

**PRELIMINARY OFFICIAL STATEMENT DATED MAY 11, 2010**

Rating: Moody's Investors Service: "\_\_\_"  
Standard & Poor's Ratings Group "\_\_\_"

See ("THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", AND  
"OTHER INFORMATION – RATINGS") HEREIN

NEW ISSUE - Book-Entry-Only

Interest to be paid on the Bonds will be included in gross income for federal income tax purposes. See "TAX MATTERS" herein.

**\$16,480,000**

**ALIEF INDEPENDENT SCHOOL DISTRICT  
(Harris County, Texas)**

**UNLIMITED TAX QUALIFIED SCHOOL CONSTRUCTION BONDS, TAXABLE SERIES 2010  
(DIRECT PAY TO ISSUER)**

**Dated Date: June 1, 2010**

**Due: February 15, as shown on the inside cover page hereof**

The Alief Independent School District (the "District") Unlimited Tax Qualified School Construction Bonds, Taxable Series 2010 (Direct Pay to Issuer) (the "Bonds") are being issued pursuant to the Constitution and general laws of the State of Texas (the "State") including particularly Chapter 45, Texas Education Code, as amended, an election held within the District on September 20, 2003 (the "Election"), and an order adopted by the Board of Trustees of the District (the "Order"). The Bonds are direct obligations of the District, payable from a continuing ad valorem tax levied, without limit as to rate or amount, on all taxable property located within the District, as provided by the Order. (See "THE BONDS – Authority for Issuance"). The Bonds constitute the seventh installment of the total \$175,000,000 of unlimited tax school building bonds approved at the Election. After the issuance of the Bonds, the District will have \$34,192,000 in authorized but unissued bonds. The District expects to designate the Bonds as "qualified school construction bonds" pursuant to Section 54F(a)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). Further, the District expects to make an irrevocable election to treat the Bonds as "specified tax credit bonds" pursuant to of Section 6431(f)(3)(B) of the Code.

The Bonds will be dated June 1, 2010; however, interest will accrue from the Date of Delivery to the initial purchaser (the "Purchaser") and will be payable on February 15 and August 15 of each year, commencing February 15, 2011. Principal of the Bonds is payable at the corporate trust office of The Bank of New York Mellon Trust Company, N.A., Dallas, Texas the paying agent/registrar (the "Paying Agent/Registrar"), upon maturity of the Bonds, on February 15, 2027. Interest on the Bonds is payable by check dated as of each interest payment date, and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar as of the close of business on the last business day of the calendar month next preceding each interest payment date. The Bonds will be issued in denominations of \$5,000 of principal amount or any integral multiple thereof. The definitive Bonds will be initially registered and delivered 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 amount so paid to the participating members of the DTC for subsequent payment to the beneficial owners of the Bonds. (See "THE BONDS – Book-Entry-Only System").

The District has applied for and received conditional approval for the payment of the principal of and interest on the Bonds to be guaranteed by the corpus of the Texas Permanent School Fund. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

The Bonds are subject to optional redemption in whole or in part in principal amounts of \$5,000, or any integral multiple thereof, on February 15, 2020, or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest from the most recent interest payment date to the date of redemption. The Bonds are also subject to special mandatory or extraordinary redemption in certain circumstances. (See "THE BONDS—Redemption").

Proceeds from the sale of the Bonds will be used for (i) construction and equipment of school buildings in the District, including renovations to existing facilities and technology infrastructure and equipment, (ii) the purchase of necessary sites for school buildings, and (iii) payment of cost of issuance of the Bonds. (See "SOURCES AND USES OF FUNDS").

**MATURITY SCHEDULE**

<u>Maturity</u>	<u>Interest</u>			<u>CUSIP No.</u>
<u>February 15</u>	<u>Principal</u>	<u>Rate</u>	<u>Price</u>	
2027	\$16,480,000	%		

The Bonds are offered for delivery when, as and if issued and received by the Purchaser and will be subject to the approving opinions of the Attorney General of Texas and the approval of certain legal matters by Vinson & Elkins L.L.P., Houston, Texas, Bond Counsel (see "APPENDIX C – FORM OF BOND COUNSEL OPINION").

It is expected that the Bonds will be available for delivery through The Depository Trust Company on or about June 16, 2010.

**Bids Due Tuesday, May 18, 2010, 11:00 a.m. CDT**

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

**DISTRICT OFFICIALS, STAFF AND CONSULTANTS**

**Board of Trustees**

<u>Trustee</u>	<u>Office</u>	<u>Length of Service</u>	<u>Term Expires November</u>	<u>Occupation</u>
Dr. John P. Hansen	President	17 Years	2011	Investment Manager
Gary Cook	Vice President	12 Years	2013	Hospital Administrator
Sarah Winkler	Secretary	13 Years	2013	Homemaker
Rick Moreno	Asst. Secretary	3 Years	2011	Paramedic
Ella Jefferson	Member	1 Years	2013	Retired Educator/Administrator
Nghi T. Ho	Member	5 Years	2013	Financial Planner
Ann Williams	Member	3 Years	2011	Information Systems Engineer

**Administrators**

<u>Name</u>	<u>Title</u>	<u>Length of Service In District</u>
Dr. Louis Stoerner	Superintendent	20 Years
Charles Woods	Deputy Superintendent for Business Services	16 Years
Deanna Wentz	Assistant Superintendent of Finance	13 Years
Gina Tomas	Deputy Superintendent of Instruction	21 Years

**Consultants and Advisors**

Certified Public Accountant .....	Null-Lairson, CPA Houston, Texas
Bond Counsel .....	Vinson & Elkins L.L.P. Houston, Texas
Financial Advisor .....	Coastal Securities, Inc. Houston, Texas

## USE OF INFORMATION IN OFFICIAL STATEMENT

*For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission as amended, and in effect on the date hereof, this document may be treated as an Official Statement of the District with respect to the Bonds that has been “deemed final” by the District as of its date except for the omission of no more than the information permitted by Rule 15c2-12.*

*This Official Statement, which includes the cover page 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 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.*

*The 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 or the Purchaser. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.*

*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 herein. See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the District’s undertaking to provide certain information on a continuing basis.*

*THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE 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 PURCHASER 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 Purchaser 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.*

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## OFFICIAL STATEMENT SUMMARY

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

**The District** ..... The Alief Independent School District (the “District”) operates as an independent school district under the laws of the State of Texas. It is located in Harris County, Texas. (See “THE DISTRICT”).

**The Bonds** ..... The Bonds are being issued as Unlimited Tax Qualified School Construction Bonds, Taxable Series 2010 (Direct Pay to Issuer) (the “Bonds”). The District expects to designate the Bonds as “qualified school construction bonds” (“Qualified School Construction Bonds”) pursuant to Section 54F(a)(3) of the Internal Revenue Code of 1986, as amended (the “Code”). Further, the District expects to make an irrevocable election to treat the Bonds as “specified tax credit bonds” pursuant to of Section 6431(f)(3)(B) of the Code.

**Payment of Interest** ..... The Bonds will mature on February 15, 2027 and shall bear interest on the Bonds accruing from the date of their delivery to the Purchaser thereof and will be payable on each February 15 and August 15 thereafter until maturity, commencing February 15, 2011. Interest on the Bonds is included in gross income for federal income tax purposes.

**Authority for Issuance** ... The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the “State”), including particularly Chapter 45, Texas Education Code, an election held on September 20, 2003 (the “Election”) and an order adopted by the Board of Trustees of the District authorizing the Bonds (the “Order”). (See “THE BONDS—Authority for Issuance”).

**Security for Bonds** ..... The Bonds are direct obligations of the District payable from the receipts of a continuing ad valorem tax levied, without limit as to rate or amount, on all taxable property within the District. (See “THE BONDS - Security and Source of Payment” and “AD VALOREM TAX PRCEDURES - Tax Rate Limitations”). Also see, “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS” and “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” for a discussion of recent developments in State law affecting the financing of school districts in Texas.

### Permanent School Fund

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

**Redemption** ..... The District reserves the right to redeem Bonds in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2020, or any date thereafter, at the par value thereof plus accrued interest from the most recent interest payment date to the date of redemption (see “THE BONDS – Optional Redemption”). The Bonds are also subject to special mandatory or extraordinary redemption under certain circumstances. (See “THE BONDS –Special Mandatory & Extraordinary Redemption”).

**Purpose** ..... Proceeds from the sale of the Bonds will be used for (i) construction, and equipment of school buildings in the District, including renovations to existing facilities and technology infrastructure and equipment, (ii) the purchase of necessary sites for school buildings, and (iii) payment of cost of issuance of the Bonds. (See “SOURCES AND USES OF FUNDS”).

**Ratings** ..... Moody’s Investors Service (“Moody’s”) and Standard & Poor’s, a Standard & Poor’s Financial Services LLC business (“S&P”) have assigned their municipal bond ratings of “\_\_\_” and “\_\_\_” respectively to the Bonds by virtue of the guarantee of the Permanent School Fund of the State of Texas on the Bonds. (See “OTHER INFORMATION - Ratings”, and “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).

### Book-Entry-Only

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

**Payment Record** ..... The District has never defaulted in the payment of its tax-supported debt.

**SELECTED FINANCIAL INFORMATION**

<b>Fiscal Year Ended 31-Aug</b>	<b>Estimated District Population<sup>(a)</sup></b>	<b>Taxable Assessed Valuation<sup>(b)</sup></b>	<b>Per Capita Taxable Assessed Valuation</b>	<b>Ad Valorem Tax-Supported Debt</b>	<b>Per Capita Tax-Supported Tax Debt</b>	<b>Ratio Tax Debt to Assessed Valuation</b>	<b>Tax Year</b>
2003	238,896	\$ 7,726,599,821	\$ 32,342.94	\$ 283,990,000	\$ 1,188.76	3.68%	2002
2004	246,163	8,270,863,975	33,599.14	263,410,000	1,070.06	3.18%	2003
2005	246,230	8,626,024,400	35,032.39	262,100,000	1,064.45	3.04%	2004
2006	261,008	9,202,259,327	35,256.62	263,400,000	1,009.16	2.86%	2005
2007	244,936	9,844,284,034	40,191.25	264,763,565	1,080.95	2.69%	2006
2008	241,982	10,930,285,059	45,169.83	250,303,656	1,034.39	2.29%	2007
2009	241,170	11,678,270,448	48,423.40	237,448,244	984.57	2.03%	2008
2010	241,170	11,587,859,849	48,048.51	230,575,961 <sup>(c)</sup>	956.07 <sup>(c)</sup>	1.99% <sup>(c)</sup>	2009

<sup>(a)</sup> Population estimates obtained from Texas Municipal Reports.

<sup>(b)</sup> Net of exemptions. Assessed valuations do not include adjustments in supplemental rolls made after the end of each fiscal year.

<sup>(c)</sup> Includes the District's Unlimited Tax Qualified School Construction Bonds, Taxable Series 2010 (QSCB) and the District's Unlimited Tax Refunding Bonds, Series 2010 which are being issued concurrently. Excludes the bonds to be refunded by the District's Unlimited Tax Refunding Bonds, Series 2010. Preliminary, subject to change.

**General Fund Consolidated Statement Summary**

	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Beginning Balance	\$ 76,391,370	\$ 78,838,307	\$ 72,875,525	\$ 59,097,914	\$ 60,165,719
Adjustment to Fund Balance	-	-	-	-	-
Total Revenue	334,257,218	310,377,427	312,997,055	297,086,679	278,779,619
Total Expenditures	327,402,854	312,824,364	303,034,273	283,309,068	279,847,424
Net Other Resources (Uses)	(2,000,000)	-	(4,000,000)	-	-
Ending Balance	\$ 81,245,734	\$ 76,391,370	\$ 78,838,307	\$ 72,875,525	\$ 59,097,914

For additional information regarding the District, please contact:

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**ALIEF INDEPENDENT SCHOOL DISTRICT  
(Harris County, Texas)**

**\$16,480,000**

**UNLIMITED TAX QUALIFIED SCHOOL CONSTRUCTION BONDS, TAXABLE SERIES 2010  
(DIRECT PAY TO ISSUER)**

**INTRODUCTION**

This Official Statement, including the Appendices hereto, provides certain information regarding the issuance of the Alief Independent School District Unlimited Tax Qualified School Construction Bonds, Taxable Series 2010 (Direct Pay to Issuer) (the "Bonds"). Except as otherwise indicated herein, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the order (the "Order") adopted by the Board of Trustees (the "Board of Trustees") of the Alief Independent School District (the "District") authorizing the issuance of the Bonds.

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

There follows in this Official Statement descriptions of the Bonds and certain information regarding the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the Financial Advisor, Coastal Securities, Inc., Houston, Texas, by electronic mail or upon payment of reasonable handling, mailing, and delivery charges.

Neither the District or the Financial Advisor make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company ("DTC") or its book-entry-only system as described under "BOOK-ENTRY-ONLY SYSTEM" or with respect to the affairs of the Texas Education Agency ("TEA") as described under "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" as such information has been provided by DTC and TEA, respectively.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. A copy of the Final Official Statement pertaining to the Bonds will be submitted to the Municipal Securities Rulemaking Board, and will be available through its Electronic Municipal Market Access ("EMMA") System. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

**THE BONDS**

**General**

The Bonds are dated June 1, 2010. However, interest on the Bonds will accrue from their date of delivery to the Purchaser thereof and will be payable on each February 15 and August 15 thereafter until maturity, commencing February 15, 2011. The Bonds are to mature on February 15, 2027. The Bonds are issued in denominations of \$5,000 and any multiple thereof (the "Authorized Denomination"). Interest on the Bonds is not exempt from federal income tax.

The Bonds will be issued only in fully registered form in Authorized Denominations 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, including particularly Chapter 45, Texas Education Code, as amended, the Order and an election held in the District on September 20, 2003 (the "Election"). The Bonds constitute the seventh installment of the total \$175,000,000 of unlimited tax school building bonds approved at the election. After the issuance of the Bonds, the District will have \$34,192,000 in authorized but unissued bonds.

**Designation of Bonds as Qualified School Construction Bonds**

The District expects to designate the Bonds as “qualified school construction bonds” (“Qualified School Construction Bonds”) pursuant to Section 54F(a)(3) of the Internal Revenue Code of 1986, as amended (the “Code”). An issuer of Qualified School Construction Bonds must receive an allocation of the national qualified school construction bond limitation. The State received an allocation of \$538,585,000 from the United States Department of the Treasury, and the Texas Education Agency (the “TEA”) is responsible for further allocating such funds to issuers within the State. The District submitted an application to the TEA and received an allocation sufficient for the issuance of the Bonds.

The District also expects to designate the Bonds as “specified tax credit bonds” pursuant to of Section 6431(f)(3)(B) of the Code. Therefore, the District will be eligible to receive a cash subsidy from the United States Treasury in connection with the Bonds. Pursuant to Section 6431 of the Code, the District expects to receive cash subsidy payments (the “Federal Subsidy”) from the United States Treasury equal to the lesser of (i) 100% of the interest payable on an interest payment date or (ii) the amount of interest which would have been payable under such Bond on such date if such interest were determined at the applicable credit rate determined under section 54A(b)(3) with respect to such Bond. **The Federal Subsidy received by the District will not be pledged to the payment of the Bonds and may be used for any lawful purpose of the District, including but not limited to, the payment of the debt service on the Bonds.** No holder of the Bonds will be entitled to a tax credit with respect to the Bonds.

Although the District expects to receive the Federal Subsidy contemporaneously with each applicable interest payment date of the Bonds, the District anticipates that until the subsidy program is fully implemented there may be a delay in the receipt of the payments. Accordingly, the District has covenanted and is prepared to levy ad valorem taxes for the full amount of debt service payments.

The receipt of the Federal Subsidy is subject to certain requirements, including the filing of a form with the Internal Revenue Service (the “IRS”) prior to each interest payment date. The Federal Subsidy does not constitute a full faith and credit guarantee of the United States Government, but is required to be paid by the United States Treasury under the Code.

**Security and Source of Payment**

The Bonds constitute direct obligations of the District, payable as to principal and interest from a continuing ad valorem tax levied, without limit as to rate or amount, against all taxable property within the District. Additionally, the payment of principal and interest on the Bonds has received conditional approval to be guaranteed by the corpus of the Permanent School Fund Guarantee Program of Texas. See “PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein.

**Reserve Fund Deposit Account**

The District will create a Reserve Fund Deposit Account within the Debt Service Fund. On February 15 in each year the District will deposit such amounts therein as set forth below, which, when combined with any interest earnings thereon, will cause the balance in the Reserve Fund Deposit Account to equal the amounts set forth below:

<u>Date</u>	<u>Deposit Amount</u>	<u>Cumulative Balance</u>
2011	\$ 960,000	\$ 960,000 <sup>(1)</sup>
2012	970,000	1,930,000 <sup>(1)</sup>
2013	970,000	2,900,000 <sup>(1)</sup>
2014	970,000	3,870,000 <sup>(1)</sup>
2015	970,000	4,840,000 <sup>(1)</sup>
2016	970,000	5,810,000 <sup>(1)</sup>
2017	970,000	6,780,000 <sup>(1)</sup>
2018	970,000	7,750,000 <sup>(1)</sup>
2019	970,000	8,720,000 <sup>(1)</sup>
2020	970,000	9,690,000 <sup>(1)</sup>
2021	970,000	10,660,000 <sup>(1)</sup>
2022	970,000	11,630,000 <sup>(1)</sup>
2023	970,000	12,600,000 <sup>(1)</sup>
2024	970,000	13,570,000 <sup>(1)</sup>
2025	970,000	14,540,000 <sup>(1)</sup>
2026	970,000	15,510,000 <sup>(1)</sup>
2027	970,000	16,480,000 <sup>(1)(2)</sup>

(1) Investment earnings on the balance in the Reserve Fund Deposit Account accrued during the prior year will be credited against the amount the District would otherwise be required to deposit hereunder.

(2) Represents final maturity date of the Bonds, at which time the Reserve Fund Deposits (as defined in the Order and set forth above) will be used to repay Bonds.

Amounts deposited to the Reserve Fund Deposit Account will be used to (i) pay all or a portion of the redemption price of the Bonds upon an optional redemption or special mandatory redemption or (ii) pay for the Bonds at maturity.

### **Optional Redemption**

The District reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2021, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2020, or any date thereafter, at the par value thereof plus accrued interest from the most recent interest payment date to the date of redemption. 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.

### **Special Mandatory & Extraordinary Redemption**

*Special Mandatory Redemption due to unexpended proceeds...* To the extent that 100% of the “Available Project Proceeds” (as defined herein) are not expended for “Qualified Purposes” (as defined herein) by the close of the 3-year period beginning on the date of delivery of the Bonds (or if an extension of such expenditure period has been received by the District from the Secretary of the Treasury (the “Secretary”), by the close of the extended period), the District shall redeem an amount of Bonds equal to such unexpended proceeds (rounded up to the next highest authorized denomination) within 90 days after the end of such period, at a redemption price equal to the principal amount thereof, plus any accrued but unpaid interest on the Bonds to the date fixed for redemption, payable from such unexpended proceeds of sale of the Bonds held by the District.

*Extraordinary Redemption due to loss of Qualified School Construction Bond Status ...Prior to February 15, 2020,* upon a Determination of a Loss of Qualified School Construction Bond Status, the Bonds are subject to extraordinary redemption prior to their maturity date, at the option of the District, in whole, on the date designated by the District, at a redemption price equal to the greater of:

- (1) the principal amount of the Bonds to be redeemed; or
- (2) the sum of the present value of (i) the remaining scheduled payments of principal and interest prior to February 15, 2021, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 100 basis points, plus accrued and unpaid interest on the Bonds to be redeemed to the redemption date, and (ii) the present value of the remaining principal subject to optional call on February 15, 2020, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 100 basis points.

The term “Qualified Purpose” means the construction, rehabilitation, or repair of a public school facility or the acquisition of land on which such a facility is to be constructed with part of the proceeds of the Bonds.

The term “Available Project Proceeds” means proceeds from the sale of the bonds, less costs of issuance, plus investment earnings on the proceeds of such bonds pending their expenditure.

The term “Date of Loss of Qualified School Construction Bond Status” means the date specified in a Determination of a Loss of Qualified School Construction Bond Status as the date from and after which the Bonds lost their status, or failed to qualify, as Qualified School Construction Bonds as a result of an Accountable Event of Loss of Qualified School Construction Bond Status (defined below), which date could be as early as the date of issuance of the Bonds.

The term “Determination of a Loss of Qualified School Construction Bond Status” means (a) a final determination by the IRS (after the District has exhausted all administrative appeal remedies and has determined not to pursue any remedies in a court of competent jurisdiction) determining that an Accountable Event of Loss of Qualified School Construction Bond Status has occurred and specifying the Date of Loss of Qualified School Construction Bond Status, or (b) a non-appealable holding by a court of competent jurisdiction holding that an Accountable Event of Loss of Qualified School Construction Bond status has occurred.

The term “Accountable Event of Loss of Qualified School Construction Bond Status” means (a) any act or any failure to act on the part of the District, which act or failure to act is a breach of a covenant or agreement of the District contained in the Resolution, the Paying Agent/Registrar Agreement, or the Bonds and which act or failure to act causes the Bonds to lose their status, or fail to qualify, as Qualified School Construction Bonds, or (b) the making by the District of any representation contained in the Resolution, the Paying Agent/Registrar Agreement, the Federal Tax Certificate, or the Bonds, which representation was untrue when made and the untruth of which representation at such time causes the Bonds to lose their status, or fail to qualify, as Qualified School Construction Bonds under the Code.

“Treasury Rate” means, with respect to any redemption date for a particular Bond, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Bond to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities

adjusted to a constant maturity of one year will be used. At the request of the Paying Agent/Registrar, the make-whole optional redemption price of the Bonds to be redeemed will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the District at the District's expense to calculate such redemption price. The Paying Agent/Registrar and the District may conclusively rely on the determination of such redemption price by such independent accounting firm, investment banking firm or financial advisor and will not be liable for such reliance.

### **Selection of Bonds for Special Mandatory Redemption**

If less than all of the Bonds are to be redeemed, the District shall determine 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, provided funds for the payment of the redemption price are held by the Paying Agent/Registrar on the redemption date.

### **Notice of Redemption**

At least 30 days prior to the date fixed for any redemption, the District shall cause a written notice of redemption to be deposited in the United States mail, postage prepaid, addressed to each registered owner at the address shown on the Registration Books of the Paying Agent/Registrar at the close of business on the Business Day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. UPON THE GIVING OF THE NOTICE OF REDEMPTION AND THE DEPOSIT OF THE FUNDS NECESSARY TO REDEEM SUCH BONDS, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND INTEREST ON SUCH BONDS OR PORTION THEREOF SHALL CEASE TO ACCRUE, IRRESPECTIVE OF WHETHER SUCH BONDS ARE SURRENDERED FOR PAYMENT.

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 Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the District retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the District delivers a certificate of the District to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Bonds subject to conditional redemption and such redemption has been rescinded shall remain Outstanding.

In addition, with respect to Special Mandatory Redemption, upon notice from the District that the District has cured the conditions that caused the Bonds to be subject to special mandatory redemption, the District may rescind any such redemption and notice thereof on any date prior to the date fixed for special mandatory redemption by causing written notice of the rescission to be given to the owners of the Bonds so called for redemption. Notice of rescission will be given in the same manner in which notice of special mandatory redemption was originally given.

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

### **Defeasance**

The District reserves the right to defease the Bonds in any manner now or hereafter provided 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 while any Bonds are outstanding 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 and duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

In the event the book-entry-only system should be discontinued, interest on the Bonds will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest will be paid by (i) check sent United States mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar required by and at the risk and expense of, the registered owner. Principal of the Bonds at stated maturity or earlier redemption will be paid to the registered owner at the stated maturity or earlier redemption, as applicable, upon presentation to the designated payment/transfer office of the Paying Agent/Registrar. If the date for the payment of the principal or interest on the Bonds is a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated corporate office of the Paying Agent/Registrar is located is authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due. So long as Cede & Co. is the registered owner of the Bonds, principal and interest on the Bonds will be made as described in "BOOK-ENTRY-ONLY SYSTEM."

### **Transfer, Exchange and Registration**

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

### **Replacement Bonds**

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

### **Record Date for Interest Payment**

The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the last business day of the preceding month. In the event of a non-payment of interest on the Bonds 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 business day next preceding the date of mailing of such notice.

### **Bondholders' Remedies**

The Order does not establish specific events of default with respect to the Bonds. Under Texas law, there is no right to the acceleration of maturity of the Bonds upon the failure of the District to observe any covenant under the Order. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the District to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3rd 325 (Tex. 2006) ("Tooke") that a waiver of sovereign immunity must be provided for by statute in "clear and unambiguous" language. In so ruling, the Court declared that statutory language such as "sue and be sued", in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the "Local Government Immunity Waiver

Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver Act covers school districts and relates to contracts entered into by school districts for providing goods or services to school districts. The District is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings of local governments that relate to their borrowing powers are contracts covered by the Act. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in Tooke, and it is unclear whether Tooke will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract).

The Order does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition. Furthermore, the district is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provisions that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court; and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before. The opinion of Bond Counsel will note that the rights of bondholders are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due.

### **Book-Entry-Only System**

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

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities 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 a holding company for National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: "AAA." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct

and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive physical certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

Redemption notices shall be sent to DTC. If less than all of the Bonds within 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 MMF 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 the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and reimbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered. Discontinuance by the District of use of the system of book-entry transfers through DTC may require compliance with DTC operational arrangements.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). Discontinuance of the system of book-entry transfers by the District may require the consent of Participants under DTC's Operational Arrangements. In that event, Bond certificates will be printed and delivered.

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 neither the District, the Financial Advisor or the Initial Purchaser take responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement.

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

## SOURCES AND USES OF FUNDS

Proceeds from the sale of the Bonds will be applied in the amounts shown below.

<u>Sources of Funds</u>	
Par Amount of the Bonds	\$
Net Premium	
Total	\$
<u>Uses of Funds</u>	
Deposit to Project Fund	\$
Costs of Issuance	
Deposit to Debt Service Fund (Additional Proceeds)	
Total	\$

## PLAN OF FINANCE

The Bonds are designated as "qualified school construction bonds" under Section 54F of the Code. In accordance with Section 54F, proceeds from the Bonds (including investments thereon) will be applied solely to the construction, rehabilitation or repair of a public school facility (including the acquisition of equipment to be used in such portion or portions of the public school facility that is being constructed, rehabilitated or repaired with the proceeds of the Bonds), or the acquisition of land on which such a facility is to be constructed with part of the proceeds of the Bonds, and to payment of the costs of issuing the Bonds not in excess of 2% of the issue price of the Bonds. The District reasonably expects that all Available Project Proceeds as described herein will be spent for such qualified expenditures within three years of the date of issuance of the Bonds, and that a binding commitment with a third party to spend at least 10% of such Available Project Proceeds will be incurred within the six month period beginning on the date of issuance of the Bonds. See "THE BONDS — Special Mandatory & Extraordinary Redemption" for information concerning special mandatory redemption of the Bonds in the event that the proceeds of the Bonds are not spent within three years of the date of issuance of the Bonds or in the event the Bonds lose their status as "qualified school construction bonds".

## THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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 2009, distributions to the ASF amounted to \$163.07 per student and the total amount distributed to the ASF was \$716.54 million.

Audited financial information for the PSF is provided annually through the PSF Annual Report (the "Annual Report"), which is filed with the Municipal Securities Rulemaking Board ("MSRB"). The Annual Report includes the Message of the Executive Administrator of the Fund (the "Message") and the Management's Discussion and Analysis ("MD&A"). Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2009 and for a description of the financial results of the PSF for the year ended August 31, 2009, the most recent year for which audited financial information regarding the Fund is available. The 2009 Annual Report is incorporated herein and made a part hereof for all purposes, but the 2009 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2009 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](http://www.tea.state.tx.us/psf) and with the MSRB at [www.emma.msrb.org](http://www.emma.msrb.org). Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the Securities and Exchange Commission ("SEC") under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund's holdings of securities specified in Section 13(f), including exchange-traded (*e.g.*, NYSE, AMEX) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at [www.sec.gov/edgar.shtml](http://www.sec.gov/edgar.shtml). A list of the Fund's equity and fixed income holdings as of August 31, 2009 has been posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund's securities lending program. Such list is incorporated herein and made a part hereof for all purposes.

### **The Total Return Constitutional Amendment**

The Total Return Constitutional Amendment approved a fundamental change in the way that distributions are made to the ASF from the PSF. The Total Return Constitutional Amendment requires that PSF distributions to the ASF be determined using a total-return-based formula instead of the current-income-based formula, which was used from 1964 to the end of the 2003 fiscal year. The Total Return Constitutional Amendment provides that the total amount distributed from the Fund to the ASF: (1) in each year of a State fiscal biennium must be an amount that is not more than 6% of the average of the market value of the Fund, excluding real property (the "Distribution Rate"), on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium (the "Distribution Measurement Period"), in accordance with the rate adopted by: (a) a vote of two-thirds of the total membership of the State Board of Education ("SBOE"), taken before the Regular Session of the Legislature convenes or (b) the Legislature by general law or appropriation, if the SBOE does not adopt a rate as provided by clause (a); and (2) over the ten-year period consisting of the current State fiscal year and the nine preceding state fiscal years may not exceed the total return on all investment assets of the Fund over the same ten-year period (the "Ten Year Total Return"). In April 2009, the Attorney General issued a legal opinion, Op. Tex. Att'y Gen. No. GA-0707 (2009) ("GA-0707"), at the request of the Chairman of the SBOE with regard to certain matters pertaining to the Distribution Rate and the determination of the Ten Year Total Return (see "Other Events and Disclosures").

In determining the Distribution Rate, the SBOE has adopted the goal of maximizing the amount distributed from the Fund in a manner designed to preserve "intergenerational equity." Intergenerational equity is the maintenance of endowment purchasing power to ensure that endowment spending keeps pace with inflation, with the ultimate goal being to ensure that current and future generations are given equal levels of purchasing power. In making this determination, the SBOE takes into account various considerations, and relies particularly upon its external investment consultant, which undertakes a probability analysis for long term projection periods that includes certain assumptions. Among the assumptions used in the analysis are a projected rate of growth of the average daily scholastic attendance State-wide, the projected contributions and expenses of the Fund, projected returns in the capital markets and a projected inflation rate. In September 2006, the SBOE established the Distribution Rate from the Fund to the ASF for fiscal years 2008 and 2009 at 3.5% of the average of the PSF market value during the Distribution Measurement Period. The decision of the SBOE regarding the Distribution Rate for 2008 and 2009 took into account a commitment by the SLB to transfer at least \$100 million per year for each year of the biennium commencing September 1, 2007. The SLB has advised the SBOE that it anticipates that it will make similar \$100 million releases to the PSF in the 2010 and 2011 fiscal years. In November, 2008, the SBOE set the Distribution Rate for the Fund for fiscal years 2010 and 2011 at 2.5% of the average of the PSF market value during the Distribution Measurement Period that ended in November 2008, and in January 2009, the SBOE reconfirmed the 2.5% Distribution Rate, which was expected to produce transfers of approximately \$1.15 billion during the 2010-11 biennium, but also adopted a contingency plan in case the Distribution Rate should temporarily exceed the Ten Year Total Return during the 2010-2011 biennium. In November 2009, in accordance with GA-0707, and due to one of the constitutional measurements that limit transfers from the PSF, the SBOE determined that the authorized transfer amount for fiscal year 2010 would be limited to \$60.7 million. Depending on the value of the PSF and market conditions, the 2011 transfer could be sufficient to reach the full \$1.15 billion for the biennium, provided that the increase is in accordance with the Total Return Constitutional Amendment and a

calculation to be made in 2011 of historic Fund returns. Since the enactment of a prior amendment to the Texas Constitution in 1964, the investment of the Fund has been managed with the dual objectives of producing current income for transfer to the ASF and growing the Fund for the benefit of future generations. As a result of this prior constitutional framework, the investment of the Fund has historically included a significant amount of fixed income investments and dividend-yielding equity investments, to produce income for transfer to the ASF.

With respect to the management of the Fund's investment portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted by the SBOE in February 2004 and in July 2006, which have significantly altered the asset allocations of the Fund. In February 2004, the SBOE adopted a new asset allocation for the Fund, which decreased the fixed income target from 45% to 25% of Fund investment assets and increased the allocation for equities from 55% to 75% of investment assets. In the first quarter of fiscal year 2006, a new investment advisor for the Fund was engaged by the SBOE and tasked with recommending a new asset allocation mix for the Fund. In July 2006, the SBOE adopted a revised asset allocation (the "2006 Asset Allocation Policy"), and the Investment Policy was modified in accordance with the 2006 Asset Allocation Policy. The 2006 Asset Allocation Policy included an equity allocation, including both domestic and foreign equity portfolios, of 53%; a fixed income allocation of 19%; and an alternative asset allocation, which includes real estate, real return, absolute return and private equity components, totaling 28% of the Fund's asset target. The Fund's investment policy provides for minimum and maximum ranges among the components of each of the three general asset classifications. In July 2008, the SBOE reapproved the 2006 Asset Allocation Policy (hereinafter, the "2008 Asset Allocation Policy"). In August 2009, the SBOE engaged a new investment advisor.

The Fund's investment advisor is tasked with advising the SBOE with respect to the implementation of the 2008 Asset Allocation Policy, including the timing and manner of the selection of any external managers and other consultants. For a variety of reasons, including the requirement that the SBOE obtain additional appropriations from the Legislature to pay administrative costs associated with certain types of investments included in the 2008 Asset Allocation Policy, the 2008 Asset Allocation Policy is being implemented in phases. At August 31, 2009, based on unaudited records, the Fund was invested as follows: 67.40% in equity investments; 21.87% in fixed income investments; 10.70% in alternative assets; and 0.03% in cash.

In accordance with the Texas Constitution, the SBOE views the PSF as a perpetual institution. Consistent with its perpetual nature, the PSF is managed as an endowment fund with a long-term investment horizon. Under the total-return investment objective, the Investment Policy provides that the PSF shall be managed consistently with respect to the following: generating income for the benefit of the public free schools of Texas, the real growth of the corpus of the PSF, protecting capital, and balancing the needs of present and future generations of Texas school children. As described above, the Total Return Constitutional Amendment restricts the annual pay out from the Fund to the total-return on all investment assets of the Fund over a rolling ten-year period. State law provides that each transfer of funds from the PSF to the ASF is made monthly, with each transfer to be in the amount of one-twelfth of the annual distribution. 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. Moreover, while the SBOE may continue to change allocations within the various asset categories of the investment portfolios, and the 2008 Asset Allocation Policy includes an allotment for a portion of Fund assets to investment classes other than fixed income and equities, including hedge funds and real estate and other alternative asset classes, it is assumed that the new distribution formula will result in fewer large-scale reallocations of Fund assets than have occurred in prior years as the SBOE modified Fund asset allocations on a regular basis to produce income for distribution in light of changes in the financial markets.

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

### **Management and Administration of the Fund**

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

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

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

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 the fiduciary standards, and to provide transactional advice in connection with the investment of Fund assets in non-traditional investments.

Prior to June 1995, the PSF was invested exclusively by the internal staff of the TEA's Investments Office, under the direction of the Executive Administrator of the Fund. The portion of the Fund that is managed by external managers declined from 39% at August 31, 2002 to 26.46% at August 31, 2008, in large part due to legislative appropriations riders that reduced the appropriation for the administrative costs of managing the Fund during that period, including, in particular, the payment of fees of external managers. As the TEA has implemented the 2008 Asset Allocation in a manner outlined in GA-0293, the portion of the Fund that is administered by external managers has begun to increase, in large part due to changes in the fair market value of the various asset classes, and at August 31, 2009 29.87% of the Fund was managed by external managers.

## **The Guarantee**

The Guarantee Program for School District Bonds (the "Guarantee Program") was authorized by an amendment to the Texas Constitution in 1983 and by Subchapter C of Chapter 45 of the Texas Education Code (the "Act"). If the conditions for the Guarantee Program are satisfied, the guarantee becomes effective upon approval of the Bonds by the Attorney General and remains in effect until the guaranteed Bonds are paid or defeased, by a refunding or otherwise. At present, no new guarantees are being authorized by TEA under the Guarantee Program. See "Capacity Limits for the Guarantee Program."

In the event of default, holders of guarantee 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. Effective September 1, 2009, 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 may request the Attorney General to institute legal action to compel the district and its officers, agents and employees to comply with the duties required of them by law in respect to the payment of guaranteed Bonds.

### **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 \$23,463,749,653 (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. In 2010, the SBOE is expected to consider a variety of issues pertaining to the administration of the Guarantee Program, which issues arise as a result of the higher IRS Limit established by the IRS Notice. Among those issues will be the amount of the State Law Capacity to be established in accordance with SB 389. For a variety of reasons, including the need for the SBOE to consider new Guarantee Program regulations and State law public notice provisions that affect the timing of the implementation of SBOE actions, the decision of the SBOE with respect to the new State Law Capacity may not occur until mid-2010. However, as a result of the increase in cost value of the Fund's assets and the issuance of refunding Bonds by school districts since the closure of the Guarantee Program in March 2009, the State Law Capacity has increased to a sufficient level under the current capacity multiplier to provide bond guarantees for at least part of 2010. See "Valuation of the PSF and Guaranteed Bonds," below.

Since July 1991, when the SBOE amended the regulations that govern the Guarantee Program 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, which reflects the trend of growth of guaranteed Bonds for the last five fiscal years. The SBOE has modified its regulations that govern access to the Guarantee Program in recent years, most recently in January 2009. Generally, the regulations limit Guarantee Program guarantees to certain types of Bonds, including, with respect to refunding Bonds, a requirement that the Bonds produce debt service savings, 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 with less than \$1,650 of annual debt service per student in average daily attendance. 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". Regulations adopted by the SBOE in January 2009 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. Since January 2009, the Capacity Reserve has been set at 8%. Program regulations provide that subject to the 5% minimum Capacity Reserve, 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 regulations 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, 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). For the years ending on and after August 31, 1998, the State Auditor has separately audited the financial statements of the PSF. The TEA has filed the audited annual report of the PSF for the year ended August 31, 2009 with the MSRB. The 2009 Annual Report has also been filed with the Municipal Advisory Council of Texas and posted to the PSF web site. Such report speaks only as of the date thereof.

**Ratings of Bonds Guaranteed Under the Guarantee Program**

Moody's Investors Service, Standard & Poor's, a Standard & Poor's Financial Services LLC business and Fitch Ratings rate Bonds guaranteed by the PSF "Aaa," "AAA" and "AAA," respectively. Not all issuers apply for multiple ratings on their Bonds, however. See "Ratings" herein.

**Valuation of the PSF and Guaranteed Bonds**

<b>Permanent School Fund Valuations</b>		
<u>Fiscal Year Ended 8/31</u>	<u>Book Value<sup>(1)</sup></u>	<u>Market Value<sup>(1)</sup></u>
2005	\$18,497,507,739	\$25,994,480,027
2006	19,359,570,146	26,537,687,968
2007	21,234,323,093	29,251,882,931
2008	22,926,299,922	29,336,248,611
2009	23,117,052,793 <sup>(2)</sup>	25,443,104,623 <sup>(2)</sup>

<sup>(1)</sup> 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, 2009, land, external real estate investments and mineral assets managed by the SLB had book values of approximately \$471.4 million, \$979.9 million, and \$13.4 million, respectively, and market values of approximately \$817.3 million, \$622.8 million, and \$2.628 billion, respectively.

<sup>(2)</sup> At December 31, 2009, the PSF had a book value of \$23,493,121,292 and a market value of \$27,844,707,983 (in each case, based on unaudited data).

<b>Permanent School Fund Guaranteed Bonds</b>	
<u>At 8/31</u>	<u>Principal Amount<sup>(1)</sup></u>
2005	\$35,230,425,201
2006	37,793,429,328
2007	44,856,621,419
2008	49,860,572,025
2009 <sup>(2)</sup>	50,032,724,439

<sup>(1)</sup> 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.

<sup>(2)</sup> At December 31, 2009, there were \$49,727,788,715 of Bonds guaranteed under the Guarantee Program and the capacity of the Guarantee Program was \$58,732,803,231 (in each case based on unaudited data). Such capacity figure includes the Reserve Capacity.

## Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2009

The following discussion is derived from the Annual Report for the year ended August 31, 2009, including the Message of the Executive Administrator of the Fund and the Management's Discussion and Analysis contained therein. Reference is made to the Annual Report for the complete Message and MD&A. Investment assets managed by the fifteen member SBOE are referred to throughout this MD&A as the PSF(SBOE) assets. As of August 31, 2009, 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 2008 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 2009, the total Fund balance was \$22.6 billion and includes a restatement of beginning Fund balance by \$197 million, resulting from the implementation of GASB Statement 52, *Land and Other Real Estate Held as Investments by Endowments*. Including the result of the restatement, Fund balance decreased \$2.6 billion from the prior year. 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 -8.47%, -0.63%, 4.35% and 3.67% 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 -17.63%, -0.24%, and 4.00% 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, 2009, the PSF(SBOE) portion of the Fund had diversified into emerging market international equities and absolute return funds. Searches for real estate and private equity advisors are underway and other asset classes such as real return will be strategically added commensurate with the economic environment and the goals and objectives of the SBOE.

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 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. During fiscal year 2009, the SLB made capital commitments to four externally managed real assets investment funds in a total amount of \$200 million. At August 31, 2009, the SLB had approved total capital commitments of \$1.9 billion to thirty-three funds, of which \$920 million remains unfunded.

The PSF(SBOE)'s investment in equity securities experienced a return of -16.68% during the fiscal year ended August 31, 2009. The PSF(SBOE)'s investment in fixed income securities produced a return of 10.20% during the fiscal year and absolute return investments yielded a return of -4.86%. Combined, all PSF(SBOE) asset classes produced an investment return of -8.47% for the fiscal year ended August 31, 2009, outperforming the target index by approximately 17 basis points. All PSF(SLB) real assets (including cash) returned -17.63% for the fiscal year ending August 31, 2009.

For fiscal year 2009, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, continued to decline, totaling negative \$1.98 billion by the end of the year. This decline is primarily attributable to the fact that domestic and international securities markets were lower in all sectors in fiscal year 2009 and the fair market valuations of the Fund's assets experienced declines commensurate with market conditions. In fiscal year 2009, 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. Total operating expenditures, net of security lending rebates and fees, decreased 29.3% for the fiscal year ending August 31, 2009. This decrease is primarily attributable to the decrease in the expenditures for gas supplies purchased for resale within the State Energy Management 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 2008 and 2009, this distribution to the ASF totaled \$716.54 million and \$716.5 million, respectively.

At the end of the 2009 fiscal year, PSF assets guaranteed \$50.03 billion in Bonds issued by 781 local school districts. Since its inception in 1983, the Fund has guaranteed 4,050 school district bond issues totaling \$85.9 billion in principal amount. During the 2009 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program decreased by 65, or -2.5%. The dollar amount of guaranteed school

bond issues outstanding increased by \$172.1 million or 0.3%. The guarantee capacity of the Fund increased by \$445.7 million, or 0.8%, during fiscal year 2009.

### **Other Events and Disclosures**

In November 2008 and January 2009, the Chairman of the SBOE submitted requests to the Attorney General for a legal opinion relating to certain questions pertaining to the Ten Year Total Return and the Distribution Rate. In April 2009, the Attorney General issued GA-0707 in response to the Chairman's questions. The Attorney General advised as follows: (1) certain key terms used in the Total Return Constitutional Amendment, including "investment assets" and "total return" are undefined in State law and therefore the SBOE, relying upon its fiduciary obligations and industry standards, "must, in the first instance" determine the methodology to calculate the Fund's total return; (2) the methodology currently used by the SBOE to calculate total return – net appreciation or decline in value of the investment assets, plus income – appears to be consistent with common financial industry usage and would likely be held reasonable by a court; (3) the Ten Year Total Return should be calculated on an annual basis; (4) State law is completely silent as to any remedy concerning an excess transfer from the PSF to the ASF and absent further legislative guidance, no advice could be rendered with regard to the possibility that if after final or audited numbers become available it is determined that any part of a transfer made to the ASF from the PSF exceeded the Ten Year Total Return; and (5) a contingency plan adopted by the SBOE, such as the one adopted in January 2009, 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 that in no event may the amount distributed from the Fund in a fiscal year exceed 6% of the average of the market value of the Fund.

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 August 2008. 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](http://www.tea.state.tx.us/rules/tac/chapter033/index.html).

For the 2008-2009 biennium, the SBOE requested an additional appropriation of approximately \$18 million to be used for the implementation of the 2008 Asset Allocation Policy. Such amount was requested in addition to a general operating appropriation for 2008-2009 of \$14 million. The 2007 Legislature appropriated \$9 million of the requested 2008-2009 additional appropriation for external management services, and a \$14 million operating appropriation. For the 2010-2011 biennium, the SBOE made an exceptional item request of approximately \$12.5 million to fund costs of implementing the 2008 Asset Allocation Policy, but the exceptional item was not funded. The Legislature provided a total appropriation of \$23.2 million for the general administration of the Fund for the 2010-2011 biennium. While funds were not appropriated in the 2009 Legislature to implement the 2008 Asset Allocation Policy, Fund management is of the view that there are sufficient resources available to continue the phased implementation of new alternative asset allocations during the 2010-2011 biennium. In accordance with HB 3699, the SLB approved a resolution on August 7, 2007 to begin depositing revenues previously deposited with the PSF into the Real Estate Account, commencing September 1, 2007. Also on August 7, 2007, July 23, 2008 and August 6, 2009, the SLB adopted resolutions to make four quarterly payments of \$216,480,000 during fiscal years 2008, 2009 and 2010, respectively, from the Real Estate Account to the SBOE for investment, which action was taken to honor a SLB commitment to the Fund that was made prior to the enactment of HB 3699.

As of August 31, 2009, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property. Reference is made to the Annual Report for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

### **PSF Continuing Disclosure Undertaking**

The SBOE has adopted an investment policy rule (the "TEA Rule") pertaining to the PSF and the Guarantee Program. The TEA Rule is codified in Section H of the TEA Investment Procedure Manual, which relates to the Guarantee Program. Through the adoption of the TEA Rule and its commitment to guarantee the Bonds, the SBOE has made the following agreement for the benefit of the District and holders and beneficial owners of the Bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an "obligated person," within the meaning of SEC Rule 15c2-12 ("Rule 15c2-12"), with respect to the Bonds. Under the agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to 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](http://www.emma.msrb.org).

## **Annual Reports**

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

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

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

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

## **Material Event Notices**

The TEA will also provide timely notices of certain events to the MSRB. The TEA will provide notice of any of the following events with respect to the Guarantee Program, if such event is material within the meaning of the federal securities laws: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Guarantee Program; (7) modifications to rights of holders of Bonds guaranteed by the Guarantee Program; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of Bonds guaranteed by the Guarantee Program; and (11) rating changes. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, or early redemption.) In addition, the TEA will provide timely notice of any failure by the TEA to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

## **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](http://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 tax rate (the "M&O Tax") had become in effect a state property tax, in violation of Article VIII, Section 1-e of the Texas Constitution, because it precluded them and other school districts from having meaningful discretion to tax at a lower rate. Forty school districts intervened alleging that the Texas public school finance system (the "Finance System") was inefficient, inadequate, and unsuitable, in violation of Article VII, Section 1 of the Texas Constitution, because the State of Texas (the "State") did not provide adequate funding. As described below, this case has twice reached the Texas Supreme Court (the "Supreme Court"), which rendered decisions in the case on May 29, 2003 ("West Orange-Cove I") and November 22, 2005 ("West Orange-Cove II"). After the remand by the Supreme Court back to the District Court in West Orange-Cove I, 285 other school districts were added as plaintiffs or intervenors. The plaintiffs joined the intervenors in their Article VII, Section 1 claims that the Finance System was inadequate and unsuitable, but not in their claims that the Finance System was inefficient.

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

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

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

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

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

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

### **Funding Changes in Response to West Orange-Cove II**

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

### **Possible Effects of Litigation and Changes in Law on District Bonds**

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

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

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

## **CURRENT PUBLIC SCHOOL FINANCE SYSTEM**

### **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 session of the 81st Texas Legislature (the "2009 Regular 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.

The Reform Legislation, which generally became effective at the beginning of the 2006-07 fiscal year of each district, made substantive changes to the manner in which the Finance System is funded, but did not modify the basic structure of the Finance System. The changes to the manner in which the Finance System is funded were intended to reduce local M&O Tax rates by one third over two years, with M&O Tax levies declining by approximately 11% in fiscal year 2006-07 and approximately another 22% in fiscal year 2007-08, subject to local referenda that may increase local M&O Tax levies, thus offsetting a part of the compression in local M&O Tax levies (see "AD VALOREM TAX PROCEDURES – Tax Rate Limitations"). Additional State funding needed to offset local tax rate reductions must be generated by the modified State franchise, motor vehicle and tobacco taxes or any other revenue source appropriated by the Legislature. The Legislative Budget Board projected that the Reform Legislation would be underfunded from the Reform Legislation revenue sources by a cumulative amount of \$25 billion over fiscal years 2006-07 through 2010-11, however State surpluses have been appropriated to offset the revenue shortfall in fiscal year 2006-07 and for the 2008-09 and 2010-11 State biennia.

Under the Finance System, as modified during the 2009 Regular Legislative Session, a school district that imposes an M&O Tax at least equal to the product of the "state compression percentage" (as defined below) multiplied by the district's 2005-06 M&O Tax rate is entitled to at least the amount of State funding necessary to provide the district with the sum of (A) the amount of State and local revenue per weighted average daily attendance ("WADA") to which the school district would be entitled for the 2009-10 school year as calculated under the law as it existed on January 1, 2009, (B) an additional \$120 per WADA, (C) an amount to which the district is entitled based on supplemental payments owed to any tax increment fund for a reinvestment zone and (D) any amount due to the district to the extent the district contracts for students residing in the district to be educated in another district (i.e., tuition allotment). If a district adopts an M&O Tax rate in any fiscal year below a rate equal to the state compression percentage for the district in that year multiplied by the M&O Tax rate adopted by the district for the 2005-06 fiscal year, the district's guaranteed amount is reduced in a proportionate amount. If a district would receive more State and local revenue from the Tier One and Tier Two allotments (each as hereinafter defined) and wealth equalization than the guaranteed amount described above, the amount of State funding will be reduced by the amount of such surplus over the guaranteed amount described above.

In general terms, funds are allocated to districts in a manner that requires districts to "compress" their tax rates in order to receive increased State funding at a level that equalizes local tax wealth at the 88th percentile yield for the 2006-07 fiscal year. The state compression percentage is a basic component of the funding formulas. The state compression percentage was 66.67% for fiscal years 2007-08 and 2008-09. For fiscal year 2009-10 and thereafter, the Commissioner is required to determine the state compression percentage for each fiscal year based on the percentage by which a district is able to reduce its M&O Tax rate for that year, as compared to such district's adopted M&O Tax rate for the 2005-06 fiscal year, as a result of State funds appropriated for distribution for the current fiscal year from the property tax relief fund established under the Reform Legislation, or from any other funding source made available by the Legislature for school district property tax relief. For fiscal year 2009-10, the Commissioner determined the State compression percentage to be 66.67%.

### **State Funding for Local School Districts**

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

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

Tier One allotments are intended to provide all districts a basic program of education rated academically acceptable and meeting other applicable legal standards. If needed, the State will subsidize local tax receipts at a tax rate of the state compression percentage multiplied by the lesser of (a) \$1.50 or (b) the district's 2005 M&O Tax to ensure that the cost to a district of the basic program is met. 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 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 "Tier One Basic Allotment." The Tier One Basic Allotment is adjusted for all districts by a cost-of-living factor known as the "cost of education index." In addition, a district-size adjustment further adjusts the Tier One Basic Allotment for districts that (i) have not more than 1,600 students in average daily attendance (with alternative formulas established for such districts that contain at least 300 square miles and those districts that contain less than 300

square miles) or (ii) offer a kindergarten through grade 12 program and have less than 5,000 students in average daily attendance. For fiscal year 2007-08, the Tier One Basic Allotment was \$3,135 based upon a guaranteed yield of \$36.45 for each cent of tax effort, and for fiscal year 2008-09, the Tier One Basic Allotment was \$3,218 based upon a guaranteed yield of \$37.42 for each cent of tax effort. For the 2009-10 through 2012-13 school years, the basic allotment is set at the greater of \$4,765 or 1.65% of the statewide average property value per student in WADA and, thereafter, at the lesser of \$4,765 or that amount multiplied by the quotient of the district's compressed tax rate divided by the State maximum compressed tax rate of \$1.00. This increase was due to changes in law effected by the Legislature during the 2009 Regular Legislative Session, which combined certain funding allotments that previously were separate components of Tier Two funding into the Tier One Basic Allotment. An additional change made during the 2009 Regular Legislative Session limits, beginning with 2010-11 school year, the annual increases in a district's M&O Tax revenue per WADA for purposes of State funding to not more than \$350, excluding Tier Two funds. For the 2009-10 school year, the revenue increases are limited to the funds that a district would have received under the school finance formulas as they existed on January 1, 2009, plus an additional \$350 per WADA, excluding Tier Two funds.

Tier Two currently provides two levels of enrichment with different guaranteed yields depending on the district's tax effort. For fiscal year 2009-10, the first six cents of tax effort that exceeds the compressed tax rate will generate a guaranteed yield equivalent to (a) that of the Austin Independent School District or (b) the amount of tax revenue per WADA received on that tax effort in the previous year, whichever is greater. The second level of Tier Two is generated by tax effort that exceeds the compressed tax rate plus six cents and has a guaranteed yield per penny of local tax effort of \$31.95. Before 2009-10, Tier Two consisted of a district's M&O Tax levy above \$0.86. For fiscal year 2008-09, State funding to equalize local M&O Tax levies above \$0.86, up to a district's compressed rate, was funded at a guaranteed yield of \$37.42 per student in WADA for each cent of tax effort; any amount above a district's compressed rate up to \$0.04 was funded at a guaranteed yield of \$50.98 per WADA for each cent of tax effort; and any tax effort associated with a tax approved by voters at a rollback election was funded at a guaranteed yield of \$31.95 per WADA for each cent of tax effort above a district's compressed rate plus \$0.04. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - General" for a discussion of the state compression percentage.

The IFA guarantees each school district a specified amount per student (the "IFA Guaranteed Yield") in State and local funds for each cent of tax effort to pay principal of and interest on eligible Bonds issued to construct, acquire, renovate or improve instructional facilities. To receive an IFA, a school district must apply to the Commissioner in accordance with rules adopted by the Commissioner before issuing the Bonds to be paid with State assistance. The total amount of debt service assistance over a biennium for which a district may be awarded is limited to the lesser of (1) the actual debt service payments made by the district in the biennium in which the Bonds are issued; or (2) the greater of (a) \$100,000 or (b) \$250 multiplied by the number of students in average daily attendance. The IFA is also available for lease-purchase agreements and refunding Bonds meeting certain prescribed conditions. If the total amount appropriated by the State for IFA in a year is less than the amount of money school districts applying for IFA are entitled to for that year, districts applying will be ranked by the Commissioner by wealth per student, and State assistance will be awarded to applying districts in ascending order of adjusted wealth per student beginning with the district with the lowest adjusted wealth per student. In determining wealth per student for purposes of IFA, adjustments are made to reduce wealth for certain fast growing districts. Once a district receives an IFA award for Bonds, it is entitled to continue receiving State assistance without reapplying to the Commissioner and the guaranteed level of State and local funds per student per cent of tax effort applicable to the Bonds may not be reduced below the level provided for the year in which the Bonds were issued. In 2007, the Legislature appropriated funds for outstanding school district Bonds that qualified in prior budget cycles for IFA allotments and added funding for qualified debt to be issued for instructional facilities in the State's 2008-09 fiscal biennium; however, the Texas Education Agency has indicated that it intends to reserve all such new appropriation for the second year of the biennium.

State financial assistance is provided for certain existing debt issued by school districts (referred to herein as EDA) to produce a guaranteed yield (the "EDA Yield"), which for the 2009-11 State Biennium is \$35.00 (subject to adjustment as described below) in State and local revenue per student for each cent of debt service tax levy; however, for Bonds that became eligible for EDA funding after August 31, 2001, and prior to August 31, 2005, EDA assistance for such eligible Bonds may be less than \$35 in revenue per student for each cent of debt service tax, as a result of certain administrative delegations to the Commissioner under State law. Effective September 1, 2003, the portion of the local debt service rate that has qualified for equalization funding by the State has been limited to the first 29 cents of debt service tax or a greater amount for any year provided by appropriation by the Legislature. In general, a district's Bonds are eligible for EDA assistance if (i) the district made payments on the Bonds during the final school year of the preceding State fiscal biennium or (ii) levied taxes to pay the principal of and interest on the Bonds for that school year. Access to EDA funding will be 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.

A district may also qualify for an allotment for operational expenses associated with opening new instructional facilities. This funding source may not exceed \$216,480,000 in one school year on a State-wide basis. For the first school year in which students attend a new instructional facility, a district is entitled to an allotment of \$250 for each student in average daily attendance at the facility. For the second school year in which students attend that facility, a district is entitled to an allotment of \$250 for each additional student in average daily attendance at the facility. The new facility operational expense allotment will be deducted from wealth per student for purposes of calculating a district's Tier Two State funding.

### **Local Revenue Sources - Property Tax Authority**

The primary source of local funding for school districts is ad valorem taxes levied against the local tax base. The former provision of the Education Code, Section 45.003, as amended, that in general limited the M&O Tax rate to \$1.50 per \$100 of taxable assessed value, was replaced by the Reform Legislation with a formula using the state compression percentage so that the maximum tax rate that may be adopted by a district in any fiscal year is limited based on the amount of State funds to be received by the District in that year. For the

2006-07 and 2007-08 fiscal years, districts were permitted to generate additional local funds by raising their M&O Tax rate by \$0.04 above the compressed tax rates (without taking into account changes in taxable valuation) without voter approval, and such amounts generated equalized funding dollars from the State under the Tier Two program. In fiscal year 2008-09 and thereafter, districts may, in general, increase their tax rate by an additional two or more cents and receive State equalization funds for such taxing effort so long as the voters approve such tax rate increase. Many school districts, however, voted their M&O Tax under prior law and may be subject to other limitations on the M&O Tax rate. School districts are also authorized to levy a bond debt service tax that may be unlimited in rate. See “AD VALOREM TAX PROCEDURES – Tax Rate Limitations” herein. The governing body of a school district cannot adopt an annual tax rate which exceeds the district’s “rollback tax rate” without submitting such proposed tax rate to the voters at a referendum election. See “AD VALOREM TAX PROCEDURES” – Public Hearing and Rollback Tax Rate” herein.

### **Wealth Transfer Provisions**

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

The wealth level that required wealth reduction measures for fiscal year 2006-07 was \$319,500 per student in average daily attendance. For 2007-08 that wealth level was increased to \$364,500 per student in average daily attendance with respect to that portion of a district’s M&O tax effort that did not exceed its compressed tax rate, and remained at \$319,500 with respect to that portion of a district’s local tax effort that was beyond its compressed rate plus \$.04. For 2008-09 that wealth level was further increased to \$374,200 per student in average daily attendance with respect to that portion of a district’s M&O Tax effort that did not exceed its compressed tax rate, and remained at \$319,500 with respect to that portion of a district’s local tax effort that was beyond its compressed rate plus \$0.06. For 2009-10 that wealth level has been increased to \$476,500 per student in average daily attendance with respect to that portion of a district’s M&O Tax effort that does not exceed its compressed tax rate, and remains at \$319,500 with respect to that portion of a district’s local tax effort that is beyond its compressed rate plus \$.06.

Property wealthy districts may also be able to levy up to an additional six cents per \$100 of assessed valuation of M&O Taxes above their compressed rate to provide revenue that is not subject to recapture.

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

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

A district may not adopt a tax rate until its effective wealth per student is the equalized wealth level or less. If a final court decision holds any of the preceding permitted remedial options unlawful, districts may exercise any remaining option under a revised schedule approved by the Commissioner.

If a district fails to exercise a permitted option, the Commissioner must reduce the district’s property wealth per student to the equalized wealth level by detaching certain types of property from the district and annexing the property to a property-poor district or, if necessary, consolidate the district with a property-poor district. Provisions governing detachment and annexation of taxable property by the Commissioner do not provide for assumption of any of the transferring district’s existing debt.

### **Possible Effects of Wealth Transfer Provisions on the District's Financial Condition**

The District's wealth per student for the 2009-2010 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 such 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.

## **AD VALOREM TAX PROCEDURES**

### **Tax Code and County-Wide Appraisal District**

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

### **Property Subject to Taxation by the District**

Except for certain exemptions provided by State law, all real and certain tangible personal property with a tax situs in the District is subject to taxation by the District. Principal categories of exempt property (including certain exemptions which are subject to local option by the Board of Trustees of the District) include property owned by the State or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain improvements to real property and certain tangible personal property located in designated reinvestment zones on which the District has agreed to abate ad valorem taxes; certain household goods, family supplies and personal effects; farm products owned by the producers; certain real property and tangible personal property owned by a non-profit community business organization or a charitable organization; and designated historic sites. Other principal categories of exempt property include tangible personal property not held or used for production of income; solar and windpowered energy devices; most individually owned automobiles; \$10,000 exemption to residential homesteads of disabled persons or persons ages 65 or over; an exemption from \$5,000 to a maximum of \$12,000 for real or personal property of disabled veterans or the surviving spouses or children of a deceased veteran who died while on active duty in the armed forces; effective January 1, 2010, a disabled veteran 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 is entitled to an exemption from taxation of the total appraised value of the veteran’s residence homestead; \$15,000 in market value for all residential homesteads; and certain classes of intangible property. In addition, except for increases attributable to certain improvements, the District is prohibited by State law from increasing the total ad valorem tax of the residence homestead of persons who are 65 years of age or older and persons who are disabled above the amount of tax imposed in the year such residence qualified for an exemption based on age of the owner. The freeze on ad valorem taxes on the homesteads of persons who are 65 years of age or older and persons who are disabled is also transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as (i) the taxpayer died in a year in which he qualified for the exemption, (ii) the surviving spouse was at least 55 years of age when the taxpayer died and (iii) the property was the residence homestead of the surviving spouse when the taxpayer died and the property remains the residence homestead of the surviving spouse. A “disabled” person is one who is “under a disability for purposes of payment of disability insurance benefits under the Federal Old Age, Survivors and Disability Insurance.” Pursuant to a constitutional amendment approved by the voters on May 12, 2007, legislation was enacted to reduce the school property tax limitation imposed by the freeze on taxes paid on residence homesteads of persons 65 years of age or over or of disabled persons to correspond to reductions in local school district tax rates from the 2005 tax year to the 2006 tax year and from the 2006 tax year to the 2007 tax year (see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – General”). The school property tax limitation provided by the constitutional amendment and enabling legislation applies to the 2007 and subsequent tax years.

A city or a county may create a tax increment financing district (“TIF”) within the city or county, as applicable, with defined boundaries and establish a base value of taxable property in the TIF at the time of its creation. Overlapping taxing units, including school districts, may agree with the city or county to contribute all or part of future ad valorem taxes levied and collected against the “incremental value” (taxable value in excess of the base value) of taxable real property in the TIF to pay or finance the costs of certain public improvements in the TIF, and such taxes levied and collected for and on behalf of the TIF are not available for general use by such contributing taxing units. Effective September 1, 2001, school districts may not enter into tax abatement agreements under the general statute that permits cities and counties to initiate tax abatement agreements. Under current law, the Comptroller of Public Accounts is to determine taxable value of property within each school district in the State (which taxable value figure is used in calculating a district’s wealth per student) and in making such determination the taxable value is to exclude (i) the total dollar amount of any captured appraised value of property located in a reinvestment zone on August 31, 1999, that generates taxes paid into a tax increment fund and is eligible for tax increment financing under a reinvestment zone financing plan approved before September 1, 1999, and (ii) the total dollar value of taxable property covered by a tax abatement agreement entered into prior to June 1, 1993. Notwithstanding the foregoing, in 2001 the Legislature enacted legislation known as the Texas Economic Development Act, which provides incentives for certain school districts to grant tax abatements and ad valorem tax credits on certain eligible property to encourage economic development in their tax base. 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 district for each year of such tax abatement in the amount of the tax credit

provided to the taxpayer by the district. During the first two years of a tax limitation agreement, the school district may not adopt a tax rate that exceeds the district's rollback tax rate. (see "AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate")

Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990, may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal.

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

### **Valuation of Property for Taxation**

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal. The Appraisal District's chief appraiser determines the method to be used. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Tax Code are based on one hundred percent (100%) of market value, except as described below, and no assessment ratio can be applied.

Effective January 1, 2010, State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property or (2) 110% of the appraised value of the resident homestead for the preceding tax year plus the market value of all new improvements to the property.

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

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

### **Residential Homestead Exemption**

The Texas Constitution permits the exemption of certain percentages of the market value of residential homesteads from ad valorem taxation. The Constitution authorizes the governing body of each political subdivision in the State to exempt up to twenty percent (20%) of the market value of all residential homesteads from ad valorem taxation, and permits an additional optional homestead exemption for taxpayers 65 years of age or older and disabled persons.

### **District and Taxpayer Remedies**

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

### **Public Hearing and Rollback Tax Rate**

In setting its annual tax rate, the governing body of a school district generally cannot adopt a tax rate exceeding the district's "rollback tax rate" without approval by a majority of the voters voting at an election approving the higher rate. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures and (2) a rate for debt service. For the 2007-08 fiscal year and thereafter, the rollback tax rate for a school district is the lesser of (A) the sum of (1) the product of the district's "state compression percentage" for

that year multiplied by \$1.50, (2) the rate of \$0.04, (3) any rate increase above the rollback tax rate in prior years that were approved by voters, and (4) the district's current debt rate, or (B) the sum of (1) the district's effective maintenance and operations tax rate, (2) the product of the district's state compression percentage for that year multiplied by \$0.06; and (3) the district's current debt rate (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - General" for a description of the "state compression percentage"). If for the preceding tax year a district adopted an M&O Tax rate that was less than its effective M&O Tax rate for that preceding tax year, the district's rollback tax for the current year is calculated as if the district had adopted an M&O Tax rate for the preceding tax year equal to its effective M&O Tax rate for that preceding tax year.

The "effective maintenance and operations tax rate" for a school district is the tax rate that, applied to the current tax values, would provide local maintenance and operating funds, when added to State funds to be distributed to the district pursuant to Chapter 42 of the Texas Education Code, as amended, 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, as amended, 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, as amended. Section 44.004(e) of the Texas Education Code, as amended, 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. Beginning September 1, 2009, a district may adopt its budget after adopting a tax rate for the tax year in which the fiscal year covered by the budget begins if the district elects to adopt its tax rate before receiving the certified appraisal roll. A district that adopts a tax rate before adopting its budget must hold a public hearing on the proposed tax rate followed by another public hearing on the proposed budget rather than holding a single hearing on the two items.

### **Levy and Collection of Taxes**

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

### **District's Rights in the Event of Tax Delinquencies**

Taxes levied by the District are a personal obligation of the owner of the property. The District has no lien for unpaid taxes on personal property but does have a lien for unpaid taxes upon real property, which lien is discharged upon payment. On January 1 of each year, such tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The District's tax lien is on a parity with the tax liens of other such taxing units. A tax lien on real property taxes takes priority over the claims of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

Except with respect to taxpayers who are 65 years of age or older, at any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property.

Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights, or by bankruptcy proceedings which restrict the collection of taxpayer debts.

**Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.**

## Penalties and Interest

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

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

After July, the cumulative penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, a 20% attorney's collection fee may be added to the total tax, penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed.

Property within the District is assessed as of January 1 of each year (except business inventories which may be assessed as of September 1 and mineral values which are assessed on the basis of a twelve month average) and taxes become due October 1 of the same year and become delinquent on February 1 of the following year.

## District Application of Tax Code

The District does not grant an exemption to the market value of the residence homestead of persons 65 years of age or older, or disabled veterans over the state-mandated exemption. The District has not granted an additional exemption of the market value of residence homesteads.

Ad valorem taxes are not levied by the District against the exempt value of residence homesteads for the payment of debt. The District does 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 and has no current tax abatements. The District does tax goods in transit.

## Tax Rate Limitations

A school district is authorized to levy the M&O Tax 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 19, 1966 pursuant to Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended ("Article 2784e-1"). Article 2784e-1 limits the District's annual M&O Tax rate based upon a comparison between the District's outstanding bonded indebtedness and the District's taxable assessed value per \$100 of assessed valuation. Article 2784e-1 provides for a reduction of \$0.10 for each one percent (1%) or major fraction thereof increase in bonded indebtedness beyond seven percent (7%) of assessed valuation of property in the District. This limitation is capped when the District's bonded indebtedness is ten percent (10%) (or greater) of the District's assessed valuation which would result in an annual M&O Tax rate not to exceed \$1.20. Lastly, the Texas Attorney General in reviewing the District's transcript of proceedings will allow the District to reduce the amount of its outstanding bonded indebtedness by the amount of funds (on a percentage basis) that the District receives in State assistance for the repayment of this bonded indebtedness (For example, if the District anticipates that it will pay 75% of its bonded indebtedness from State assistance, for the purposes of Article 2784e-1, the Texas Attorney General will assume that only 25% of the District's bonded indebtedness is outstanding and payable from local ad valorem taxes). The bonded indebtedness of the District after the issuance of the Bonds will be approximately 2.10% of the District's current taxable assessed valuation of property. See "Appendix A - 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 and 2008-09. For fiscal year 2009-10 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 fiscal year 2009-10, the Commissioner has determined to maintain the State compression percentage at 66.67%. For a more detailed description of the state compression percentage, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - General". Furthermore, a school district cannot annually increase its tax rate in excess of the district's "rollback tax rate" without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate. See "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, which provides a tax unlimited as to rate or amount for the support school district bonded indebtedness (see "THE BONDS – Security and Source of Payment").

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

### **EMPLOYEES' BENEFIT PLANS**

The District's employees participate in a retirement plan (the "Plan") with the State of Texas. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. For the year ended August 31, 2009, the State contributed \$16,338,092 to TRS on behalf of the District, District employees paid \$18,772,369 and other contributions into the plan made from private grants and from the District for salaries above the statutory minimum were \$5,310,045.

In addition to the TRS retirement plan, the District provides health care coverage for its employees. During the year ended August 31, 2009, the district contributed \$285.00 per month per employee into the Plan. Employees authorize payroll withholdings to pay monthly premiums. All contributions are paid to a third party administrator, acting on behalf of the self-funded pool. The Plan is authorized under Chapter 172, Local Government Code. The contract between the District and the third party administrator is renewable September 1<sup>st</sup>, and terms of coverage and contribution costs are included in the contractual provisions. In accordance with State statute, the District was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage carried Stop Loss, Inc., a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code. Stop-loss coverage was in effect for individual claims exceeding \$200,000 and for aggregate loss exceeding \$1,000,000.

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

### **THE DISTRICT**

The District, an independent school district and political subdivision of the State of Texas is located in Harris County, Texas. Harris County, along with other governmental entities, have authority to levy ad valorem taxes. See "APPENDIX A - Table 6, Estimated Overlapping Debt."

#### **Administration**

The Board of Trustees is the governing body of the District and consists of seven members, who serve four-year terms without salary. The District is under the administrative supervision of the Superintendent of Schools, who is employed by the Board.

## District School Operations

On April 1, 2010, the District owned and operated five high schools, two ninth grade centers, six intermediate schools, six middle schools, twenty-four elementary schools, and one alternative learning center.

	Fiscal Year Ended August 31						
	<u>2010<sup>(a)</sup></u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Enrollment	45,582	45,367	45,139	45,740	47,664	45,709	45,472
Average Daily Attendance	41,547	41,092	40,910	41,061	43,238	42,533	41,781
Cost Per Student	\$8,208	\$7,997	\$7,667	\$7,548	\$6,255	\$6,114	\$6,052

<sup>(a)</sup> Projected.

## Government Fund Types

*General Fund* – is the District’s primary operating fund. It is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, state reimbursement for professional salaries and other operating expenditures, interest on fund investments, and direct cost revenues from federal grants. Expenditures include all costs associated with the daily operations of the schools.

*Debt Service Fund* – is used to account for the payment of interest and principal on all bonds of the District. Primary sources of revenue for debt service are local property taxes and the state existing debt and instructional facilities allotments.

*Capital Projects Funds* – includes funds that are used to account for the expenditures of resources accumulated from sales of bonds and related interest earnings for the acquisition and construction of school facilities and other capital asset acquisitions.

*Special Revenue Funds* – is used to account for various funds. Specifically, this type of fund is used to account for the District’s Food Service Program, including local, state, and federal revenue sources, for federally financed programs (grants) where unused balances are returned to the grantor at the close of specified projects periods and other revenue specific programs. The Food Service Fund is the only required budgeted fund. For all other funds in this fund type, project accounting is employed to maintain integrity for the various sources of the funds. Resources accounted for in these funds are awarded to the District for the purpose of accomplishing specific educational tasks as defined by the grantors in contracts or other agreements.

*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.

*Enterprise Fund* – is used to account for revenues and expenditures of the District’s daycare facility. Revenues in this fund are primarily from fees paid by participants in the program. This is the second year of operation for this program.

*Internal Service Fund* – the two internal service funds are used to account for the operations of the District’s employee health insurance plan and workers’ compensation plan, which are supported by employer and/or employee contributions. Expenses include plan benefit payments to employees and charges incurred in administering the plan. The estimated amount for claims incurred, but not reported at year-end, are included as fund liabilities.

## INVESTMENTS

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

### Legal Investments

Available District funds are invested as authorized by Texas law and in accordance with investment policies approved by the Board of Trustees. Both state law and the District’s investment policies are subject to change. Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (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 meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing

business in the State of Texas, (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than “A” or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District’s name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less, (10) certain bankers’ acceptances with the remaining term of 270 days or less, if the shortterm obligations of the accepting bank or its parent are rated at least “A-1” or “P-1” or the equivalent by at least one nationally recognized credit rating agency, (11) commercial paper with a stated maturity of 270 days or less that is rated at least “A-1” or “P-1” or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (12) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, and (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than “AAA” or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

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

### **Investment Policies**

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment owned by the District and the maximum average dollar-weighted maturity allowed for pooled fund groups. All District funds must be invested consistent with a formally adopted “Investment Strategy Statement” that specifically addresses each 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 Trustees.

### **Additional Provisions**

Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Trustees; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District’s investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District’s investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the District’s entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the District’s investment policy; (6) provide specific investment training

for the Treasurer, Chief Financial Officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (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.

### **Current Investments**

As of March 31, 2010, the District had approximately \$5,000,000 invested in Bank of America, \$14,068,234 invested in TexPool, \$32,257,429.19 invested in LOGIC, \$53,661,503.95 invested in LoneStar, \$12,203,900 invested in Government Securities. The market value of such investments is approximately 100% of their book value. No funds of the District are invested in derivative securities; i.e., securities whose rate of return is determined by reference to some other instrument, index or commodity.

### **TAX MATTERS**

The following discussion describes certain U.S. federal income tax considerations of United States persons that are beneficial owners ("Owners") of the Bonds. This discussion is based upon the provisions of the Code, applicable Treasury Regulations promulgated and proposed thereunder, judicial authority and administrative interpretations, as of the date hereof, all of which are subject to change, possibly with retroactive effect, or are subject to different interpretations. Owners cannot be assured that the Internal Revenue Service will not challenge one or more of the tax consequences described herein, and neither the Department nor Bond Counsel has obtained, nor does the Department or Bond Counsel intend to obtain, a ruling from the IRS with respect to the U.S. federal tax consequences of acquiring, holding or disposing of the Bonds. This summary is limited to initial holders who purchase the Bonds for cash at their "issue price" (which will equal the first price at which a substantial portion of the Bonds is sold for cash to persons other than Bondhouses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers) and who hold the Bonds as capital assets within section 1221 of the Code (generally property held for investment).

This summary does not discuss all of the tax consequences that may be relevant to an Owner in light of its particular circumstances or to Owners subject to special rules, such as certain financial institutions, insurance companies, tax-exempt organizations, foreign taxpayers, taxpayers who may be subject to the alternative minimum tax or personal holding company provisions of the Code, dealers in securities or foreign currencies, or Owners whose functional currency (as defined in section 985 of the Code) is not the U.S. dollar, or to an Owner that might have purchased the Bonds in circumstances that would give rise to original interest discount, acquisition premium, market discount or amortizable premium. Except as stated herein, this summary describes no federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Bonds. Investors who are subject to special provisions of the Code should consult their own tax advisors regarding the tax consequences to them of purchasing, holding, owning and disposing of the Bonds, including the advisability of making any of the elections described below, before determining whether to purchase the Bonds.

The Code generally defines a "United States person" as (i) an individual who, for U.S. federal income tax purposes, is a citizen or resident of the United States, (ii) a corporation or other entity taxable as a corporation for U.S. federal income tax purposes, that was created or organized in or under the laws of the United States, and any state thereof or the District of Columbia or any political subdivision thereof, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source and (iv) a trust whose administration is subject to the primary supervision of a United State court and which has one or more United States persons who have the authority to control all substantial decisions of the trust.

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds Bonds, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. Any Owner of the Bond that is a partner of a partnership that will hold Bonds should consult its tax advisor.

This discussion does not address any tax considerations arising under the laws of any foreign, state, local or other jurisdiction.

#### *In General*

Interest on a Bond generally will be taxable in each year the Bond is held by the Owner as ordinary income without regard to the time it otherwise accrues or is received in accordance with such Owner's regular method of accounting for U.S. federal income tax purposes.

#### *Payments of Interest*

Stated interest paid on each Bond will generally be taxable in each tax year held by an Owner as ordinary interest income without regard to the time it otherwise accrues or is received in accordance with the Owner's method of accounting for federal income tax purposes. Special rules governing the treatment of original issue discount are described below.

#### *Original Issue Discount*

Certain Bonds may be sold at a discount below their principal amount. As provided in the Code and the Treasury Regulations, the excess of the "state redemption price at maturity" (as defined below) of each such Bond over its issue price will be original issue discount if such

excess equals or exceeds a de minimis amount (i.e., one quarter of one percent of the Bond's stated redemption price at maturity multiplied by the number of complete years to its maturity). A Bond having original issue discount equal to or greater than a de minimis amount will be referred to an "Original Issue Discount Bond." Owners of Bonds that are not Original Issue Discount Bonds will include any de minimis original issue discount in income, as capital gain, on a pro rata basis as principal payments are made on the Bond. The stated redemption price at maturity of a Bond includes all payments on the Bonds other than the stated interest amounts, which are based on a fixed rate and payable unconditionally at the end of each six-month accrual period.

Except as described below, Owners of Original Issue Discount Bonds will have to include in gross income (irrespective of their method of accounting) a portion of the original issue discount of the Original Issue Discount Bonds for each year in which Original Issue Discount Bonds are held, even though the case to which such income is attributable will not be received until maturity of the Original Issue Discount Bonds. The amount of original issue discount included in income for each year will be calculated under a constant yield to maturity formula that results in the allocation of less original issue discount to earlier years of the terms of Original Issue Discount Bonds and more original issue discount to the later years.

The foregoing summary is based on the assumptions that (i) the Purchaser has purchased the Bonds for contemporaneous sale to the general public and not for investment purposes, (ii) all of the Bonds have been offered, and a substantial amount of each maturity thereof has been sold to the general public in arm's-length transactions for a cash price (and with no other consideration being included) equal to the initial offering price thereof stated on the inside cover page of this Official Statement, and (iii) the respective initial offering prices of the Bonds to the general public are equal to the fair market value thereof. Neither the Borrower nor Bond Counsel has made any investigation or offers and assurance that the Bonds will be offered and sold in accordance with such assumptions.

#### *Accrual Method Election*

Under the OID Regulations, an Owner that uses an accrual method of accounting would be permitted to elect to include in gross income its entire return on a Bond (i.e., the excess of all remaining payments to be received on the Bond over the amount paid for the Bond by such Owner), based on the compounding of interest at a constant rate. Such an election for a Bond with amortizable bond premium (or market discount) would result in a deemed election for all of the Owner's debt instruments, with amortizable bond premium (or market discount) and could be revoked only with the permission of the IRS with respect to debt instruments acquired after revocation.

#### *Disposition or Retirement*

Upon the sale, exchange or certain other dispositions of a Bond, or upon the retirement of a Bond (including by redemption), an Owner will generally recognize capital gain or loss. This gain or loss will equal the difference, if any, between the Owner's adjusted tax basis in the Bond and the proceeds the Owner receives, excluding any proceeds attributable to accrued interest, which will be recognized as ordinary interest income to the extent the owner has not previously included in the accrued interest income.

The proceeds an Owner receives will include the amount of any cash and the fair market value of any other property received for the Bond. Notwithstanding the discussion under "Original Issue Discount," an Owner's tax basis in the Bond will generally equal the amount the Owner paid for the Bond. The gain or loss will be long-term capital gain or loss if the Owner held the Bond for more than one year. Long-term capital gains of individuals, estates and trusts currently are subject to a reduced tax rate. The deductibility of capital losses may be subject to limitation.

#### *Defeasance of the Bonds*

Defeasance of any of the Bonds may result in a reissuance thereof for U.S. federal income tax purposes. In the event of a reissuance, an Owner may recognize taxable gain or loss as described in "Disposition or Retirement," above, even if such Owner does not receive any cash at the time such Bonds are defeased.

#### *Information Reporting and Backup Withholding*

Information reporting will apply to payments of interest on, or the proceeds of the sale or other disposition of, the Bonds held by an Owner, and backup withholding may apply unless such Owner provides the appropriate intermediary with a taxpayer identification number, certified under penalties of perjury, as well as certain other information or otherwise establishes an exemption from backup withholding. Any amount withheld under the backup withholding rules is allowable as a credit against the Owner's actual U.S. federal income tax liability and such Owner timely provides the required information or appropriate claim form to the IRS.

#### *Treasury Circular 230 Disclosure*

The tax discussion set forth above was written to support the marketing of the Bonds and is not intended or written by Bond Counsel to be used, and it cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on a taxpayer by the Internal Revenue Service in respect of federal income taxes. No limitation has been imposed by Bond Counsel on disclosure of the tax treatment or tax structure of the Bonds. Bond Counsel will receive a non-refundable fee contingent upon the successful marketing of the Bonds, but not contingent on any taxpayer's realization of tax benefits from the Bonds. All taxpayers should seek advice based on such taxpayer's particular circumstances from an independent tax advisor. This disclosure is provided to comply with Treasury Circular 230.

IN ADDITION, THE FEDERAL TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON AN OWNER'S PARTICULAR SITUATION. INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX IMPLICATIONS OF HOLDING AND DISPOSING OF THE Bonds UNDER APPLICABLE STATE OR LOCAL LAWS. FOREIGN INVESTORS SHOULD ALSO CONSULT THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES UNIQUE TO INVESTORS WHO ARE NOT U.S. PERSONS.

### **CONTINUING DISCLOSURE OF INFORMATION**

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB"). Information will be available free of charge via the MSRB's Electronic Municipal Market Access ("EMMA") system at [www.emma.msrb.org](http://www.emma.msrb.org).

#### **Annual Reports**

The District will provide updated financial information and operating data to the MSRB annually via EMMA. The information to be updated includes all quantitative financial information and operating data of the general type included in this Official Statement in APPENDIX A, Tables 1 through 5 and Tables 7 through 10, and APPENDIX B. The District will update and provide this information within six months after the end of each fiscal year.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12, as amended (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 the audit report becomes 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 the last day of August 31. Accordingly, the District must provide updated information by the last day of February in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

#### **Material Event Notices**

The District will also provide timely notices of certain events to the MSRB. The District will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes (neither the Bonds nor the Orders make any provision for debt service reserves, liquidity enhancement or credit enhancement other than the Permanent School Fund guarantee described herein). In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports".

#### **Limitations and Amendments**

The District has agreed to update information and to provide notices of material events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that 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, 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**

Due to administrative oversight, the District failed to file certain annual financial information for fiscal year 2006 pursuant to its prior continuing disclosure agreements made in accordance with the Rule. The District's Dissemination Agent has filed a material event notice of this error, and the District has taken steps to ensure that all annual financial information will be filed timely in the future.

Except as described herein, during the past five years, the District has complied in all material respects with its previous continuing disclosure agreements in accordance with the Rule.

## **OTHER INFORMATION**

### **Ratings**

Moody's Investors Service ("Moody's") and Standard & Poor's, a Standard & Poor's Financial Services LLC business ("S&P") have assigned their municipal ratings of "\_\_\_\_" and "\_\_\_\_" respectively to the Bonds by virtue of the guarantee of the Permanent School Fund of the State of Texas on the Bonds. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.) An explanation of the ratings may be obtained from Moody's and S&P. The ratings reflect only the views of Moody's and S&P 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 such rating company if in the judgment of the company circumstances so warrant. Any such downward revision or withdrawal by such ratings may have an adverse effect on the market price of the Bonds.

### **Recalibration of Rating to the Global Rating Scale; Principal Methodology**

The rating assigned to the Bond was issued on Moody's municipal rating scale. Moody's has announced its plans to recalibrate all U.S. municipal ratings to its global scale and therefore, upon implementation of the methodology published by Moody's in conjunction with this initiative, the rating will be recalibrated to a global scale rating comparable to other credits with a similar risk profile. Moody's has indicated that market participants should not view the recalibration of municipal ratings as rating upgrades, but rather as a recalibration of the ratings to a different rating scale. This recalibration does not reflect an improvement in credit quality or a change in Moody's credit opinion for rated municipal debt issuers. For further details regarding the recalibration please visit [www.moody.com/gsr](http://www.moody.com/gsr).

The principal methodology used by Moody's in assigning the rating was "General Obligation Bonds Issued by U.S. Local Governments," published in October 2009, and available on [www.moody.com](http://www.moody.com) in the Rating Methodologies subdirectory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating the Bonds can also be found in the Rating Methodologies sub-directory on Moody's website.

### **No Litigation Certificate**

The District will furnish to the Purchaser a certificate, dated as of the date of delivery of the Bonds, executed by an authorized officer of the Board, to the effect that, except as disclosed in this Official Statement, no litigation of any nature has been filed or is then pending or threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the issuance, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Bonds; or affecting the validity of the Bonds.

### **Registration and Qualification of Bonds for Sale**

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission under the 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 registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration and qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdictions.

### **The Bonds as Legal Investments in Texas**

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Bonds (1) are negotiable instruments, (2) are investment securities to which Chapter 8 of the Texas Business and Commerce Code applies, and (3) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires the Bonds to be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. (See "Rating" above). In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor

standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital and savings and loan associations.

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

### **Legal Matters**

The delivery of the Bonds is subject to the approving opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the District, and the approving legal opinion of Vinson & Elkins L.L.P., Bond Counsel to the District (“Bond Counsel”), in substantially the form attached as Appendix C. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent upon the sale and delivery of the Bonds.

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 outcome of any legal dispute that may arise out of the transaction.

The District will furnish a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Bonds and to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Bonds will also be furnished. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement to verify that such description conforms to the provisions of the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System.

### **Financial Advisor**

Coastal Securities, Inc. (“Coastal”) 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. Coastal, 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.

Coastal has reviewed the information in this Official Statement in accordance with its responsibilities to the District and, as applicable, to investors under federal securities laws as applied to the facts and circumstances of this transaction, but Coastal does not guarantee the accuracy or completeness of such information.

### **Sale of Bonds**

After requesting competitive bids for the Bonds, the District has accepted a bid tendered by \_\_\_\_\_ (the “Purchaser”) to purchase the Bonds at the rate shown on the inside cover page of this Official Statement at a price of \$\_\_\_\_\_. No assurance can be given that any trading market will be developed for the Bonds after their initial sale by the District. The District has no control over the prices at which the Bonds will initially be re-offered to the public.

### **Forward Looking Statements**

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

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative,

judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the District. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

**Miscellaneous**

All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof and no guaranty, warranty or other representation is made concerning the accuracy or completeness of the information herein. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the District. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer of solicitation.

**Certification of the Official Statement**

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

ALIEF INDEPENDENT SCHOOL DISTRICT

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President, Board of Trustees

ATTEST:

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Secretary, Board of Trustees

**APPENDIX A**  
**INFORMATION REGARDING THE DISTRICT**

**TABLE 1 - VALUATION, EXEMPTIONS AND TAX-SUPPORTED DEBT**

**District Direct Debt**

2009 Certified Net Taxable Valuation (100% of Estimated Market Value)	11,587,859,849
Outstanding Debt (May 1, 2010)	\$ 226,878,656
Plus: The Unlimited Tax Qualified School Construction Bonds, Taxable Series 2010 (QSCB)	16,480,000 <sup>(a)</sup>
Plus: The Unlimited Tax Refunding Bonds, Series 2010	23,779,183 <sup>(a)</sup>
Less: Refunded Bonds	23,780,000 <sup>(b)</sup>
<b>Total Direct Debt</b>	<b>\$ 243,357,839</b>
As a % of Assessed Valuation	2.10%

<sup>(a)</sup> The District's Unlimited Tax Qualified School Construction Bonds, Taxable Series 2010 (QSCB) and the District's Unlimited Tax Refunding Bonds, Series 2010 are being issued concurrently. Preliminary, subject to change.

<sup>(b)</sup> The Bonds refunded by the District's unlimited Tax Refunding Bonds, Series 2010. Preliminary, subject to change.

**TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY <sup>(a)</sup>**

	<b>Tax Year 2009</b>	<b>Tax Year 2008</b>	<b>Tax Year 2007</b>	<b>Tax Year 2006</b>	<b>Tax Year 2005 <sup>(b)</sup></b>
Real Property	\$ 11,505,353,890	\$ 11,792,435,069	\$ 10,837,835,302	\$ 10,250,978,385	\$ 9,286,364,857
Personal Property	945,409,580	1,089,675,139	801,418,348	1,145,831,501	1,076,941,760
Gross Value	\$ 12,450,763,470	\$ 12,882,110,208	\$ 11,639,253,650	\$ 11,396,809,886	\$ 10,363,306,617
Less Exemptions <sup>(c)</sup>	1,971,970,426	1,904,367,918	1,838,152,933	1,603,124,496	1,533,743,735
Net Taxable Value	\$ 10,478,793,044	\$ 10,977,742,290	\$ 9,801,100,717	\$ 9,793,685,390	\$ 8,829,562,882

<sup>(a)</sup> Values may differ from those shown elsewhere in the documents due to subsequent additions, deletions, and adjustments to the tax rolls.

<sup>(b)</sup> As of Supplement #1 to the Certified Tax Roll.

<sup>(c)</sup> Includes exemptions, productivity loss and freeze adjustments.

<sup>(d)</sup> The Texas Property Tax Code Sec 23.23 limits appraised value of resident homesteads. The reporting of this value changed from the Gross Value to the Adjustments in the 2005 Tax Year.

**TABLE 3 - TAX RATE, LEVY AND COLLECTION HISTORY; TAX RATE DISTRIBUTION**

Fiscal Year End	Tax Year	Taxable Assessed Valuation <sup>(a)</sup>	Tax Rate	Tax Levy	Percent Collected	
					Current	Total <sup>(b)</sup>
2003	2002	\$ 7,726,599,821	\$ 1.6750	\$ 129,420,547	98.47%	99.91%
2004	2003	8,270,863,975	1.6750	137,340,943	98.63%	100.40%
2005	2004	8,626,024,400	1.6900	144,412,158	98.50%	100.33%
2006	2005	9,202,259,327	1.7200	150,283,106	99.03%	100.55%
2007	2006	9,844,284,034	1.5900	154,331,046	98.48%	100.00%
2008	2007	10,930,285,059	1.2650	138,268,106	97.78%	99.91%
2009	2008	11,678,270,448	1.3400	156,488,824	97.88%	99.60%
2010	2009	11,587,859,849	1.3400	155,277,322	93.29% <sup>(c)</sup>	95.25% <sup>(c)</sup>

<sup>(a)</sup> Net of exemptions. Assessed valuations do not include adjustments in supplemental rolls made after the end of each fiscal year.

<sup>(b)</sup> Excludes penalties and interest.

<sup>(c)</sup> Partial collections through 3/1/10.

**Tax Rate Distribution (Tax Year)**

	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Maintenance	\$ 1.1250 <sup>(a)</sup>	\$ 1.1250 <sup>(a)</sup>	\$ 1.0400	\$ 1.3700	\$ 1.5000
Debt Service	0.2150	0.2150	0.2250	0.2200	0.2200
Total	\$ 1.3400	\$ 1.3400	\$ 1.2650	\$ 1.5900	\$ 1.7200

<sup>(a)</sup> District voters approved a Rollback Election on November 20, 2008 which authorizes the District to set a M&O tax rate of \$1.125

**TABLE 4 - TWENTY LARGEST TAXPAYERS**

<u>Name</u>	<u>2009 Net Taxable Assessed Valuation</u>	<u>% of Total 2009 Assessed Valuation</u>
Centerpoint	\$ 103,456,502	0.89%
Shell	94,842,314	0.82%
Selco Service Corp	85,200,000	0.74%
3150 Briarpark LP	78,795,108	0.68%
Wal Mart	77,919,682	0.67%
WSC Westchase Partners	74,652,000	0.64%
Granite Westchase Partners	73,900,000	0.64%
Halliburton	62,959,692	0.54%
GEPA Hotel	57,819,945	0.50%
Camden	54,210,606	0.47%
CHCA West Houston	53,049,023	0.46%
Interstate Westchase LP	43,336,593	0.37%
Millenium Caroline Prtnrs LTD	42,857,131	0.37%
West 8 Investments LP	41,056,168	0.35%
AP Prescott 5959 LP	40,502,673	0.35%
Ag/Starboard 2920	39,410,867	0.34%
Lexington Lion Houston LP	39,000,000	0.34%
Weingarten Realty	38,718,269	0.33%
GCCFC 2006 GG7 Westheimer	38,386,980	0.33%
City West Land LLC	37,007,610	0.32%
	<u>\$ 1,177,081,163</u>	<u>10.16%</u>

**TABLE 5 - TAX ADEQUACY <sup>(a)</sup>**

Estimated Average Annual Debt Service Requirements (2010-2028):	\$ 17,815,385 <sup>(b)</sup>
\$ 0.1066 per \$100 AV against the 2009 Taxable AV, at 98.5% collection, produces	\$ 17,817,167 <sup>(c)</sup>
Estimated Maximum Annual Debt Service Requirements (2010):	\$ 32,988,897 <sup>(b)</sup>
\$ 0.2396 per \$100 AV against the 2009 Taxable AV, at 98.5% collection, produces	\$ 32,992,196 <sup>(c)</sup>

<sup>(a)</sup> Includes the District's Unlimited Qualified School Construction Bonds, Taxable Series 2010 (QSCB) and the District's Unlimited Tax Refunding Bonds, Series 2010 which are being issued concurrently. Excludes the Refunded Bonds. Preliminary, subject to change.

<sup>(b)</sup> Includes the annual Reserve Fund account deposit requirement for the Districts Unlimited Tax School Building Bonds, Series 2010 (QSCB) and the Series 2009 (QSCB).

<sup>(c)</sup> Includes estimated Tier Three (EDA) in the amounts of \$3,271,330 and Instructional Facilities Allotment (IFA) in the amount of \$2,376,802.

**TABLE 6 - ESTIMATED OVERLAPPING DEBT**

The following summary of estimated outstanding ad valorem tax bonds of taxing entities in the District was compiled from a variety of sources listed below. No representation is made with respect to the accuracy or completeness of information obtained from sources other than the District. Furthermore, certain entities listed below may have issued substantial amounts of bonds since the dates shown in this table and may have capital improvements programs requiring the issuance of substantial amounts of additional bonds. Sources include: Texas Municipal Reports compiled and published by the Municipal Advisory Council of Texas, and the Harris County Appraisal District.

<b>Taxing Jurisdiction</b>	<b>Total Debt</b>	<b>As of</b>	<b>Estimated % Overlapping</b>	<b>Overlapping Debt</b>
Beechnut MUD	\$ 4,462,793 <sup>(a)</sup>	12/31/2008	100.00%	\$ 4,462,793
Bissonnet MUD	14,583,573	10/14/2009	100.00%	14,583,573
Chelford City MUD	5,720,263 <sup>(a)</sup>	1/5/2009	45.39%	2,596,427
Chelford One MUD	2,799,083	9/30/2008	100.00%	2,799,083
Harris Co	2,230,951,628 <sup>(a)</sup>	12/31/2009	4.48%	99,946,633
Harris Co Department of Ed	8,320,000	12/31/2009		
Harris Co FCD	92,904,373	2/28/2009	4.48%	4,162,116
Harris Co MUD #120	15,000,530	5/14/2009	100.00%	15,000,530
Harris Co MUD #147	2,954,603	9/30/2008	100.00%	2,954,603
Harris Co MUD #158	9,757,157	9/30/2008	100.00%	9,757,157
Harris Co MUD #359	8,499,961	9/30/2008	100.00%	8,499,961
Harris Co MUD #372	12,948,267	9/1/2009	100.00%	12,948,267
City of Houston	2,693,830,271	6/30/2009	6.07%	163,515,497
Kingsbridge MUD	31,479,653	9/30/2008	99.50%	31,322,255
Mission Bend MUD #2	7,010,000 <sup>(a)</sup>	12/31/2009	100.00%	7,010,000
Pt of Houston Auth	525,705,000 <sup>(a)</sup>	12/31/2008	4.48%	23,551,584
Renn Rd MUD	8,961,293	9/30/2008	30.73%	2,753,805
W Harris Co MUD #4	4,976,757	9/30/2008	98.59%	4,906,585
W Harris Co MUD #6	900,000 <sup>(a)</sup>	12/31/2009	100.00%	900,000
W Keegans Bayou ID	1,455,000	12/31/2009	11.82%	171,981
Estimated Overlapping Debt				\$ 411,842,850
The District	\$ 243,357,839 <sup>(b)</sup>		100.00%	243,357,839 <sup>(b)</sup>
Total Direct & Estimated Overlapping Debt				\$ 655,200,689
Total Direct & Estimated Overlapping Debt Per Capita				\$ 2,716.76
As a % of 2009 Taxable Assessed Valuation				5.65%

<sup>(a)</sup> Gross debt.

<sup>(b)</sup> Includes the District's Unlimited Qualified School Construction Bonds, Taxable Series 2010 (QSCB) and the District's Unlimited Tax Refunding Bonds, Series 2010 which are being issued concurrently. Excludes the Refunded Bonds. Preliminary, subject to change.

TABLE 7 - PRO FORMA TAX SUPPORTED DEBT SERVICE REQUIREMENTS

FYE 31-Aug	The U/L Tax Refunding Bonds, Series 2010 <sup>(a)</sup>					The U/L Tax Qualified School Construction Bonds, Taxable Series 2010 <sup>(a)</sup>				
	Outstanding Debt Service	Refunded Debt Service	Principal	Interest <sup>(b)</sup>	Total	Principal	Interest	Mandatory Reserve Fund Deposits <sup>(c)</sup>	Total	Total Debt Service
2010	\$ 32,993,714	\$ 576,410	\$ 395,000	\$ 176,593	\$ 571,593	\$ -	\$ -	\$ -	\$ -	\$ 32,988,897
2011	30,927,955	3,683,920	2,104,183	1,487,017	3,591,200	-	1,093,311	960,000	2,053,311	32,888,546
2012	28,569,523	2,245,410	1,330,000	824,600	2,154,600	-	939,360	970,000	1,909,360	30,388,073
2013	26,903,483	2,402,500	1,545,000	767,100	2,312,100	-	939,360	970,000	1,909,360	28,722,443
2014	25,521,489	2,334,050	1,535,000	705,500	2,240,500	-	939,360	970,000	1,909,360	27,337,299
2015	24,367,689	2,263,750	1,530,000	644,200	2,174,200	-	939,360	970,000	1,909,360	26,187,499
2016	22,390,278	2,191,600	1,515,000	583,300	2,098,300	-	939,360	970,000	1,909,360	24,206,338
2017	21,559,794	2,117,600	1,505,000	522,900	2,027,900	-	939,360	970,000	1,909,360	23,379,454
2018	19,997,075	2,043,600	1,490,000	463,000	1,953,000	-	939,360	970,000	1,909,360	21,815,835
2019	16,089,757	4,507,850	4,065,000	351,900	4,416,900	-	939,360	970,000	1,909,360	17,908,167
2020	12,034,888	3,005,325	2,695,000	216,700	2,911,700	-	939,360	970,000	1,909,360	13,850,623
2021	11,620,985	2,877,775	2,675,000	109,300	2,784,300	-	939,360	970,000	1,909,360	13,436,870
2022	9,984,393	1,517,000	1,395,000	27,900	1,422,900	-	939,360	970,000	1,909,360	11,799,653
2023	8,201,471	-	-	-	-	-	939,360	970,000	1,909,360	10,110,831
2024	6,971,457	-	-	-	-	-	939,360	970,000	1,909,360	8,880,817
2025	4,184,158	-	-	-	-	-	939,360	970,000	1,909,360	6,093,518
2026	2,986,728	-	-	-	-	-	939,360	970,000	1,909,360	4,896,088
2027	1,717,988	-	-	-	-	16,480,000	469,680	970,000	1,439,680	3,157,668
2028	443,700	-	-	-	-	-	-	-	-	443,700
	<b>\$307,466,525</b>	<b>\$ 31,766,790</b>	<b>\$ 23,779,183</b>	<b>\$ 6,880,010</b>	<b>\$ 30,659,193</b>	<b>\$ 16,480,000</b>	<b>\$ 15,653,391</b>	<b>\$ 16,480,000</b>	<b>\$ 32,133,391</b>	<b>\$ 338,492,319</b>

Estimated Average Annual Debt Service Requirements (2010-2028):

\$ 17,815,385

Estimated Maximum Annual Debt Service Requirements (2010):

\$ 32,988,897

<sup>(a)</sup> Preliminary, subject to change.

<sup>(b)</sup> Interest estimated at market rates for illustration purposes.

<sup>(c)</sup> The District will make annual deposits into a reserve fund which will be sufficient to pay the maturity amount of the Unlimited Tax Qualified School Construction Bonds, Taxable Series 2010 upon maturity.

**TABLE 8 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS**

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Heretofore Issued</u>	<u>The Series 2010 QSCBs</u>	<u>Authorized But Unissued</u>
Sept. 20, 2003	Construction & Renovation	\$ 175,000,000	\$ 124,328,000	\$ 16,480,000 <sup>(a)</sup>	\$ 34,192,000

<sup>(a)</sup> Represents the District's Unlimited Tax Qualified Construction Bonds, Taxable Series 2010 issued concurrently with the Bonds.

**TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION**

Estimated Tax Supported Debt Service Requirements, FYE August 31, 2011		\$ 32,888,546 <sup>(a)</sup>
Estimated Debt Service Fund, August 31, 2010	\$ 3,198,316	
Estimated Interest and Sinking Fund Tax Levy @ 98.5%	27,393,701 <sup>(b)</sup>	
EDA State Aid	3,271,330	
IFA State Aid	2,376,802	36,240,149
Estimated Balance August 31, 2011		\$ 3,351,603

<sup>(a)</sup> Includes the District's Unlimited Qualified School Construction Bonds, Taxable Series 2010 (QSCB) and the District's Unlimited Tax Refunding Bonds, Series 2010 which are being issued concurrently. Excludes the Refunded Bonds. Preliminary, subject to change.

<sup>(b)</sup> Tax rate estimated at \$0.24 for illustration purposes.

**TABLE 10 - GENERAL FUND REVENUES AND EXPENDITURE HISTORY <sup>(a)</sup>**

**For Fiscal Year Ended August 31<sup>st</sup>**

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>REVENUES</b>					
Local and Intermediate Sources	\$ 137,833,641	\$ 120,247,315	\$ 142,646,340	\$ 143,107,641	\$ 129,868,083
State Sources	192,232,885	188,615,787	168,989,373	152,698,241	147,326,290
Federal Sources	4,190,692	1,514,325	1,361,342	1,280,797	1,585,246
<b>Total Revenues</b>	<u>\$ 334,257,218</u>	<u>\$ 310,377,427</u>	<u>\$ 312,997,055</u>	<u>\$ 297,086,679</u>	<u>\$ 278,779,619</u>
<b>EXPENDITURES</b>					
Instruction	\$ 203,800,433	\$ 195,934,860	\$ 189,731,668	\$ 182,893,868	\$ 180,990,408
Instructional Resource & Media Serv.	5,119,260	4,865,042	4,733,566	4,237,149	4,203,243
Curriculum & Staff Development	3,413,611	3,127,630	3,653,534	3,262,028	2,041,740
Instructional Leadership	3,740,964	3,858,954	3,088,753	2,445,088	3,313,282
School Leadership	22,522,700	21,718,617	20,905,765	18,348,877	18,174,539
Guidance, Counsel & Evaluation Serv.	12,817,145	12,765,306	11,726,772	10,090,158	10,481,538
Social Work Services	228,239	233,992	208,302	192,496	180,337
Health Services	3,299,674	3,259,142	3,255,921	2,765,976	2,802,749
Student (Pupil) Transportation	11,787,371	10,859,611	10,031,874	9,135,037	9,449,747
Extracurricular Activities	3,518,454	3,465,394	3,180,972	3,258,661	3,205,557
Administrative & Support Services	6,603,321	6,298,690	7,034,967	6,998,832	8,530,840
Plant Maintenance and Operations	36,709,805	36,340,780	34,681,014	30,678,120	28,900,222
Security and Monitoring Services	4,308,245	3,634,307	3,583,095	3,272,886	3,148,810
Data Processing Services	2,656,028	2,576,567	3,055,118	2,951,180	2,504,953
Community Service	1,515,560	1,564,770	1,594,486	1,444,545	1,293,418
Capital Outlay	3,457,413	600,727	1,956,500	786,176	205,941
Pmt to Fiscal Agent	418,234	332,535	337,042	255,731	202,146
Pmt to Juvenile Justice Altern. Prog.	242,861	238,958	274,924	292,260	217,954
Other Intergovernmental Charges	1,243,536	1,148,482	-	-	-
<b>Total Expenditures</b>	<u>\$ 327,402,854</u>	<u>\$ 312,824,364</u>	<u>\$ 303,034,273</u>	<u>\$ 283,309,068</u>	<u>\$ 279,847,424</u>
Excess (Deficiency) Rev. Over Exp.	\$ 6,854,364	\$ (2,446,937)	\$ 9,962,782	\$ 13,777,611	\$ (1,067,805)
Operating Transfers Out	(2,000,000)	-	(4,000,000)	-	-
Other Resources	-	-	-	-	-
Other (Uses)	-	-	-	-	-
	<u>4,854,364</u>	<u>(2,446,937)</u>	<u>5,962,782</u>	<u>13,777,611</u>	<u>(1,067,805)</u>
Fund Balance - Sept. 1 (Beginning)	\$ 76,391,370	\$ 78,838,307	\$ 72,875,525	\$ 59,097,914	\$ 60,165,719
Increase (Decrease) in Fund Balance					-
<b>Fund Balance - August 31 (Ending)</b>	<u>\$ 81,245,734</u>	<u>\$ 76,391,370</u>	<u>\$ 78,838,307</u>	<u>\$ 72,875,525</u>	<u>\$ 59,097,914</u>

<sup>(a)</sup> Source: District's audited financial reports. See "Appendix B -- EXCERPTS FROM THE DISTRICTS AUDITED FINANCIAL REPORT."

**APPENDIX B**

**EXCERPTS FROM THE DISTRICT'S  
AUDITED FINANCIAL REPORT  
For Year Ended  
August 31, 2009**



Independent School District

**Comprehensive Annual  
Financial Report**

**For the Year Ended  
August 31, 2009**

***Alief Independent School District  
4250 Cook Road  
Houston, Texas 77072  
[www.aliefisd.net](http://www.aliefisd.net)***

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Independent School District

**Comprehensive Annual Financial Report  
For the Year Ended August 31, 2009**

**Prepared by the Business Services Division:**

**Charles Woods  
Deputy Superintendent of Business  
Deanna Wentz, CPA  
Assistant Superintendent of Finance  
Grace Chang, CPA  
Controller**

***Alief Independent School District  
4250 Cook Road  
Houston, Texas 77072  
[www.aliefisd.net](http://www.aliefisd.net)***

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**Alief Independent School District  
Comprehensive Annual Financial Report  
For the Year Ended August 31, 2009  
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# Introductory Section

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# Alief Independent School District

## *Principal Officials and Advisors*

### ***Board of Trustees***

As of August 31, 2009

<b><u>Board of Trustees</u></b>	<b><u>Length of Service</u></b>	<b><u>Term Expires</u></b>	<b><u>Occupation</u></b>
Ms. Sarah Winkler, President	12 Years	2009	Homemaker
Mr. Nghi Ho, Vice-President	9 Years	2009	Financial Planner
Dr. John Hansen, Secretary	16 Years	2011	Investment Manager
Mr. Rick Moreno, Asst. Secretary	2 Years	2011	Paramedic
Mr. Gary Cook, Member	11 Years	2009	Hospital Administration
Mr. Charles Cothran, Member	4 Years	2009	Retired School Administrator
Ms. Ann Williams, Member	2 Years	2011	Information Systems Engineer

### ***Administrative Officials***

<b><u>Official</u></b>	<b><u>Position</u></b>	<b><u>Length of Service</u></b>
Dr. Louis Stoerner	Superintendent of Schools	21 Years
Mr. Charles Woods	Deputy Superintendent of Business	13 Years
Ms. Gina Tomas	Deputy Superintendent of Instruction	22 Years
Ms. Deanna Wentz	Assistant Superintendent of Finance	14 Years

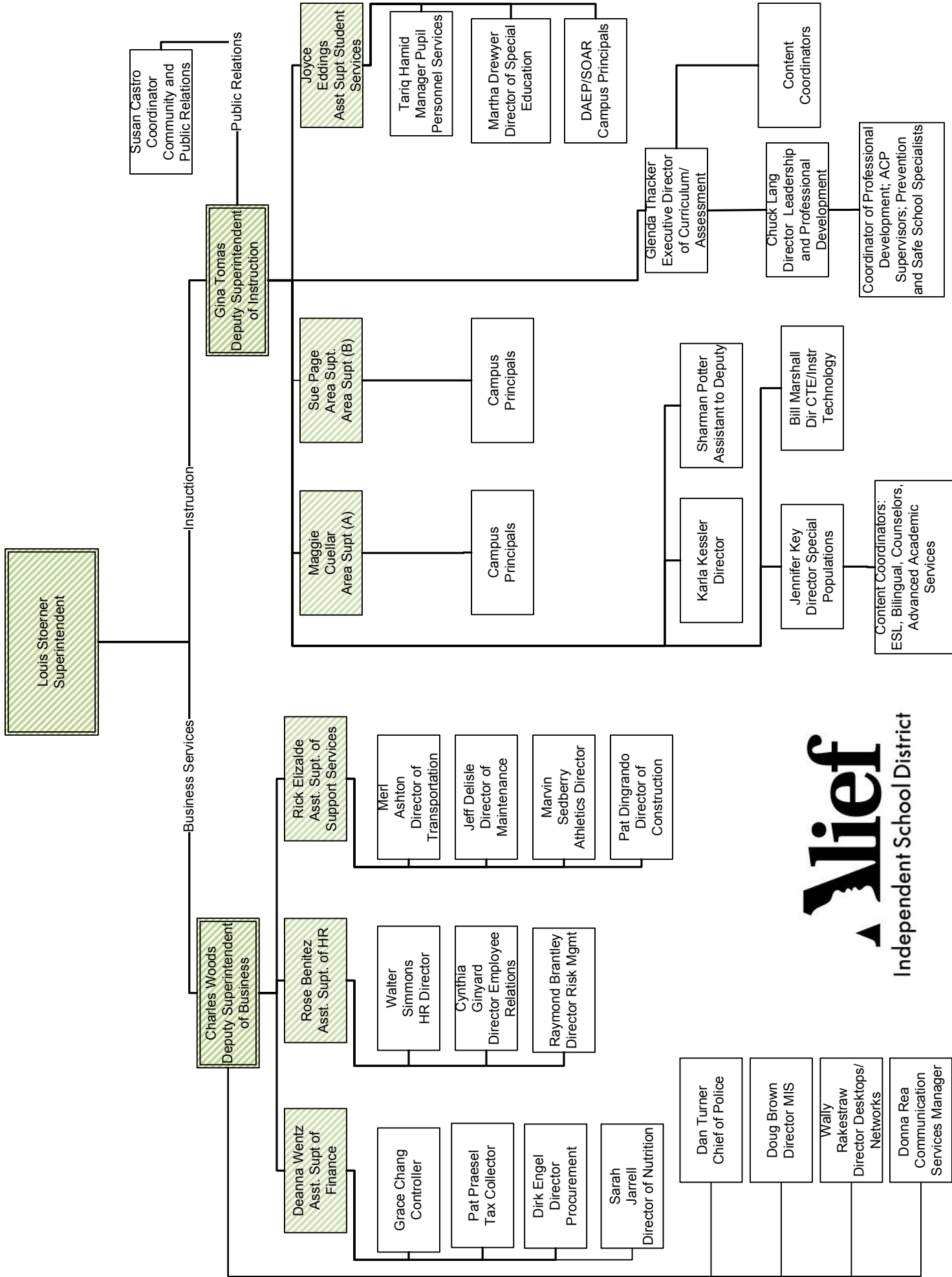
### ***Consultants and Advisors***

Vinson & Elkins, L.L.P.  
Bond Counsel – Houston, Texas

Coastal Securities  
Financial Advisor – Houston, Texas

Null-Lairson, P.C.  
Independent Auditors – Houston, Texas

# Organization Chart



January 19, 2010

Board of Trustees  
Alief Independent School District  
Harris County, Texas

Dear Board Members:

State law requires that all general-purpose local governments publish within 150 days of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the Alief Independent School District for the fiscal year ended August 31, 2009.

This report consists of management’s representations concerning the finances of the District. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. In order to provide a reasonable basis for making those representations, management of the District has established a comprehensive internal control framework that is designed to protect the government’s assets from loss, theft, or misuse. Additionally, the internal control framework is designed to compile sufficient reliable information for the preparation of the District’s financial statements in conformity with GAAP. Because the costs of internal controls should not outweigh their benefits, the District’s comprehensive framework of internal controls has been designed to provide reasonable assurance rather than absolute assurance that the financial statements will be free from material misstatement. To the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The financial statements of the District have been audited by Null-Lairson, P.C., a firm of licensed certified public accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the District for the fiscal year ended August 31, 2009 are free of material misstatement. The independent audit involves 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; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the District’s financial statements for the fiscal year ended August 31, 2009 are fairly presented in conformity with GAAP. The independent auditors’ report is presented as the first component of the financial section of this report.

The independent audit of the financial statements is part of a broader, federally mandated “Single Audit” designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only the fair presentation of the financial statements, but also on the audited government’s internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the District’s separately issued Single Audit Report.

The comprehensive annual financial report is presented in three sections: introductory section, financial section, and statistical section. The introductory section includes this transmittal letter, the District's organization chart, and a list of principal officials and advisors. GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditors. The statistical data section includes selected financial and demographic information, generally presented on a multi-year basis.

### ***Profile of the District***

The Alief Independent School District, established in 1917, encompasses 36.6 square miles in southwest Harris County. The District is an independent political subdivision of the State of Texas governed by an elected board of trustees. The board is elected to staggered four-year terms by the District's residents. The District is located primarily within the City of Houston and totally within Harris County, Texas. The Alief Independent School District has a population of approximately 250,000 and employs approximately 6,091 employees. These employees adequately provide educational services for the 45,367 students enrolled in the Alief Independent School District. The twenty-four elementary schools (pre-kindergarten through fourth or fifth grade), six intermediate schools (fifth and sixth grades), six middle schools (sixth or seventh grade through eighth grade), two ninth grade centers, and four high schools (ninth or tenth grade through twelfth grade) are accredited by the Southern Association of Colleges and Schools and the Texas Education Agency.

The Alief Independent School District provides a full range of educational services appropriate to grade levels pre-kindergarten through twelfth grade. These include regular and enriched academic education, special education for handicapped students, occupational education, and educational services for those with limited English proficiency. These basic programs are supplemented by a wide variety of offerings in fine arts, athletics, and other extracurricular programs.

### ***Budgeting***

The annual budget serves as the foundation for the District's financial planning and control. The budget process begins in January when the Long-Range Plan is presented to the Board of Trustees. The enrollment projections contained in this plan form the basis for significant budgetary decisions including per pupil allocations to each campus, instructional staffing allocations, and other required service levels. Once the Long-Range Plan is approved, the Board of Trustees can begin discussions concerning budget strategies and priorities, and establish the budget calendar. Personnel units are allocated to each campus based on projected student enrollment following state mandated ratios, as applicable. Each campus receives a basic allotment per student to be used for supplies, materials, equipment, staff development and other appropriate instructional costs. Decisions concerning utilization of this allocation are made by the site-based decision making teams. Budgets for non-campus units are developed by department heads and reviewed by the Budget Committee. Following the budget development process, consolidated budgetary information is presented to the Board of Trustees in workshops and regular meetings. The proposed budget must be prepared by August 20<sup>th</sup> for a September 1<sup>st</sup> fiscal year start date. The Board President must call a board meeting for the purpose of discussing and adopting the budget and the tax rate. A notice of this meeting is required to be published at least 10 days, but not more than 30 days before the public meeting. Budget-to-actual comparisons are provided in this report for each individual governmental fund or program for which an appropriated annual budget has been adopted.

The District maintains budgetary controls within all of its financial systems to ensure compliance with all the statutory provisions of the Texas Education Agency. The budget may be amended during the year to address unanticipated or changing needs of the District. Changes to functional expenditure categories require Board of Trustee approval. However, budget changes not requiring an increase in total appropriations and within functional categories may be approved by management without Board approval. Outstanding encumbrances at the end of the fiscal year are a reserve of fund balance and are treated as expenditures in the following year upon receipt of the goods and services.

### **Factors Affecting Financial Condition**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the District operates.

### **Local Economy**

The local economy is based predominantly on commercial and financial activities. Shell Development Company's Westhollow Research Center is situated in the western portion of the District. Chevron Chemical is also located in the District, as is the world headquarters of Western Geophysical, a division of Baker Hughes. Even though the property values have increased over 6% for each of the last five years, we are currently projecting a slight decrease in property values for the following year, generally attributable to overall economic conditions and not tied to any particular Alief specific trend.

Approximately 44% of Alief students reside in apartments, while the remaining 56% reside in the various residential subdivisions in the District. Since apartment construction, occupancy rates, and development of residential subdivisions heavily influence enrollment rates. District personnel carefully monitor these factors throughout the year.

During the 2005-06 fiscal year, the District's enrollment increased significantly due to hurricane evacuee students, and the October, 2005 enrollment count was 47,664, which included over 2,000 evacuee students. The increase was followed by a corresponding decrease in 2006-07 and 2007-08. Enrollment rebounded slightly in 2008-09 with an increase of 228 bringing enrollment to 45,367 in October, 2008. Based on the trends seen during the last several years, excluding the effects of the hurricane evacuee students, we expect to see fairly flat enrollment levels for the next several years.

### **State Funding and Tax Levy**

The State of Texas provides funding for public education via a financing formula which weights student attendance levels, property value per student, the District's tax effort, and regional variations in payroll and other costs. The District is considered a "property-poor" school district because the assessed value of property per student is lower than the statewide average. The statewide taxable value per student for 2008-09 was \$363,600, while the comparable value for the District was \$263,804. Based on the formula, a district's wealth factors significantly into its share of state funding

Statewide, many districts were taxing at \$1.50 tax cap for maintenance and operations in 2005. The Legislature passed House Bill 1 (H.B.1) mandating districts to compress tax rates by 88.67% of the 2005 maintenance and operations tax rates (\$1.33 for Alief) for 2006 and by 66.67% of the 2005 maintenance and operations tax rates (\$1.00 for Alief) for 2007. Districts were then able to assess an additional four cents above the compressed rate for enrichment without a voter election. The State holds each district harmless by capping the target revenue as combined state and local revenue per weighted student the district had in 2005-06, or would have had in 2006-07 under old law. This adjustment to the target essentially holds the District's combined state and local revenue at the amount received in 2005-06 per weighted student level.

The necessary tax rate is calculated after determining the necessary level of expenditures to meet District's educational goals and facility requirements and estimating state aid. The general fund tax rate adopted by the Board for 2008-09 was \$1.125 which exceeded the rollback tax rate and required voted approval. The voter approved this rate at the election held on November 20, 2008.

### **Fund Balance**

- General Fund – The District strives to maintain a general fund balance equal to approximately two months of operating expenditures.
- Debt Service Fund – The District strives to maintain a debt service fund balance of not more than 1/12 of the subsequent year's required principal and interest payments for all outstanding bonds.
- Food Service Program – The fund balance for food service should not exceed three months of average food service operating expenditures.

### ***Major Initiatives and Accomplishments***

In September 2003, the voters in the Alief Independent School District approved a \$175 million bond referendum. Currently, \$124 million of these bonds have been issued with the remaining authorized amount scheduled to be issued in various increments over the next seven years. The planned use of these funds originally included construction of several new facilities. However, these plans have been revised to improve the instructional environment (enclose classrooms and add wings to existing facilities), address safety issues (video monitoring, playground renovations, and bus purchases) and address facility improvement needs (roof replacement/repair, air conditioning systems, vinyl, carpet, etc.) due to current enrollment trends.

Implementation of the Long-Range Technology Plan is still in effect, which will enable children to experience hands on learning utilizing leading edge technologies. New computer labs are being installed to improve academic success through computer-assisted learning. The success of these and many other programs is evident in the continued improvement in student performance on the Texas Assessment of Knowledge and Skills (TAKS) Test.

The 2008-09 financial structure of the Alief Independent School District provided support to work toward or accomplish the following goals:

1. Close the achievement gap to ensure that all students reach their academic potential. The Instruction Department allocated \$121,000 for the science kit program at the elementary and intermediate schools. An independent review of the math and science curriculum was contracted during the year. Another \$235,000 was for the Comprehensive Curriculum, Assessment, and Professional Development System, a student data management system which allows teachers to have direct access to student assessment results.
2. Improve student preparation for college and career. Approximately \$324,000 was allocated to start the Seventh Grade GT / Pre AP Critical Reading and Research Course. The Advanced Via Individual Determination (AVID) Program was expanded.
3. Maintain a safe and orderly environment. The District strengthened the Above and Beyond Prevention Program at each campus. The campus teams analyze student referral data and offense data as well as collaborate on safe school initiatives.
4. Recruit, develop, and retain highly qualified and effective personnel. Approximately 88% of the General Fund expenditures are for personnel costs, including a 3% raise for all personnel. The approximate cost of this increase was \$7.2 million. Starting teacher salaries have been raised to \$44,000 to keep Alief competitive in recruiting new teachers. The District continues to provide staff development and training materials throughout the year. Additionally, the District has incurred \$244,000 for in-house alternative teacher certification program to enhance recruiting efforts.
5. Build positive relationships with all stakeholders. \$915,000 has been allocated to fund the Parental Involvement Program. At each campus the District provides parent centers, staffed with parent educators, whose primary purpose is to develop programs to encourage collaboration between staff, parents, and the community. Additionally, the District contracts with the Communities in Schools (CIS) Houston Program to provide services at 17 campuses for a total of \$870,000 annually. CIS is a non-profit organization that encourages at-risk students to remain in school by providing and coordinating social services that meet their physical and emotional needs. Also, a new web page technology to enhance communication was implemented.

### **Awards and Acknowledgements**

The Association of School Business Officials International (ASBO) awarded a Certificate of Excellence in Financial Reporting to the Alief Independent School District for its Comprehensive Annual Financial Report for the fiscal year ended August 31, 2008. We believe that our current report continues to conform to the high standards of the certificate of excellence program, and we are submitting it to ASBO.

In addition, the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Alief Independent School District for its Comprehensive Annual Financial Report for the fiscal year ended August 31, 2008.

**Awards and Acknowledgements (continued)**

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA.

The District also received the GFOA's Distinguished Budget Presentation Award and the ASBO's Meritorious Budget Award for its annual budget document. In order to qualify for these budget awards the budget document was judged to be proficient in several categories as specified by these two organizations.

The financial management staff of the Alief Independent School District wishes to express its appreciation to the Board of Trustees for their concern in providing fiscal accountability to the patrons of the District and thereby contributing their full support in the development of one of the best educational financial operations within the State of Texas. The preparation of this report could not have been accomplished without the dedicated services of the District's Accounting Department as well as the technical support provided by the independent auditing firm of Null-Lairson, P.C. Sincere appreciation is extended to those personnel who assisted and contributed to the preparation of the Comprehensive Annual Financial Report.

Sincerely,



Dr. Louis B. Stoerner  
Superintendent



Mr. Charles Woods  
Deputy Superintendent of Business



Ms. Deanna Wentz  
Assistant Superintendent of Finance

**ASSOCIATION OF SCHOOL BUSINESS OFFICIALS  
INTERNATIONAL**



This Certificate of Excellence in Financial Reporting is presented to

**ALIEF INDEPENDENT SCHOOL DISTRICT**

**For its Comprehensive Annual Financial Report (CAFR)**  
For the Fiscal Year Ended August 31, 2008

Upon recommendation of the Association's Panel of Review which has judged that the Report substantially conforms to principles and standards of ASBO's Certificate of Excellence Program

*Angela Piterman*

President

*John D. Mueser*

Executive Director

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Alief Independent School  
District, Texas

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
August 31, 2008

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A stylized handwritten signature in black ink.

President

A handwritten signature in black ink that reads "Jeffrey R. Emer".

Executive Director

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**CERTIFICATE OF BOARD**

**Alief Independent School District**  
Name of School

**Harris**  
County

**101-903**  
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and approved for the year ended August 31, 2009 at a meeting of the Board of Trustees of such school district on the 19<sup>th</sup> day of January, 2010.

  
Signature of Board Secretary

  
Signature of Board President

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# Financial Section

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## Independent Auditors' Report

To the Board of Trustees  
Alief Independent School District  
Houston, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Alief Independent School District (the "District") as of and for the year ended August 31, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. 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, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of August 31, 2009, 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 January 19, 2010 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

**Independent Auditors' Report**  
**Alief Independent School District**  
**Page 2**

The management's discussion and analysis and budgetary comparison information on pages 13 to 22 and pages 54 through 56, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund statements, and the other supplementary information listed in the table of contents are not a required part of the basic financial statements and have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The Introductory Section and Statistical Section listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Nell Garrison, P. C.*

Houston, Texas  
January 19, 2010

## Management's Discussion and Analysis

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In this section of the comprehensive annual financial report, we offer readers of the District's financial statements a narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2009. Please read it in conjunction with the independent auditors' report and the District's financial statements, which follow this section.

### Financial Highlights

- The assets of the District exceeded its liabilities at the close of the fiscal year by \$274,259,517 (net assets). Of this amount, \$89,646,168 (unrestricted net assets) may be used to meet the District's ongoing obligations.
- The District's net assets increased \$15,707,939 as a result of this year's operations.
- The District's governmental funds reported combined ending fund balances of \$104,336,391. Approximately 75% of this total amount, \$78,634,073, is available for spending at the government's discretion (unreserved, undesignated fund balance).
- The combined ending fund balances for the District's governmental funds increased \$9,636,635 due primarily to an increase in the fund balance of the capital projects fund.
- The General Fund ended the year with an unreserved, undesignated fund balance of \$78,634,073 or 24% of the total general fund expenditures.

### Overview of the Financial Statements

This annual report consists of a series of financial statements plus additional supplemental information as required by its state oversight agency, the Texas Education Agency. The District's basic financial statements consist of three sections: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

#### **Government-wide Financial Statements**

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net assets and the statement of activities (on pages 23 and 24), which are prepared using accounting principles that are similar to commercial enterprises. These statements provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters.

The statement of net assets includes all the District's assets and liabilities at the end of the year, with the difference between the two reported as *net assets*. This difference is similar to the total owners' equity presented by a commercial enterprise. All the District's assets are reported, whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years. Although the purpose of the District is not to accumulate net assets, in general, as the amount increases, it may indicate that the financial position of the District is improving over time. To fully assess the overall health of the District, however, you should consider other factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

## Management's Discussion and Analysis (continued)

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The purpose of the statement of activities is to present the revenues and expenses of the District. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied, and expenses are reported when incurred by the District. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period, and expenses are recorded even though they may not have used cash during the current period.

The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as tuition received for summer school and grants provided by the U.S. Department of Education to assist children with disabilities or from disadvantaged backgrounds, and revenues provided by the taxpayers or by TEA in the equalization funding processes (general revenues). Although the statement of activities looks different from a commercial enterprise's income statements, the financial statement is different only in format, not substance.

The financial information for the year ended August 31, 2009 includes the District's catering services program, day care services program, and after school program. The catering services program offers catered meals and snacks for District meetings, the day care facilities offer child care services to employees, while the after school program provide K-6<sup>th</sup> grade students homework help and enrichment activities. The costs associated with these programs are accounted for as business-type activities

The District has no component units for which it is financially accountable.

### ***Fund Financial Statements***

Fund financial statements (starting on page 25) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds – not the District as a whole. For governmental activities, these statements tell how services were financed in the short term, as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or outside parties and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the district.

Laws and contracts require the District to establish some funds, such as the debt service fund. The District's administration establishes other funds to help it control and manage money for particular purposes.

All of the District's funds 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 reconciliation to facilitate this comparison between governmental funds and governmental activities.

## Management's Discussion and Analysis (continued)

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The District maintains several individual governmental funds organized according to their type (special revenue, debt service and capital projects). Information is presented separately in fund financial statements for the general fund, special revenue fund, debt service fund, and capital projects fund, all of which are considered major funds. The District adopts an annual appropriated budget for its general fund, food service program within the special revenue fund, and debt service fund. Budgetary comparison schedules have been provided to demonstrate compliance with these budgets.

**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 and internal service funds. The District's enterprise fund is used to account for its business-type activities, a day care program, a catering service program, and an after school program. The 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 self-funded insurance programs. The basic proprietary fund financial statements can be found on pages 30-32 of this report.

**Fiduciary funds** – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in a separate Statement of Assets and Liabilities on page 33 and a Statement of Changes in Assets and Liabilities on page 61. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The district is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

### ***Notes to the basic financial statements***

The notes to the financial statements (starting on page 34) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

### ***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 54-56 of this report.

Other supplementary information including combining statements and compliance schedules can be found on pages 57-65 of this report.

## **Government-Wide Financial Analysis**

The District's overall financial position and operations for the past two years are summarized as follows, based on the information included in the government-wide financial statements.

The District's total assets exceeded total liabilities by \$274,259,517. The District's unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$89,646,168 on August 31, 2009. Unrestricted net assets increased \$6,544,808 from the prior year.

## Management's Discussion and Analysis (continued)

### Net Assets Summary

	Governmental Activities		Business-type Activities		Total	
	August 31, 2009	August 31, 2008	August 31, 2009	August 31, 2008	August 31, 2009	August 31, 2008
Cash and cash equivalents	\$ 114,610,105	\$ 85,479,170	\$ 600	\$ 300	\$ 114,610,705	\$ 85,479,470
Investments	6,646,187	16,058,402			6,646,187	16,058,402
Receivables	18,301,729	23,759,518	40,797	(16,059)	18,342,526	23,743,459
Inventories, at cost	1,540,124	1,709,219			1,540,124	1,709,219
Deferred expenditures	144,828				144,828	-
Capital bond, debt costs	1,971,544	1,792,974			1,971,544	1,792,974
Capital assets, net of accumulated depreciation	408,172,503	408,869,582	79,680	96,662	408,252,183	408,966,244
<b>Total assets</b>	<b>551,387,020</b>	<b>537,668,865</b>	<b>121,077</b>	<b>80,903</b>	<b>551,508,097</b>	<b>537,749,768</b>
Accounts payable	8,138,343	9,093,228	3,344	609	8,141,687	9,093,837
Interest payable	442,043	483,103			442,043	483,103
Payroll deductions	688,365	672,514			688,365	672,514
Accrued wages payable	5,775,279	4,358,289	877	642	5,776,156	4,358,931
Accrued expenses	3,754,094	3,651,106			3,754,094	3,651,106
Unearned revenue	3,675,848	300,562	57,124	54,472	3,732,972	355,034
Bonds payable	248,200,116	255,097,248			248,200,116	255,097,248
Compensated absences	5,943,856	5,486,417			5,943,856	5,486,417
Claims payable	569,291				569,291	-
<b>Total liabilities</b>	<b>277,187,235</b>	<b>279,142,467</b>	<b>61,345</b>	<b>55,723</b>	<b>277,248,580</b>	<b>279,198,190</b>
Net assets:						
Invested in capital assets, net of related debt	175,638,327	164,864,417	79,680	96,662	175,718,007	164,961,079
Restricted	8,895,342	10,489,139			8,895,342	10,489,139
Unrestricted	89,666,116	83,172,842	(19,948)	(71,482)	89,646,168	83,101,360
<b>Total net assets</b>	<b>\$ 274,199,785</b>	<b>\$258,526,398</b>	<b>\$ 59,732</b>	<b>\$ 25,180</b>	<b>\$ 274,259,517</b>	<b>\$258,551,578</b>

The increase of \$19,719,020 in cash and investments from the prior year directly relates to the decrease in receivables and the increase in unearned revenue, mainly from the state, and an increase in bond proceeds received in late summer, 2009.

Investment in capital assets (e.g., land, buildings, furniture and equipment), less any related debt used to acquire those assets that is still outstanding is \$175,718,007. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the District's net assets (approximately 3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$89,646,168) may be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

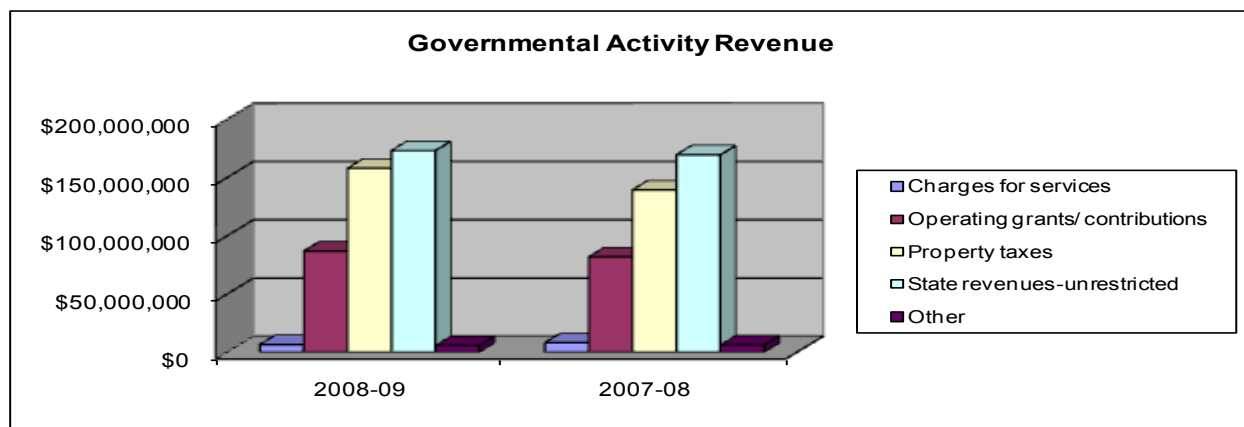
Accrued wages payable increased \$1,417,225 from the prior year was due to one more day worked by teachers during the 2008-09 fiscal year. The increase of \$3,377,938 in unearned revenues is directly related to the decrease in the receivable of state formula funding for 2008-09 at year end.

## Management's Discussion and Analysis (continued)

### Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	August 31, 2009	August 31, 2008	August 31, 2009	August 31, 2008	August 31, 2009	August 31, 2008
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 6,515,607	\$ 8,042,573	\$ 1,070,301	\$ 806,514	\$ 7,585,908	\$ 8,849,087
Operating grants/contributions	86,729,543	81,775,489			86,729,543	81,775,489
General revenues:						
Property taxes	157,849,794	139,233,977			157,849,794	139,233,977
State revenue and grants	173,016,448	169,401,567			173,016,448	169,401,567
Other	5,677,657	6,163,624			5,677,657	6,163,624
<b>Total revenues</b>	<b>429,789,049</b>	<b>404,617,230</b>	<b>1,070,301</b>	<b>806,514</b>	<b>430,859,350</b>	<b>405,423,744</b>
<b>Expenses</b>						
Instruction and instructional related services	259,026,833	248,454,058			259,026,833	248,454,058
Instructional/school leadership	27,431,448	26,355,944			27,431,448	26,355,944
Support services - student	59,383,615	57,062,131			59,383,615	57,062,131
Administrative support services	7,944,731	7,599,987			7,944,731	7,599,987
Support services - non-student based	45,068,597	43,152,775			45,068,597	43,152,775
Ancillary services	1,593,841	1,689,077			1,593,841	1,689,077
Debt service	10,874,268	11,698,007			10,874,268	11,698,007
Facilities acquisition and construction - non-capitalized	887,698	951,696			887,698	951,696
Intergovernmental charges	1,904,631	1,719,975			1,904,631	1,719,975
Other business-type activities			1,035,749	787,574	1,035,749	787,574
<b>Total expenses</b>	<b>414,115,662</b>	<b>398,683,650</b>	<b>1,035,749</b>	<b>787,574</b>	<b>415,151,411</b>	<b>399,471,224</b>
Increase/(decrease) in net assets	15,673,387	5,933,580	34,552	18,940	15,707,939	5,952,520
Net assets - beginning	258,526,398	252,592,818	25,180	6,240	258,551,578	252,599,058
<b>Net assets - ending</b>	<b>\$ 274,199,785</b>	<b>\$258,526,398</b>	<b>\$ 59,732</b>	<b>\$ 25,180</b>	<b>\$ 274,259,517</b>	<b>\$258,551,578</b>

**Governmental activities.** Net assets of the District's governmental activities increased \$15,673,387. The total cost of all governmental activities this year was \$414,115,662, and the amount that the District's taxpayers paid for these activities through property taxes was \$157,849,794, or approximately 38%.



## Management's Discussion and Analysis (continued)

Significant changes in revenue and expenses include:

- The property taxes revenue increase of \$18.6 million is due to the increase of 7.5 cents in the combined tax rates along with a 6.8% growth in property value. As mandated in House Bill 1 (H.B. 1), the district's maintenance and operations tax rate was first compressed from \$1.50 to \$1.33 for 2006-07. The Board then approved using the additional \$0.04 available to balance the budget and the tax rate was set at \$1.37 for 2006-07. In 2007-08, the tax rate was compressed to \$1.04 as required by H.B.1. The general fund tax rate adopted by the Board for 2008-09 was \$1.125, which exceeded the rollback tax rate and required voters' approval. The voters approved this rate at the election held on November 20, 2008.
- The additional pennies mentioned above also brought an increase in the state funding from the guaranteed yield based on the funding formula.
- The increase in total instruction and instructional related services, and instructional/school leadership mainly relates to a pay increase of approximately 3% on midpoint for all personnel and computer replacement.
- Besides pay adjustments, the increase in student based support services is attributable to the increase in supplies and materials, resulting from inflation, for the food service program.
- The increase in non-student based support services is related to property insurance and building repairs. In addition, it reflects the coding change for school hall monitors as required by the State.
- Total expenses above include depreciation of \$16,405,259. Capital outlay of \$17,382,072 is not included in the above total expenses. In the government-wide financial statements, capital outlay is shown as an increase in the capital assets reported on the statement of net assets and depreciation expense is recorded in the statement of activities in order to spread recognition of the cost of capital assets over their useful lives.

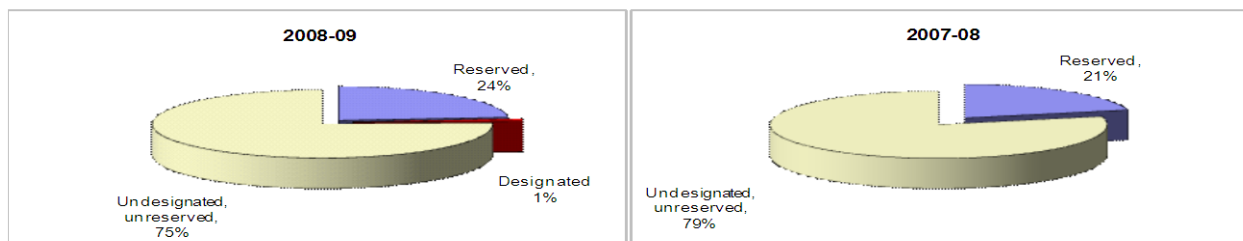
**Business-type activities.** Business-type activities increased the District's net assets by \$34,552. The increase is relatively insignificant to the overall operations of the District.

### 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.

**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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$104,336,391, an increase of \$9,636,635. Approximately 75% of this total amount (\$78,634,073) constitutes unreserved, undesignated fund balance. The remainder of the fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed 1) for inventory - \$1,540,124, 2) to pay debt service - \$3,198,316, 3) to liquidate purchase orders of the prior period - \$389,639, 4) for food service - \$2,839,238, 5) for capital projects - \$15,789,787, 6) for campus activities - \$799,064, 6) for special campus grants - \$1,146,150. The following chart presents the major components of the District's fund balance for both the current and previous fiscal year.



## Management's Discussion and Analysis (continued)

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The general fund is the primary operating fund of the District. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$78,634,073, while the total fund balance was \$81,245,734. The fund balance of the general fund increased \$4,854,364 from previous year. The increase is partially attributable to a prior year settlement of \$2,158,711 for SHARS, a Medicaid Reimbursement Program. As a measure of the general fund's liquidity, it may be useful to compare unreserved, undesignated fund balance to the total fund expenditures. Unreserved, undesignated fund balance still represents 24% of the total general fund expenditures.

The fund balance for food service should not exceed three months of average food service operating expenditures. The fund balance at the end of 2005-06 was significantly higher than these guidelines. The budget for 2006-07, 2007-08, and 2008-09 was prepared with a planned reduction in fund balance. The reduction plan included additional staffing units, upgraded salaries, equipment replacement, and reduced plate lunch prices, which all contributed to a fund balance decrease of \$1,261,647. Food service fund balance at the end of 2008-09 was \$3,303,490.

The debt service fund has a total fund balance of \$3,198,316 that is reserved for the payment of debt service. The tax rate for this fund was decreased by one cent to \$0.215 per \$100 of assessed value to meet the fund balance guideline.

Fund balance for the capital projects fund at August 31, 2009 was \$15,789,787. As a result of unspent bond proceeds in previous years, the fund began the year with \$9,204,564 in fund balance. The District received \$16,297,000 in bond proceeds while spending \$11,811,527 in the current year on various construction projects and bond issuance costs. Another \$2,000,000 was transferred from the general fund at year end. The remaining fund balance is designated for future construction projects, including roof replacement, HVAC upgrade, masonry replacement, and various maintenance projects throughout the District.

**Proprietary Funds.** 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 of the District's catering enterprise fund and after school program at the end of the year were \$14,480 and \$66,870, respectively. The District's day care fund ended the year with negative net assets of \$21,618. The internal service fund used to account for the District's self-funded insurance programs experienced a decrease in net assets of \$1,364,908 to a balance of \$3,231,180 at August 31, 2009. This decrease was primarily due to increased claims costs in the health insurance fund and workers' compensation fund.

### General Fund Budgetary Highlights

Over the course of the year, District personnel recommended, and the Board of Trustees approved, several revisions to budgeted revenues and appropriations. Revisions to the revenue budget were necessary due to changes in estimates for local and state revenue based on revised enrollment, assessed property value and declining interest rates. Revisions to appropriations were necessary due to changes in spending needs over the course of the year, and other unexpected occurrences.

The District's major budget amendments during the year are summarized as follows:

- The budgets for Teacher Retirement System of Texas (TRS) on behalf expenditures and revenues were both increased by \$2.4 million to reflect the state's contributions to TRS.
- A \$2.0 million budget amendment was approved for a transfer from the general fund to the capital projects fund to address various capital projects.

## Management's Discussion and Analysis (continued)

- The expenditure budget was increased by \$0.4 million, which was the remaining balance that was unspent from 2007-08 fiscal year budget for the District's new finance software system.
- The utilities budget was increased by \$2.1 million to cover projected costs.
- A \$1.0 million budget was established for school vehicles replacement.
- In order to improve student preparation for college and career, a \$0.4 million budget was approved for the Early College High School startup costs and an additional \$0.5 million was budgeted for career education.
- The expenditure budget was increased by \$3.5 million for building repairs following hurricane IKE, which was offset by the revenue budget from insurance recovery.
- Dropping interest rates resulted in a \$3.0 million decrease in the interest revenue budget.
- The revenue budget was amended based on modified projections: a \$3.0 million increase for local tax collections and a \$1.3 million increase for state funding relates to the assessed property value and the guaranteed yield from the additional tax levied.

After revenue budgets and appropriations were adjusted as described, the District's general fund balance of \$81,245,734 differs from the final budgetary fund balance of \$70,809,242 reported in the budgetary comparison schedule on page 54. This is primarily due to the following factors:

- Federal program revenues were \$2.1 million higher than the final budget due to a prior year settlement for SHARS program.
- Expenditures were \$9.6 million less than final budgeted amounts. Various expenditure categories came in under budget, including employer's contribution to TRS (\$3.0 million), health insurance (\$0.8 million), electricity (\$1.8 million), fuels (\$0.7 million), supplies and materials (\$1.4 million), property and liability insurance premiums (\$0.2 million), travel (\$0.2 million), fees and dues (\$0.5 million), and the project for the new finance software system (\$0.3 million).

### Capital Asset and Debt Administration

#### Capital Assets

The District's investment in capital assets for its governmental and business-type activities as of August 31, 2009, amounts to \$408,252,183 (net of accumulated depreciation of \$281,635,541). This investment in capital assets includes facilities and equipment for instruction, transportation, athletics, administration, and maintenance. The net decrease in the District's investment in capital assets for the current year was \$714,061. Additional information on the District's capital assets can be found on pages 43-45 in the notes to the financial statements.

#### Capital Asset Summary

	Governmental Activities		Business-type Activities		Total	
	August 31, 2009	August 31, 2008	August 31, 2009	August 31, 2008	August 31, 2009	August 31, 2008
Land	\$ 65,159,389	\$ 65,072,281			\$ 65,159,389	\$ 65,072,281
Buildings and improvements	326,157,212	321,024,913	\$ 71,068	\$ 86,726	326,228,280	321,111,639
Furniture and equipment	11,788,542	12,446,903	8,612	9,936	11,797,154	12,456,839
Construction in progress	5,067,360	10,325,485			5,067,360	10,325,485
<b>Total capital assets (net of depreciation)</b>	<b>\$ 408,172,503</b>	<b>\$408,869,582</b>	<b>\$ 79,680</b>	<b>\$ 96,662</b>	<b>\$ 408,252,183</b>	<b>\$408,966,244</b>

## Management's Discussion and Analysis (continued)

### Debt

At year end, the District had total bonded debt outstanding of \$241,955,656. The District retired \$23,425,000 of debt during 2008-09 and issued \$16,297,000 in unlimited tax schoolhouse bonds issued under a new program initiated by the federal government - Qualified School Construction Bonds (QSCB). Under this program, the federal government provides tax credits to the purchasers of the bonds, which allowed the District to issue the bonds with a 0% interest rate. The District also issued \$21,630,000 in unlimited tax refunding bonds to advance refund \$22,850,000 of outstanding series issued in 1997, 1998, and 1999. Business-type activities have no debt outstanding.

The ratio of net general bonded debt to assessed valuation is a useful indicator of the District's debt position. This data is presented in the statistical section on page 82 and reflects a decrease in the ratio of net bonded debt to assessed value from 2.26% last year to the current year ratio of 2.04%.

### Bonded Debt Summary

	Governmental Activities	
	August 31, 2009	August 31, 2008
<b>General Obligation Bond:</b>	\$ 241,955,656	\$250,303,656

The underlying rating on the District's bonds is "Aa2" from Moody's and "AA" from Standard and Poors. The "AAA" long-term rating on the District's bonds reflected the Texas Permanent School Fund (PSF) guarantee was not available. Due to recent deterioration of the financial markets, the PSF reached the federal limitation and new bonds applications were temporarily suspended.

A portion of the District's long-term debt is accrued compensated absences. The compensated absences liability at August 31, 2009 is \$5,943,856, which is slightly more than the previous year's accrual. This liability is made up of unused vacation and sick days accrued by District personnel.

More detailed information about the District's long-term liabilities is presented on pages 45-47 in the notes to the basic financial statements.

### Economic Factors and Next Year's Budgets and Rates

As part of the budget development process, the District's management has taken into consideration the factors that drive school district budgets: enrollments, property values, state funding, facility needs, and the economy. The District's elected and appointed officials considered these and other factors when setting the fiscal year 2010 general fund budget and tax rate. The adopted budget is based on the following significant assumptions:

- Developing enrollment projections has been complicated since 2005-06 due to hurricane evacuee students. The increase in 2005-06 was followed by corresponding decreases in 2006-07 and 2007-08. Enrollment rebounded slightly in 2008-09. The projection was set at 45,587, an increase of 220 from the October 2008 count.
- H.B. 3646, the school finance bill, was passed during the 81th Legislative session. H.B. 3646 included adjustments to the formula structure, new allotments, a mandated raise for employees paid from the teacher salary schedule, and a minimum and maximum gain amount for all districts.

## Management's Discussion and Analysis (continued)

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- General fund expenditures are budgeted to increase by 3% over the final 2008-09 expenditures. The increase was due to the following factors:
  - The Board approved a salary increase of approximately 3.75% on midpoint for all personnel. The approximate cost of these salary increases is \$9.1 million. H.B. 3646, the school finance bill, mandated raises for eligible employees (teachers, nurses, librarians, counselors, and speech pathologists) which accounts for \$6.2 million of the total salary increase amount.
  - Fourteen new teaching positions for math and science were added in order to assist in efforts to recruit and retain additional certified teachers in this area to meet the new State requirement. Thirteen positions were added for the Early College High School. An additional 11.5 teaching units and 5 counselors units were added at various campuses to meet specific needs. These increases were somewhat offset by reductions in teaching units in the area of Special Education due to changes in programs and student needs.
  - The Special Campus Grants program was re-established in 2009-10 at a cost of \$1.1 million. The program provides an additional allocation to campuses of \$25 per student for programs not traditionally funded through the regular allocation to assist campuses in meeting their goals and objectives.
- The tax rate was calculated after determining the necessary level of expenditures to meet District's educational goals and facility requirements and estimated State aid. The Board adopted the tax rate of \$1.125, which will maintain adequate fund balance level to mitigate current and future risks.

### 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 and to show the District's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to the Office of the Assistant Superintendent for Finance, Alief I.S.D., 4250 Cook Road, Houston, Texas, 77072.

# Basic Financial Statements

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Alief Independent School District

Exhibit A-1

Statement of Net Assets  
August 31, 2009

Data Control Codes		Governmental Activities	Business-type Activities	Total
<b>Assets</b>				
1110	Cash and cash equivalents	\$ 114,610,105	\$ 600	\$ 114,610,705
1120	Investments	6,646,187		6,646,187
	Receivables:			
1220	Property taxes	12,415,872		12,415,872
1230	Allowance for uncollectible taxes	(1,841,690)		(1,841,690)
1240	Due from other governments	6,952,815		6,952,815
1250	Accrued interest	113,333		113,333
1260	Internal balances	(30,755)	30,755	-
1290	Other receivables	692,154	10,042	702,196
1300	Inventories, at cost	1,540,124		1,540,124
1410	Deferred expenditures	144,828		144,828
1420	Capital bond and other debt issuance costs	1,971,544		1,971,544
	Capital Assets, net of accumulated depreciation			
1510	Land	65,159,389		65,159,389
1520	Buildings and improvements, net	326,157,212	71,068	326,228,280
1530	Furniture and equipment, net	11,788,542	8,612	11,797,154
1580	Construction in process	5,067,360		5,067,360
1000	<b>Total Assets</b>	<b>551,387,020</b>	<b>121,077</b>	<b>551,508,097</b>
<b>Liabilities</b>				
2110	Accounts payable	8,138,343	3,344	8,141,687
2140	Interest payable	442,043		442,043
2150	Payroll deductions and withholdings	688,365		688,365
2160	Accrued wages payable	5,775,279	877	5,776,156
2200	Accrued expenses	3,754,094		3,754,094
2300	Unearned revenue	3,675,848	57,124	3,732,972
2501	Due within one year			
	Bonds payable	23,351,467		23,351,467
	Compensated absences	1,000,000		1,000,000
2530	Due in more than one year			
	Bonds payable, net of premium and refunding loss	224,848,649		224,848,649
	Compensated absences	4,943,856		4,943,856
	Claims payable	569,291		569,291
2000	<b>Total Liabilities</b>	<b>277,187,235</b>	<b>61,345</b>	<b>277,248,580</b>
<b>Net Assets</b>				
3800	Invested in Capital Assets, Net of Related Debt	175,638,327	79,680	175,718,007
	Restricted for:			
3820	Food Service	3,303,490		3,303,490
3840	Campus Activities	799,064		799,064
3850	Debt Service	4,792,788		4,792,788
3900	Unrestricted	89,666,116	(19,948)	89,646,168
	<b>Total Net Assets</b>	<b>\$ 274,199,785</b>	<b>\$ 59,732</b>	<b>\$ 274,259,517</b>

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

**Alief Independent School District**

**Exhibit B-1**

**Statement of Activities  
Year Ended August 31, 2009**

Data Control Codes	Functions/Programs	1	3	4	6	7	8
		Expenses	Program Revenues		Net (Expense), Revenue and Changes in Net Assets		
			Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Government Activities:</b>							
11	Instruction	\$ 247,286,593	\$ 153,251	\$ 43,672,969	\$ (203,460,373)		\$ (203,460,373)
12	Instructional resources and media services	5,809,567		354,184	(5,455,383)		(5,455,383)
13	Curriculum & instructional staff development	5,930,673	180,470	2,616,424	(3,133,779)		(3,133,779)
21	Instructional leadership	4,574,156		933,663	(3,640,493)		(3,640,493)
23	School leadership	22,857,292		1,356,667	(21,500,625)		(21,500,625)
31	Guidance, counseling, & evaluation services	13,702,431		1,441,648	(12,260,783)		(12,260,783)
32	Social work services	385,079		174,572	(210,507)		(210,507)
33	Health services	3,654,976		3,650,788	(4,188)		(4,188)
34	Student transportation	12,479,717	1,830	2,813,322	(9,664,565)		(9,664,565)
35	Food services	23,060,046	3,666,337	17,427,109	(1,966,600)		(1,966,600)
36	Extracurricular activities	6,101,366	2,123,895	138,427	(3,839,044)		(3,839,044)
41	Administrative and support services	7,944,731		680,647	(7,264,084)		(7,264,084)
51	Plant maintenance and operations	37,791,144	130,081	2,324,482	(35,336,581)		(35,336,581)
52	Security and monitoring services	4,334,225	259,743	309,037	(3,765,445)		(3,765,445)
53	Data processing services	2,943,228		117,026	(2,826,202)		(2,826,202)
61	Community services	1,593,841		189,821	(1,404,020)		(1,404,020)
71	Debt service - interest on long-term debt	10,874,268		8,496,227	(2,378,041)		(2,378,041)
81	Facilities acquisition and construction - non-capitalized	887,698		32,530	(855,168)		(855,168)
93	Payments to fiscal agent	418,234			(418,234)		(418,234)
95	Payments to JJAEP	242,861			(242,861)		(242,861)
99	Payments to county appraisal district	1,243,536			(1,243,536)		(1,243,536)
TG	Total governmental activities	<u>414,115,662</u>	<u>6,515,607</u>	<u>86,729,543</u>	<u>(320,870,512)</u>		<u>(320,870,512)</u>
<b>Business-type Activities:</b>							
01	Day care	586,447	554,023			\$ (32,424)	(32,424)
02	Catering	82,657	89,156			6,499	6,499
03	After school program	366,645	427,122			60,477	60,477
TB	Total business-type activities	<u>1,035,749</u>	<u>1,070,301</u>			<u>34,552</u>	<u>34,552</u>
TP	Total primary government	<u>\$ 415,151,411</u>	<u>\$ 7,585,908</u>	<u>\$ 86,729,543</u>	<u>(320,870,512)</u>	<u>34,552</u>	<u>(320,835,960)</u>

Data Control Codes			
<b>General revenues:</b>			
MT	Property taxes, levied for general purposes	132,561,455	132,561,455
DT	Property taxes, levied for debt service	25,288,339	25,288,339
SF	State-aid formula grant-unrestricted	173,016,448	173,016,448
IE	Investment earnings	1,816,361	1,816,361
MI	Miscellaneous revenue	3,861,296	3,861,296
TR	Total general revenue	<u>336,543,899</u>	<u>336,543,899</u>
CN	Change in net assets	15,673,387	34,552
	Net assets - beginning	258,526,398	25,180
	Net assets - ending	<u>\$ 274,199,785</u>	<u>\$ 59,732</u>
			<u>\$ 274,259,517</u>

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

**Alief Independent School District**

**Exhibit C-1**

**Balance Sheet - Governmental Funds  
August 31, 2009**

<b>Data Control Codes</b>	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>	<b>Total Governmental Funds</b>	
<b>Assets</b>						
1110	Cash and cash equivalents	\$ 82,570,728	\$ 3,750,869	\$ 3,212,514	\$ 17,713,797	\$ 107,247,908
1120	Investments	6,646,187				6,646,187
	Receivables:					
1220	Property taxes	10,544,964		1,870,908		12,415,872
1230	Allowance for uncollectible taxes	(1,565,254)		(276,436)		(1,841,690)
1240	Due from other governments	2,177,524	4,775,291			6,952,815
1250	Accrued interest	113,333				113,333
1260	Due from other funds	3,728,865		46,971	6,444	3,782,280
1290	Other receivables	399,497				399,497
1310	Inventories, at cost	1,092,561	447,563			1,540,124
1000	<b>Total Assets</b>	<b>\$ 105,708,405</b>	<b>\$ 8,973,723</b>	<b>\$ 4,853,957</b>	<b>\$ 17,720,241</b>	<b>\$ 137,256,326</b>
<b>Liabilities</b>						
	Current Liabilities:					
2110	Accounts payable	\$ 5,366,320	\$ 553,854	\$ 42,598	\$ 1,930,454	\$ 7,893,226
2150	Payroll deductions and withholdings	688,365				688,365
2160	Accrued wages payable	5,285,118	490,161			5,775,279
2170	Due to other funds	179,727	3,633,308			3,813,035
2200	Accrued expenditures	500,000				500,000
2300	Deferred revenues	12,443,141	193,846	1,613,043		14,250,030
2000	<b>Total Liabilities</b>	<b>24,462,671</b>	<b>4,871,169</b>	<b>1,655,641</b>	<b>1,930,454</b>	<b>32,919,935</b>
<b>Fund Balance</b>						
	Reserved fund balances:					
3410	Investments in inventory	1,092,561	447,563			1,540,124
3420	Retirement of long-term debt			3,198,316		3,198,316
3440	Outstanding encumbrances	372,950	16,689			389,639
3450	Food service		2,839,238			2,839,238
3470	Authorized Construction				15,789,787	15,789,787
3490	Campus Activities		799,064			799,064
3590	Designated fund balance (campus grants)	1,146,150				1,146,150
3600	Undesignated, unreserved fund balance	78,634,073				78,634,073
3000	<b>Total Fund Balance</b>	<b>81,245,734</b>	<b>4,102,554</b>	<b>3,198,316</b>	<b>15,789,787</b>	<b>104,336,391</b>
4000	<b>Total Liabilities and Fund Equity</b>	<b>\$ 105,708,405</b>	<b>\$ 8,973,723</b>	<b>\$ 4,853,957</b>	<b>\$ 17,720,241</b>	<b>\$ 137,256,326</b>

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

**Alief Independent School District**

**Exhibit C-2**

***Reconciliation of the Governmental Funds Balance Sheet  
to the Statement of Net Assets  
August 31, 2009***

<b>Total fund balances - governmental funds balance sheet</b>	<b>\$ 104,336,391</b>
<p>Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:</p>	
<p>The District uses the internal service fund to charge the costs of self-insurance activities to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets. The net effect of this consolidation is to increase net assets.</p>	3,231,180
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds. The cost of these assets is \$689,713,196 and the accumulated depreciation is \$281,540,693 resulting in a net addition to net assets.</p>	408,172,503
<p>In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore, are not reported as liabilities in the governmental funds, resulting in a net decrease of \$241,955,656</p>	(241,955,656)
<p>Property taxes receivable and the penalty and interest will be collected in the future, but are not available soon enough to pay for the current period's expenditures and therefore, are deferred in the funds. These are added back to net assets.</p>	10,574,182
<p>Long term liabilities for compensated absences are not included in the fund liabilities which decrease the net assets on the government-wide basis.</p>	(5,443,856)
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing the liabilities of (\$442,043) associated with long-term debt interest, recognizing the deferred amounts related to premiums of (\$7,383,667), the loss on refunding of \$2,481,049, capital bond and other debt issuance costs of \$1,971,544, and the interest in capital appreciation bonds (\$1,341,842).</p>	(4,714,959)
<b>Net Assets of Governmental Activities</b>	<hr/> <b>\$ 274,199,785</b> <hr/>

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

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Alief Independent School District

Exhibit C-3

Statement of Revenues, Expenditures, and Changes in Fund Balance  
 Governmental Funds  
 Year Ended August 31, 2009

Data Control Codes		General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
<b>Revenues</b>						
5700	Local sources	\$ 137,833,641	\$ 5,763,236	\$ 25,206,141	\$ 99,750	\$ 168,902,768
5800	State program revenues	192,232,885	8,678,291	8,496,227		209,407,403
5900	Federal program revenues	4,190,692	47,462,662			51,653,354
5030	<b>Total Revenues</b>	<b>334,257,218</b>	<b>61,904,189</b>	<b>33,702,368</b>	<b>99,750</b>	<b>429,963,525</b>
<b>Expenditures</b>						
<b>Current:</b>						
0011	Instruction	203,800,433	31,649,313			235,449,746
0012	Instructional resources and media services	5,119,260	99,595			5,218,855
0013	Curriculum & instructional staff development	3,413,611	2,461,982			5,875,593
0021	Instructional leadership	3,740,964	736,199			4,477,163
0023	School leadership	22,522,700	61,043			22,583,743
0031	Guidance, counseling, & evaluation services	12,817,145	746,629			13,563,774
0032	Social work services	228,239	156,321			384,560
0033	Health services	3,299,674	299,919			3,599,593
0034	Student transportation	11,787,371	1,842			11,789,213
0035	Food services		22,284,650			22,284,650
0036	Extracurricular activities	3,518,454	2,000,704			5,519,158
0041	Administrative and support services	6,603,321				6,603,321
0051	Plant maintenance and operations	36,709,805	1,015,103			37,724,908
0052	Security and monitoring services	4,308,245	73,050			4,381,295
0053	Data processing services	2,656,028				2,656,028
0061	Community services	1,515,560	115,399			1,630,959
<b>Debt service:</b>						
0071	Debt service - principal on long-term debt			23,425,000		23,425,000
0072	Debt service - interest on long-term debt			10,756,925		10,756,925
0073	Bond issuance costs and fees			229,701	100,296	329,997
0081	<b>Facilities acquisition and construction</b>	3,457,413	1,520,026		11,711,231	16,688,670
<b>Intergovernmental charges:</b>						
0093	Payments to fiscal agent	418,234				418,234
0095	Payments to JJAEP	242,861				242,861
0099	Payments to county appraisal district	1,243,536				1,243,536
6050	<b>Total Expenditures</b>	<b>327,402,854</b>	<b>63,221,775</b>	<b>34,411,626</b>	<b>11,811,527</b>	<b>436,847,782</b>
1100	<b>Excess of Revenues Over (Under) Expenditures</b>	<b>6,854,364</b>	<b>(1,317,586)</b>	<b>(709,258)</b>	<b>(11,711,777)</b>	<b>(6,884,257)</b>
<b>Other Financing Sources (Uses)</b>						
7911	Capital-related debt issued (regular bonds)				16,297,000	16,297,000
7911	Refunding bonds issued			21,630,000		21,630,000
7915	Transfer in				2,000,000	2,000,000
7916	Premium on issuance of bonds			1,455,098		1,455,098
8911	Transfer out	(2,000,000)				(2,000,000)
8949	Payment to refunded bond escrow agent			(22,861,206)		(22,861,206)
	<b>Total Other Financing Sources (Uses)</b>	<b>(2,000,000)</b>		<b>223,892</b>	<b>18,297,000</b>	<b>16,520,892</b>
1200	<b>Net Change in Fund Balances</b>	<b>4,854,364</b>	<b>(1,317,586)</b>	<b>(485,366)</b>	<b>6,585,223</b>	<b>9,636,635</b>
0100	Fund balance - September 1 (beginning)	76,391,370	5,420,140	3,683,682	9,204,564	94,699,756
3000	<b>Fund Balance - August 31 (ending)</b>	<b>\$ 81,245,734</b>	<b>\$ 4,102,554</b>	<b>\$ 3,198,316</b>	<b>\$ 15,789,787</b>	<b>\$ 104,336,391</b>

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

Alief Independent School District

Exhibit C-4

**Reconciliation of the Statement of Revenues, Expenditures, and  
Changes in Fund Balance of Governmental Funds to the Statement of Activities  
Year Ended August 31, 2009**

<b>Net change in fund balances - total governmental funds</b>	<b>\$ 9,636,635</b>
<p>Amounts reported for governmental activities in the statement of activities ("SOA") are different because:</p>	
<p>The District uses internal service funds to charge the costs of self insurance to appropriate functions in other funds. The net income/loss of internal service funds is reported with governmental activities. The net effect of this consolidation is to decrease net assets.</p>	(1,364,908)
<p>Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The amount of capital outlay during the year increases net assets.</p>	17,382,072
<p>Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.</p>	(16,405,259)
<p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>	23,425,000
<p>Current year proceeds from bond issuance are other financing sources in the fund financial statement, but should be shown as an increase in long-term debt in the government-wide statement.</p>	(15,077,000)
<p>Property taxes and penalty and interest receivables at year end will not be collected for several months after the district's fiscal year ends, so they are not considered available revenues and are deferred in the governmental funds. Deferred tax revenues increased by this amount this year and is an increase to net assets.</p>	1,499,416
<p>Compensated absences (sick and vacation pay) are measured by the amounts earned during the year in the statement of activities. In the governmental funds, however the expenditures for these items are measured by the amount of financial resources used (essentially the amounts actually paid or to be paid at year end for retiring employees.) This year vacation and sick leave paid out was less than the amounts earned, decreasing net assets.</p>	(517,439)

**Net change in fund balances - total governmental funds (continued)**

An accrual for interest expense is not recognized in the governmental fund basis but is in the statement of activities. The interest accrual was less this year than last year thereby increasing net assets. 41,060

Bond issuance costs, deferred charges on bond refunding, and other debt charges which are treated as expenditures or other sources/uses in the fund basis financial statements are set up as assets and amortized in the statement of net assets. The net change for each represents an increase/(decrease) in net assets:

Bond issuance costs	178,570
Bond premium/discounts	(981,204)
Gain/loss on refunding	(386,485)
Interest on capital appreciation bonds	(83,179)

Amounts recognized in the governmental fund basis and the statement of net assets differ due to the sale and retirement of assets. (1,673,892)

**Change in Net Assets of Governmental Activities** \$ 15,673,387

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

Alief Independent School District

Exhibit D-1

**Statement of Net Assets**  
**Proprietary Funds**  
**August 31, 2009**

Data Control Codes	Business-type Activities				Governmental Activities -
	Enterprise Funds			Total Enterprise Funds	Total Internal Service Funds
	Daycare Fund	Catering Fund	After School Program		
<b>Assets</b>					
Current Assets:					
1110	Cash and cash equivalents		\$ 600	\$ 600	\$ 7,362,197
1260	Due from other funds	\$ 6,538	119,774	126,312	
1290	Other receivables	\$ 2,100	7,942	10,042	292,657
1410	Deferred expenses				144,828
	Total current assets	2,100	14,480	120,374	7,799,682
Noncurrent Assets:					
1520	Buildings and improvements	161,279		161,279	
1530	Furniture and equipment	13,249		13,249	
1560	Less accumulated depreciation	(94,848)		(94,848)	
	Total noncurrent assets	79,680		79,680	
1000	<b>Total Assets</b>	81,780	14,480	120,374	7,799,682
<b>Liabilities</b>					
Current Liabilities:					
2110	Accounts payable	3,046	298	3,344	245,117
2160	Accrued wages payable	155	722	877	
2170	Due to other funds	95,557		95,557	
2200	Accrued expenses				3,754,094
2310	Deferred revenues	4,640	52,484	57,124	
	Total current liabilities	103,398	53,504	156,902	3,999,211
Noncurrent Liabilities					
2590	Claims Payable				569,291
	Total noncurrent liabilities				569,291
2000	<b>Total Liabilities</b>	103,398	53,504	156,902	4,568,502
<b>Net Assets</b>					
3200	Invested in capital assets	79,680		79,680	
3900	Unrestricted net assets	(101,298)	14,480	66,870	3,231,180
	<b>Total Net Assets</b>	\$ (21,618)	\$ 14,480	\$ 66,870	\$ 3,231,180

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

**Alief Independent School District**

Exhibit D-2

**Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Proprietary Funds  
Year Ended August 31, 2009**

Data Control Codes		Business-type Activities			Total Enterprise Funds	Governmental
		Enterprise Funds				Activities -
		Daycare Fund	Catering Fund	After School Program		Total Internal Service Funds
<b>Operating Revenues</b>						
5700	Local sources:					
5754	Interfund services provided				\$ 26,607,648	
5759	Catering services		\$ 89,156	\$ 89,156		
5759	Daycare services	\$ 551,116		551,116		
5759	After school program		\$ 427,122	427,122		
57XX	Other	2,907		2,907	1,402,942	
5020	<b>Total Operating Revenues</b>	<u>554,023</u>	<u>89,156</u>	<u>427,122</u>	<u>1,070,301</u>	<u>28,010,590</u>
<b>Operating Expenses</b>						
6100	Payroll costs	542,383	22,246	312,663	877,292	
6200	Purchased and contracted services	790		8,439	9,229	2,614,843
6300	Supplies and materials	13,085	60,411	1,322	74,818	
6400	Other operating expenses:					
	Claims expense					26,828,957
	Depreciation expense	16,982			16,982	
	Other	13,207		44,221	57,428	
6030	<b>Total Operating Expenses</b>	<u>586,447</u>	<u>82,657</u>	<u>366,645</u>	<u>1,035,749</u>	<u>29,443,800</u>
1200	<b>Operating Income (Loss)</b>	<u>(32,424)</u>	<u>6,499</u>	<u>60,477</u>	<u>34,552</u>	<u>(1,433,210)</u>
<b>Nonoperating Revenue</b>						
7000	Interest income					68,302
	<b>Total Nonoperating Revenue</b>					<u>68,302</u>
1300	<b>Change in Net Assets</b>	<u>(32,424)</u>	<u>6,499</u>	<u>60,477</u>	<u>34,552</u>	<u>(1,364,908)</u>
0100	Total Net Assets - beginning	<u>10,806</u>	<u>7,981</u>	<u>6,393</u>	<u>25,180</u>	<u>4,596,088</u>
3000	<b>Total Net Assets - ending</b>	<u><u>\$ (21,618)</u></u>	<u><u>\$ 14,480</u></u>	<u><u>\$ 66,870</u></u>	<u><u>\$ 59,732</u></u>	<u><u>\$ 3,231,180</u></u>

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

**Alief Independent School District**

Exhibit D-3

**Statement of Cash Flows - Proprietary Funds  
Year Ended August 31, 2009**

	Business-type Activities			Total Enterprise Funds	Governmental
	Enterprise Funds				Activities -
	Daycare Fund	Catering Fund	After School Program		Total Internal Service Funds
<b>Cash Flows from Operating Activities</b>					
Cash receipts from local sources	\$ 565,035	\$ 83,909	\$ 425,134	\$ 1,074,078	\$ 26,607,648
Cash receipts from insurance reimbursements					1,483,428
Cash payments for payroll	(542,228)	(22,246)	(312,583)	(877,057)	
Cash payments to vendors for services	(24,635)	(60,411)	(53,694)	(138,740)	(4,315,910)
Cash payments for claims					(24,501,890)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>(1,828)</u>	<u>1,252</u>	<u>58,857</u>	<u>58,281</u>	<u>(726,724)</u>
<b>Cash Flows from Noncapital Financing Activities</b>					
Advance from (to) the General Fund	1,828	(1,252)	(58,557)	(57,981)	
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<u>1,828</u>	<u>(1,252)</u>	<u>(58,557)</u>	<u>(57,981)</u>	
<b>Cash Flows from Investing Activities</b>					
Interest on cash and investments					68,302
<b>Net Cash Provided by Investing Activities</b>					<u>68,302</u>
Net increase (decrease) in cash and cash equivalents			300	300	(658,422)
Cash and cash equivalents - beginning of year			300	300	8,020,619
<b>Cash and cash equivalents - end of year</b>	<u>\$</u>	<u>\$</u>	<u>\$ 600</u>	<u>\$ 600</u>	<u>\$ 7,362,197</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>					
Operating income (loss)	\$ (32,424)	\$ 6,499	\$ 60,477	\$ 34,552	\$ (1,433,210)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation expense	16,982			16,982	
(Increase) decrease in receivables	6,372	(5,247)		1,125	80,486
(Increase) in deferred expenditures					(144,828)
Increase in accounts payable	2,447		288	2,735	98,549
Increase in accrued wages	155		80	235	
Increase in accrued expenses					102,988
Increase (decrease) in deferred revenues	4,640		(1,988)	2,652	
Increase in noncurrent claims payable					569,291
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ (1,828)</u>	<u>\$ 1,252</u>	<u>\$ 58,857</u>	<u>\$ 58,281</u>	<u>\$ (726,724)</u>

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

Alief Independent School District

Exhibit E-1

Statement of Fiduciary Assets and Liabilities  
Agency Fund  
August 31, 2009 and 2008

<u>Data Control Codes</u>		<u>August 31, 2009</u>	<u>August 31, 2008</u>
	<b>Assets</b>		
1110	Cash and cash equivalents	<u>\$ 564,331</u>	<u>\$ 653,577</u>
	<b>Liabilities</b>		
2190	Due to student groups	<u>\$ 564,331</u>	<u>\$ 653,577</u>

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

**Alief Independent School District**  
**Notes to the Basic Financial Statements**

**Note 1 – Summary of Significant Accounting Policies**

The Alief Independent School District (the “District”) is an independent public educational agency operating under applicable laws and regulations of the State of Texas. The District is autonomously governed by a seven member Board of Trustees elected to staggered four-year terms by the District’s residents.

The accounting policies of the District substantially comply with the rules prescribed in the Texas Education Agency’s *Financial Accountability System Resources Guide (“the Resource Guide”)*. The accounting policies included in the Resource Guide conform to generally accepted accounting principles applicable to governmental units. The following is a summary of the most significant policies:

In 2002, the District implemented GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB Statement No. 34), and GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, which provides additional guidance for the implementation of GASB Statement No. 34, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, which change note disclosure requirements for governmental entities.

GASB Statement No. 34 established a new financial reporting model for state and local governments that included the addition of management’s discussion and analysis, government-wide financial statements, required supplementary information, and the elimination of the effects of internal service activities and the use of account groups to the already required fund financial statements and notes.

The GASB determined that fund accounting has and will continue to be, essential in helping governments to achieve fiscal accountability and should, therefore, be retained. The GASB also determined that government-wide financial statements are needed to allow users of financial reports to assess a government’s operational accountability. The new GASB model integrates fund-based financial reporting and government-wide financial reporting as complementary components of a single comprehensive financial reporting model.

**A. Reporting Entity**

The District is an independent political subdivision of the State of Texas governed by an elected board of trustees and is considered a primary government. As required by generally accepted accounting principles, these financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the District’s financial reporting entity. Based on these considerations, no other entities have been included in the District’s reporting entity. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

The District has also implemented GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The District receives support from various PTO, Booster club, and Foundation organizations. None of these organizations meet the criteria specified by GASB 39 to be included in the District’s Financial Statements. Therefore, there are no component units included within the reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the District’s financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the District is a part of any other government or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the District’s financial reporting entity status is that of a primary government are: that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Additional prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

**Alief Independent School District**  
**Notes to the Basic Financial Statements**

**Note 1 – Summary of Significant Accounting Policies (continued)**

**B. Government Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statements of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely 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.

All interfund transaction between governmental funds and between governmental funds and internal service funds are eliminated on the government-wide statements. Interfund activities between governmental funds and enterprise funds remain on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide statement of net assets.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded in 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 accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements are reported using the economic resources measurement focus, as are the proprietary fund financial statements. The government-wide statements, proprietary fund statements, and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized 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. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Revenues are recognized in the accounting period in which they become 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. Revenues susceptible to accrual include state costs reimbursements and interest on temporary investments. Property tax levies collected after the fiscal year-end which would be available to finance current operations are immaterial and remain deferred. Under modified accrual accounting, expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for principal and interest on general long-term debt, which is recognized when due.

**Alief Independent School District**  
**Notes to the Basic Financial Statements**

**Note 1 – Summary of Significant Accounting Policies (continued)**

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)**

Revenues from grants accounted for in the Special Revenue Fund are recognized as soon as all eligibility requirements imposed by the provider have been met. Any excess of revenues or expenditures at fiscal year-end is recorded as deferred revenue or due from the granting agencies, respectively.

**D. Fund Accounting**

The District reports the following major governmental funds.

**General Fund**

The General Fund is the government's primary operating fund. It is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes and state reimbursement for professional salaries and other operating expenditures. Expenditures include all costs associated with the daily operations of the schools.

**Special Revenue Fund**

The Special Revenue Fund is used to account for various programs. Specifically, this type of fund is used to account for the District's Food Service Program, including local, state, and federal revenue sources, for federally financed programs (grants) where unused balances are returned to the grantor at the close of specified project periods and other state and local revenue specific programs. The Food Service Operation is the only required budgeted program. For all other programs in this fund type, project accounting is employed to maintain integrity for the various sources of the funds. Resources accounted for in this fund are awarded to the District for the purpose of accomplishing specific educational tasks as defined by the grantors in contracts or other agreements.

**Debt Service Fund**

The Debt Service Fund is used to account for the payment of interest and principal on all bonds of the District. Primary sources of revenue for debt service are local property taxes and the state existing debt and instructional facilities allotments.

**Capital Projects Fund**

The Capital Projects Fund includes funds that are used to account for the expenditures of resources accumulated from sales of bonds and related interest earnings for the acquisition and construction of school facilities and other capital asset acquisitions.

Additionally, the District reports the following fund type:

**Proprietary Funds**

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

**Enterprise Funds**

Private-sector standards of accounting and financial reporting issued on or before November 30, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The government has elected not to follow subsequent private-sector guidance.

The Enterprise Funds are used to account for revenues and expenditures of the District's daycare facilities, the food service department's catering operations, and the after school program. Revenues for the daycare and after school program are primarily from fees paid from participants in the program. The revenues in the catering fund are from food provided to various campuses and departments for various types of meetings and events.

**Alief Independent School District**  
**Notes to the Basic Financial Statements**

**Note 1 – Summary of Significant Accounting Policies (continued)**

**D. Fund Accounting (continued)**

**Internal Service Fund**

The District's two internal service funds are used to account for the operations of the District's medical insurance plan, dental insurance plan, and workers' compensation plan, which are supported by employer and/or employee contributions. Expenses include plan benefit payments to employees and charges incurred in administering the plan. The estimated amount due for claims incurred, but not reported (IBNR) at year-end, are included as fund liabilities.

Additionally, the District reports the following fiduciary fund:

**Agency Fund**

The Agency Fund is used to account for the cash receipts and disbursements of the school activity funds of the individual schools. These funds have no revenues, expenditures, or equity, and the District does not budget for them.

**E. Cash and Cash Equivalents**

The District considers the following items cash and cash equivalents for financial reporting purposes (including the statement of cash flows for the Proprietary Funds): cash on hand, deposits with financial institutions, money market mutual funds, balances in private-managed public funds investment pools, and short-term investments with original maturities of three months or less from the date of acquisition.

**F. Investments**

Investments consist primarily of U.S. Government Agency Securities which are stated at fair value based on quoted market prices. The net increase or decrease in the fair value of investments is netted with investment income in local sources of revenue. Investments are generally held to maturity.

**G. Inventories**

Inventory is stated at weighted average cost. The costs are recorded as expenditures as the individual inventory items are consumed. Inventory consists of general and food service supplies and commodities. Although commodities are received at no cost, they are recorded in the inventory and revenue at market values as supplied by the Texas Department of Human Services. When consumed, commodities are recorded as expenditures.

**H. Interfund Activity**

Interfund activity results from loans, services provided, reimbursements, or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation.

**I. Capital Assets**

Capital assets, which include land, buildings, and 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 of two years or greater. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Costs of the Facilities Acquisition and Construction Function that relate to overall planning of District facilities, managing overall District assets and overall construction projects are treated as period costs and are not capitalized unless related to specific assets. Donated capital assets are recorded at estimated fair market value at the date of donation.

**Alief Independent School District**  
**Notes to the Basic Financial Statements**

**Note 1 – Summary of Significant Accounting Policies (continued)**

**I. Capital Assets (continued)**

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. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Building & Improvements	40
Vehicles	7-10
Computer Equipment	7
Other Equipment	5-15

**J. Long-Term Debt**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities 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. Bonds issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

**K. Compensated Absences**

The District maintains a policy allowing employees meeting established requirements to be compensated for unused sick leave at retirement. Estimated amounts accrued by the District's employees meeting the requirements for compensation for unused sick leave are recorded as either current or long-term liabilities, depending on the amount that was due to employees at year-end. Due means that the employee has been granted the leave but has not taken the leaves or received payment at year-end and it will be paid from current financial resources. Annual vacation time is granted to eligible employees on the first day of July of each year and all unused vacation time lapses after eighteen months. At year end, the portion due to employees who had terminated employment is considered a current liability and the remainder is recorded as long-term.

**L. Net Assets**

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the District spends restricted funds first and uses unrestricted resources when the restricted funds are depleted.

**M. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted for a specific use or to indicate that a portion of the fund balance is not available for expenditures. Designations of fund balance represent tentative management plans that are subject to change.

**Alief Independent School District**  
**Notes to the Basic Financial Statements**

**Note 1 – Summary of Significant Accounting Policies (continued)**

**N. Use of Estimates**

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**O. Data Control Codes**

Data control codes refer to the account structure prescribed by the Texas Education Agency (TEA) in the Resource Guide. TEA defines and requires this uniform account structure for school districts in Texas.

**Note 2 – Cash and Investments**

The District's cash and investments are reported at fair value. The District's cash and investment accounts are classified as either cash and cash equivalents or investments. The cash and cash equivalents include cash on hand, deposits with financial institutions, money market mutual funds, and short-term investments in private-managed public funds investment pool accounts (Texpool, LOGIC, and Lone Star). The investments, which have maturities at purchase of greater than three months, consist of U.S. Government Agency Securities.

The Board of Trustees of the District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act of 1995 (Chapter 2256, Texas Government Code). The Public Funds Investment Act requires an annual audit of its investment practices. Audit procedures in this area, conducted as part of the audit, disclosed that in the area of investment practices, management reports, and establishment of appropriate policies, the District was in substantial compliance with the requirements of this Act. Additionally, the investments and investment practices of the District are in compliance with the Trustees' investment policies. The District invests primarily in time deposits, money market funds, public funds investment pools, and obligations of certain U.S. Government agencies, although the District's investment policy allows other investment options authorized by State statute. The District generally holds all U.S. Government Securities to maturity. The District did not have any derivative investment products during the year.

State law and District policy provides that collateral pledged as security for bank deposits must have a market value of not less than the amount of the deposits and must consist of 1) obligations of the U.S. or its agents and instrumentalities; 2) direct obligations of the State of Texas or its agencies; 3) other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas; and/or 4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent.

The Texas Education Code and the Public Funds Investment Act regulate deposits and investment transactions of the District. The District is authorized by the Texas Education Code to place the proceeds from debt issues in properly secured or collateralized interest bearing time deposits with any Texas state or national bank having federal depository insurance (FDIC) coverage for depositors or directly in bonds or other obligations of the United States, provided that these time deposits cannot be cashed, sold, or redeemed for an amount less than that originally invested by the District. Additionally, the Texas Education Code authorizes the District to invest in direct debt securities of the U.S. or other types of bonds, securities, warrants, etc., which the District is authorized by law to invest.

**Alief Independent School District**  
**Notes to the Basic Financial Statements**

**Note 2 – Cash and Investments (continued)**

In accordance with applicable statutes, the District has a depository contract with Bank of America providing for interest rates to be earned on deposited funds and for banking charges the District incurs as a result of banking services provided. The District may place funds with the depository in interest and non-interest bearing accounts. Statutes and the depository contract require that all funds in the depository institution be fully secured by federal depository insurance or a combination of federal depository insurance and acceptable collateral securities and/or an acceptable surety bond. The collateral securities must be delivered to the District or placed with an independent trustee institution with safekeeping receipts delivered to the District and copies of the safekeeping receipts delivered to the Texas Education Agency. In accordance with State statutes pertaining to lawful collateralization of District deposits, safekeeping receipts are issued in the name of the depository with proper indication that the collateral securities are pledged by the depository to secure funds of the District. The District must approve all collateral securities prior to their being pledged. The depository can change collateral securities pledged to secure District funds only upon obtaining the written approval of the District.

At August 31, 2009, the District's cash and investment balances were as follows:

	<b>Total Fair Value</b>	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Fiduciary Funds</b>
Cash and Equivalents				
Cash and checking accounts	\$ 1,883,765	\$ 1,318,834	\$ 600	\$ 564,331
Certificates of deposit	10,000,000	10,000,000		
Texpool	21,699,557	21,699,557		
Local Government Investment Cooperative	41,935,212	41,935,212		
Lone Star Investment Pool	39,656,502	39,656,502		
Total Cash and Cash Equivalents	115,175,036	114,610,105	600	564,331
Investments				
U.S. Agency obligations				
FHL	4,647,188	4,647,188		
FMC	1,998,999	1,998,999		
Total Investments	6,646,187	6,646,187		
<b>Total Cash and Investments</b>	<b>\$ 121,821,223</b>	<b>\$ 121,256,292</b>	<b>\$ 600</b>	<b>\$ 564,331</b>

The District's investments are insured, registered, or the District's agent holds the securities in the District's name. Therefore, the District is not exposed to custodial credit risk. Custodial credit risk for investments is the risk that, in event of the failure of the counterparty (e.g., broker dealer) to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party. The District's policy requires that a third party bank trust department hold all securities owned by the District.

As of August 31, 2009, the District's bank balance was not exposed to custodial risk because it was insured and collateralized with securities held by the District's agent and in the District's name.

**Local Government Investment Pools**

The District invested in the Local Government Investment Pools (Texpool, LOGIC, and Lone Star) during the year. The three entities are public investment pools established pursuant to the Interlocal Cooperation Act and Public Investment Act of Texas. The pools are considered to be "2 A-7 like pools" under GASB Statement No. 31. The fair value of the positions is the same as the values of the shares in such pools. The investment pools are not evidenced by securities that exist in physical or book entry form and, accordingly, do not have custodial risk.

**Alief Independent School District**  
**Notes to the Basic Financial Statements**

**Note 2 – Cash and Investments (continued)**

**Local Government Investment Pools (continued)**

Texpool policies require that local government deposits be used to purchase investments authorized by the Public Funds Investment Act of 1987, as amended. The Texas State Comptroller of Public Accounts has oversight responsibility for Texpool. The governing body of LOGIC is provided by six voting members who represent participating entities while the Lone Star is governed by an eleven-member Board of Trustees comprised of individuals representing entities participating in the pool. An advisory board composed of participants and other knowledgeable individuals provides additional oversight.

**Credit Risk**

State law and the District's investment policy limit investments in all categories to top ratings issued by nationally recognized statistical rating organizations. Investment credit ratings by category are shown below.

	<u>Fair Value</u>	<u>Investment Rating</u>
Texpool	\$ 21,699,557	AAAm
Local Government Investment Cooperative	41,935,212	AAAm
Lone Star Investment Pool	39,656,502	AAAf/S1+
U.S. Agency obligations	6,646,187	AAA
Certificates of deposit	<u>10,000,000</u>	Not rated
	<u>\$119,937,458</u>	

**Interest Rate Risk**

In accordance with its investment policy, the District manages its exposure to declines in fair value by limiting the weighted average maturity of its investment portfolio to less than 18 months.

At August 31, 2009, the weighted average maturities of the District's investments were as follows:

	<u>Fair Value</u>	<u>Weighted Average Maturity (days)</u>
Texpool	\$ 21,699,557	48
Local Government Investment Cooperative	41,935,212	56
Lone Star Investment Pool	39,656,502	51
U.S. Agency obligations	6,646,187	245
Certificates of deposit	<u>10,000,000</u>	217
Total	<u>\$119,937,458</u>	
Portfolio weighted average maturity		77

The fair value of the U.S. Government Agency Securities is based on quoted market prices. The investments are reported by the District at fair value. The amount of increase or decrease in the fair value of investments during the year ended August 31, 2009, is included in investment income as shown below:

Interest Income	\$ 1,692,820
Net Increase in Fair Value of Investments	<u>123,541</u>
Total Investment Income	<u>\$ 1,816,361</u>

**Alief Independent School District**  
**Notes to the Basic Financial Statements**

**Note 3 – Property Taxes**

Property taxes are levied by October 1 on the assessed value listed the prior January 1 for all real and business personal property located in the District in conformity with Subtitle, E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to the property to secure the payment of all taxes, penalties, and interest ultimately imposed. Appraised values are established by the Central Appraisal District (CAD) of Harris County, Texas. Taxes are levied by the District's Board of Trustees based on the appraised values from the CAD. Billing and collection of tax levies are performed by the District.

Property tax rates, established in accordance with state law, are levied on real and personal property within the District's boundaries for use in financing general government and debt service expenditures. Tax rates levied to finance general government and debt service expenditures for 2008-09 were \$1.125 and \$0.215, respectively, per \$100 of valuation. Based on an assessed valuation of approximately \$11.7 billion, the resulting tax levy, after exemptions and adjustments, was approximately \$156.5 million.

Allowances for uncollectible taxes 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.

Net property taxes receivable at August 31, 2009, consisted of the following:

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Totals</b>
Delinquent taxes - Current year levy	\$ 2,781,129	\$ 531,504	\$ 3,312,633
Delinquent taxes - Prior years' levies	4,468,712	771,775	5,240,487
Delinquent Taxes Receivable	7,249,841	1,303,279	8,553,120
Receivable for penalties and interest	3,295,123	567,629	3,862,752
Total Property Taxes Receivable	10,544,964	1,870,908	12,415,872
Less allowance for uncollectible taxes	(1,565,254)	(276,436)	(1,841,690)
<b>Net Property Taxes Receivable</b>	<b>\$ 8,979,710</b>	<b>\$ 1,594,472</b>	<b>\$ 10,574,182</b>

**Note 4 – Receivables Due From Other Governments**

Receivables due from other government agencies at August 31, 2009, consisted of the following:

	<b>Governmental Funds</b>
State grant expenditure reimbursement from the state	\$ 433,778
Federal grant expenditure reimbursement passed through the state	6,519,037
	<b>\$ 6,952,815</b>

**Alief Independent School District**  
**Notes to the Basic Financial Statements**

**Note 5 – Interfund Receivables and Payables**

Interfund balances at August 31, 2009, consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Special Revenue Fund	\$3,633,308
	Daycare Fund	95,557
Debt Service Fund	General Fund	46,971
Capital Projects Fund	General Fund	6,444
Catering Fund	General Fund	6,538
After School Program	General Fund	119,774
		<u>\$3,908,592</u>

The District had not cleared the interfund receivables and payables at year end. Interfund balances represent short-term borrowings between funds for operating expense payments or amounts collected in the General Fund to be distributed to other funds. All interfund balances are expected to be settled shortly after year-end.

**Note 6 – Capital Assets**

Capital asset activity for the governmental activities for the year ended August 31, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements and Transfers</u>	<u>Ending Balance</u>
Capital assets, not being depr.				
Land	\$ 65,072,281	\$ 87,108	\$ -	\$ 65,159,389
Construction in progress	10,325,485	3,308,501	(8,566,626)	5,067,360
Total capital assets, not being depr.	<u>75,397,766</u>	<u>3,395,609</u>	<u>(8,566,626)</u>	<u>70,226,749</u>
Capital asset, being depreciated				
Buildings and improvements	566,411,336	12,200,352	6,300,941	584,912,629
Furniture and equipment	33,237,872	1,786,111	(450,165)	34,573,818
Total capital assets being depr.	<u>599,649,208</u>	<u>13,986,463</u>	<u>5,850,776</u>	<u>619,486,447</u>
Less Accumulated Depreciation for:				
Buildings and improvements	(245,386,423)	(13,967,074)	598,080	(258,755,417)
Furniture and equipment	(20,790,969)	(2,438,185)	443,878	(22,785,276)
Total Accumulated Depreciation	<u>(266,177,392)</u>	<u>(16,405,259)</u>	<u>1,041,958</u>	<u>(281,540,693)</u>
Total capital assets being depr., net	<u>333,471,816</u>	<u>(2,418,796)</u>	<u>6,892,734</u>	<u>337,945,754</u>
Governmental activities capital assets, net	<u>\$ 408,869,582</u>	<u>\$ 976,813</u>	<u>\$ (1,673,892)</u>	<u>\$ 408,172,503</u>

**Alief Independent School District**  
**Notes to the Basic Financial Statements**

**Note 6 – Capital Assets (continued)**

Capital asset activity for the business-type activities for the year ended August 31, 2009 was as follows:

	Beginning Balance	Additions	Retirements and Transfers	Ending Balance
Capital asset, being depreciated				
Buildings and improvements	\$ 161,279			\$ 161,279
Furniture and equipment	13,249			13,249
Total capital assets being depr.	174,528			174,528
Less Accumulated Depreciation for:				
Buildings and improvements	(74,553)	\$ (15,658)		(90,211)
Furniture and equipment	(3,313)	(1,324)		(4,637)
Total Accumulated Depreciation	(77,866)	(16,982)		(94,848)
Total capital assets being depr., net	96,662	(16,982)		79,680
Business-type activities capital assets, net	\$ 96,662	\$ (16,982)	\$ -	\$ 79,680

Construction in progress and remaining commitments under related construction contracts at August 31, 2009 follows:

	Authorized Contract	Contract Expenditures	Other Related Costs	Total CIP	Remaining Commitment
Crump Stadium parking lot	\$ 1,867,680	\$ 1,591,327	\$ 272,070	\$ 1,863,397	\$ 192,599
Cummings Elementary HVAC	2,444,000	2,103,724	299,914	2,403,638	229,554
Mahanay Elementary foundation	379,300	295,014	22,375	317,389	68,759
Various parking lot renovations	448,390	372,592	110,344	482,936	56,188
	<u>\$ 5,139,370</u>	<u>\$ 4,362,657</u>	<u>\$ 704,703</u>	<u>\$ 5,067,360</u>	<u>\$ 547,100</u>

Depreciation expense was charged to the governmental functions as follows:

<b>Governmental Activities</b>	<b>Expense</b>
Instruction	\$ 10,762,909
Instructional resources and media services	550,717
Instructional leadership	37,070
School leadership	254,388
Guidance, counseling & eval. service	51,504
Health services	41,558
Student transportation	1,346,482
Food service	833,535
Extracurricular activities	577,114
Administrative and support services	1,213,857
Plant maintenance and operations	281,972
Security and monitoring services	1,202
Data processing services	452,951
<b>Total Depreciation Expense-Governmental Activities</b>	<u><u>\$ 16,405,259</u></u>

**Alief Independent School District**  
**Notes to the Basic Financial Statements**

**Note 6 – Capital Assets (continued)**

Depreciation expense was charged to the business-type activities as follows:

**Business-type Activities**

Day care facilities	<u>\$ 16,982</u>
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**Note 7 – Long-Term Debt**

Long-term debt consists of bonds payable, related accretion values on premium of capital appreciation bonds, and a provision for compensated absences. General fund revenues are typically used to liquidate the compensated absences liability. See Note 14, for additional disclosures regarding compensated absences. Bonds are payable solely from future revenues of the Debt Service Funds which consist primarily of property taxes collected by the District, state facilities and existing debt allotments, and investment income. The District is in compliance with all significant bond compliance requirements.

A summary of long-term debt transactions of the District for the year ended August 31, 2009, follows:

	<b>Balance September 1, 2008</b>	<b>Issued and Additions</b>	<b>Refunded and Retired</b>	<b>Balance August 31, 2009</b>	<b>Current Portion</b>
Bonds	\$ 250,303,656	\$ 37,927,000	\$(46,275,000)	\$241,955,656	\$23,351,467
Accretion on premium capital appreciation bonds	1,258,663	83,179		1,341,842	
Less deferred amounts:					
For issuance premiums	6,402,463	1,455,098	(473,894)	7,383,667	
On refunding	<u>(2,867,534)</u>	<u>(11,206)</u>	<u>397,691</u>	<u>(2,481,049)</u>	
Total bonds payable	255,097,248	39,454,071	(46,351,203)	248,200,116	23,351,467
Accrued compensated absences	<u>5,486,417</u>	<u>1,403,320</u>	<u>(945,881)</u>	<u>5,943,856</u>	<u>1,000,000</u>
Governmental activity long-term liabilities	<u>\$ 260,583,665</u>	<u>\$ 40,857,391</u>	<u>\$(47,297,084)</u>	<u>\$254,143,972</u>	<u>\$24,351,467</u>

Annual requirements to amortize all bonded debt outstanding as of August 31, 2009, follow:

<b>Year Ending August 31</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2010	\$ 23,351,467	\$ 9,642,249	\$ 32,993,716
2011	22,311,467	8,616,488	30,927,955
2012	20,891,467	7,678,057	28,569,524
2013	20,081,467	6,822,017	26,903,484
2014	18,366,330	7,155,160	25,521,490
2015-2019	84,906,128	19,498,472	104,404,600
2020-2024	43,232,330	5,580,863	48,813,193
2025-2028	<u>8,815,000</u>	<u>517,577</u>	<u>9,332,577</u>
	241,955,656	65,510,883	307,466,539
Less current portion	<u>23,351,467</u>	<u>9,642,249</u>	<u>32,993,716</u>
	<u>\$218,604,189</u>	<u>\$ 55,868,634</u>	<u>\$274,472,823</u>

**Alief Independent School District**  
**Notes to the Basic Financial Statements**

**Note 7 – Long-Term Debt (continued)**

Bonded debt at August 31, 2009, is comprised of the following individual issues:

<u>Original Issue Amount</u>	<u>Description</u>	<u>Interest Rate %</u>	<u>Matures</u>	<u>Debt Outstanding</u>
\$ 52,100,000	Unlimited tax schoolhouse bonds, Series 1999 II	4.75 - 6.75	2019	\$ 7,800,000
17,300,000	Unlimited tax refunding bonds, Series 2001	4.25 - 6.25	2012	2,270,000
25,200,000	Unlimited tax schoolhouse bonds, Series 2001	3.75 - 5.00	2021	6,300,000
29,610,000	Unlimited tax schoolhouse bonds, Series 2002	4.00 - 6.00	2022	19,240,000
16,925,000	Unlimited tax refunding bonds, Series 2003	2.00 - 5.00	2014	6,965,000
19,750,000	Unlimited tax schoolhouse bonds, Series 2003	3.00 - 5.00	2023	13,790,000
30,000,000	Unlimited tax schoolhouse bonds, Series 2004	3.00 - 5.00	2024	22,500,000
29,610,000	Unlimited tax refunding bonds, Series 2004B	2.00 - 5.00	2017	14,745,000
48,495,000	Unltd. tax schoolhouse & ref. bonds, Series 2005	3.00 - 5.00	2025	43,875,000
23,380,000	Unltd. tax schoolhouse bonds, Series 2006	4.00 - 4.75	2026	19,890,000
41,228,656	Unltd. tax schoolhouse & ref. bonds, Series 2007	4.00 - 4.38	2027	38,208,656
8,890,000	Unltd. tax schoolhouse bonds, Series 2008	3.50 - 4.00	2028	8,445,000
16,297,000	Unltd. tax schoolhouse bonds, QSCBs, Series 2009	-	2024	16,297,000
21,630,000	Unlimited tax refunding bonds, Series 2009	3.00 - 5.25	2019	21,630,000
	Total bonds			<u>241,955,656</u>
	Current portion			(23,351,467)
	Accretion on capital appreciation bonds			1,341,842
	Unamortized premiums			7,383,667
	Unamortized refunding			<u>(2,481,049)</u>
	Total long-term debt			<u>\$ 224,848,649</u>

A portion of the bonds sold in the series 2007 were capital appreciation bonds. These obligations have a principal value of \$778,656 and a maturity value of \$2,590,000. The interest will be paid upon maturity in the fiscal years ending August 31, 2014 and 2015. The accreted value of these bonds at August 31, 2009 is \$2,120,498 including accreted interest on these bonds of \$1,341,842, which is reflected in the accompanying general long-term debt accounts.

**Note 8 – Advance Refundings of General Long-Term Debt**

**Current Year Refundings**

On August 18, 2009, the District issued \$21,630,000 in Unlimited Tax Refunding Bonds with interest rates from 3% - 5.25% to advance refund \$1,000,000, \$13,800,000, and \$8,050,000 of outstanding Series 1997, Series 1998, and Series 1999, respectively, with interest rates from 4% - 5%. The proceeds were deposited in an irrevocable trust with an escrow agent to provide all future debt service payments on the refunded bonds. At August 31, 2009, \$22,850,000 of the Series 1997, Series 1998, and Series 1999 bonds are considered to be defeased and the liability for these bonds has been removed from the Statement of Net Assets.

The District advance refunded the Series 1997, Series 1998, and Series 1999 Bonds to reduce the total debt service payments by approximately \$1,372,398 and to obtain an economic net gain (difference between the present values of the debt service payments on the old and new debt) of \$1,187,475.

**Alief Independent School District**  
**Notes to the Basic Financial Statements**

**Note 8 – Advance Refundings of General Long-Term Debt (continued)**

**Prior Year Refundings**

In the prior years, the District defeased certain outstanding school construction and refunding bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District’s financial statements. As of August 31, 2009, \$27,020,000 of the previously refunded bonds is considered defeased.

**Note 9 – Deferred Revenues**

Deferred revenues at August 31, 2009, represent assets that are not available for use by the District to liquidate current year liabilities. A summary of deferred revenues by fund follows:

	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Debt Service Fund</b>	<b>Total</b>
Net property taxes receivable (net of allowance for doubtful accounts)	\$ 8,979,710		\$ 1,594,472	\$ 10,574,182
Overpayment from state funding	3,463,431		18,571	3,482,002
Proceeds from expenditure - driven federal grants		\$ 23,424		23,424
Proceeds from expenditure - driven state grants		159,171		159,171
Proceeds from expenditure - driven local grants		11,251		11,251
	<u>\$ 12,443,141</u>	<u>\$ 193,846</u>	<u>\$ 1,613,043</u>	<u>\$ 14,250,030</u>

**Note 10 – General Fund Federal Program Revenues**

A summary of federal program revenues received in the General Fund for the year ended August 31, 2009, follows:

<b>Program or Source</b>	<b>CFDA Number</b>	<b>Amount</b>
Indirect Costs:		
Texas Support for Homeless Education Program	84.196	\$ 1,676
ESEA Title I, Part A	84.010a	202,118
IDEA Part-B Formula	84.027	154,720
IDEA Part-B Preschool	84.173	1,821
Title II Part A - TPTR	84.367a	27,615
Title II Part D - Enhancing Educ. Thru Tech.	84.318x	1,486
Title III Part A LEP	84.369a	20,332
Prevention and Safe Schools Program	16.541	333
ROTC Program	N/A	267,730
SHARS - Medicaid Reimbursement Program	N/A	3,154,522
E-Rate	N/A	358,339
<b>Total</b>		<u><u>\$ 4,190,692</u></u>

**Alief Independent School District**  
**Notes to the Basic Financial Statements**

**Note 11 – Retirement Plan**

**Plan Description**

The District contributes to the Teacher Retirement System of Texas. The Teacher Retirement System of Texas, a public employee retirement system (PERS), is a multiple-employer defined benefit contribution plan. It is a cost-sharing PERS with one exception – all risks and costs are not shared by the employer but are the liability of the State of Texas. By statute, the State of Texas contributes to the retirement system an amount equal to the current authorized rate times the aggregate annual compensation of all members of the retirement system during that fiscal year. The payroll for District employees covered by the system for the fiscal year ended August 31, 2009, was approximately \$266 million. The District's total payroll was approximately \$277 million.

For members of the retirement system entitled to the State's statutory minimum salary for certain school personnel, the District pays the state's contribution on the portion of the member's salary that exceeds the statutory minimum.

**Types of Employees Covered**

All employees of public, state-supported education institutions in Texas who are employed for one-half or more of the standard workload and who are not exempted from membership under Texas Government Code are covered by the plan.

**Benefit Provisions**

The Teacher Retirement System of Texas administers retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school system of Texas. It operates primarily under the provisions of Texas Constitution Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The system also administers proportional retirement benefits under Texas Government Code, Title 8, Chapter 803.

**Service Requirement**

1. Normal    Age 65 with 5 years of service  
                  Any combination of age and service totaling 80 with at least 5 years of service
  
2. Reduced    Age 55 with at least 5 years of service  
                  Any age below 50 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.

**Funding Policy**

State law provides for a state contribution rate of 6.0% for fiscal year 2007, and 6.58% for fiscal years 2008 and 2009. The member contribution rate was 6.4% for fiscal years 2007, 2008, and 2009. The State of Texas contributes 6.58% of all employees' eligible gross earnings except for those District employees subject to statutory minimum requirements and those employees being paid from and participating in federally funded programs. The statutory minimum requirements are based on the State of Texas teacher schedule and then adjusted based on cost of education index. For employees funded by federal programs, the federal programs are required to contribute 6.58%.

**Alief Independent School District**  
**Notes to the Basic Financial Statements**

**Note 11 – Retirement Plan (continued)**

**Funding Policy (continued)**

Contribution requirements are not actuarially determined, but are legally established each biennium pursuant to the following state funding policy. (1) The state constitution requires the Legislature to establish a member contribution rate of not less than 6% of the member’s annual compensation and a state contribution rate of not less than 6% of the member’s annual compensation and not more than 10% of the aggregate annual compensation of all members of the system during the fiscal year. (2) A state statute prohibits benefit improvements or contribution reductions, if, as a result of the particular actions, 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 exceeds 31 years, the period would be increased by such action.

**Contributions Made**

Contributions made by the State, District, and employees, and the District’s annual covered payroll for the years ended August 31, 2007, 2008, and 2009 are as follows:

<b>Pension Fiscal Year</b>	<b>State TRS Contributions Made on Behalf of the District</b>	<b>District Required Contributions to TRS</b>	<b>Percentage of Total Payroll Contributed by District</b>	<b>Employees' Contributions to TRS</b>	<b>District's Annual Covered Payroll</b>
2007	\$ 12,940,076	\$ 2,694,957	1.05%	\$ 16,419,542	\$256,554,831
2008	14,014,825	3,134,753	1.20%	16,680,403	260,631,885
2009	13,910,694	3,610,184	1.36%	17,041,570	266,274,751

The contributions made by the State on behalf of the District have been recorded in the financial statements of the District as both state revenues and payroll expenditures. These contributions are the legal responsibility of the State.

TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report on the TRS Internet website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publications heading.

**Note 12 – Retiree Health Plan**

**Plan Description**

The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants.

The Texas Legislature determines the funding of benefits and has no continuing obligation to provide benefits beyond each fiscal year. Currently, the benefits of TRS-Care are financed through a combination of retiree premiums and percentage of payroll contributions from active employees, school districts, and the State of Texas.

**Alief Independent School District**  
**Notes to the Basic Financial Statements**

**Note 12 – Retiree Health Plan (continued)**

**Benefit Provisions and Service Requirements**

Retirees can receive a free basic level of coverage and optional coverage is also available. All dependent coverage is optional. Basic coverage is a comprehensive major medical group health insurance plan. Generally, TRS public school retirees with more than 10 years of service and their dependents are eligible for this insurance coverage.

**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% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2007, 2008, and 2009. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. For employees funded by federal programs, the federal programs are required to contribute 1%.

**Contributions Made**

Contributions made by the State, District, and employees, and the District’s annual covered payroll for the years ended August 31, 2007, 2008, and 2009 are as follows:

<b>Pension Fiscal Year</b>	<b>State TRS Contributions Made on Behalf of the District</b>	<b>District Required Contributions to TRS</b>	<b>Percentage of Total Payroll Contributed by District</b>	<b>Employees' Contributions to TRS</b>	<b>District's Annual Covered Payroll</b>
2007	\$ 2,337,233	\$ 1,639,367	0.64%	\$ 1,667,602	\$256,554,831
2008	2,382,434	1,657,360	0.64%	1,694,130	260,631,885
2009	2,427,398	1,699,861	0.64%	1,730,799	266,274,751

The contributions made by the State on behalf of the District have been recorded in the financial statements of the District as both state revenues and payroll expenditures. These contributions are the legal responsibility of the State.

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 on the TRS Internet website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publications heading.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, TRS-Care receives retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the years ended August 31, 2007, 2008, and 2009, the allocated subsidy payments received by TRS-Care on-behalf of the District were \$542,470, \$593,978, and \$596,470, respectively. These payments are recorded as equal revenues and expenditures in the governmental funds financial statements of the District.

**Alief Independent School District**  
**Notes to the Basic Financial Statements**

**Note 13 – Risk Management**

The District is exposed to various risks related to torts: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District’s risk management program encompasses various means of protecting the District against loss by obtaining property, casualty, and liability coverage through commercial insurance carriers, self-insurance, and from participation in a risk pool. The District’s participation in the risk pool is limited to paying premiums for its general liability insurance coverage. There has not been any significant reduction in coverage from that of the previous year.

The District provides health benefits to its employees and dependents through a self-funded employee health benefit plan which is accounted for in the Health Insurance Internal Service Fund. This fund is principally supported by contributions from the District and the employees. The District makes contributions to cover the majority of the premiums for employees, and the employees are required to make contributions to cover the remaining employee costs and their dependents. The Internal Service Fund charges the General Fund premiums for the District’s contribution. A third party administrator acting on behalf of the District processes health claim payments. The District has obtained excess loss insurance which limits the District’s claims paid to \$200,000 annually for any individual occurrence.

The District also provides workers’ compensation to employees through a self-insured plan which is accounted for in the Workers’ Compensation Internal Service Fund. The Internal Service Fund charges the General Fund premiums for the District’s contribution. The District has obtained excess loss insurance which limits the District’s claims paid to \$350,000 for any individual occurrence.

Settled claims have not exceeded insurance coverages in any of the previous three fiscal years. Estimates of claims payable and of claims incurred, but not reported at August 31, 2009, are reflected as accrued expenses and claims payable of the Fund. The liabilities include an amount for claims that have been incurred but were not reported until after August 31, 2009. The liability reported in the fund is one of the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements, and the amount of the loss can be reasonable estimated. Because actual claims liabilities depend on such complex factors as inflation, changes in legal requirements, and damage awards, the process used in computing claims liability is an estimate based on historical claims.

Analysis of claims liability for the fiscal year 2009 is as follows:

	Health Insurance		Workers' Compensation	
	2009	2008	2009	2008
Accrual, September 1	\$ 2,851,290	\$ 3,336,651	\$ 799,816	\$ 935,389
Current year estimates	24,000,890	22,528,128	1,173,279	653,257
Payments for claims	23,559,274	23,013,489	942,616	788,830
Accrual, August 31	<u>\$ 3,292,906</u>	<u>\$ 2,851,290</u>	<u>\$ 1,030,479</u>	<u>\$ 799,816</u>

Of the claims liability for Workers’ Compensation Fund, \$569,291 is recorded as noncurrent liabilities.

The following year-by-year exposure details the number of annual workers compensation claims.

1999-00	336	2004-05	381
2000-01	357	2005-06	342
2001-02	336	2006-07	383
2002-03	431	2007-08	358
2003-04	385	2008-09	348
		Ten year average	366

**Alief Independent School District**  
**Notes to the Basic Financial Statements**

**Note 14 – Compensated Absences**

The District has a vacation policy for noncontractual employees (administration and other full-time employees) whereby eligible employees receive vacation pay from one to twenty-five days, dependent upon the number of years of service, after the completion of a year's service in the District. All vacation days must be used within an eighteen-month period from the first day of July of each year, and unused vacation pay cannot be carried over to future periods. The liability for unused vacation days at August 31, 2009 is \$1,846,562 and is included in the long-term liabilities on the Government-Wide Statement of Net Assets.

The District's sick leave policy is coordinated with a state mandated sick leave policy whereby substantially all full-time teaching and paraprofessional employees received up to thirteen days sick leave per year. State sick leave days accrue at the rate of five per year without limit to accumulation. The unused balance may be transferred to another District within the Texas public school system. All state sick leave days must be used prior to retirement from the Texas public school system to receive the benefit. The District pays for all state sick leave days used.

Additional local sick leave of up to eight days per year accrues to employees eligible to receive state mandated sick days. All employees not eligible for state mandated sick days may receive up to thirteen days of local leave. Local sick leave may be accumulated without limitation; however, the District does not pay accumulated local sick leave upon termination with the District. Employees are eligible to receive payment for local sick leave (up to a maximum of 80 days) upon qualified retirement from the District, dependent upon the number of years of service with the District. The liability for estimated amounts earned by District employees meeting the requirement for compensation is \$4,097,294 at August 31, 2009, all of which is reported in the Government-Wide Statements. Of this amount, \$500,000 is recorded in the General Fund on the Fund Financial Statements, which represents the portion due and payable from current financial resources.

**Note 15 – Fund Equity**

A summary of reserved and designated fund balance, as of August, 31, 2009, for all Governmental Fund Types follows:

	<u>General</u>	<u>Special Revenue Fund</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<b>Reserved:</b>				
Inventories	\$ 1,092,561	\$ 447,563		
Retirement of funded Indebtedness			\$ 3,198,316	
Outstanding encumbrance	372,950	16,689		
Food service operations		2,839,238		
Authorized construction				\$ 15,789,787
Campus Activities		799,064		
	<u>\$ 1,465,511</u>	<u>\$ 4,102,554</u>	<u>\$ 3,198,316</u>	<u>\$ 15,789,787</u>
<b>Designated:</b>				
Special campus grants	<u>\$ 1,146,150</u>			
<b>Total</b>	<u>\$ 2,611,661</u>			

**Alief Independent School District**  
**Notes to the Basic Financial Statements**

**Note 16 – Litigation and Contingencies**

From time to time the District is a defendant in legal proceedings relating to its operations as a school district. In the best judgment of the District's management, the outcome of any present legal proceedings will not have any adverse material effect on the accompanying financial statements.

**Note 17 – Arbitrage**

In accordance with the provisions of Section 148(f) of the Internal Revenue Code of 1986, as amended, bonds must satisfy certain arbitrage rebate requirements. Positive arbitrage is the excess of (1) the amount earned on investments purchased with bond proceeds over (2) the amount that such investments would have earned had such investments been invested at a rate equal to the yield on the bond issue. In order to comply with the arbitrage rebate requirements, positive arbitrage must be paid to the U.S. Treasury at the end of each five year anniversary date of the bond issue. The District has recorded a payment of \$2,237 for arbitrage as of August 31, 2009.

**Note 18 – Shared Service Arrangement**

The District participates in a Shared Service Arrangement (SSA) for deaf education services with eleven other school districts. Approximately 30% of the students served by the SSA are attributable to the District. The District does not account for revenues or expenditures of this program and does not disclose them in these financial statements. However, intergovernmental charges in the General Fund include payments to the fiscal agent for the District's share of project deficits. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Fort Bend ISD, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Alief ISD. The fiscal agent manager is responsible for all financial activities of the SSA. Shared Service Arrangement expenditures of \$418,234 were attributable to Alief ISD participation.

The district also participates in a SSA with Region 4 Education Service Center and 23 other school districts for services to students with visual impairments. Region 4, the fiscal agent, provides funds to school districts to supplement certified orientation and mobility specialist salaries. The supplement of \$17,500 to Alief ISD was recorded in the Special Revenue Fund.

**Note 19 – Juvenile Justice Alternative Education Program**

The District is required by law to participate in a Juvenile Justice Alternative Education Program (JJAEP) in coordination with the county juvenile board. A JJAEP is mandated by Chapter 37 of the Texas Education Code to provide education for certain expelled and adjudicated youth based on standards of academic accountability and performance as approved by the Texas Juvenile Probation Commission. The District paid \$242,861 to place students in a JJAEP in 2008-09.

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## Required Supplementary Information

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Alief Independent School District

Exhibit F-1

**Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Original Budget, Final Amended Budget, and Actual - General Fund**

**Year Ended August 31, 2009  
with comparative actual balances for the Year Ended August 31, 2008**

Data Control Codes		2009		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)	2008 Actual
		Budgeted Amounts				
		Original	Final			
	<b>Revenues:</b>					
5700	Local sources	\$ 135,296,011	\$ 139,397,929	\$ 137,833,641	\$ (1,564,288)	\$ 120,247,315
5800	State program revenues	188,264,255	191,991,973	192,232,885	240,912	188,615,787
5900	Federal program revenues	1,550,000	2,050,000	4,190,692	2,140,692	1,514,325
5020	<b>Total Revenues</b>	<b>325,110,266</b>	<b>333,439,902</b>	<b>334,257,218</b>	<b>817,316</b>	<b>310,377,427</b>
	<b>Expenditures:</b>					
	<b>Current:</b>					
0011	Instruction	204,647,511	206,225,363	203,800,433	2,424,930	195,934,860
0012	Instructional resources and media services	4,933,622	5,266,092	5,119,260	146,832	4,865,042
0013	Curriculum & instructional staff development	3,532,245	3,633,841	3,413,611	220,230	3,127,630
0021	Instructional leadership	3,962,793	4,009,147	3,740,964	268,183	3,858,954
0023	School leadership	22,293,931	22,838,754	22,522,700	316,054	21,718,617
0031	Guidance, counseling, & evaluation services	13,027,072	13,115,965	12,817,145	298,820	12,765,306
0032	Social work services	209,185	284,985	228,239	56,746	233,992
0033	Health services	3,501,094	3,514,637	3,299,674	214,963	3,259,142
0034	Student transportation	10,471,759	12,350,730	11,787,371	563,359	10,859,611
0036	Extracurricular activities	3,496,503	3,618,457	3,518,454	100,003	3,465,394
0041	Administrative and support services	6,603,728	7,502,510	6,603,321	899,189	6,298,690
0051	Plant maintenance and operations	37,302,621	39,115,467	36,709,805	2,405,662	36,340,780
0052	Security and monitoring services	3,955,834	4,568,340	4,308,245	260,095	3,634,307
0053	Data processing services	2,983,659	3,467,527	2,656,028	811,499	2,576,567
0061	Community services	1,656,854	1,686,161	1,515,560	170,601	1,564,770
0081	Facilities acquisition and construction	626,855	3,631,753	3,457,413	174,340	600,727
0093	Payments to fiscal agent	405,000	438,001	418,234	19,767	332,535
0095	Payments to Juvenile Justice Alt. Ed. Prog.	300,000	510,300	242,861	267,439	238,958
0099	Payments to county appraisal district	1,200,000	1,244,000	1,243,536	464	1,148,482
6030	<b>Total Expenditures</b>	<b>325,110,266</b>	<b>337,022,030</b>	<b>327,402,854</b>	<b>9,619,176</b>	<b>312,824,364</b>
1100	<b>Excess of Revenues Over Expenditures</b>		<b>(3,582,128)</b>	<b>6,854,364</b>	<b>10,436,492</b>	<b>(2,446,937)</b>
	<b>Other Financing (Uses)</b>					
8911	Transfer Out		(2,000,000)	(2,000,000)		
	<b>Total Other Financing (Uses)</b>		<b>(2,000,000)</b>	<b>(2,000,000)</b>		
	<b>Net Change in Fund Balance</b>		<b>(5,582,128)</b>	<b>4,854,364</b>	<b>10,436,492</b>	<b>(2,446,937)</b>
0100	<b>Fund Balance - beginning</b>	<b>76,391,370</b>	<b>76,391,370</b>	<b>76,391,370</b>		<b>78,838,307</b>
3000	<b>Fund Balance - ending</b>	<b>\$ 76,391,370</b>	<b>\$ 70,809,242</b>	<b>\$ 81,245,734</b>	<b>\$ 10,436,492</b>	<b>\$ 76,391,370</b>

**Alief Independent School District**

Exhibit F-2

**Schedule of Revenues, Expenditures, and Changes  
in Fund Balance - Original Budget, Final Amended Budget  
and Actual - Food Service Program**

**Year Ended August 31, 2009  
with comparative actual balances for the Year Ended August, 31, 2008**

Data Control Codes		2009		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)	2008 Actual
		Budgeted Amounts				
		Original	Final			
	<b>Revenues</b>					
5700	Local sources	\$ 4,525,000	\$ 3,842,191	\$ 3,724,520	\$ (117,671)	\$ 4,281,606
5800	State program revenues	145,000	145,000	151,968	6,968	144,923
5900	Federal program revenues	15,221,000	16,221,000	17,260,219	1,039,219	15,633,894
5020	<b>Total Revenues</b>	<b>19,891,000</b>	<b>20,208,191</b>	<b>21,136,707</b>	<b>928,516</b>	<b>20,060,423</b>
	<b>Expenditures</b>					
	<b>Current:</b>					
0035	Food services	20,854,653	22,142,653	22,128,814	13,839	20,757,677
0051	Plant maintenance & operations	245,000	274,191	269,540	4,651	274,500
6030	<b>Total Expenditures</b>	<b>21,099,653</b>	<b>22,416,844</b>	<b>22,398,354</b>	<b>18,490</b>	<b>21,032,177</b>
1100	<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(1,208,653)</b>	<b>(2,208,653)</b>	<b>(1,261,647)</b>	<b>947,006</b>	<b>(971,754)</b>
0100	Fund balance - September 1 (beginning)	4,565,137	4,565,137	4,565,137		5,536,891
3000	<b>Fund Balance - August 31 (ending)</b>	<b>\$ 3,356,484</b>	<b>\$ 2,356,484</b>	<b>\$ 3,303,490</b>	<b>\$ 947,006</b>	<b>\$ 4,565,137</b>

**Alief Independent School District**  
**Notes to Required Supplementary Information**

**Note 1 - Summary of Significant Accounting Policies**

**A. Stewardship, Compliance, and Accountability**

Each school district in Texas is required by law to annually prepare a budget of anticipated revenues and expenditures for certain Governmental Fund Types for the fiscal year beginning September 1. The District adopts an "appropriated budget" on a basis consistent with GAAP for the General Fund, the Food Service Program that is included in the Special Revenue Fund, and the Debt Service Fund. The District is required to present original adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund budget report and the Food Service Program budget report appear in Exhibit F-1 and F-2 respectively, and the Debt Service Fund budget report is in Exhibit G-1.

The official school budget was prepared for adoption by August 26, 2008, as required. The budget was formally adopted by the Board of Trustees at a duly advertised public meeting prior to the expenditure of funds. Final priorities and funding of projects are determined by the Board, which subsequently established a local property tax rate sufficient to support the approved budget.

The administration performs budget reviews by which budget requirements are reevaluated and revisions are recommended to the Board.

The Board is required to approve amendments to the budget that change any fund or functional expenditure category (the legal level of compliance), revenue object accounts, or other financing sources/uses as defined by the Agency for each individual fund type. Unexpended appropriations lapse at year-end. Deficit fund balances are prohibited by state law.

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 reservation of fund balances. 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.

End of year outstanding encumbrances that were provided for in the subsequent year's budget are presented as below:

General Fund	\$ 372,950
Special Revenue Fund	16,689
	<u>\$ 389,639</u>

A reservation of fund balance equal to the outstanding encumbrances at year end is provided for at August 31, 2009.

**APPENDIX C**  
**FORM OF BOND COUNSEL'S OPINION**

June 16, 2010

ALIEF INDEPENDENT SCHOOL DISTRICT  
UNLIMITED TAX QUALIFIED SCHOOL CONSTRUCTION BONDS  
TAXABLE SERIES 2010 (DIRECT PAY TO ISSUER)

We have represented Alief Independent School District (the “District”) as its bond counsel in connection with the authorization and issuance of the District’s Unlimited Tax Qualified School Construction Bonds, Taxable Series 2010 (Direct Pay to Issuer) (the “Bonds”) in the principal amount of \$16,480,000. The Bonds are being issued pursuant to a Bond Order adopted by the Board of Trustees of the District on May 18, 2010 (the “Order”).

Capitalized terms used herein and not otherwise defined shall have the meanings assigned to them in the Order.

We have represented the District as its 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.

We have examined the relevant provisions of the Constitution and laws of the State of Texas as we have deemed necessary, Chapter 45, Texas Education Code, as amended. 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 offering and sale of the Bonds.

In our capacity as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the District, customary certificates of officers, agents and representatives of the District, and other public officials and other certified showings relating to the authorization and issuance of the Bonds. We have also examined executed Bond No. I-1 of this issue.



BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

- (A) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds; and
- (B) The Bonds constitute valid and legally binding obligations of the District, secured by and payable from a continuing direct annual ad valorem tax, without limit as to rate or amount, upon all taxable property in the District.

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.

We observe that interest on the Bonds is generally includable in gross income for federal income tax purposes under existing law. 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. Prospective purchasers should consult their tax advisors with respect to such matters.

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.

**COASTAL SECURITIES, INC.**

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*Financial Advisor to the District*