOOL DISTRICT DEBT MANAGEMENT

Date of Bond Sale	Par Amount of Bonds Sold	Assessed Value at Time of Bond Sale	Final Assessed Value	Year of Final Assessed Value	Gross Debt Including Bonds[(1)]	Net Debt Including Bonds[(1)]	Ratio of Net Debt to A.V.[(1)]	Overlapping Debt[(1)]	Total Net & Overlapping Debt[(1)]	Ratio of Total Net & Overlapping Debt to A.V.[(1)]	Enrollment	Ratings [(1)] Moody's	Ratings [(1)] S&P	Bonds Sold At (NIC/TIC)	Bond Buyer Index
08/15/97	$40,090,000 [(2)]	$3,922,978,340	$3,746,533,671	1996	$134,710,000	$124,284,402	3.17%	$176,221,433	$300,505,835	7.66%	22,187	Aaa [(4)]	AAA [(4)]	4.96%	5.43%
11/11/97	$22,000,000	$3,895,760,354	$3,940,701,444	1997	$156,710,000	$150,336,736	3.86%	$178,828,472	$329,165,208	8.45%	22,671	Aaa [(4)]	AAA [(4)]	5.05%	5.38%
05/12/98	$9,900,000	$3,884,986,980	$3,940,701,444	1997	$166,610,000	$154,381,312	3.97%	$172,410,815	$326,792,127	8.41%	22,671	Aaa [(4)]	AAA [(4)]	4.69%	5.26%
01/12/99	$9,900,000	$3,993,766,030	$3,874,747,898	1998	$169,170,000	$159,869,400	4.00%	$165,785,050	$325,654,450	8.15%	23,093	Aaa [(4)]	AAA [(4)]	4.75%	5.05%
01/11/00	$21,200,000	$4,393,437,710	$4,069,448,258	1999	$182,401,005	$173,597,604	3.95%	$186,543,038	$360,140,642	8.20%	23,904	Aaa [(4)]	AAA [(4)]	5.73%	6.04%
01/18/00	$21,915,000 [(2)]	$4,393,437,710	$4,069,448,258	1999	$182,399,824	$173,593,423	3.95%	$186,543,038	$360,136,461	8.20%	23,904	Aaa [(4)]	AAA [(4)]	6.04%	6.11%
11/12/02	$63,650,000 [(3)]	$4,999,899,066	$5,649,346,217	2002	$223,825,000	$199,307,929	3.99%	$192,251,667	$391,559,596	7.83%	25,238	Aaa [(4)]	AAA [(4)]	4.42%	4.90%
11/12/02	$9,315,000 [(2)]	$4,999,899,066	$5,649,346,217	2002	$223,825,000	$199,307,929	3.99%	$192,251,667	$391,559,596	7.83%	25,238	Aaa [(4)]	AAA [(4)]	2.08%	4.90%
03/18/03	$92,000,000	$5,649,346,217	$6,023,494,855	2003	$310,260,000	$285,742,929	5.06%	$192,251,667	$477,994,596	8.46%	26,025	Aaa [(4)]	AAA [(4)]	[(5)]	4.83%
12/14/04	$42,800,000	$6,891,862,740	$6,531,754,436	2004	$327,055,000	$327,055,000	4.75%	$313,286,662	$640,341,662	9.29%	27,009	Aaa [(4)]	AAA [(4)]	4.20%	4.39%
04/12/05	$27,165,000 [(2)]	$7,123,162,260	$7,123,029,982	2005	$352,330,000	$326,718,707	4.59%	$329,275,333	$655,994,040	9.21%	28,165	Aaa [(4)]	AAA [(4)]	4.10%	4.56%
04/12/05	$41,085,000	$7,123,162,260	$7,123,029,982	2005	$352,330,000	$326,718,707	4.59%	$329,275,333	$655,994,040	9.21%	28,165	Aaa [(4)]	AAA [(4)]	4.62%	4.56%
01/24/06	$121,750,000	$7,660,201,420	$7,765,515,685	2006	$471,540,000	$443,805,337	5.79%	$338,112,086	$781,917,423	10.21%	29,706	Aaa [(4)]	AAA [(4)]	4.57%	4.42%
12/14/06	$79,700,000	$7,935,920,909	$8,386,605,261	2007	$526,755,000	$497,664,152	6.27%	$386,263,694	$883,927,846	11.14%	31,327	Aaa [(4)]	AAA [(4)]	4.45%	4.12%
04/10/07	$25,000,000	$7,935,920,909	$8,386,605,261	2007	$541,295,000	$512,204,152	6.45%	$421,248,995	$933,453,147	11.76%	31,327	Aaa [(4)]	AAA [(4)]	4.62%	4.17%
03/11/08	$76,285,000	$9,228,619,186	$9,548,595,428	2008	$599,320,000	$568,485,270	6.16%	$452,730,084	$1,021,215,354	11.07%	32,970	Aaa [(4)]	AAA [(4)]	4.95%	4.94%
03/11/08	$29,285,000 [(2)]	$9,228,619,186	$9,548,595,428	2008	$599,320,000	$568,485,270	6.16%	$452,730,084	$1,021,215,354	11.07%	32,970	Aaa [(4)]	AAA [(4)]	3.21%	4.94%
09/29/09	$73,510,000	$10,414,226,700	$10,624,062,726	2009	$644,775,000	$612,212,829	5.80%	$553,514,940	$1,165,727,769	10.97%	34,923	Aa3	AA-	4.16%	4.04%
04/28/11	$24,030,000	$10,580,088,672	$10,564,977,883	2010	$628,835,000	$593,626,031	5.61%	$600,494,117	$1,194,120,148	11.29%	35,673	Aaa [(4)]	AAA [(4)]	4.41%	4.86%
04/28/11	$33,365,000 [(2)]	$10,580,088,672	$10,564,977,883	2010	$628,835,000	$593,626,031	5.61%	$600,494,117	$1,194,120,148	11.29%	35,673	Aaa [(4)]	AAA [(4)]	2.78%	4.86%
03/06/13	$8,250,000 [(2)]	$10,739,169,544	$10,739,169,544	2012	$591,255,000	$539,534,487	5.02%	$617,269,610	$1,156,804,097	10.77%	36,076	Aaa [(4)]	AAA [(4)]	1.49%	3.74%
03/06/13	$23,950,000 [(2)]	$10,739,169,544	$10,739,169,544	2012	$591,255,000	$539,534,487	5.02%	$617,269,610	$1,156,804,097	10.77%	36,076	Aa2	AA-	1.96%	3.74%

(1) At time of bond sale.
(2) Refunding bonds.
(3) Partial refunding.
(4) Ratings based on municipal bond insurance or PSF guarantee.
(5) Not applicable; variable rate.

FINANCIAL POLICIES

Basis of Accounting . . .The District prepares its basic financial statements in conformity with Generally Accepted Accounting Principles ("GAAP") promulgated by the Governmental Accounting Standards Board ("GASB") and other authoritative sources identified in ***Statement of Auditing Standards No. 69*** of the American Institute of Certified Public Accountants. Additionally, the district complies with the requirements of the appropriate version of Texas Education Agency's ***Financial Accountability System Resource Guide*** ("FASRG") and the requirements of contracts and grants of agencies from which it receives funds.

Budgetary Procedures . . .The District's fiscal year begins July 1 and ends June 30. The Board adopts an "appropriated budget" on a basis consistent with GAAP for the general fund, debt service fund and food service fund (which is included in special revenue funds). At a minimum, the District is required to present the original and the final amended budgets for revenues and expenditures compared to actual revenues and expenditures for these three funds. In accordance with procedures prescribed by the State Board of Education, budget amendments that cause an increase or decrease in a fund or functional spending category or total revenue or other resources object category require Board approval prior to the expenditure of funds.

INVESTMENTS

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

LEGAL INVESTMENTS

Under State 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 or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) (i) that are issued by or through an institution that has its main office or a branch office in the State, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits; or (ii) where (a) the funds are invested by the District through (I) a broker that has its main office or a branch office in the State and is selected from a list adopted by the District as required by law or (II) a depository institution that has its main office or a branch office in the State that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit issued for the account of the District; (8) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share; and (12) no-load mutual funds registered with the United States Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

A political subdivision such as the District may enter into 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 (10) through (12) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

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.

In addition to authorized investments described above, the Texas law provides that the District may invest in corporate bonds that, at the time of purchase, are rated by a nationally recognized investment rating firm "AA-" or the equivalent and have a stated final maturity that is not later than the third anniversary of the date the corporate bonds were purchased. As used herein, corporate bond means a senior secured debt obligation issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm, and does not include unsecured debt obligations or debt obligations that, on conversion, would result in the holder becoming a stockholder or shareholder in the entity that issued the debt obligation. The District may not (1) invest in the aggregate more than 15% of its monthly average fund balance, excluding funds held for the payment of debt service, in corporate bonds or (2) invest more than 25% of the funds invested in corporate bonds in any one domestic business entity, including subsidiaries and affiliates of the entity. The investment officer of the District must sell any corporate bonds not later than seven days after a nationally recognized investment rating firm (1) issues a release that places the corporate bonds or the entity that issued the corporate bonds on negative credit watch or the equivalent, if the corporate bonds are rated "AA-" or the equivalent at the time the release is issued; or (2) changes the rating on the corporate bonds to a rating lower than "AA-" or the equivalent. The District may invest its funds in corporate bonds only if the Board of Education of the District (1) amends its investment policy to authorize corporate bonds as an eligible investment; (2) adopts procedures to provide for the monitoring of rating changes in corporate bonds and liquidating the investment in corporate bonds; and (3) identifies the funds eligible to be invested in corporate bonds. The District has taken these steps to authorize the investment of District funds in corporate bonds.

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 include a list of authorized investments for District funds, the maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

ADDITIONAL PROVISIONS

Under State law, the District is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a written instrument by rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and recording any changes made to either its investment policy or investment strategy; (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 Education; (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 repurchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

TABLE 15 - CURRENT INVESTMENTS

As of December 31, 2012, the District's investable funds were invested in the following categories:

Description	Percent of Total	Market Value
Cash with Depository	4.99%	$ 11,852,614
Investment Pool	26.79%	63,721,809
Investment Pool	68.22%	162,258,222
	100.00%	$237,832,645

The market value of the investment portfolio was approximately 100% of its purchase price.

TexPool is a local government investment pool under the control of the Texas Comptroller of Public Accounts. The Comptroller has engaged The Chase Manhattan Bank, and its affiliates, to provide investment management and fund accounting services for TexPool. First Southwest Asset Management, Inc., an affiliate of First Southwest Company, provides customer service and marketing for the pool. TexPool currently maintains a AAAm rating from Standard & Poor's. The pool's investment objectives include achieving a stable net asset value of $1.00 per share. Daily investment or redemption of funds is allowed by the participants.

Lone Star Investment Pool ("LSIP") is a public funds investment pool administered by the Texas Association of School Boards and established to assist local governments with investing public funds in obligations issued or secured by the U.S. government and its agencies and instrumentalities. Investments in LSIP provide for investment in securities with maturities and returns generally greater than money market instruments. The LSIP is marked-to-market daily to maintain an accurate net asset value. The District's fair value in the LSIP is the same as the value of the pool shares.

TAX MATTERS

TAX EXEMPTION

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

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

Bond Counsel's opinions 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 Financial Advisor and the Underwriters with respect to matters solely within the knowledge of the District, the District's Financial Advisor and the Underwriters, respectively, which Bond Counsel has not independently verified. Bond 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, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds.

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

ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS

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

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

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

TAX 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 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 an "obligated person" with respect to the Bonds, within the meaning of the Rule. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board the "MSRB"). For a description of the continuing disclosure obligations of the TEA, see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM FOR THE SERIES 2013A BONDS."

ANNUAL REPORTS

The District will provide certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 15 and in Appendix B. The District will update and provide this information within six months after the end of each fiscal year.

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 (www.emma.msrb.org) or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial 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 December 31 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.

EVENT NOTICES

The District also will provide timely notices of any of the following events with respect to the Bonds (not in excess of ten (10) business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other materials events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such 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 or change of name of the trustee, if material. Neither the Bonds nor the Order require the funding of debt service reserves.

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

In addition, the District will provide timely notice of any failure by the District to provide annual financial information, data or financial statements in accordance with its agreement described above under "ANNUAL REPORTS." The District will provide each notice described in this paragraph to the MSRB in an electronic format, as prescribed by the MSRB.

AVAILABILITY OF INFORMATION

The District has agreed to provide the information only to the MSRB, accompanied by identifying information and in an electronic format, as prescribed by the MSRB. The MSRB has prescribed that such information must be filed pursuant to its Electronic Municipal Market Access ("EMMA") System. The MSRB makes the information available to the public without charge and investors will be able to access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

LIMITATIONS AND AMENDMENTS

The District has agreed to update information and to provide notices of 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 has been provided except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the District to comply with its agreement. Nothing in this paragraph is intended or shall act to disclaim, waive or limit the District's duties under federal or state securities laws.

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, but only if (1) the agreement, as so amended, would have permitted underwriters to purchase or sell Bonds in the initial primary offering in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent or (b) any qualified person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. If the District amends its agreement, it has agreed to include with the financial information and operating data next provided, in accordance with its agreement described above under "Annual Reports," an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS

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

VERIFICATION OF ARITHMETICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by First Southwest Company on behalf of the District relating to (a) computation of the sufficiency of the initial cash deposit to pay, when due, the principal and interest of the Series 2013A Refunded Bonds, (b) computation of the sufficiency of the anticipated receipts from the Series 2013B Escrow Securities, together with the initial cash deposit, if any, to pay, when due, the principal, interest, and early redemption premium requirements, if any, of the Series 2013B Refunded Bonds, and (c) computation of the yields on the Bonds and the Series 2013B Escrow Securities was verified by Grant Thornton LLP, certified public accountants (the "Verification Agent"). Such computations were based solely on assumptions and information provided by First Southwest Company on behalf of the District. The Verification Agent has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

The Verification Agent's report will be relied upon by 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.

OTHER INFORMATION

RATINGS

The Series 2013A Bonds are rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") by virtue of the guarantee of the PSF. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM FOR THE SERIES 2013A BONDS." The Series 2013B Bonds and the presently outstanding unenhanced tax-supported debt of the District are rated "Aa2" by Moody's and "AA-" by S&P. **The Series 2013B Bonds will not be guaranteed by the PSF.**

The District has numerous issues outstanding which are rated "Aaa" and "AAA" by Moody's and S&P, respectively, by virtue of the guarantee of the PSF. The District also has other issues outstanding that are not guaranteed by the PSF. An explanation of the significance of such ratings may be obtained from the companies furnishing the ratings. The ratings reflect only the respective views of such organizations and the District makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by any or all of such rating companies, if in the judgment of any or all of such companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Bonds.

LITIGATION

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

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

LEGAL MATTERS

The delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of a continuing direct annual ad valorem tax levied, without legal limit as to maximum rate or amount, upon all taxable property in the District and the approving legal opinions of Bond Counsel, in substantially the forms attached hereto as Appendix C. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds.

Bond Counsel has reviewed the statements and information contained in the Official Statement under the captions and sub-captions "PLAN OF FINANCING" (except the subcaptions "PURPOSE" and "SOURCES AND USES OF PROCEEDS," as to which no opinion need be expressed), "THE BONDS" (except for the information under the sub-captions "PERMANENT SCHOOL FUND GUARANTEE FOR THE SERIES 2013A BONDS" and "BONDHOLDERS' REMEDIES," as to which no opinion is expressed) and "CONTINUING DISCLOSURE OF INFORMATION" (except for the information under the sub-caption "COMPLIANCE WITH PRIOR UNDERTAKINGS," as to which no opinion is expressed), and Bond Counsel is of the opinion that the statements and information contained therein fairly and accurately reflect the provisions of the Order; further, Bond Counsel has reviewed the statements and information contained in the Official Statement under the captions and sub-captions "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM," "TAX RATE LIMITATIONS," "TAX MATTERS," "OTHER INFORMATION – LEGAL MATTERS," "OTHER INFORMATION – REGISTRATION AND QUALIFICATION OF BONDS FOR SALE" and "OTHER INFORMATION – LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS" and Bond Counsel is of the opinion that the statements and information contained therein fairly and accurately describe the laws and legal issues addressed therein.

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

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

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

FINANCIAL ADVISOR

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

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

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Series 2013A Bonds from the District, at a price of $8,758,891.45 (representing the principal amount of the Series 2013A Bonds, plus a premium in the amount of $543,371.45, less an underwriting discount of $34,480.00) plus accrued interest on the Series 2013A Bonds to the date of delivery. The Underwriters will be obligated to purchase all of the Series 2013A Bonds if any Series 2013A Bonds are purchased. The Series 2013A Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Series 2013A Bonds into investment trusts) at prices lower than the public offering prices of such Series 2013A Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

The Underwriters have agreed, subject to certain conditions, to purchase the Series 2013B Bonds from the District, at a price of $28,053,409.25 (representing the principal amount of the Series 2013B Bonds, plus a premium in the amount of $4,205,578.75, less an underwriting discount of $102,169.50) plus accrued interest on the Series 2013B Bonds to the date of delivery. The Underwriters will be obligated to purchase all of the Series 2013B Bonds if any Series 2013B Bonds are purchased. The Series 2013B Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Series 2013B Bonds into investment trusts) at prices lower than the public offering prices of such Series 2013B Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

The Underwriters have reviewed the information in this Official Statement pursuant to their responsibilities to investors under the federal securities laws, 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.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association ("WFBNA"). WFBNA, one of the Underwriters of the Bonds, has entered into an agreement (the "Distribution Agreement") with its affiliate, Wells Fargo Advisors, LLC ("WFA"), for the distribution of certain municipal securities offerings, including the Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Bonds with WFA. WFBNA also utilizes the distribution capabilities of its affiliates, Wells Fargo Securities, LLC ("WFSLLC") and Wells Fargo Institutional Securities, LLC ("WFIS"), for the distribution of municipal securities offerings, including the Bonds. In connection with utilizing the distribution capabilities of WFSLLC, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, WFIS, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

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

MISCELLANEOUS

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

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

/s/ Charles Cunningham
President, Board of Trustees
Humble Independent School District

ATTEST:

/s/ Robert Scarfo
Secretary, Board of Trustees
Humble Independent School District

SCHEDULE I

DEBT SERVICE REQUIREMENTS AS OF YEAR ENDING AUGUST 31

FYE	Outstanding Debt After Issuance of the Bonds[2]		
8/31[1]	Principal	Interest	Debt Service
2013	$ 17,605,000	$ 32,003,512	$ 49,608,512
2014	17,500,000	32,428,040	49,928,040
2015	18,600,000	33,976,446	52,576,446
2016	20,530,000	33,980,741	54,510,741
2017	23,815,000	29,381,478	53,196,478
2018	31,380,000	24,104,664	55,484,664
2019	31,015,000	22,770,776	53,785,776
2020	29,900,000	21,421,195	51,321,195
2021	31,385,000	20,008,530	51,393,530
2022	32,710,000	18,506,961	51,216,961
2023	31,940,000	16,838,625	48,778,625
2024	32,905,000	15,199,948	48,104,948
2025	33,800,000	13,568,325	47,368,325
2026	35,520,000	11,839,200	47,359,200
2027	37,180,000	10,025,700	47,205,700
2028	39,120,000	8,122,325	47,242,325
2029	36,530,000	6,235,450	42,765,450
2030	38,435,000	4,365,950	42,800,950
2031	22,265,000	2,853,200	25,118,200
2032	23,285,000	1,723,263	25,008,263
2033	15,730,000	761,063	16,491,063
2034	5,910,000	230,025	6,140,025
2035	1,800,000	42,750	1,842,750
	$ 608,860,000	$ 360,388,166	$ 969,248,166

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(1) For debt service requirements based on the District's fiscal year ending June 30, see "TABLE 8 - I&S FUND TAX SUPPORTED DEBT SERVICE REQUIREMENTS."

(2) Does not include non-capitalized leases or note payable (see "TABLE 12 - OTHER OBLIGATIONS").

SCHEDULE II

REFUNDED BONDS

SERIES 2013A REFUNDED BONDS

Unlimited Tax School Building and Refunding Bonds, Series 2002A
Dated Date – 11/1/2002

Original Maturity February 15	Principal Amount Outstanding	Principal Amount to be Refunded	Call Date	Call Price	CUSIP
2014	$475,000	$475,000	4/11/2013	100%	445042 Q80
2015	445,000	445,000	4/11/2013	100%	445042 Q98
2016	505,000	505,000	4/11/2013	100%	445042 R22
2017	950,000	950,000	4/11/2013	100%	445042 R30
2018	1,195,000	1,195,000	4/11/2013	100%	445042 R48
2019	1,210,000	1,210,000	4/11/2013	100%	445042 R55
2020	1,225,000	1,225,000	4/11/2013	100%	445042 R63
2021	1,290,000	1,290,000	4/11/2013	100%	445042 R71
2022	1,355,000	1,355,000	4/11/2013	100%	445042 R89
		$8,650,000			

SERIES 2013B REFUNDED BONDS

Unlimited Tax School Building Bonds, Series 2005
Dated Date – 1/1/2005

Original Maturity February 15	Principal Amount Outstanding	Principal Amount to be Refunded	Call Date	Call Price	CUSIP
2015	$2,125,000	$2,125,000	2/15/2014	100%	445042 V84
2016	2,225,000	2,225,000	2/15/2014	100%	445042 V92
2017	2,350,000	2,350,000	2/15/2014	100%	445042 W26
2018	2,450,000	2,450,000	2/15/2014	100%	445042 W34
2019	2,575,000	2,575,000	2/15/2014	100%	445042 W42
2020	2,700,000	2,700,000	2/15/2014	100%	445042 W59
2021	2,850,000	2,850,000	2/15/2014	100%	445042 W67
2022	2,975,000	2,975,000	2/15/2014	100%	445042 W75
2023	3,125,000	3,125,000	2/15/2014	100%	445042 W83
2024	3,300,000	3,300,000	2/15/2014	100%	445042 W91
		$26,675,000			

APPENDIX A

GENERAL INFORMATION REGARDING THE DISTRICT

THE DISTRICT

The District is located in the northeast portion of Harris County, three miles east of the Houston-Bush Intercontinental Airport and 21 miles northeast of downtown Houston. It is bounded on the west by U.S. 59, on the east by Lake Houston, on the north by the Harris-Montgomery County line, and to the south by the City of Houston. U.S. Hwy. 59 and FM 196 provide entry to the Houston metropolitan area. The Hardy Toll Road is just west of the District and provides additional north-south access to the area. The District encompasses a 90 square mile area which includes the City of Humble and a major portion of Lake Houston. The City's 2000 population was 14,579, increasing 21% since 1990.

The 1,200,000 square foot "Deerbrook Mall" is located at the northwest corner of the intersection of Hwy. 59 and FM 1960. Numerous other shopping centers have also developed. The woodlands of the District have become a natural setting for the development of 24 upper-middle class residential and commercial communities. Kingwood is a 14,000 acre residential and commercial community, 10,000 acres of which are within the District. Atascocita on Lake Houston encompasses 6,000 acres in the northeastern part of the District. The development consists of nine single-family subdivisions. Forest Cove is a 1,260 acre single-family development, located in the northern part of the District. Walden on Lake Houston encompasses 970 acres and is located adjacent to Atascocita.

TOTAL ENROLLMENT, AVERAGE DAILY ATTENDANCE AND PER PUPIL COSTS

Fiscal Year	General Fund Expenditures[1]	Total Enrollment[2]	Per Pupil Costs[2]	Average Daily Membership (ADM)	Average Daily Attendance (ADA)	% ADA to ADM
2003	$147,447,687	26,025	$ 5,666	25,582	24,572	96.1%
2004	155,323,593	27,009	5,751	26,475	25,408	96.0%
2005	162,342,152	28,165	5,764	27,526	26,389	95.9%
2006	170,637,022	29,706	5,744	28,985	27,769	95.8%
2007	198,444,457	31,327	6,335	30,833	29,383	95.3%
2008	223,765,572	32,970	6,787	31,522	30,695	97.4%
2009	227,167,891	33,883	6,704	33,724	31,570	93.6%
2010	253,785,826	34,923	7,267	34,689	32,304	93.1%
2011	254,767,471	35,913	7,094	35,678	33,176	93.0%
2012	241,540,678	36,076	6,695	35,824	33,906	94.6%

Source of information: The District Assessment & Evaluation (PEIMS Fall 2001) and the District's Financial Statements.

(1) Excludes expenditures for facilities acquisition and construction.

(2) Based on month having the highest reenrollment of each year. Based on enrollment on the PEIMS snapshop date (2002).

DEMOGRAPHIC STATISTICS

Fiscal Year	Population	Student Enrollment	Assessed Valuation Per Capita	Net Debt Per Capita
2003	118,047	26,025	$ 51,026	$ 2,342
2004	120,998	27,009	53,982	2,138
2005	124,023	28,165	55,569	2,597
2006	127,744	29,706	60,790	3,277
2007	132,905	31,327	63,102	3,783
2008	139,550	32,970	68,424	4,021
2009	146,527	33,883	71,074	3,676
2010	161,006	34,923	65,986	3,658
2011	172,036	35,913	61,412	3,451
2012	172,290	36,076	61,912	3,334

Source of information: The District's Assessment & Evaluation (PEIMS Fall 2001) and the District's Financial Statements.

MISCELLANEOUS STATISTICAL DATA

Humble ISD	Insured Value[1]	Year Constructed/ Acquired	Student Capacity[3]	2011-12 Total Enrollment
Atascocita High School	$ 73,886,332	2007	3,200	2,952
Humble High School	93,939,330	1965	2,400	1,482
Kingwood High School	88,021,330	1979	2,400	2,664
Kingwood Park High School	32,889,888	1993	1,100	1,637
Quest-CLC	10,359,738	1995	400	221
Summer Creek High School	87,330,125	2009	3,200	1,980
Atascocita Middle School	22,521,564	1983	1,100	1,103
Creekwood Middle School	22,912,956	1981	1,050	924
Humble Middle School	24,515,136	1993	1,110	1,126
Kingwood Middle School	23,335,290	1977	1,030	1,005
Riverwood Middle School	22,521,564	1991	1,150	1,074
Timberwood Middle School	24,529,716	1998	1,110	1,239
Ross Sterling Middle School	21,185,695	1971	950	793
Woodcreek Middle School	30,114,840	2010	1,110	990
Atascocita Springs Elementary School	18,542,682	2010	950	715
Bear Branch Elementary School	9,677,748	1978	650	595
Deerwood Elementary School	11,008,764	1985	700	523
Eagle Springs Elementary School	12,316,200	2007	750	616
Elm Grove Elementary School	9,818,892	1978	650	468
Fall Creek Elementary School	14,300,000	2008	750	720
Foster Elementary School	10,554,588	1971	550	612
Greentree Elementary School	9,742,608	1981	650	738
Hidden Hollow Elementary School	11,575,764	1990	700	539
Humble Elementary School	12,246,000	1999	750	600
Jack Fields Elementary School	12,488,760	1995	750	594
Lakeland Elementary School	9,301,344	1960	500	648
Lakeshore Elementary School	15,603,750	2009	950	689
Maplebrook Elementary School	14,074,788	2001	750	754
North Belt Elementary School	11,707,584	1968	550	652
Oaks Elementary School	12,008,724	1979	650	608
Oak Forest Elementary School	13,711,620	1995	750	659
Park Lakes Elementary School	12,316,200	2007	750	910
Pine Forest Elementary School	10,868,304	1985	700	681
River Pines Elementary School	12,702,195	2007	750	689
Shadow Forest Elementary School	10,692,552	1993	700	577
Summerwood Elementary School	12,324,000	2004	750	627
Timbers Elementary School	9,742,608	1981	650	759
Whispering Pines Elementary School	11,575,764	1991	700	681
Willow Creek Elementary School	11,575,764	1988	700	571
Woodland Hills Elementary School	9,830,748	1976	650	541
Career and Technology Education	3,467,502	2001	n/a	n/a
Curriculum & Staff Development Center[2]	11,999,791	1929	n/a	n/a
Administration & Support Facilitities	37,178,952	1991	n/a	n/a
Instructional Support Center	8,005,848	2003	n/a	n/a
Totals	$ 949,023,548		39,660	35,956 [4]

[1]Includes estimated value of contents.

[2]Building was originally constructed as a high school and was converted in 1974 for use as the central administration building. This building was again converted in 1992 for use as the Curriculum and Staff Development Center.

[3]Capacity of portable buildings is not included.

[4] In addition to enrollment at listed campuses, the District enrollment includes early learning wing (56 students), Humble Community Learning Center (59 students) and JJAEP (5 students).

Date of Incorporation	1923
Form of Government	Political Subdivision - State of Texas
Area (Square Miles)	90
Population	177,666
Density Per Square Mile	1,974
Total Enrollment	36,076
Board of Trustees Regular Meetings	Second Tuesday Each Month
Accreditation	Texas Education Agency, Southern Association of Colleges and Schools

APPENDIX B

EXCERPTS FROM THE

HUMBLE INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2012

The financial information contained in this Appendix consists of excerpts from the Humble Independent School District Annual Financial Report for the Year Ended June 30, 2012, as prepared by the District and audited by:

Whitley Penn LLP
Certified Public Accountants
Houston, Texas

This information is not intended to be a complete statement of the District's financial condition. A complete Audit Report is available upon request from:

First Southwest Company
Financial Advisor to the District

whitleypenn

Houston Office
3411 Richmond Avenue
Suite 500
Houston, Texas 77046
713.621.1515 Main
whitleypenn.com

REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
Humble Independent School District
Humble, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Humble Independent School District (the "District") as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Dallas Fort Worth Houston

An Independent Member of NEXIA INTERNATIONAL

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 19 through 28 and 66 through 68 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, schedules and compliance schedules as listed in the table of contents, and statistical section, are presented for the purpose of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements and schedules and compliance schedules as listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Whitley Penn LLP

Houston, Texas
November 8, 2012

As management of the District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found at the front of this report, and the District's financial statements which follow this section.

Financial Highlights

- The assets of the District exceeded its liabilities at June 30, 2012, by $113,898,998 *(net assets).* Of this amount, $86,593,791 or 76.0 percent *(unrestricted net assets)* may be used to meet the District's ongoing obligations.

- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of $166,224,445. Approximately 36.3 percent of this total amount, $60,385,171 is *unassigned fund balance*. This unassigned fund balance is in the general fund and represents 25.0 percent of the total general fund expenditures. In accordance with District Policy CE LOCAL, this is needed to preserve financial stability and respond to cash flow shortages, changes in the economy, or changes in state funding.

Overview of the Financial Statements

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

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private- sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets.* Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.
The *statement of activities* presents information for all of the current year's revenues and expenses regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the District's government-wide financial statements distinguish the functions of the District as being principally supported by taxes and intergovernmental revenues *(governmental activities)* as opposed to *business-type activities* that are intended to recover all or a significant portion of their costs through user fees and charges. The District has no *business-type activities* and no component units for which it is financially accountable. The government-wide financial statements can be found on pages 30-31 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. The fund financial statements provide more detailed information about the District's most significant funds, not the District as a whole.

- Some funds are required by State law and/or bond covenants.
- Other funds may be established by the Board to control and manage money for particular purposes or to show that it is properly using certain taxes or grants.

All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- ***Governmental funds.*** *Governmental funds* are used to account for essentially the same functions reported *as governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources,* as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.* The District maintains forty-six governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and capital projects fund, all of which are considered to be major funds. Data from the other forty-three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report. The District adopts an annual appropriated budget for its general fund, debt service fund and food service fund. A budgetary comparison schedule has been provided to demonstrate compliance with these budgets. The basic governmental fund financial statements can be found on pages 32-39 of this report.

- ***Proprietary funds.*** *Proprietary funds* provide the same type of information as the government-wide financial statements, only in more detail. There are two proprietary fund types. *Enterprise funds are* used to report the same functions presented as *business-type activities* in the government-wide financial statements. As mentioned above in the government-wide definition, the District has no *business-type activities* or *enterprise funds.* The second type of proprietary fund is the *internal service fund.* 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 health care, workers' compensation, and unemployment compensation programs, the Print Shop, and Child Care Program. The basic proprietary fund financial statements can be found on pages 40-42 of this report.

- ***Fiduciary funds***. *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. *Fiduciary funds* are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The District is the trustee, or fiduciary, for these funds and is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and statement of changes in fiduciary net assets, found on pages 43-44.

Notes to the financial statements. The notes provide additional information that is essential to a complete understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 45-64 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. Required supplementary information can be found on pages 66-68 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and the proprietary funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 74-96 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by $113,898,998 as of June 30, 2012. Humble ISD's net assets reflect an investment in capital assets (land, buildings, furniture and equipment, and construction in progress), less any related outstanding debt used to acquire those assets of ($6.9) million or approximately (6.1) percent of total net assets. The District uses these capital assets to provide services to students, taxpayers and the general public. Consequently, these assets are not available for future spending. While these capital assets are reported net of related outstanding debt, it should be noted that the resources to repay this debt must be provided from other sources.

Humble Independent School District's Net Assets

	2012	2011
Current and other assets	$ 229,728,494	$ 238,902,414
Capital assets	591,414,877	604,110,455
Total assets	821,143,371	843,012,869
Long-term liabilities outstanding	660,486,404	680,430,591
Other liabilities	46,757,969	54,116,285
Total liabilities	707,244,373	734,546,876
Net Assets		
Invested in capital assets, net of related debt	(6,911,607)	4,352,256
Restricted	34,216,814	32,743,502
Unrestricted	86,593,791	71,370,235
Total net assets	$ 113,898,998	$ 108,465,993

The District's capital assets decreased by $12.7 million in fiscal year 2012. This decrease consisted of additions to construction in progress (CIP), land purchases, and furniture and equipment acquisitions of $27.7 million after current year depreciation of $29.0 million and disposals or transfers of $11.4 million. Construction in progress increased for new projects by $6.4 million; however, projects placed into service as assets in the amount of $11.3 million resulted in a net decrease in CIP of $4.9 million for the year. Land was purchased for the new elementary and middle schools for $4.9 million. Buildings increased $11.3 million due to the transfer of completed construction projects that were placed into service, while furniture and equipment purchases for the year amounted to $5.1 million. Purchases of furniture and equipment increased in part due to an allocation of $2.2 million of capital outlay funding to the campuses and departments from the remaining bond funds from Phase 6 of the 2005 Referendum and Phase 1 of the 2008 Referendum. Several of the newer campuses spent funds on furniture, fixtures and equipment that was allocated to them from the issue of various bonds for start up costs. Funding in the amount of $1.3 million was spent on technology equipment from the State Fiscal Stabilization Funds remaining from 2011. During the current year, equipment worth $59,000 was retired or disposed of by the District. The District did not issue general obligation bonds during the year as reflected in the decrease of the District's long-term liabilities outstanding. Other liabilities decreased from 2011 to 2012 due to a significant decrease in accounts payable, accrued wages, and the amount due to other governments.

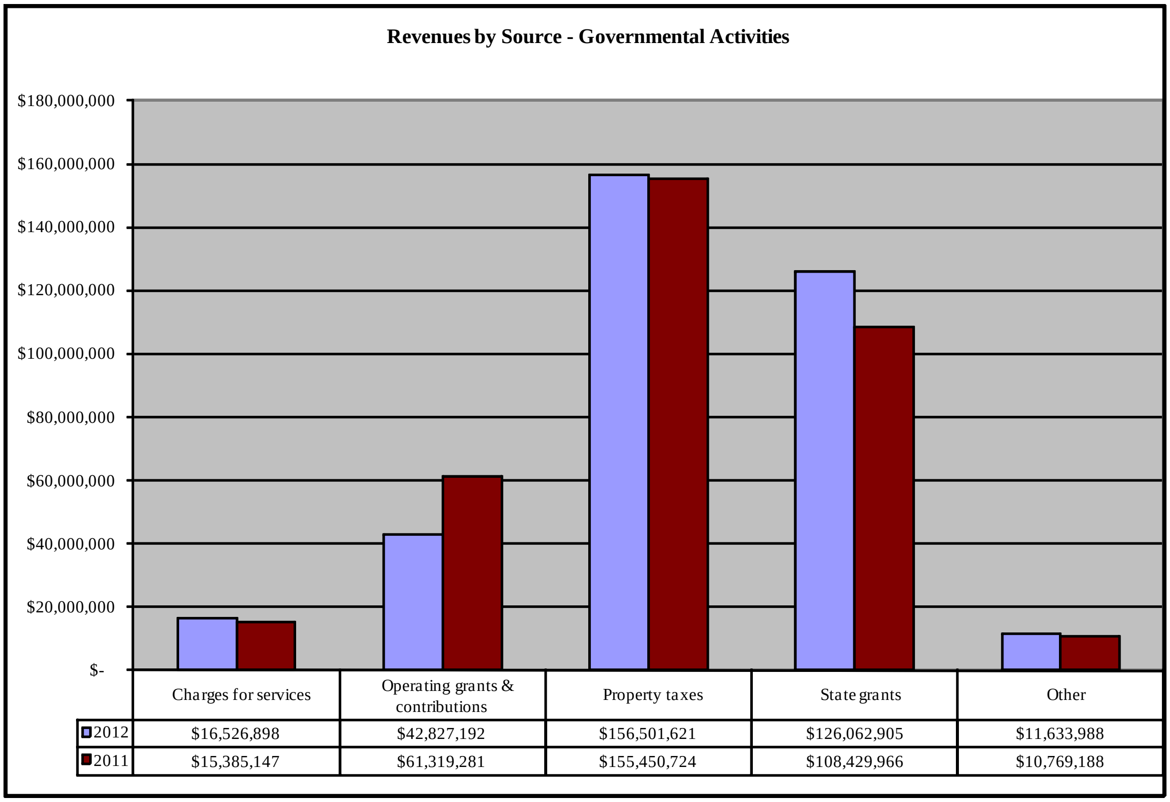
An additional portion of net assets, approximately 30.0 percent, represents resources that are subject to external restriction as to how they may be used. The remainder of net assets, *unrestricted net assets* of $86.6 million comprise 76.0 percent of net assets and may be used to meet the District's ongoing obligations. This surplus is not an indication that the District has significant resources available to meet financial obligations next year, but rather the result of having *long-term* commitments that are less than currently available resources. Restricted net assets increased by $1.5 million from the prior year due an increase in fund balance for the Debt Service Fund. Unrestricted net assets increased by $15.2 million due to the decrease in assets, decrease in liabilities, and decrease in Investment in Capital Assets Net of Related Debt as described above.

Governmental activities. Governmental activities increased the District's net assets by $5.4 million. The total cost of all *governmental activities* this year was $348,119,599. Key elements of the increase are as follows:

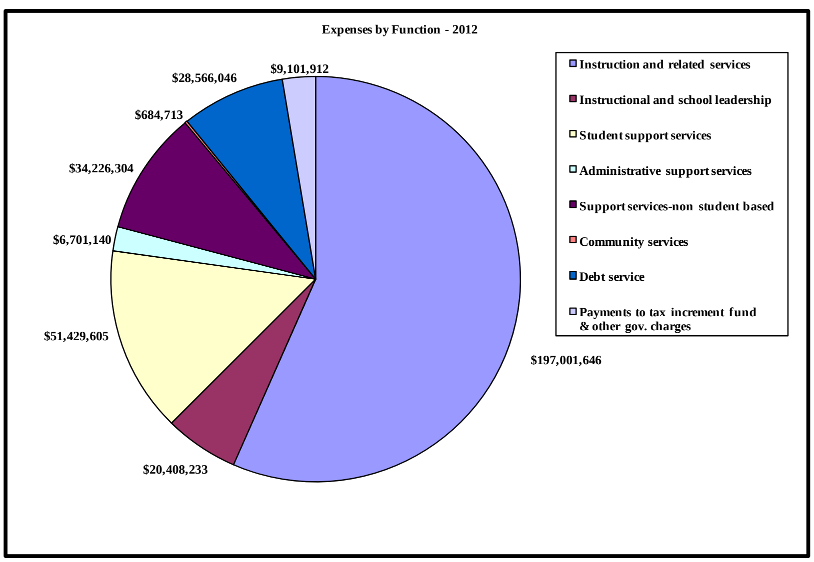
Change in Humble Independent School District's Net Assets

	2012	2011
Revenues		
Program Revenues:		
Charges for services	$ 16,526,898	$ 15,385,147
Operating grants & contributions	42,827,192	61,319,281
General Revenues:		
Property taxes	156,501,621	155,450,724
State grants	126,062,905	108,429,966
Other	11,633,988	10,769,188
Total Revenues	353,552,604	351,354,306
Expenses		
Instruction	188,241,024	201,583,741
Instructional resources and media services	4,121,671	4,014,070
Curriculum and staff development	4,638,951	5,200,862
Instructional leadership	2,370,239	2,593,743
School leadership	18,037,994	19,177,933
Guidance, counseling, and evaluation services	12,868,163	13,875,463
Social work services	80,918	264,841
Health services	2,873,019	3,006,962
Student transportation	9,355,195	9,605,101
Food service	15,024,593	14,338,336
Extracurricular activities	11,131,707	12,074,698
General administration	6,701,140	6,714,403
Plant, maintenance and operations	27,697,810	28,936,697
Security and monitoring services	2,702,022	2,979,431
Data processing services	3,826,472	3,688,318
Community services	684,713	1,046,553
Interest on long-term debt	28,383,575	30,483,942
Debt issuance costs and fees	182,471	138,438
Payments to JJAEP	96,010	86,950
Payments to Tax Increment Fund	7,801,287	8,376,196
Other governmental charges	1,300,625	1,313,349
Total Expenses	348,119,599	369,500,027
Increase (Decrease) in Net Assets	5,433,005	(18,145,721)
Beginning net assets	108,465,993	126,611,714
Ending Net Assets	$ 113,898,998	$ 108,465,993

These same key elements of the District's governmental activities are illustrated in the following charts:



	Charges for services	Operating grants & contributions	Property taxes	State grants	Other
2012	$16,526,898	$42,827,192	$156,501,621	$126,062,905	$11,633,988
2011	$15,385,147	$61,319,281	$155,450,724	$108,429,966	$10,769,188



The amount of expenditures paid for by taxpayers for these activities through property taxes was $156,501,621, or 44.9 percent. While the District's tax rate remained the same at $1.52 per $100 of assessed value, property valuations increased by 1.0 percent resulting in increased revenues from property taxes of approximately $1.1 million. While General Fund state aid increased by approximately $17.6 million, special revenue funds decreased by $18.4 million. Of the total increase in state revenue, $9 million was due to a reduction in the prior year for an adjustment by the TEA in the funding formulas related to participation in a Tax Increment Reinvestment Zone. Another $3.7 million was due to increased average daily attendance (ADA). While the District experienced a slight increase in enrollment, there was a significant increase in the number of full-time versus half-time students in attendance due to the following factors: 1) the State implemented a policy that requires all high school students to take 4 years of the 4 core subjects (Math, English, Science, and Social Studies); 2) the District implemented a policy that prevents high school seniors from taking multiple "off" periods (i.e. late arrival / early release) in their schedule; 3) the District shifted from a 4-period block schedule to a 7-period schedule; and 4) the Data Quality Department implemented a new process for ensuring that all students are coded and accounted for properly. Additionally, the District received $3.2 million in Instructional Materials Allotment funding and another $1.7 million in miscellaneous state funded special revenue funds from the Texas Commission of Environmental Quality for the Clean School Bus grant. Charges for services increased by approximately $1.1 million due to increases in food services and co-curricular activities. Revenues provided by interest earnings and miscellaneous revenue sources (primarily building rentals) increased by $.8 million.

The reduction in expenses was necessary due to the elimination of State Fiscal Stabilization Funds. This large reduction could only be achieved through reduced personnel costs which were realized through attrition.

Financial Analysis of the District's Funds

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

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of $166,224,445, an increase of $2,327,703. Approximately 36.3 percent of this total amount ($60,385,171) constitutes unassigned fund balance. The remainder of fund balance is restricted, committed, or assigned to indicate that it is not available for new spending because it has already been committed (1) to pay debt service ($37,613,815), (2) for capital projects ($33,803,268), (3) for federal, state, or local grants ($5,073,952), (4) for activity funds ($2,377,283), and for other purposes ($26,970,956). Additional information regarding assignments of fund balance for other purposes can be found in Note II, F, on pages 59.

During the current fiscal year, fund balance of the general fund increased by $16,892,624. Total revenues in the general fund were $258.3 million with an increase from the previous year of $17.9 million. This increase is due primarily to an increase in state aid of $16.3 million.

General fund expenditures totaled $241.5 million, which is a decrease of $4.4 million over the previous fiscal year. The decline in expenditures was due to a decrease in the amount of fees paid for the Tax Increment Reinvestment Zone of $.8 million, a decrease of $1 million in salaries and benefits moved to a special revenue fund for the Education Jobs Fund, and a decrease of $2.1 million in electricity costs as well as a $.5 million reduction in contracted services.

The debt service fund ended the fiscal year with a fund balance of $37,613,815, all of which is restricted for the payment of debt service. Total revenues and other financing resources were $52.3 million with a decrease from the previous year of $35.4 million. This decrease results from the fact that the District did not refund bonds in the current year reducing other financing resources by $37.8 million. This combined with an increase in property tax revenues of $.4 million, TIRZ revenues of $.9 million, and an increase in state aid of $1.1 million result in the total reduction of resources. Debt service expenditures and other financing uses totaled $49.9 million with a decrease of $37.9 million over the previous year which was mainly due to refunded bonds. The annual net increase in fund balance was $2,472,583.

The capital projects fund is used to account for financial resources to be used for the acquisition or construction and renovation of major capital facilities and equipment purchases. The fund balance of the District's capital projects fund was $33,803,268 as of June 30, 2012, all of which is restricted for capital projects. The net decrease in fund balance for the fiscal year ended June 30, 2012, was $16,708,651. This net decrease resulted from the completed renovation of existing facilities, purchase of site acquisitions, and beginning the construction of elementary school #27.

Proprietary funds. As mentioned earlier, the District's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets at June 30, 2012, totaled $15,102,297. The total decrease in net assets was $2,532,414. Of this amount, $1.6 million was due to run-out claims and the associated administrative fees related to the District's former self-funded health care and workers' compensation programs. An additional $.53 million accounted for unemployment claims related to the District's current self-funded unemployment compensation program. The remaining amount related to workers' compensation premiums exceeding contributions in the Public Entity Risk Pool.

General Fund Budgetary Highlights

Over the course of the year, the District recommended and the Board approved several revisions to budgeted revenue and expenditures. These amendments fall into the following categories:

- Amendments approved shortly after the beginning of the new fiscal year for amounts assigned in the prior year
- Amendments in early and late spring to revise estimates for local and state revenue based on the latest information on tax collections and student attendance numbers
- Amendments throughout the year for transfers to and from other funds and federal indirect cost calculations
- Amendments during the year for unexpected occurrences

The District made the following amendments to estimated revenues:

$301,014 increase in local revenue for miscellaneous other revenue
$9,006,877 increase in state revenue due to increased enrollment and updated attendance data

Following is a summary of amendments made to expenditures:

$301,014 increase in miscellaneous expenditures as a result of one time receipts

$1,574,913 increase for 2010-11 carryover items
$3,397,537 increase in salaries due to salary increases determined in the fall
$456,584 increase in payments to the tax increment fund
$650,000 increase in additional positions added due to enrollment growth

After revenues and appropriations were amended as described above, actual revenues and other resources were greater than the final amended estimated revenues and other resources by $6,775,216 or 2.7 percent. Actual local revenue exceeded budgeted revenue due to greater than anticipated tax collections and building rental revenue combined of approximately $2.4 million. State revenue increased due to the difference between estimated and final data for student counts by approximately $3.8 million. Federal revenue increased due to greater than expected indirect cost revenue and other federal programs of $.5 million.

Actual expenditures and other uses were $14,937,999 or 5.8 percent below the final amended budget. This positive variance was due primarily to lower than anticipated charges in salaries due to employee turnover, tighter staffing guidelines, and a decrease of average salaries of approximately $8 million. There was approximately a $1.3 million decrease due to lower than anticipated utility costs. Another $3.1 million resulted from lower than expected benefits costs. The balance of $2.5 million is due to unspent budgets for miscellaneous items such as supplies, contracted services, and other operating costs.

Capital Assets and Debt Administration

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2012, totals $591,414,877 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, furniture and equipment, and construction in progress.

	2012	2011
Land	$ 40,081,442	$ 35,202,119
Buildings & improvements	528,498,765	542,269,161
Furniture & equipment	19,440,359	18,326,175
Construction in Progress	3,394,311	8,313,000
Totals at historical cost	$ 591,414,877	$ 604,110,455

Additional information on the District's capital assets can be found in Note II, C, on page 55 of this report.

Long Term Debt

As of June 30, 2012, the District had total general obligation bonded debt outstanding of $611.9 million, a net decrease of $16.9 million from the prior year. The decrease resulted from scheduled debt principal payments.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the District is $1,066,691,000. The District's outstanding debt of $611,985,000 less the restriction for the retirement of the debt of $37,613,815 totals $574,371,185 leaving a legal debt margin of $492,319,815.

Additional information on the District's long-term debt can be found in Note II, E on pages 56-58 of this report.

Economic Factors and Next Year's Budgets and Rates

- The District's enrollment is projected to increase by 402 students or a growth rate of 1.1 percent for the 2012-13 fiscal year.

- The District's student attendance rate is projected at 95.0 percent.

- The District's taxable valuation is estimated to remain stable at $10,663,772,971 for the 2012-13 fiscal year.

The Board of Trustees adopted a deficit operating budget for the 2012-13 fiscal year with estimated expenditures of $264,739,447 exceeding estimated revenues of $262,234,248 by $2,505,199. Estimated tax collections were based on a flat property valuation projection and a 98.5% tax collection rate (including delinquent taxes, penalties, and interest). State aid was also projected to remain relatively flat at approximately $125 million. Appropriated expenditures for the 2012-13 fiscal year included the following changes:

- Increase of $1.1 million for new staff for student growth.
- Increase of $5.5 million for salaries previously funded by federal dollars through the Education Jobs Grant.
- Increase of $.35 million for salaries previously funded through the Technology Allotment.
- Increase of approximately $100,000 for start-up costs related to the opening of a new elementary campus in 2013-14.
- Increase of $2.5 million for inflationary costs related to support services (custodial, grounds, maintenance/operations, and transportation services), property insurance, initiatives resulting from the curriculum audit, additional diagnosticians, and software related to the student attendance initiative.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances as well as demonstrate accountability for funds the District receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Director of Accounting and Financial Reporting, Humble ISD, P.O. Box 2000, Humble, Texas 77347-2000.

Basic Financial Statements

HUMBLE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2012

Data Control Codes		Governmental Activities
	Assets	
1110	Cash and temporary investments	$ 189,681,242
1225	Property taxes receivables, net	6,424,614
1240	Due from other governments	28,868,613
1260	Internal balances	5,423
1267	Due from fiduciary funds	132,548
1290	Other receivables, net	327,196
1300	Inventories	346,610
1410	Deferred expenses	252,248
1420	Capital bond and other debt issuance costs	3,690,000
	Capital assets not subject to depreciation:	
1510	Land	40,081,442
1580	Construction in progress	3,394,311
	Capital assets net of depreciation:	
1520	Buildings and improvements, net	528,498,765
1530	Furniture and equipment, net	19,440,359
1000	**Total Assets**	821,143,371
	Liabilities	
2110	Accounts payable	6,160,480
2120	Short term debt payable	370,519
2140	Interest payable	9,854,887
2150	Payroll deductions and withholdings	1,671,370
2160	Accrued wages payable	26,570,029
2177	Due to fiduciary funds	134,945
2180	Due to other governments	631,388
2200	Accrued expenses payable	115,873
2300	Unearned revenues	1,248,478
	Noncurrent Liabilities:	
2501	Due within one year	22,306,296
2502	Due in more than one year	638,180,108
2000	**Total Liabilities**	707,244,373
	Net Assets	
3200	Invested in capital assets, net of related debt	(6,911,607)
	Restricted for:	
3820	Federal and state programs	41,571
3840	Food service	5,032,381
3850	Debt service	29,142,862
3900	Unrestricted	86,593,791
3000	**Total net assets**	$ 113,898,998

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

HUMBLE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2012

Data Control Codes	Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets — Primary Government: Governmental Activities
	Governmental activities:				
11	Instruction	$ 188,241,024	$ 1,942,118	$ 25,039,034	$ (161,259,872)
12	Instructional resources & media service	4,121,671	101,741	139,134	(3,880,796)
13	Curriculum and staff development	4,638,951	137,372	1,579,375	(2,922,204)
21	Instructional leadership	2,370,239		310,269	(2,059,970)
23	School leadership	18,037,994	56,349	1,043,567	(16,938,078)
31	Guidance, counseling & evaluation	12,868,163	4,034	1,695,664	(11,168,465)
32	Social work services	80,918		5,581	(75,337)
33	Health services	2,873,019	395	290,530	(2,582,094)
34	Student transportation	9,355,195	16,288	3,010,655	(6,328,252)
35	Food service	15,024,593	8,354,181	6,385,262	(285,150)
36	Extracurricular activities	11,131,707	4,223,282	557,374	(6,351,051)
41	General administration	6,701,140	318,244	529,437	(5,853,459)
51	Plant, maintenance and operations	27,697,810	1,086,050	1,515,416	(25,096,344)
52	Security and monitoring services	2,702,022	33,627	371,540	(2,296,855)
53	Data processing services	3,826,472	198,964	93,457	(3,534,051)
61	Community services	684,713	54,253	260,897	(369,563)
72	Interest on long-term debt	28,383,575			(28,383,575)
73	Debt issuance costs and fees	182,471			(182,471)
95	Payments to JJAEP	96,010			(96,010)
97	Payments to Tax Increment Fund	7,801,287			(7,801,287)
99	Payments to Appraisal District	1,300,625			(1,300,625)
TG	**Total governmental activities**	$ 348,119,599	$ 16,526,898	$ 42,827,192	(288,765,509)

Data Control Codes		
	General revenues:	
	Taxes:	
MT	Property taxes, levied for general purposes	122,049,513
DT	Property taxes, levied for debt service	34,452,108
SF	State-aid formula grants	126,062,905
IE	Investment earnings	219,488
MI	Miscellaneous	11,352,686
SI	Special item - gain on sale of asset	61,814
TR	**Total general revenues, special items, and transfers**	294,198,514
CN	Change in net assets	5,433,005
NB	**Net assets - beginning**	108,465,993
NE	**Net assets - ending**	$ 113,898,998

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

HUMBLE INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2012

Data Control Codes		General Fund	Debt Service Fund	Capital Projects Fund
	Assets			
1110	Cash and temporary investments	$ 99,020,046	$ 29,013,135	$ 36,564,625
	Receivables:			
1210	Current property taxes receivable	154,106	46,099	
1220	Delinquent property taxes receivables	9,753,362	2,535,591	
1230	Allowance for uncollectible taxes (credit)	(4,866,787)	(1,197,757)	
1240	Receivables from other governments	25,381,295		
1260	Due from other funds	1,004,541	9,285,314	1,298,993
1290	Other receivables	218,525		
1300	Inventories, at cost	213,458		
1410	Prepaids	64,395		
1000	**Total Assets**	$ 130,942,941	$ 39,682,382	$ 37,863,618
	Liabilities and Fund Balance			
	Liabilities:			
2110	Accounts payable	$ 2,724,676	$ 12,387	$ 2,039,006
2150	Payroll deduction and withholdings	1,903,396		
2160	Accrued wages payable	24,405,268		
2170	Due to other funds	9,405,473	39,895	1,940,749
2180	Payable to other governments		632,352	
2200	Accrued expenses	99,223		80,595
2300	Deferred revenues	5,048,778	1,383,933	
2000	**Total Liabilities**	43,586,814	2,068,567	4,060,350
	Fund Balances:			
	Restricted:			
3450	Federal/State grant restrictions			
3470	Capital acquisitions			33,803,268
3480	Debt service		37,613,815	
	Committed:			
3545	Other purposes			
	Assigned:			
3590	Other assigned	26,970,956		
3600	**Unassigned**	60,385,171		
3000	**Total fund balances**	87,356,127	37,613,815	33,803,268
4000	**Total Liabilities and Fund Balances**	$ 130,942,941	$ 39,682,382	$ 37,863,618

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

Nonmajor Governmental Funds	Total Governmental Funds
$ 9,874,733	$ 174,472,539
	200,205
	12,288,953
	(6,064,544)
3,487,318	28,868,613
13,650	11,602,498
108,499	327,024
133,152	346,610
16,373	80,768
$ 13,633,725	$ 222,122,666
$ 2,547,920	$ 7,323,989
	1,903,396
2,134,677	26,539,945
223,184	11,609,301
1,050	633,402
35,278	215,096
1,240,381	7,673,092
6,182,490	55,898,221
5,073,952	5,073,952
	33,803,268
	37,613,815
2,377,283	2,377,283
	26,970,956
	60,385,171
7,451,235	166,224,445
$ 13,633,725	$ 222,122,666

HUMBLE INDEPENDENT SCHOOL DISTRICT
HUMBLE, TEXAS
HARRIS COUNTY

HUMBLE INDEPENDENT SCHOOL DISTRICT

RECONCILIATION OF BALANCE SHEET FOR GOVERNMENTAL FUNDS TO STATEMENT OF NET ASSETS

June 30, 2012

Data Control Codes			
	Total fund balance, governmental funds	$	166,224,445
	Amounts reported for *governmental activities* in the statement of net assets (A-1) are different because:		
1	Capital assets used in governmental activites are not financial resources and therefore are not reported as assets in governmental funds. Capital assets at historical cost, net of accumulated depreciation, where applicable		591,414,877
2	Property taxes receivable have been levied and are due this year, but are not available soon enough to pay for the current period's expenditures, these property taxes and related penalty and interest amounts (net of allowance for uncollectible accounts).		6,424,614
3	Bond issuance costs are not financial resources and, therefore, are not reported as assets in governmental funds. These costs are to be amortized over the life of the bonds.		3,690,000
	Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
4	General obligation bonds		(611,985,000)
5	Premiums on issuance		(25,221,611)
6	Deferred loss on refunding		1,386,859
7	Accreted interest on premium Capital Appreciation Bonds		(23,282,597)
8	Accrued interest payable		(9,854,886)
9	Addition of Internal Service fund net assets		15,102,297
19	**Total net assets - governmental activities**	$	113,898,998

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

HUMBLE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS

For the Year Ended June 30, 2012

Data Control Codes		General Fund	Debt Service Fund	Capital Projects Fund
	Revenues			
5700	Local, intermediate, and out-of-state	$ 125,580,851	$ 46,029,496	$ 77,758
5800	State program revenues	132,239,241	6,216,844	
5900	Federal program revenues	528,785		
5020	**Total revenues**	258,348,877	52,246,340	77,758
	Expenditures			
	Current:			
0011	Instruction	146,066,537		2,087,817
0012	Instruction resources and media services	2,609,759		178,657
0013	Curriculum and instructional staff development	2,957,485		3,921
0021	Instructional leadership	2,013,135		
0023	School leadership	16,916,120		89,229
0031	Guidance, counseling and evaluation services	11,407,167		16,795
0032	Social work services	78,452		
0033	Health services	2,536,174		
0034	Student transportation	7,822,871		611,635
0035	Food services			3,310
0036	Extracurricular activities	6,733,508		3,008
0041	General administration	6,267,203		1,655
0051	Facilities maintenance and operations	23,482,752		2,926,103
0052	Security and monitoring services	2,364,051		30,696
0053	Data processing services	2,367,756		667,799
0061	Community services	495,648		
	Debt service:			
0071	Principal on long-term debt		16,850,000	
0072	Interest on long-term debt		31,185,628	
0073	Bond issuance costs and fees		19,538	
	Capital outlay:			
0081	Facilities acquisition and construction			10,088,026
	Intergovernmental:			
0095	Payments to Juvenile Justice Alt. Ed. Prgm.	96,010		
0097	Payments to Tax Increment Fund	6,004,938	1,796,349	
0099	Payments to County Appraisal District	1,300,625		
6030	**Total Expenditures**	241,520,191	49,851,515	16,708,651
1100	Excess (deficiency) of revenues over expenditures	16,828,686	2,394,825	(16,630,893)
	Other Financing Sources (Uses)			
7912	Sale of real or personal property	84,425		
7915	Transfers in		77,758	
8911	Transfers out	(20,487)		(77,758)
7080	**Total Other Financing Sources (Uses)**	63,938	77,758	(77,758)
1200	Net change in fund balances	16,892,624	2,472,583	(16,708,651)
0100	**Fund Balance - beginning**	70,463,503	35,141,232	50,511,919
3000	**Fund Balance - ending**	$ 87,356,127	$ 37,613,815	$ 33,803,268

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

Nonmajor Governmental Funds	Total Governmental Funds
$ 14,049,669	$ 185,737,774
6,334,839	144,790,924
23,570,388	24,099,173
43,954,896	354,627,871
18,066,198	166,220,552
100,414	2,888,830
1,588,093	4,549,499
300,179	2,313,314
147,610	17,152,959
1,072,223	12,496,185
1,628	80,080
73,107	2,609,281
2,693,325	11,127,831
13,869,909	13,873,219
3,325,373	10,061,889
40,751	6,309,609
780,512	27,189,367
332,435	2,727,182
269,557	3,305,112
265,799	761,447
	16,850,000
	31,185,628
	19,538
1,356,636	11,444,662
	96,010
	7,801,287
	1,300,625
44,283,749	352,364,106
(328,853)	2,263,765
	84,425
1,547	79,305
(1,547)	(99,792)
	63,938
(328,853)	2,327,703
7,780,088	163,896,742
$ 7,451,235	$ 166,224,445

HUMBLE INDEPENDENT SCHOOL DISTRICT

HUMBLE, TEXAS

HARRIS COUNTY

HUMBLE INDEPENDENT SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2012

Data Control Codes			
	Net change in fund balances - total governmental funds (from C-3)	$	2,327,703
	Amounts reported for governmental activities in the statement of activities (B-1) are different because:		
1	Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
	Capitalized expenditures reclassified to assets.		16,367,537
	Depreciation expense taken to Statement of Activities.		(29,040,502)
2	In the Statement of Activities, only the gain on the sale is reported. However, in the Governmental Funds the proceeds from the sale increases financial resources. Thus the change in net assets differs from the change in fund Balance by the cost of the disposed capital asset.		(22,611)
3	Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(1,126,698)
4	Repayment of bond principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets.		16,850,000
	Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
5	Increase in interest payable not recognized in fund statements		(246,726)
6	Decrease in Arbitrage Payable		57,381
7	Accreted interest on capital appreciation bonds		1,508,970
8	Amortization of deferred charges including bond issuance costs, as well as premiums and discounts on issuance of bonds		1,290,366
9	Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities (see D-3).		(2,532,415)
	Change in net assets of governmental activities	$	5,433,005

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

HUMBLE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

For the Year Ended June 30, 2012

Data Control Codes		Governmental Activities Total Internal Service Funds
	Assets	
	Current assets:	
1110	Cash and cash equivalents	$ 16,546,608
1260	Due from other funds	9,901
1290	Other receivables	2,186
1410	Prepaids	171,480
1000	**Total Assets**	$ 16,730,175
	Liabilities	
	Current liabilities:	
2110	Accounts payable	$ 174,396
2150	Payroll deductions and witholdings payable	39,270
2160	Accrued wages payable	30,085
2170	Due to other funds	72
2200	Claims payable	271,296
	Total current liabilities	515,119
	Non-current liabilities:	
2590	Claims and judgments	1,112,759
	Total non-current liabilities	1,112,759
2000	**Total Liabilities**	1,627,878
	Net Assets	
3900	Unrestricted net assets	15,102,297
3000	**Total Net Assets**	15,102,297
4000	**Total Liabilities and Net Assets**	$ 16,730,175

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

HUMBLE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

For the Year Ended June 30, 2012

Data Control Codes		Governmental Activities Total Internal Service Funds
	Operating Revenues	
5754	Interfund services provided and used	$ 18,735,818
5739	Tuition and fees	386,728
5020	**Total operating revenues**	19,122,546
	Operating Expenses	
6100	Payroll costs	479,346
6200	Purchased and contracted services	284,150
6300	Supplies and materials	80,489
6400	Claims expense and other operating expenses	20,838,136
6600	Non-capitalized expenses	12,072
6030	**Total Operating Expenses**	21,694,193
1200	Operating Income (Loss)	(2,571,647)
	Non-Operating Revenues (Expenses)	
7020	Earnings - temporary deposits and investments	18,746
	Total Nonoperating Revenues	18,746
	Income (Loss) before Transfers	(2,552,901)
	Transfers	
7915	Transfers in	20,487
1200	Change in Net Assets	(2,532,414)
	Net Assets:	
0100	**Net Assets - beginning**	17,634,711
3300	**Net Assets - ending**	$ 15,102,297

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

HUMBLE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY SERVICE FUNDS

Year Ended June 30, 2012

	Governmental Activities Total Internal Service funds
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash receipts from interfund services provided	$ 20,444,115
Cash receipts from miscellaneous sources	385,972
Cash payments to employees	(471,125)
Cash payments for insurance claims	(23,146,757)
Cash payments to suppliers for goods and services	(562,305)
Net Cash Provided by (Used for) Operating Activities	(3,350,100)
Cash Flows from Non-Capital Financing Activities:	
Cash payment from other fund	20,487
Net Cash Provided by (Used for) Non-Capital Financing Activities	20,487
Cash Flows from Investing Activities:	
Interest on investments	18,746
Net Cash Provided by Investing Activities	18,746
Net Increase in Cash and Cash Equivalents	(3,310,867)
Cash and Cash Equivalents at Beginning of Year	19,857,475
Cash and Cash Equivalents at End of Year	$ 16,546,608
Reconciliation to Balance Sheet	
Cash and Cash Equivalents Per Cash Flow	$ 16,546,608
Cash and Cash Equivalents per Balance Sheet	$ 16,546,608
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	$ (2,571,647)
Change in Assets and Liabilities	
Decrease (increase) in Receivables	1,462,413
Decrease (increase) in Interfund Receivables	(20,317)
Decrease (increase) in Prepaids	251,985
Increase (decrease) in Accounts Payable	(2,825,482)
Increase (decrease) in Long-term payables	352,948
Net Cash Provided by (Used for) Operating Activities	$ (3,350,100)

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

HUMBLE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2012

Data Control Codes		Private-Purpose Trust Fund	Agency Funds
	Assets		
1110	Cash and cash equivalents	$ 1,361,767	$ 1,202,651
	Receivables:		
1260	Due from other funds	14,116	282
1290	Other receivables		6,430
	Total Assets	$ 1,375,883	$ 1,209,363
	Liabilities		
2110	Accounts payable		$ 54,242
2170	Due to other funds		17,424
2190	Due to others		1,137,697
2000	**Total Liabilities**		$ 1,209,363
	Net Assets		
3800	Restricted for scholarships	978,459	
3900	Unrestricted net assets	397,424	
	Total Net Assets	$ 1,375,883	

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

HUMBLE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

For the Year Ended June 30, 2012

	Private Purpose Trust Fund
Additions	
Gifts and contributions	$ 127,690
Total contributions	127,690
Investment earnings	
Interest	1,465
Total Additions	129,155
Deductions	
Scholarships awarded	79,740
Total deductions	79,740
Change in net assets	49,415
Net assets - beginning of year	1,326,468
Net assets - end of year	$ 1,375,883

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

I. Summary of Significant Accounting Policies

The Humble Independent School District (District) is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven-member Board of Trustees that is elected by registered voters of the District. The District prepares its basic financial statements in conformity with Generally Accepted Accounting Principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in *Statement of Auditing Standards No. 69* of the American Institute of Certified Public Accountants. Additionally, the District complies with the requirements of the appropriate version of the Texas Education Agency (TEA) *Financial Accountability System Resource Guide* (FASRG) and the requirements of contracts and grants of agencies from which it receives funds.

A. Reporting Entity

The District's Board of Trustees is elected by the public; has the authority and the exclusive power and duty to govern and oversee the management of the District; has the authority to acquire and hold property in the name of the District, sue and be sued, and receive bequests and donations of funds legally received; and has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the GASB in its Statement No. 14, *"The Reporting Entity."* The District has no component units.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. Revenues and expenses related to interfund services provided and used are not eliminated in the process of consolidation, except in the campus activity funds. The *governmental activities* are supported by tax revenues and intergovernmental revenues. The District has no *business-type activities* that rely, to a significant extent, on fees and charges for support.

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

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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 while agency funds have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State of Texas are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund. Major revenue sources include local property taxes and state funding under the Foundation School Program. Expenditures include all costs associated with the daily operations of the District except for specific programs funded by the federal or state government, food service, debt service, and capital projects.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *capital projects fund* accounts for financial resources used for the acquisition or construction of major capital facilities and equipment purchases.

Non-major governmental funds of the District include federal, state, and local grant funds accounted for as *special revenue funds.*

The District reports the following proprietary funds:

The *internal service funds* account for the District's self-funded insurance program for unemployment compensation; public entity risk pool for employee health care and workers' compensation benefits beginning July 1, 2011; print shop; and child care center.

Prior to July 2011, the District sponsored a self–funded plan to provide health care benefits to employees and their dependents. Partial contributions by employees were required for coverage. The plan was administered by a third party. The District was protected against unanticipated, catastrophic individual or aggregate loss through stop-loss coverage carried through an insurance carrier. Due to increased health care costs, the District began to explore other options. The District also sponsored a self-funded workers' compensation program which was administered by a third party. During fiscal year 2011-12, the self-funded insurance program continued to provide funding for run-out claims incurred prior to June 30, 2011, for the medical and workers' compensation programs. Additionally, the self-funded program will continue to pay unemployment compensation claims.

A Public Entity Risk Pool is a shared services arrangement group of governmental entities joined together to finance exposure, liability, or risk. Effective July 1, 2011, the District joined the Teacher Retirement System of Texas statewide health care plan for public educators. The TRS-Active Care Program was established in 2002 and currently serves over 1,100 public entities with over 445,000 employees and dependents. Additionally, the District joined the Texas Association of School Boards Risk Management Fund for effective and efficient management of the District's workers' compensation benefits.

The print shop provides internal printing operations as a cost effective alternative to outsourcing printing needs. Individual campuses or departments are charged fees to have documents printed and/or assembled at the print shop. It is intended for the print shop to be self-supporting.

The child care center was created not only to offer childcare services at discounted rates to Humble Independent School District's personnel, but also to assist Humble I.S.D. teen parents with the cost of childcare, thus minimizing the chance that these at-risk students will drop out of school. The center opened in August 2010. It is intended for the center to be self-supporting.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

Additionally, the District reports the following fiduciary funds:

The private purpose trust fund is used to account for donations for scholarship funds that are received by the District that are to be awarded to current and former students for post-secondary education purposes.

The *agency fund* is used to account for resources held in a custodial capacity by the District and consists of funds that are the property of students or others.

D. Assets, liabilities, and net assets or equity

1. Deposits 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. Investments for the District are reported at fair value.

The funds of the District must be deposited and invested under the terms of a depository contract, the contents of which are set out in the Depository Contract Law. The depository bank may either place approved pledged securities for safekeeping and trust with the District's agent bank or file a corporate surety bond in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of FDIC insurance. However, as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act, beginning December 31, 2010 through December 31, 2012, non-interest bearing transaction accounts will have unlimited FDIC coverage. During this period of unlimited FDIC coverage, interest-bearing accounts will continue to receive FDIC coverage of up to $250,000 in accordance with standard FDIC rules.

2. Receivables and Payables

During the course of the year, transactions occur between individual funds for various purposes. The resulting receivables and payables are classified as "due from" other funds or "due to" other funds on the balance sheet.

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Code. Taxes are due upon receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

The appraisal and recording of all property within the District is the responsibility of the Harris County Appraisal District (HCAD), an independent governmental unit with a board of directors appointed by the taxing jurisdictions within the county and funded from assessments against those taxing jurisdictions. HCAD is required by law to assess property at 100 percent of its market value. Real property is reappraised every two years. Under certain circumstances taxpayers and taxing units, including the District, may challenge orders of the HCAD Review Board through various appeals and, if necessary, legal action.

Tax collections are prorated between the general fund and debt service fund based on the tax rate approved by the Board. For the year ended June 30, 2012 the rates were $1.17 and $.35, respectively, per $100 of assessed value.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the general and debt service funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. The delinquent tax receivable allowance aggregately equals 48.6 percent of total outstanding property taxes and associated penalties and interest at June 30, 2012. The allowance percentage consists of 23.0 percent for delinquent taxes and 25.6 percent for penalties and interest charges on delinquent taxes.

3. Inventories and Prepaid Items

Inventories of supplies and materials on the balance sheet are stated at weighted average cost and they include consumable custodial, maintenance, transportation, instructional and office supplies. Inventories are accounted for using the Consumption Method. Inventories of governmental funds are recorded as expenditures when they are consumed rather than when purchased. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and revenue when received in the governmental funds. When requisitioned for use, inventory is relieved and the appropriate expenditure account is charged.

4. 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 by the government as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed.

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

Assets	Years
Land improvements	20
Buildings	50
Building improvements	Remaining life of building or 20 years, whichever is less
Furniture, fixtures & equipment	10
Information systems (computer equipment)	6
Automobiles	3
Buses	9
Light general purpose trucks	4

5. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Twelve-month classified staff members (custodial, maintenance, warehouse and nonexempt supervisory staff members) are granted annual vacation days based on consecutive years of service. Staff members under contract from July 1 through June 30, earn non-duty days based on the difference between the number of annual work days as set by the annual school calendar and the number of contract days per the staff member's annual contract. All staff members may carry up to a maximum of 15 accrued vacation or non-duty days to the following year. Full-time staff members can contribute one day of sick leave annually to benefit staff members whose own leave has been exhausted due to catastrophic illness. The Board approved a provision to compensate employees for accrued local leave days at retirement effective July 1, 2002. Prior to that time, the District policy did not allow staff members to be compensated for accrued or unused sick leave. This change in policy allows any employee who retires from the District through the Teacher Retirement System of Texas to receive, following termination of employment, a lump sum payment for accrued local leave days. The amount is determined by multiplying the number of days of unused local leave by one-third of the employee's daily rate of pay at the time of retirement up to a maximum amount of $10,000 per retiree. The District's liability for buyback of accrued local leave days at June 30, 2012, was $140,021.

6. Long-term obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

7. Arbitrage payable

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury for investment income at yields that exceed the issuer's tax exempt borrowing rates. The Treasury requires that rebatable arbitrage be calculated for tax purposes every fifth year that a debt issue is outstanding and at maturity. In the District's government-wide statements, a liability must be recognized as soon as rebatable arbitrage occurs. However, in the fund financial statements, consistent with the modified accrual basis of accounting, no liability is recognized until due and payable. The District estimates and updates its liability annually for all tax-exempt issuances. As of June 30, 2012, the district has no arbitrage liability that is due and payable

8. Fund equity

In the fund financial statements, governmental funds report classifications of fund balance based on controls placed upon the funds. In accordance with the Governmental Accounting Standards Board (GASB) Statement No. 54, effective June 30, 2011, fund balance classifications are recorded as follows:

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

Restricted Fund Balance – amounts constrained to a specific purpose by external parties through constitutional provisions or by enabling legislation.

Committed Fund Balance – amounts constrained to a specific purpose by the Board of Trustees, (the highest level of authority within the District); amounts cannot be used for any other purpose unless the Board of Trustees takes the same action to remove or change the constraint. Moreover, the Board of Trustees must approve the establishment, modification, or rescission of a fund.

Assigned Fund Balance – general fund amounts constrained to a specific purpose by the Board Finance Committee or the Superintendent and Chief Financial Officer, as authorized by Board Policy CE-Local.

Unassigned Fund Balance – residual classification applicable to the general fund only.

The District's fund balance policy as approved by the Board of Trustees is as follows:

"In order to preserve financial stability, the District must be prepared to respond to cash flow shortages, large or unexpected one-time expenditures, changes in the economy, and changes in state funding. The District shall, therefore, target a yearly unassigned general fund balance between 17 percent (60 days) and 25 percent (90 days) of total operating expenditures. Additionally, the District shall target a yearly minimum restricted debt service fund balance of 25 percent of annual debt service requirements on all outstanding debt issuance and a committed internal service fund balance of 20 percent of total operating expenditures.

Following any year where the audited fund balance falls outside the above-listed targeted range or below the minimum requirement, adjustments in budgeted expenditures shall be incorporated into the budget development process for that year. If the board determines that the minimum targeted fund balance is not attainable in the proposed budgeted being considered, it shall be the goal of the Board to reach that level within a specified period of time, not to exceed two years.

Additionally, the Board may establish assignments or commitments of fund balance from time to time in order to meet specific District needs. Assignments and commitments of fund balance shall be vetted and approved by the Board Finance Committee. Furthermore, commitments of fund balance shall be submitted to the Board for approval."

9. Use of Restricted/Unrestricted Net Assets

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

10. Data control codes

Data control codes refer to the account code structure prescribed by TEA in the FASRG. TEA requires school districts to display these codes in the financial statements filed with the Agency to ensure accuracy in building a statewide data base for policy development and funding plans.

II. Detailed notes on all funds

A. Deposits and Investments

The District's deposit and investment transactions are regulated by local, state and federal statutes. In accordance with the Texas Education Code, the District has a depository contract with an area bank which may be selected through competitive bidding or requests for proposals. Each school district's depository contract must be renewed every two years and may be extended for two additional two year periods. The contract and any extension of the contract must coincide with the District's fiscal year. Regulations require that all funds in the depository institution be fully secured by federal depository insurance or a combination of FDIC insurance and acceptable collateral securities and/or surety bonds. The District's policy requires the collateralization level to be 102 percent of market value of principal and accrued interest (or 110 percent margin for mortgage backed securities) and must be placed in custody with a trustee with a current District custodial agreement. Accordingly, the Federal Reserve Bank of New York is the trustee for the District's pledged securities and holds securities in the District's name. The District is responsible for reviewing the securities pledged to determine if they are acceptable for pledge purposes. Acceptable collateral securities include obligations of, or guaranteed by, the U.S. Government, its agencies and instrumentalities. Pledged securities may not be released or substituted without the written approval of the District.

At June 30, 2012, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) in governmental funds was $2,536,634 and the bank balance was $5,104,665. The carrying amount of the District's fiduciary funds was $759,170. The District's cash deposits at June 30, 2012, and during the year ended June 30, 2012, were entirely covered by FDIC insurance and pledged collateral held by the District's agent in the name of the District in accordance with Texas Government Code, Chapter 2257, Public Funds Collateral Act and the District's Investment Policy.

The State Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. It requires the District to adopt, implement, and publicize an investment policy. The investment policy must address the following areas: (I) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the United States Treasury, certain United States agencies, and obligations of the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. Management of the District believes it is in compliance with the requirements of the Act and with local policies. The District's temporary investments consist of balances held by the Texas Local Government Investment Pool (TexPool) and Lone Star Investment Pool (LSIP). The District had no long-term investments at June 30, 2012.

TexPool is a public funds investment pool created by the Texas Treasury Safekeeping Trust Company (Trust Company) to provide a safe environment for the placement of local government funds in authorized short-term, fully-collateralized investments, including direct obligations of, or obligations guaranteed by, the United States or State of Texas or their agencies; federally insured certificates of deposit issued by Texas banks or savings and loans; and fully collateralized direct repurchase agreements secured by United States Government agency securities and placed through a primary government securities dealer. The Trust Company was incorporated by the State Treasurer by authority of the Texas Legislature as a special purpose trust company with direct access to the services of the Federal Reserve Bank to manage, disburse, transfer, safekeep, and invest public funds and securities more efficiently and economically. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. TexPool operates in a manner consistent with the Security and Exchange Commission's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than fair value to report net assets to compute share prices. The fair value of the position in TexPool is the same as the value of TexPool shares. Accordingly, the District's investments in TexPool are stated at cost, which approximates fair value. TexPool is currently rated AAAm by Standard and Poor's. This rating indicates excellent safety and a superior capacity to maintain principal value and limit exposure to loss.

LSIP is a Texas public investment pool sponsored by the Texas Association of School Boards (TASB) for investment of funds by state and local government entities, primarily local school districts. The Board has entered into an agreement with First Public, LLC (First Public), a Texas limited liability company and a member of the National Association of Securities Dealers, Securities Investor Protection Corporation, and Municipal Securities Rulemaking Board, pursuant to which First Public serves as administrator of LSIP's operations. American Beacon Advisors, Fort Worth, Texas, and NY Mellon Cash Investment Strategies, Pittsburgh, Pennsylvania, provide investment management services to LSIP regarding the investment and reinvestment of the pool's assets. The fund's credit quality is excellent as its portfolio is composed of U. S.

government and U. S. agency securities. Investments in LSIP provide for investment in securities with maturities and returns generally greater than money market instruments. LSIP is marked-to-market daily to maintain an accurate net asset value. The District's fair value in LSIP is the same as the value of the pool shares. LSIP is currently rated AAAm by Standard and Poor's. This rating indicates excellent safety and a superior capacity to maintain principal value and limit exposure to loss.

The overall objective of the District's investment policy is to ensure that District financial assets are properly safeguarded, provide sufficient liquidity, and produce a reasonable rate of return while enabling the District to react to changes in economic conditions. The District concentrates its investment portfolio in short and intermediate term securities to limit market risk caused by changes in interest rates. For operating, fiduciary, and proprietary fund investments, the maximum maturity of an individual security may not exceed two years while the maximum dollar weighted average maturity must be 270 days or less. For debt service fund investments, the District's policy requires that each successive debt service payment be fully funded before extending investment maturities beyond that date. With the exception of state and local government securities, the maximum maturity of an individual debt service fund security may not exceed two years. Capital project funds investments must be short and intermediate securities with maturities closely matching projected cash flow needs with final maturity dates that do not exceed estimated project completion dates.

Investments have been recorded at fair value based upon quoted market prices as of June 30, 2012. The difference between the purchase price and market price is recorded as investment earnings. None of the District's investments have been reported at amortized cost. At June 30, 2012, the carrying amounts of the District's investments for governmental funds are summarized as follows:

	Fair Value	Weighted Average Maturity (Days)
Investments		
TexPool	$ 63,627,884	46
Lone Star Investment Pool	123,516,724	50
Total Investments	$ 187,144,608	

Risk Related to Cash and Investments

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover collateral securities that are in the possession of an outside party. As mentioned above, since all of the District's deposits are secured by a combination of FDIC insurance and acceptable securities held by an independent third party in the District's name, the District has no exposure for credit risk for deposits. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. All investments of the District are held by independent third parties with a current District custodial agreement. All book entry transactions are settled on a delivery versus payment (DVP) basis to a District approved depository to ensure District control of all its funds. No securities shall be held by the transaction’s counter-party. As stated above, the District had no long-term investments at June 30, 2012, and all remaining investments included TexPool and Lone Star Investment Pool. Although the District's investment policy does not specifically address credit risk, the District limits its investment in local government pools to AAA rated public fund investment pools. The investment pools are not evidenced by securities that exist in physical form or book entry form and, accordingly do not have custodial credit risk.

As of June 30, 2012, TexPool and Lone Star Investment Pool represented 34.0 percent and 66.0 percent respectively of the General Fund, Internal Service Funds, Proprietary Funds, Debt Service Fund, and Capital Project Funds investments.

To reduce exposure to changes in interest rates that could adversely affect the value of investments, the District uses final and weighted-average maturity limits and diversification. The longer the maturity of investments, the greater their price volatility. As described above, the District concentrates its investment portfolio in short and intermediate term securities to limit market risk caused by changes in interest rates. The District attempts to match its investments with anticipated cash flow requirements.

B. Receivables

Receivables as of June 30, 2012, for the government's individual major, non-major, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Debt Service Fund	Internal Service	Other Governmental Funds	Total
Taxes - Current	$ 154,106	$ 46,099	$	$	$ 200,205
Taxes - Delinquent	5,921,927	1,567,194			7,489,121
Taxes - Penalties/Interest	3,831,435	968,397			4,799,832
Total Taxes Receivable	9,907,468	2,581,690			12,489,158
Due from Other Governments	25,381,295			3,487,318	28,868,613
Other	218,525		2,186	108,499	329,210
Gross Receivables	35,507,288	2,581,690	2,186	3,595,817	41,686,981
Less: Allowance for Uncollectibles	(4,866,787)	(1,197,757)			(6,064,544)
Net Total Receivables	$ 30,640,501	$ 1,383,933	$ 2,186	$ 3,595,817	$ 35,622,437

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 the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	Unavailable	Unearned	Total
Current property taxes receivable (General Fund)	$ 154,106	$	$ 154,106
Current property taxes receivable (Debt Service Fund)	46,099		46,099
Delinquent property taxes receivable (General Fund)	4,886,575		4,886,575
Delinquent property taxes receivable (Debt Service Fund)	1,337,834		1,337,834
Advanced funding		1,248,478	1,248,478
Total deferred/unearned revenue for Governmental Funds	$ 6,424,614	$ 1,248,478	$ 7,673,092

C. Capital Assets

Capital asset activity for governmental funds for the year ended June 30, 2012, was as follows:

	Balance June 30, 2011	Additions	(Retirements) and Transfers	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	$ 35,202,119	$ 4,874,952	$ 4,371	$ 40,081,442
Construction in progress	8,313,000	6,391,950	(11,310,639)	3,394,311
Total Capital assets, not being depreciated	43,515,119	11,266,902	(11,306,268)	43,475,753
Capital assets, being depreciated:				
Buildings and improvements	724,444,161		11,306,268	735,750,429
Furniture and equipment	46,189,852	5,100,633	(59,230)	51,231,255
Total Capital assets, being depreciated	770,634,013	5,100,633	11,247,038	786,981,684
Less accumulated depreciation for:				
Buildings and improvements	(182,175,000)	(25,076,664)		(207,251,664)
Furniture and equipment	(27,863,677)	(3,963,838)	36,619	(31,790,896)
Total Accumulated depreciation	(210,038,677)	(29,040,502)	36,619	(239,042,560)
Governmental Capital Assets	$ 604,110,455	$ (12,672,967)	$ (22,611)	$ 591,414,877

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

Function	**Depreciation Expense**
Instruction	$ 20,515,545
Instructional resources and media services	1,225,760
Curriculum and staff development	53,066
Instructional leadership	37,099
School leadership	738,579
Guidance, counseling and evaluation services	252,150
Health services	245,152
Student transportation	1,539,055
Food Services	1,653,510
Extracurricular activities	1,069,149
General administration	340,826
Plant maintenance and operations	366,810
Security and monitoring services	50,275
Data processing services	942,110
Community services	11,416
Total depreciation expense	$ 29,040,502

The District has active construction projects as of June 30, 2012. The projects include the construction of new facilities, major renovations, and additions to existing facilities. As of June 30, 2012, construction in progress totaled $3,394,311. Open commitments to contractors totaled $18,771,476.

D. Interfund Receivables, Payables, and Transfers

The composition of interfund receivables and payables balances as of June 30, 2012, is as follows:

	Interfund Receivable	Interfund Payable
General Fund	$ 1,004,541	$ 9,405,473
Debt Service Fund	9,285,314	39,895
Capital Projects Fund	1,298,993	1,940,749
Special Revenues Funds	13,650	223,184
Internal Service Funds	9,901	72
Agency Funds	14,398	17,424
	$ 11,626,797	$ 11,626,797

The outstanding balances between funds result mainly from the time lag between the dates that reimbursable expenditures occur or deposits of revenue are received, the dates the transactions are recorded in the accounting system, and the dates interfund payments are actually settled. All interfund receivables and payables will be liquidated within the next fiscal year. In the government-wide statements, all interfund transactions for receivables and payables have been eliminated.

Interfund transfers are defined as "flows of assets without equivalent flows of assets in return and without a requirement for repayment". Interfund transfers during the year ended June 30, 2012, were as follows:

Transfer Out	Transfer In	Amount
Capital Projects Fund	Debt Service Fund	$ 77,758
General	Internal Service Fund	20,487
Non-major (Other) Governmental Funds	Non-major (Other) Governmental Funds	1,547
Total		$ 99,792

Earnings on investments totaling $77,578 were transferred from the bond funded capital projects fund to the debt service fund for use in paying debt service obligations. The special revenue fund used to account for the National School Breakfast and Lunch programs transferred $1,005 of ice cream sales revenue to the Campus Activity special revenue fund in exchange for the campuses providing the labor to sell the ice cream. In past years, ice cream was sold by Child Nutrition Services staff whose salaries were funded through the National School Breakfast and Lunch Program fund. The general fund transferred $20,487 to the print shop fund to pay for operational costs. During the centralization of all campus activity funds, it was necessary to transfer $542 between activity funds.

E. Long-term debt

General Obligation Bonds

The District issues general obligation bonds for governmental activities to provide resources for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Principal and interest requirements are payable solely from future revenues of the debt service fund which consists primarily of property taxes collected by the District and interest earnings. Certain outstanding bonds may be redeemed at their par value prior to their normal maturity dates in accordance with the terms of the related bond indentures. The District has never defaulted on any principal or interest payment.

On May 10, 2008, the District's voters authorized the issuance of $244,920,000 in general obligation bonds. The proceeds of these bonds when issued are to be used to meet the demands of enrollment growth that include acquisition of land, construction of new facilities, purchase of school buses, repair and renovation of existing facilities, and the acquisition of new and replacement technology equipment. In October of 2009, $64 million was issued. Another $25 million was issued in May 2011. As of June 30, 2012, $155,920,000 of the 2008 authorization remains unissued.

General obligation bonds payable at June 30, 2012, are summarized as follows:

Issue	Original Issuance Amount	Interest Rate (%)	Final Maturity	Debt Outstanding
Series 2000 Refunding	$ 21,915,000	5.75% to 6.35%	2017	$ 15,060,000
Series 2002A	63,650,000	3.63% to 4.75%	2022	9,020,000
Series 2003	92,000,000	2.90% to 4.20%	2023	56,615,000
Series 2005	42,800,000	3.00% to 5.00%	2024	30,625,000
Series 2005A	27,165,000	5.00% to 5.25%	2019	18,280,000
Series 2005B	40,985,000	3.50% to 5.25%	2030	36,185,000
Series 2006	121,750,000	4.00% to 5.00%	2030	121,750,000
Series 2007	79,700,000	4.25% to 5.00%	2032	79,700,000
Series 2007A	25,000,000	4.50% to 4.75%	2033	25,000,000
Series 2008A	76,285,000	4.00% to 5.25%	2033	76,285,000
Series 2008B	29,285,000	3.25% to 5.00%	2018	13,110,000
Series 2009	73,510,000	3.00% to 5.00%	2034	73,510,000
Series 2011A	24,030,000	3.00% to 5.00%	2035	24,030,000
Series 2011B	33,365,000	3.00% to 5.00%	2022	32,815,000
				$ 611,985,000

Annual debt service requirements to maturity for general obligation bonds, including capital appreciation bonds, are as follows:

Year Ending June 30,	Principal	Interest	Totals
2013	$ 17,605,000	$ 32,664,390	$ 50,269,390
2014	16,865,000	33,248,965	50,113,965
2015	19,180,000	34,686,603	53,866,603
2016	21,205,000	34,606,914	55,811,914
2017	24,590,000	30,055,856	54,645,856
2018-2022	158,120,000	110,169,585	268,289,585
2023-2027	171,345,000	71,647,820	242,992,820
2028-2032	159,635,000	27,275,500	186,910,500
2033-2035	23,440,000	1,607,625	25,047,625
	$ 611,985,000	$ 375,963,258	$ 987,948,258

The District refunded certain general obligation bonds in 1997, 2002, 2005, 2008, and 2011. Proceeds of the new bonds from each refunding are placed 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 the defeased bonds are not included in the District's financial statements. At June 30, 2012, the District has no outstanding balance of defeased bonds.

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management of the District has indicated that the District is in compliance with all significant limitations and restrictions at June 30, 2012.

Changes in Long-term Liabilities

Long-term liability activity for the governmental activities for the year ended June 30, 2012, was as follows:

	Balance at June 30, 2011	Additions	Retirements	Balance at June 30, 2012	Due Within One Year
General obligation bonds payable	$ 628,835,000	$	$ (16,850,000)	$ 611,985,000	$ 17,605,000
Less deferred amount on refunding	(1,566,912)		180,053	(1,386,859)	
Add: premium on bonds	26,941,473		(1,719,862)	25,221,611	
Accreted value on capital appreciation bonds	24,791,567	2,456,030	(3,965,000)	23,282,597	4,430,000
Workers' compensation liability	1,429,463		(45,408)	1,384,055	271,296
Total	$ 680,430,591	$ 2,456,030	$ (22,400,217)	$ 660,486,404	$ 22,306,296

During the 2012 fiscal year, the District contracted for the performance of an actuarial valuation of its reserve for unpaid workers' compensation claims. Based upon this valuation, the District decreased its reserve for incurred but not reported claims by $45,408 to a reserve total of $1,384,055 in the Internal Service Fund. Of this total, $1,112,759 is projected as the long-term portion. The Debt Service Fund is used to liquidate all retirement of bond related debt.

Accreted Interest on Premium Compound Interest Bonds

A portion of the bonds sold in the Series 2000 refunding bond issue was capital appreciation bonds (CAB) commonly referred to as "premium compound interest bonds." Capital appreciation bonds are a type of security on which the investment return on an initial principal amount is reinvested at a stated compounded rate until maturity, at which time the investor receives a single payment (the “maturity value”) representing both the initial principal amount and the total investment return. As the interest is compounded back into the principal over time (a process known as “accretion”) the District’s stated liability theoretically increases. The Bond Series 2000 obligations have a principal value of $15,060,000 and a maturity value of $44,960,000. The District records the appreciation of bond principal annually for the accreted value of the bonds through maturity of the issue.

The accreted interest on these obligations will be paid upon maturity in the fiscal year ending June 30, 2017. The accreted interest has been included in the long-term debt of the District. The bonds, maturity value, current principal amount, accreted interest, and accreted value as of June 30, 2012, are as follows:

Series	Accreted Value	Current Principal Balance	Accreted Interest	Maturity Value	Maturity Date
2000 CABS	$ 38,342,597	$ 15,060,000	$ 23,282,597	$ 44,960,000	2017

F. Fund Balance Commitments and Assignments

The committed and assigned fund balance in the governmental funds consists of the following:

Committed for Campus/Department Activity Funds	$	2,377,283
	$	2,377,283
General FundDesignated/Assignments:		
Outstanding Encumbrances	$	1,056,057
E-Rate		91,337
Special Education		5,262,500
Capital Expenditures-Campus Carryforwards		133,466
Insurance Deductibles		500,000
Legal Services		500,000
Facility Rentals		163,002
Contingency		500,000
Summer School		250,000
AYP-Average Yearly Progress		250,000
Capital Expenditures		5,106,312
Technology Initiatives		6,085,010
Campus/Depatment 15% Carryforwards		823,272
Sequestration		2,250,000
Emergency Preparedness		4,000,000
	$	26,970,956

G. Operating Leases

The District leases copiers and postage meters under non-cancelable operating leases. Total costs for such leases were $723,804 for the year ended June 30, 2012. Operating lease obligations are payable from the general fund. The future minimum lease payments for these leases are as follows:

Year Ending June 30,		
2013	$	621,122
2014		620,621
2015		42,489
Total	$	1,284,232

III. Other Information

A. Risk Management

General

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance.

The District purchases replacement value commercial property insurance with a $100,000 deductible. Such insurance is consistent with the prior year.

Prior to July 1, 2011, The District sponsored a self-funded health care and workers' compensation program. Beginning July 1, 2011, the District ceased being self-funded for all employee benefits, with the exception of unemployment compensation benefits, and the health care and workers' compensation programs were moved to a public entity risk pool. This was done in an effort to minimize both the employer and employee cost of health care while maximizing plan design and minimizing financial risk. The self-funded insurance program continued to provide funding for run out claims incurred prior to June 30, 2011, for the health care and workers' compensation programs through June 30, 2012. All programs are accounted for in the District's internal service funds.

Workers' Compensation

Effective July 2011, the District changed from the self-funded workers' compensation plan to the workers' compensation plan offered by the Texas Association of School Boards (TASB), a public entity risk pool. Quarterly premiums are paid to TASB to cover all expenses related to workers compensation claims incurred after July 1, 2011.

Prior to July 1, 2011, the District sponsored a self-funded program which was administered through a third party. Liabilities for claims incurred prior to July 1, 2011, include an estimated amount for claims which have been incurred but not reported (IBNR) based upon the Districts historical claims experience. The estimates of IBNR claims were actuarially determined as of June 30, 2012.

The following is a summary of the changes in the balances of claims liabilities for workers' compensation for the internal service fund for the years ending June 30, 2012, and June 30, 2011 for claims incurred prior to July 1, 2011:

	2012	2011
Liability, beginning of period	$ 1,429,463	$ 1,331,334
Adjustment to estimated claims incurred	455,479	1,562,171
Payments on claims	(500,887)	(1,464,042)
Liability, end of period	$ 1,384,055	$ 1,429,463

Health Care

Effective July 1, 2011, the District transitioned from the self-funded health care plan to TRS-ActiveCare, a public entity risk pool operated by the Teacher Retirement System (TRS) of Texas that provides medical and prescription benefits for eligible employees. Premiums are paid to TRS on a monthly basis to provide coverage to employees.

The following is a summary of the changes in the balances of claims liabilities for health care for the fiscal year ending June 30, 2012, and June 30, 2011 for claims incurred prior to July 1, 2011:

	2012	2011
Liability, beginning of period	$ 2,223,592	$ 1,625,412
Claims incurred during the period		19,780,703
Payments on claims	(2,223,592)	(19,182,523)
Liability, end of period	$	$ 2,223,592

B. Contingent liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor agency cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not determinable presently, in the opinion of the District's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the District.

C. Jointly governed organization

The District is the fiscal agent for a Shared Service Arrangement (SSA) which provides services for deaf students of this District as well as students of New Caney ISD and Sheldon ISD**.** Additionally, the District has an Interlocal agreement to provide discipline program services for eligible Crosby ISD students. All services are provided by the fiscal agent, and funds are received directly by the fiscal agent from the granting agency. According to the guidance provided in TEA's Financial Accountability System Resource Guide, the District has accounted for the activities of the SSA in the appropriate Special Revenue funds, which are accounted for in accordance with Model 1 in the SSA section of the Resource Guide.

D. Employee retirement systems and pension plans

Plan Description

The Humble Independent School District and its employees contribute to the Teacher Retirement System of Texas (TRS), a cost sharing multiple employer defined benefit pension plan. TRS administers retirement, disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Section 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfers under Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet Website, www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy

Contribution requirements are not actuarially determined but are legally established and amended by the Texas state legislature. The state funding policy is as follows: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6.0 percent of the member's annual compensation and a state contribution rate of not less than 6.0 percent and not more than 10.0 percent of the aggregate annual compensation of all members of the system; and (2) a state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member regular payroll contribution rate of 6.4 percent for fiscal years 2012, 2011 and 2010, and a state contribution rate of 6.0 percent, effective September 2011, and 6.644 percent prior to September 2011 for fiscal years 2011 and 2010. In certain instances, the reporting district is required to make all or a portion of the state's contribution during fiscal years 2012, 2011, and 2010.

Effective September 1, 2005, employers must pay an amount equal to the state's contributions (6.00 percent starting January 1, 2011, and 6.644 percent for fiscal year 2011 prior to September) during the first 90 days of a new member's employment. Additionally, employers are required to pay a monthly surcharge for each retiree working in a TRS-covered position and reported to TRS in an amount equal to the sum of the combined state and member contribution rates (12.40 percent for fiscal year 2012, and 13.044 percent prior to September 2011 for fiscal years 2011 and 2010) and a health benefit surcharge for each retiree enrolled in TRS-Care and working in a TRS-Care covered position. The amount of the health benefit surcharge is the amount of the difference between the retiree's premium to TRS-Care and the actual cost of the coverage as determined by TRS.

Types of staff members covered. All staff members who are employed for one-half or more of the standard work load and who are not exempt from membership under Texas Government Code, Title 8, Subtitle C, Section 822.002 are covered.

Service retirement is as follows:

Normal
- any combination of age plus years of service which equals 80
- age 65 with 5 years of service

Reduced
- age 55 with at least 5 years of service
- any age below 55 with 30 years of service

A member is fully vested after 5 years of creditable service and entitled to any benefit for which eligibility requirements have been met.

Contributions

Contributions made by the State on behalf of the District are recorded in the governmental funds financial statements as both revenue and expenditures. These contributions are the legal responsibility of the State. State contributions to TRS made on behalf of the District's employees as well as the District's required contributions and federal grant program contributions for the years ended June 30, 2012, 2011, and 2010, are as follows:

	2012	2011	2010
District Payroll	$ 201,885,805	$ 214,950,405	$ 202,974,608
District TRS payroll	193,618,699	201,414,873	193,591,587
Required District contributions	1,396,247	2,438,070	2,318,766
Ratio of Actual to Required District Cont.	138.9%	129.1%	128.3%
Federal contributions	464,949	623,943	644,515
State contributions	10,665,984	12,255,853	10,891,522
Employee contributions	12,512,105	12,890,552	12,389,862

E. School District Retiree Health Plan

Plan Description

The Humble Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit post employment 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. Texas Insurance Code 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 writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet Website, www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy

Contribution requirements are not actuarially determined but are 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 percent and 0.65 percent of public school payroll, respectively, with school districts contributing a percentage of payroll set aside at 0.55 percent for fiscal years 2012, 2011 and 2010. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25 percent or greater than 0.75 percent of the salary of each active employee of the public school. For staff members funded by federal programs, the federal programs are required to contribute 1.0 percent.

Contributions

Contributions made by the State on behalf of the District are recorded in the governmental funds financial statements as both revenue and expenditures. State contributions to TRS made on behalf of the District's employees as well as the District's required contributions and federal grant program contributions for the years ended June 30, 2012, 2011, and 2010, are as follows:

	2012	2011	2010
Required District contributions	$ 1,077,160	$ 1,126,151	$ 1,064,763
Actual District contributions	1,077,160	1,126,151	1,064,763
Federal contributions	78,043	85,534	102,364
State contributions	859,027	887,997	871,153
Employee contributions	1,268,878	1,309,197	1,258,345

Medicare Part D. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, 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 fiscal years ended June 31, 2012, 2011, and 2010, the subsidy payments received by TRS-Care on-behalf of the District were $441,795, $545,413, and $509,863, respectively. The information for the year ended June 31, 2012, is an estimate provided by the Teacher Retirement System. These payments are recorded as equal revenues and expenditures in the governmental funds financial statements of the District.

Early Retiree Reinsurance Program. The Patient Protection and Affordable Care Act has a provision to provide reimbursement to plan sponsors for a portion of the cost of providing health benefits to retirees between the ages of 55-64 and their covered dependents. This temporary program is available to help employers continue to provide coverage to early retirees. For the initial year ending June 30, 2012, the subsidy payments received by TRS on-behalf of the District were $487,153. These payments are recorded as equal revenues and expenditures in the governmental funds financial statements of the District.

Required Supplementary Information

HUMBLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2012

		Budgeted Amounts		Actual Amounts, Budgetary	Variance with
		Original	**Final**	**Basis**	**Final Budget**
	Revenues				
5700	Local revenues	$ 122,885,881	$ 123,186,895	$ 125,580,851	$ 2,393,956
5800	State program revenues	119,419,314	128,426,191	132,239,241	3,813,050
5900	Federal program revenues	45,000	45,000	528,785	483,785
5020	**Total revenues**	242,350,195	251,658,086	258,348,877	6,690,791
	Expenditures				
	Current:				
0011	Instruction	151,424,599	154,055,368	146,066,537	7,988,831
0012	Instructional resources and media services	2,761,729	2,816,654	2,609,759	206,895
0013	Curriculum and staff development	2,887,998	3,231,990	2,957,485	274,505
0021	Instructional leadership	2,025,096	2,052,543	2,013,135	39,408
0023	School leadership	16,620,045	17,211,164	16,916,120	295,044
0031	Guidance, counseling and evaluation services	11,691,878	11,792,166	11,407,167	384,999
0032	Social work services	128,970	136,469	78,452	58,017
0033	Health services	2,624,155	2,740,836	2,536,174	204,662
0034	Student transportation	8,549,512	8,763,369	7,822,871	940,498
0036	Extracurricular activities	6,874,725	6,860,564	6,733,508	127,056
0041	General administration	6,431,250	6,753,929	6,267,203	486,726
0051	Facilities maintenance and operations	25,850,694	26,835,325	23,482,752	3,352,573
0052	Security and monitoring services	2,380,936	2,474,633	2,364,051	110,582
0053	Data processing services	2,204,634	2,636,975	2,367,756	269,219
0061	Community services	623,079	636,779	495,648	141,131
0081	Capital outlay				
0095	Payments to Juvenile Justice Alt. Ed. Prgm.	95,000	99,000	96,010	2,990
0097	Payments to Tax Increment Fund	5,548,355	6,004,939	6,004,938	1
0099	Other intergovernmental charges	1,335,000	1,335,000	1,300,625	34,375
6030	**Total Expenditures**	250,057,655	256,437,703	241,520,191	14,917,512
1100	Excess (deficiency) of revenues over expenditures	(7,707,460)	(4,779,617)	16,828,686	21,608,303
	Other Financing Sources (Uses)				
7912	Sale of real or personal property			84,425	84,425
8911	Operating transfers out			(20,487)	(20,487)
7080	**Total other financing sources and uses**			63,938	63,938
1200	Net change in fund balances	(7,707,460)	(4,779,617)	16,892,624	21,672,241
0100	**Fund balances - beginning**	70,463,503	70,463,503	70,463,503	
3000	**Fund balances - ending**	$ 62,756,043	$ 65,683,886	$ 87,356,127	$ 21,672,241

Stewardship, compliance, and accountability

Budgetary information

The Board adopts an "appropriated budget" on a basis consistent with GAAP for the General Fund, Debt Service Fund and National School Breakfast and Lunch Program Fund (which is included in special revenue funds). At a minimum, the District is required to present the original and the final amended budgets for revenues and expenditures compared to actual revenues and expenditures for these three funds.

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

- Prior to June 19th for a fiscal year start date of July 1, the District prepares a budget based on the incremental budgeting concept for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.

- After one or more budget workshops with the Board, a meeting is called for the purpose of adopting the proposed budget. At least ten days but not more than 30 days public notice of the meeting is required.

- Prior to June 30th for a fiscal year start date of July 1, the Board legally adopts the budget for the general fund, debt service fund and food service fund.

- After the budgets for the above listed funds are approved, any amendment that causes an increase or decrease in a fund or functional spending category or total revenue or other resources object category requires Board approval prior to the fact. These amendments are presented to the Board at its regular monthly meeting and are reflected in the official minutes. Because the District has a policy of careful budgetary control, several budgetary amendments were necessary throughout the year.

- Expenditure budgets are controlled at the expenditure functional and object level by the appropriate budget manager (principal, department director or divisional administrator). Budget managers may authorize transfers within functional and organizational categories that do not affect the total functional and organizational appropriation. All budget appropriations lapse at year end.

Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded in order to reserve that portion of the applicable appropriation, is used in all governmental funds. Encumbrances outstanding at year end are commitments that do not constitute expenditures or liabilities, but are reported as assignments, commitments, or restrictions of fund balance depending on the fund type. Since appropriations lapse at the end of each year, outstanding encumbrances are appropriately provided for in the subsequent fiscal year's budget to provide for the liquidation of the prior commitments.

There were no negative expenditure variances in General Fund, Debt Service Fund, or National School Breakfast & Lunch Program Fund.

Negative budget variances occurred in Other Financial Sources and Uses in General Fund. The variance of $84,425 resulted from the sale of real personal property and a variance of $20,487 was the result of a transfer to the Internal Service Fund to provide additional resources to the Print Shop.

End of year outstanding encumbrances that were provided for in the subsequent year's budget for the General Fund total $1,056,057 and $1,085,395 for the National Breakfast & Lunch Program Fund. An assignment of fund balance equal to the outstanding encumbrances at year end is provided for at June 30, 2012, in the General Fund. A restriction of fund balance equal to the outstanding encumbrances at year end is provided for at June 30, 2012, for the National School Breakfast & Lunch Program.

APPENDIX C

FORMS OF BOND COUNSEL OPINIONS

[LETTERHEAD OF BOND COUNSEL]

[DATE]

WE HAVE ACTED as bond counsel for Humble Independent School District (the "District"), in connection with the bonds hereinafter described (the "Bonds")

> HUMBLE INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX REFUNDING BONDS, SERIES 2013A, dated March 15, 2013, in the aggregate principal amount of $8,250,000.
>
> The Bonds mature, bear interest, are subject to redemption prior to maturity, and may be transferred and exchanged as set out in the Bonds and in the order adopted by the Board of Trustees of the District authorizing their issuance (the "Bond Order") and the pricing certificate executed pursuant thereto (together with the Bond Order, the "Order").

WE HAVE ACTED as bond counsel for the sole 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 District or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of proceedings pertaining to the Bonds, and the bonds being refunded, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the District; a report (the "Report") of Grant Thornton LLP (the "Verification Agent") verifying the sufficiency of the deposits made with The Bank of New York Mellon Trust Company, N.A., as paying agent (the "Paying Agent") for the obligations being refunded (the "Refunded Bonds"), for the defeasance and redemption of the Refunded Bonds; customary certificates of officers, agents, and representatives of the District and other public officials; and other certified showings relating to the authorization and issuance of the Bonds. We have also examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, Treasury Regulations and published rulings of the Internal Revenue Service (the "Service") as we have deemed relevant. We have also examined executed Bond No. I-1 of this issue.

BASED ON SUCH EXAMINATIONS, IT IS OUR OPINION THAT:

> (1) The transcript of certified proceedings evidences the 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 legal binding obligations of the District;

(2) Firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Bonds pursuant to Order, and therefore such 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 the Order; and

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

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

IT IS OUR FURTHER OPINION THAT:

(4) Interest on the Bonds is excludable from gross income for federal income tax purposes under existing law; and

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

In providing the opinions set forth above, we have relied on representations of the District, the District's financial advisor and the underwriters of the Bonds with respect to matters solely within the knowledge of the District, the District's financial advisor and the underwriters, respectively, which we have not independently verified, 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 District fails to comply with the foregoing provisions of the Order, interest on the Bonds could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

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

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

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

[LETTER HEAD OF BOND COUNSEL]

[DATE]

WE HAVE ACTED as bond counsel for Humble Independent School District (the "District"), in connection with the bonds hereinafter described (the "Bonds")

> HUMBLE INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX REFUNDING BONDS, SERIES 2013B, dated March 15, 2013, in the aggregate principal amount of $23,950,000.
>
> The Bonds mature, bear interest, are subject to redemption prior to maturity, and may be transferred and exchanged as set out in the Bonds and in the order adopted by the Board of Trustees of the District authorizing their issuance (the "Bond Order") and the pricing certificate executed pursuant thereto (together with the Bond Order, the "Order").

WE HAVE ACTED as bond counsel for the sole 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 District or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of proceedings pertaining to the Bonds, and the bonds being refunded, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the District; an escrow agreement (the "Escrow Agreement") between the District 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 (the "Verification Agent"), verifying the sufficiency of the deposits made with the Escrow Agent for defeasance of the obligations being refunded (the "Refunded Bonds"); customary certificates of officers, agents, and representatives of the District and other public officials; and other certified showings relating to the authorization and issuance of the Bonds. We have also examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, Treasury Regulations and published rulings of the Internal Revenue Service (the "Service") as we have deemed relevant. We have also examined executed Bond No. I-1 of this issue.

BASED ON SUCH EXAMINATIONS, IT IS OUR OPINION THAT:

> (1) The transcript of certified proceedings evidences the 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 legal binding obligations of the District;

(2) Firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Bonds pursuant to an Escrow Agreement entered into between the District and the Escrow Agent and that therefore such 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 the Escrow Agreement; and

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

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

IT IS OUR FURTHER OPINION THAT:

(4) Interest on the Bonds is excludable from gross income for federal income tax purposes under existing law; and

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

In providing the opinions set forth above, we have relied on representations of the District, the District's financial advisor and the underwriters of the Bonds with respect to matters solely within the knowledge of the District, the District's financial advisor and the underwriters, respectively, which we have not independently verified, 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 District fails to comply with the foregoing provisions of the Order, interest on the Bonds could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

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

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

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