

PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 8, 2011

Rating: Standard & Poor's: “___”

See (“THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”, AND “OTHER INFORMATION – RATINGS”) Herein

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under “TAX EXEMPTION” herein, and is not includable in the alternative minimum taxable income of individuals. See “TAX EXEMPTION” for a discussion of the opinion of Bond Counsel, including the alternative minimum tax on corporations.

\$35,000,000
CHANNELVIEW INDEPENDENT SCHOOL DISTRICT
(Harris County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS
SERIES 2011

Dated Date: September 1, 2011

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

The Channelview Independent School District Unlimited Tax School Building Bonds, Series 2011 (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, and an election held on November 13, 2009 and are direct obligations of the Channelview Independent School District (the “District”), payable from an ad valorem tax levied, without legal limit as to rate or amount, on all taxable property located within the District, as provided by an order adopted by the Board of Trustees of the District authorizing the Bonds (the “Order”). (See “THE BONDS – Authority for Issuance”).

The Bonds will be dated September 1, 2011, (the “Dated Date”). Interest on the Bonds will accrue from the Dated Date and will be payable on February 15 and August 15 of each year, commencing February 15, 2012. 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”), to registered holders of the Bonds. Interest on the Bonds is payable by check dated as of the 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 and interest of the Bonds to be guaranteed by the Corpus of the Permanent School Fund of the State of Texas. (See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).

Proceeds from the sale of the Bonds will be used for (i) construction, acquisition and equipment of school buildings (including the rehabilitation, renovation, expansion and improvement thereof), the purchase of the necessary sites for school buildings and the purchase of new school buses and (ii) paying certain costs of issuing the Bonds. (See “THE BONDS—Sources and Uses of Funds”).

The Bonds maturing on and after August 15, 2021, are subject to optional redemption in whole or in part on August 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. (See “THE BONDS—Optional Redemption”).

SEE MATURITY SCHEDULE ON THE INSIDE COVER PAGE

The Bonds are offered for delivery when, as and if issued by the District and received by the initial purchaser (the “Initial Purchaser”) and will be subject to the approving opinion of the Attorney General of Texas and the approval of certain legal matters by Andrews Kurth LLP, Houston, Texas, bond counsel (“Bond Counsel”) (see “APPENDIX C – FORM OF BOND COUNSEL’S OPINION”).

It is expected that the Bonds will be available for delivery through the facilities of the DTC on or about September 14, 2011.

Bids Due Tuesday, August 16, 2011, 1:00 p.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, or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

MATURITY SCHEDULE*

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT
(Harris County, Texas)

\$35,000,000 UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2011

		Initial					Initial		
<u>Maturity</u> ^(c)	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Reoffering</u> <u>Yield</u> ^(a)	<u>CUSIPS</u> ^(b)	<u>Maturity</u> ^(c)	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Reoffering</u> <u>Yield</u> ^(a)	<u>CUSIPS</u> ^(b)
8/15/2014	\$ 350,000	%	%		8/15/2026	\$ 1,540,000	%	%	
8/15/2015	925,000				8/15/2027	1,615,000			
8/15/2016	970,000				8/15/2028	1,690,000			
8/15/2017	1,015,000				8/15/2029	1,770,000			
8/15/2018	1,065,000				8/15/2030	1,855,000			
8/15/2019	1,115,000				8/15/2031	1,945,000			
8/15/2020	1,170,000				8/15/2032	2,035,000			
8/15/2021	1,225,000				8/15/2033	2,140,000			
8/15/2022	1,280,000				8/15/2034	2,245,000			
8/15/2023	1,340,000				8/15/2035	2,360,000			
8/15/2024	1,405,000				8/15/2036	2,475,000			
8/15/2025	1,470,000								

(Interest to accrue from the Dated of Date)

^(a) The initial yields at which Bonds are priced are established by and are the sole responsibility of the Initial Purchaser and may be changed at any time at the discretion of the Initial Purchaser.

^(b) CUSIP numbers have been assigned to this issue by the CUSIP GLOBAL SERVICES as managed by Standard and Poor's Financial Service LLC and are included solely for the convenience of the purchasers of the Bonds. Neither the District, the Financial Advisor, nor the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

^(c) The Bonds maturing on and after August 15, 2021, are subject to optional redemption in whole or in part on August 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. (See "THE BONDS—Optional Redemption").

*Preliminary, subject to change

DISTRICT OFFICIALS, STAFF AND CONSULTANTS

Board of Trustees

<u>Name</u>	<u>Title</u>	<u>Years of Service</u>	<u>Term Expires Nov</u>	<u>Occupation</u>
Willie Hodson	President	11	2012	Retired
Roland Ramirez	Vice President	10	2014	Operating Engineer
J. Kyle Campbell	Parliamentarian	1	2014	Operating Engineer
Everardo Garcia	Secretary	5	2014	Federal Employee
Keith Liggett	Member	6	2012	Safety Manager
Steven Dennis	Member	15	2012	Teacher
Patrick Lacy	Member	5	2014	Vice President, Lazer Construction Inc.

Administrators

<u>Name</u>	<u>Title</u>	<u>Years in Position</u>
Greg Ollis	Superintendent	3
Kris Lynn	Assistant Superintendent of Finance	7
Carla Voelkel	Assistant Superintendent of Curriculum & Instruction	1
Dr. Robert Worthy	Assistant Superintendent of Administrative Services	3

Consultants and Advisors

Certified Public Accountant	B.H. Harris Pechacek, LLLP Bellville, Texas
Bond Counsel	Andrews Kurth LLP 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 document, when further supplemented by adding information specifying the interest rates and certain other information relating to the Bonds, shall constitute a “final official statement” of the district with respect to the bonds, as such term is defined in 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 Initial 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 INITIAL 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 Initial 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 Channelview 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 \$35,000,000 Channelview Independent School District Unlimited Tax School Building Bonds, Series 2011 (the “Bonds”) are being issued in the principal amounts and mature on the dates set forth on the inside cover page hereof. The Bonds will be dated September 1, 2011 (the “Dated Date”). Interest on the Bonds will accrue from the Dated Date at the rates per annum set forth on the inside cover page hereof. Interest is payable on February 15, 2012, and each August 15 and February 15 thereafter until maturity or prior redemption. (See “THE BONDS – Description”).

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, as amended, and an election held on November 3, 2009 and are direct obligations of the District, payable from an ad valorem tax levied, without legal limit as to rate or amount, on all taxable property located within the District, as provided by 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 Principal of and interest on the Bonds will be payable from the receipts of an ad valorem tax levied, without legal 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 PROCEDURES – Tax Rate Limitations.”)

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”).

Optional Redemption The Bonds maturing on and after August 15, 2021, are subject to optional redemption in whole or in part on August 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. (See “THE BONDS—Optional Redemption”).

Use of Proceeds Proceeds from the sale of the Bonds will be used for (i) construction, acquisition and equipment of school buildings (including the rehabilitation, renovation, expansion and improvement thereof), the purchase of the necessary sites for school buildings and the purchase of new school buses and (ii) paying certain costs of issuing the Bonds. (See “THE BONDS—Sources and Uses of Funds”).

Tax Exemption In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under “TAX EXEMPTION” herein, and is not includable in the alternative minimum taxable income of individuals. See “TAX EXEMPTION” for a discussion of the opinion of Bond Counsel, including the alternative minimum tax on corporations.

Ratings Standard & Poor’s Ratings Service, a Standard and Poor’s Financial Services LLC business (“S&P”) has assigned its municipal bond rating of “_____” to the Bonds by virtue of the guarantee of the Permanent School Fund of the State of Texas on the Bonds. (See “OTHER INFORMATION - Rating”, and “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

Fiscal Year Ended 31-Aug	Estimated District Population ^(a)	Taxable Assessed Valuation ^(b)	Per Capita Taxable Assessed Valuation	Ad Valorem Tax-Supported Debt	Per Capita Tax-Supported Tax Debt	Ratio Tax Debt to Assessed Valuation	Tax Year
2006	32,753	\$ 1,782,884,841	\$ 54,434.25	\$ 52,659,560	\$ 1,607.78	2.95%	2005
2007	33,749	1,949,251,672	57,757.32	64,285,000	1,904.80	3.30%	2006
2008	34,479	2,288,763,458	66,381.38	61,000,000	1,769.19	2.67%	2007
2009	35,600	2,434,181,369	68,375.88	57,595,000	1,617.84	2.37%	2008
2010	36,045	2,395,000,000 ^(c)	66,444.72	103,815,000	2,880.15	4.33%	2009
2011	36,045	2,200,000,000 ^(c)	61,034.82	144,270,000 ^(d)	4,002.50 ^(d)	6.56% ^(d)	2010
2012	36,045	2,162,861,552 ^(e)	60,004.48	175,450,000 ^(d)	4,867.53 ^(d)	8.11% ^(d)	2011

^(a) Population estimates obtained from the District.

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

^(c) Based on supplemental roll information provided by the District.

^(d) Includes the Bonds. Preliminary, subject to change.

^(e) Preliminary assessed value.

General Fund Consolidated Statement Summary

	2010	2009	2008	2007	2006
Beginning Balance	\$23,797,923	\$23,586,092	\$24,241,425	\$21,176,914	\$16,838,432
Adjustment to Fund Balance	-	-	-	-	-
Total Revenue	60,457,367	61,866,135	61,744,809	56,768,900	50,426,002
Total Expenditures	60,162,871	61,405,154	62,298,753	51,701,899	45,711,141
Net Other Resources (Uses)	(215,285)	(249,150)	(101,390)	(2,002,490)	(376,379)
Ending Balance	\$23,877,134	\$23,797,923	\$23,586,091	\$24,241,425	\$21,176,914

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

\$35,000,000*
**UNLIMITED TAX SCHOOL BUILDING BONDS
SERIES 2011**

INTRODUCTION

This Official Statement, including the Appendices hereto, provides certain information in connection with the offering by the Channelview Independent School District (the "District") of its Unlimited Tax School Building Bonds, Series 2011 (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 of the District authorizing the issuance of the Bonds.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District's financial advisor, Coastal Securities, Inc., Houston, Texas by electronic mail or upon payment of reasonable handling, mailing, and delivery charges. For additional information regarding the District, see APPENDIX A – "Information Regarding The District."

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the Final Official Statement pertaining to the Bonds will be deposited with the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

THE BONDS

Description

The Bonds are dated September 1, 2011 (the "Dated Date"). The Bonds mature on August 15 in each of the years and in the amounts shown on the inside cover page hereof. Interest on the Bonds will accrue from the Dated Date and will be computed on the basis of a 360-day year of twelve 30-day months payable each February 15 and August 15, commencing February 15, 2012, until maturity or prior redemption. The Bonds will be issued in principal denominations of \$5,000 or any integral multiple thereof. Initially, the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described below. No physical delivery of the Bonds will be made to the beneficial owners. Principal and interest on the Bonds or amounts due upon a prior redemption date will be payable by The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar"), to Cede & Co., which will distribute the amounts paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS – Book-Entry-Only System" for a more complete description of such system.

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 November 3, 2009 (the "Election"). The Bonds constitute the third installment of the total \$111,145,000 of unlimited tax school building bonds approved at the Election. After the issuance of the Bonds, the District will have \$17,025,000 of authorized and unissued bonds.

Security and Source of Payment

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

*Preliminary, subject to change

Optional Redemption

The District reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 2021, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 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.

Defeasance

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

Mandatory Redemption

If principal amounts designated in the serial maturity schedule herein are combined to create Term Bonds, each such Term Bond shall be subject to mandatory sinking fund redemption commencing on February 15 of the first year which has been combined to form such Term Bond and continuing on February 15 in each year thereafter until the stated maturity date of that Term Bond. Term Bonds to be redeemed in any year by mandatory redemption shall be redeemed at par and shall be selected by lot, or other customary random selection method, from and among the Term Bonds then subject to redemption. The District, at its option, may credit against any mandatory redemption requirement Term Bonds of the maturity then subject to redemption which have been purchased and canceled by the District or have been redeemed and not theretofore applied as a credit against any mandatory redemption requirement.

Book-Entry-Only System

This section describes how ownership of the Bonds are to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District, the Financial Advisor, and the Initial Purchasers believe 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 the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing 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 and 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 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).

Principal, redemptive proceeds 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, 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, 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 Purchasers 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.

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.

Transfer, Exchange and Registration

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar or its principal payment office and such transfer or exchange shall be without expenses 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 Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bond or Bonds being transferred or exchanged, at the principal payment office of the Paying Agent/Registrar, or sent by the 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 Bond or Bonds surrendered for exchange or transfer. See "THE BONDS - Book-Entry-Only System" herein defined for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Record Date for Interest Payment

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

Bondholders' Remedies

The Order does not 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 bondsholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition. The opinion of Bond Counsel will note that the rights of bondsholders 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.

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	\$
Accrued Interest on the Bonds	
Net Premium	
Total	\$
<u>Uses of Funds</u>	
Deposit to Construction Fund	\$
Costs of Issuance	
Initial Purchaser's Discount	
Deposit to Debt Service Fund (Additional Proceeds & Accrued Interest)	
Total	\$

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 2010, the total amount distributed to the ASF was \$60.70 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, 2010 and for a description of the financial results of the PSF for the year ended August 31, 2010, the most recent year for which audited financial information regarding the Fund is available. The 2010 Annual Report is incorporated herein and made a part hereof for all purposes, but the 2010 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2010 Annual Report or any other Annual Report. The TEA posts each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, the most recent disclosure for the Guarantee Program, the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (the "Investment Policy"), monthly updates with respect to the capacity of the Guarantee Program (collectively, the "Web Site Materials") on the TEA web site at www.tea.state.tx.us/psf and with the MSRB at www.emma.msrb.org. Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the Securities and Exchange Commission ("SEC") under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund's holdings of securities specified in Section 13(f), including exchange-traded (e.g., NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at www.sec.gov/edgar.shtml. A list of the Fund's equity and fixed income holdings as of August 31, 2010 has been posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund's securities lending program. Such list is incorporated herein and made a part hereof for all purposes.

The Total Return Constitutional Amendment

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

In 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 will make a similar \$100 million release to the PSF in the 2011 fiscal year. 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, which will produce transfers of approximately \$1.15 billion during the 2010-11 biennium. The SBOE has set the Distribution Rate for the 2012-13 biennium at 4.2%, which rate was determined after the SLB authorized the release of a total of \$500 million to the PSF in quarterly installments during the 2012-13 biennium. For a discussion of subsequent legislative developments that may affect the amount distributed from the Fund in the 2012-13 biennium, see "2011 Legislative Actions" below. Since the enactment of a prior amendment to the Texas Constitution in 1964, the investment of the Fund has been managed with the dual objectives of producing current income for transfer to the ASF and growing the Fund for the benefit of future generations. As a result of this prior constitutional framework, prior to the adoption of the 2004 Asset Allocation Policy (as defined below) the investment of the Fund historically included a significant amount of fixed income investments and dividend-yielding equity investments, to produce income for transfer to the ASF.

With respect to the management of the Fund's investment portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted by the SBOE in February 2004 (the "2004 Asset Allocation Policy"), in July 2006 (as subsequently reaffirmed in July 2008 such asset allocation is referred to herein as the "2008 Asset Allocation Policy") and in July 2010 (the "2010 Asset Allocation Policy"), which have significantly altered the asset allocations of the Fund. The Fund's investment policy provides for minimum and maximum ranges among the components of each of the three general asset classifications: equities, fixed income and alternative asset investments. The 2004 Asset Allocation Policy decreased the fixed income target from 45% to 25% of Fund investment assets and increased the allocation for equities from 55% to 75% of investment assets. In July 2006, the SBOE modified its asset allocation to reduce the equity allocation, including both domestic and foreign equity portfolios, to a target of 53% of Fund assets, further reduced the fixed income allocation target to 19% and added an alternative asset allocation, which included real estate, real return, absolute return and private equity components, totaling 28% of the Fund's asset target. Alternative asset classes diversify the SBOE-managed assets and are not as correlated to traditional asset classes, which is intended to increase investment returns over the long run while reducing risk and return volatility of the portfolio. In July 2010, the SBOE modified the 2008 Asset Allocation Policy by decreasing the equity allocation to 50%, and the fixed income allocation to 15%, while increasing the alternative asset allocation (which may include equity and fixed income investments as part of a variety of alternative investment strategies) to 35%. The new asset categories added by the 2010 Asset Allocation Policy are a new 7% allocation for risk parity investments, added in accordance with the recommendation of a new investment advisor, and a .5% allocation for charter school investments, both of which are categorized within the Fund's alternative asset category. Any charter school investments would be made in part for the purpose of increasing funding for charter school facilities in the State. With respect to the charter allocation, the SBOE Chair has requested an opinion of the Attorney General with respect to questions presented by that allocation, including whether investments in Texas charter school facilities must be made in a manner that is consistent with the constitutionally-established prudent person standard applicable to the Fund, or whether the SBOE may consider other benefits to a state policy in making an investment decision with respect to the Fund. The opinion request is available on the website of the Attorney General at <https://www.oag.state.tx.us/opinions/opinions/50abbott/rq/.../rq0941GA.pdf>.

The PSF Staff and the Fund's investment advisor are tasked with advising the SBOE with respect to the implementation of the 2010 Asset Allocation Policy, including the timing and manner of the selection of any external managers and other consultants. For a variety of reasons, each change in asset allocation for the Fund, including the 2010 Asset Allocation Policy, has been, and is being, implemented in phases. At August 31, 2010 the Fund was invested as follows: 63.76% in public and private market equity investments; 25.18% in fixed income investments; 10.61% in absolute return assets, 0.33% in real estate assets; and 0.12% in cash.

In accordance with the Texas Constitution, the SBOE views the PSF as a perpetual institution, and the Fund is managed as an endowment fund with a long-term investment horizon. Under the total-return investment objective, the Investment Policy provides that the PSF shall be managed consistently with respect to the following: generating income for the benefit of the public free schools of Texas, the real growth of the corpus of the PSF, protecting capital, and balancing the needs of present and future generations of Texas school children. As described above, the Total Return Constitutional Amendment restricts the annual pay out from the Fund to the total-return on all investment assets of the Fund over a rolling ten-year period. State law provides that each transfer of funds from the PSF to the ASF is made monthly, with each transfer to be in the amount of one-twelfth of the annual distribution. The heavier weighting of equity securities relative to fixed income investments has resulted in greater volatility of the value of the Fund. Given the greater weighting in the overall portfolio of passively managed investments, it is expected that the Fund will reflect the general performance returns of the markets in which the Fund is invested.

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

Management and Administration of the Fund

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

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

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

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

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

The Guarantee

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

In the event of default, holders of guaranteed bonds will receive all payments due from the corpus of the PSF. Following a determination that a district will be or is unable to pay maturing or matured principal or interest on any guaranteed bond, the Act requires the district to notify the Commissioner not later than the fifth day before the stated maturity date of such bond or interest payment. Immediately following receipt of such notice, the Commissioner must cause to be transferred from the appropriate account in the PSF to the Paying Agent/Registrar an amount necessary to pay the maturing or matured principal and interest. Upon receipt of funds for payment of such principal or interest, the Paying Agent/Registrar must pay the amount due and forward the canceled bond or evidence of payment of the interest to the State Comptroller of Public Accounts (the "Comptroller"). The Commissioner will instruct the Comptroller to withhold the amount paid, plus interest, from the first State money payable to the district. The amount withheld will be deposited to the credit of the PSF. The Comptroller must hold such canceled bond or evidence of payment of the interest on behalf of the PSF. Following full reimbursement of such payment by the district to the PSF with interest, the Comptroller will cancel the bond or evidence of payment of the interest and forward it to the district. The Act permits the Commissioner to order a school district to set a tax rate sufficient to reimburse the Fund for any payments made with respect to guaranteed bonds, and also sufficient to pay future payments on guaranteed bonds, and provides certain enforcement mechanisms to the Commissioner, including the appointment of a board of managers or annexation of a defaulting district to another district.

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

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

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

Capacity Limits for the Guarantee Program

The capacity of the Fund to guarantee bonds under the Guarantee Program is limited in two ways: by State law (the “State Capacity Limit”) and by regulations and a notice issued by the Internal Revenue Service (the “IRS” and the “IRS Limit,” respectively). Prior to May 20, 2003, the State Capacity Limit was equal to two times the lower of cost or fair market value of the Fund’s assets, exclusive of real estate. During the 78th Regular Session of the Legislature in 2003, legislation was enacted that increased the State Capacity Limit by 25%, to two and one half times the lower of cost or fair market value of the Fund’s assets as estimated by the SBOE and certified by the State Auditor, and eliminated the real estate exclusion from the calculation. Prior to the issuance of the IRS Notice (defined below), the capacity of the program under the IRS Limit was limited to two and one-half times the lower of cost or fair market value of the Fund’s assets adjusted by a factor that excluded additions to the Fund made since May 14, 1989. During the 2007 Texas Legislature, Senate Bill 389 (“SB 389”) was enacted providing for additional increases in the capacity of the Guarantee Program, and specifically providing that the SBOE may by rule increase the capacity of the Guarantee Program from two and one-half times the cost value of the PSF to an amount not to exceed five times the cost value of the PSF, provided that the increased limit does not violate federal law and regulations and does not prevent bonds guaranteed by the Guarantee Program from receiving the highest available credit rating, as determined by the SBOE. SB 389 further provides that the SBOE shall at least annually consider whether to change the capacity of the Guarantee Program. Since 2005, the Guarantee Program has twice reached capacity under the IRS Limit, and in each instance the Guarantee Program was closed to new bond guarantee applications until relief was obtained from the IRS. The most recent closure of the Guarantee Program commenced in March 2009 and the Guarantee Program reopened in February 2010 on the basis of receipt of the IRS Notice.

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

The IRS Notice establishes a static capacity for the Guarantee Program based upon the cost value of Fund assets on December 16, 2009 multiplied by five. On December 16, 2009, the cost value of the Guarantee Program was \$23,463,749,653 (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. On May 21, 2010, the SBOE modified the regulations that govern the Guarantee Program (the “Guarantee Program Rules”), and increased the State Law Capacity to an amount equal to three times the cost value of the PSF. Such modified regulations, including the revised capacity rule, became effective on July 1, 2010. The Guarantee Program Rules provide that the Commissioner may reduce the multiplier to maintain the AAA credit rating of the Guarantee Program, but provide that any changes to the multiplier made by the Commissioner are to be ratified or rejected by the SBOE at the next meeting following the change. See “Valuation of the PSF and Guaranteed Bonds,” below.

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

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

The Act requires that the Commissioner prepare, and the SBOE approve, an annual report on the status of the Guarantee Program (the Annual Report). The State Auditor audits the financial statements of the PSF, which are separate from other State financial statements. The TEA has filed the audited annual report of the PSF for the year ended August 31, 2010 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 Rating Service, a Standard & Poor’s Financial Service LLC business, and Fitch Ratings rate bonds guaranteed by the PSF “Aaa,” “AAA” and “AAA,” respectively. Not all districts apply for multiple ratings on their bonds, however. See “Ratings” herein.

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations		
<u>Fiscal Year Ended 8/31</u>	<u>Book Value⁽¹⁾</u>	<u>Market Value⁽¹⁾</u>
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	25,443,104,623
2010	23,653,185,489 ⁽²⁾	27,066,200,259 ⁽²⁾

⁽¹⁾ SLB managed assets are included in the market value and book value of the Fund. In determining the market value of the PSF from time to time during a fiscal year, the TEA uses current, unaudited values for TEA managed investment portfolios and cash held by the SLB. Market values of land and mineral interests, and investments in externally managed real estate funds managed by the SLB are based upon information reported to the PSF by the SLB. Beginning in fiscal year 2009, the SLB reported that information to the PSF on a quarterly basis. The valuation of such assets at any point in time is dependent upon a variety of factors, including economic conditions in the State and nation in general, and the values of these assets, and, in particular, the valuation of mineral holdings administered by the SLB, can be volatile and subject to material changes from period to period. At August 31, 2010, land, external real estate investments, mineral assets and cash managed by the SLB had book values of approximately \$462.9 million, \$1.150 billion, \$13.39 million and \$1 billion, respectively, and unaudited market values of approximately \$827.6 million, \$749.8 million, \$2.38 billion and \$1 billion, respectively.

⁽²⁾ At June 30, 2011, the PSF had a book value of \$24,648,927,086 and a market value of \$31,111,958,884 (in each case, based on unaudited data).

Permanent School Fund Guaranteed Bonds	
<u>At 8/31</u>	<u>Principal Amount⁽¹⁾</u>
2006	\$37,793,429,328
2007	44,856,621,419
2008	49,860,572,025
2009	50,032,724,439
2010 ⁽¹⁾	49,301,683,338 ⁽²⁾

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

⁽²⁾ As of August 31, 2010, the TEA expected that the principal and interest to be paid by school districts over the remaining life of the bonds guaranteed by the Guarantee Program is \$84.7 billion, of which \$35.4 billion represents interest to be paid. At June 30, 2011, there were \$52,386,655,418 of bonds guaranteed under the Guarantee Program and the capacity of the Guarantee Program was \$73,946,781,258 based on the three times cost value multiplier approved by the SBOE on May 21, 2010. Such capacity figures include the Reserve Capacity.

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2010

The following discussion is derived from the Annual Report for the year ended August 31, 2010, 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, 2010, 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 2010, the total Fund balance was \$24.4 billion. Fund balance increased \$1.80 billion from the prior year primarily attributable to the increase in the fair value of the PSF(SBOE) investments and the recovering markets. During the year, the SBOE

continued implementing its revised long term strategic asset allocation to diversify and strengthen the PSF(SBOE) investment assets of the Fund. The revised allocation is projected to increase returns over the long run while reducing risk and return volatility of the portfolio. The one year, three year, five year and ten year annualized total returns for the PSF(SBOE) assets were 7.51%, -2.64%, 3.11% and 2.87% 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 -2.85%, -4.68%, and 2.19% 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, 2010, the PSF(SBOE) portion of the Fund had diversified into emerging market international equities, absolute return funds, real estate and private equity. Other asset classes such as risk parity and 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. Approximately \$230 million of capital commitments to externally managed real assets investment funds were funded during fiscal year 2010. At August 31, 2010, the SLB had approved total capital commitments, net of the original capital commitments associated with any investments that were subsequently sold or dissolved, of \$2.122 billion to thirty-four funds, and one co-investment vehicle, of which approximately \$971 million remains unfunded.

The PSF(SBOE)'s investment in equity securities experienced a return of 5.50% during the fiscal year ended August 31, 2010. The PSF(SBOE)'s investment in fixed income securities produced a return of 11.29% during the fiscal year and absolute return investments yielded a return of 7.85%. Combined, all PSF(SBOE) asset classes produced an investment return of 7.51% for the fiscal year ended August 31, 2010, outperforming the target index by approximately 84 basis points. All PSF(SLB) real assets (including cash) returned -2.85% for the fiscal year ending August 31, 2010.

For fiscal year 2010, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled \$1.93 billion, an increase of \$3.92 billion from fiscal year 2009 negative earnings of \$1.98 billion. This increase is primarily attributable to the recovery of domestic and international securities markets in fiscal year 2010. In fiscal year 2010, revenues earned by the Fund included lease payments, bonuses and royalty income received from oil, gas and mineral leases; lease payments from commercial real estate; surface lease and easement revenues; revenues from the resale of natural and liquid gas supplies; dividends, interest, and securities lending revenues; the net change in the fair value of the investment portfolio; and, other miscellaneous fees and income.

Expenditures are paid from the Fund before distributions are made under the total return formula. Such expenditures include the costs incurred by the SLB to manage the land endowment, as well as operational costs of the Fund, including external management fees paid from appropriated funds. Total operating expenditures, net of security lending rebates and fees, decreased 41.7% for the fiscal year ending August 31, 2010. 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 2009 and 2010, this distribution to the ASF totaled \$716.53 million and \$60.7 million, respectively.

At the end of the 2010 fiscal year, PSF assets guaranteed \$49.3 billion in bonds issued by 776 local school districts. Since its inception in 1983, the Fund has guaranteed 4,243 school district bond issues totaling \$88.9 billion in principal amount. During the 2010 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program decreased by 76, or -3.1%. The dollar amount of guaranteed school bond issues outstanding decreased by \$731.0 million or 1.5%. The guarantee capacity of the Fund increased by \$13.167 billion, or 22.8%, during fiscal year 2010 due to the change in the multiplier.

2011 Legislative Actions

During the Regular Session of the 82nd Legislature, which concluded May 30, 2011, a joint resolution ("HJR 109") was enacted proposing amendments to various sections of the Texas Constitution that pertain to the PSF. HJR 109 requires that a referendum be held in the State on November 8, 2011 for the purpose of approving non-substantive changes to the Texas Constitution to clarify references to the Fund, and, in addition, other changes to Section 5, Article VII of the Texas Constitution, that would make substantive changes to that Section, which is the principal constitutional provision that pertains to the Fund. If approved by the voters, Article VII, Section 5(a)(1) of the Texas Constitution will be amended to increase the base amount used in calculating the Distribution Rate from the Fund to the ASF. The proposed increase to that base would occur by adding to the calculation base certain discretionary real assets and cash in the Fund that is managed by entities other than the SBOE (at present, by the SLB). The value of those assets are included in the value of the Fund for purposes of the Guarantee Program, but have not been included in the calculation base for purposes of making transfers from the Fund to

the ASF. While HJR 109 provides for an increase in the base for the calculation, no new resources are provided for deposit to the Fund. As described under "The Total Return Constitutional Amendment" the SBOE is prevented from approving a Distribution Rate or making a pay out from the Fund if the amount distributed would exceed 6% of the average of the market value of the Fund, excluding real property, on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium or if such pay out would exceed the Ten Year Total Return. If approved by the voters, the new calculation base is required to be used to determine all payments to the ASF from the Fund beginning September 1, 2011. As described under "The Total Return Constitutional Amendment" the SBOE approved a distribution rate of 4.2% in January 2011 based on a commitment of the SLB to transfer \$500 million to the PSF during the biennium.

HJR 109 also provides authority to the GLO or other entity other than the SBOE that has responsibility for the management of land or other properties of the Fund to determine in its sole discretion whether to transfer each year from Fund assets to the ASF revenue derived from such land or properties, an amount not to exceed \$300 million. Any such discretionary distribution to the ASF would reduce amounts administered by the SBOE or managed by the SLB as part of the Fund.

The fiscal note pertaining to HJR 109 (the "Fiscal Note"), drafted by the Texas Legislative Budget Board, states that given the 4.2% Distribution Rate approved by the SBOE for the 2012-13 biennium, the amendment would increase the total return distribution by an estimated \$75.4 million in each year of the 2012-13 biennium, and that assuming a distribution rate of 3.5% in the 2014-15 biennium and beyond, as the value of the real assets investments increase annually, distributions to the ASF would increase in the out years. The Fiscal Note further states that the increased amounts distributed from the Fund would be a loss to either the investment corpus of the PSF managed by SBOE or, should the SLB increase its transfers to the SBOE to cover this share of the distribution, to the assets managed by the SLB. In addition, the Fiscal Note states that if the amendment is approved by the voters, the PSF would not benefit from the compounding interest that would be derived from these assets remaining in the corpus of the Fund. The scenarios described in the Fiscal Note for any fiscal period after the 2012-13 biennium are dependent upon future actions of the SBOE and the SLB and may differ from the assumptions used in the Fiscal Note.

During the First Called Session of the 82nd Texas Legislature, which ended June 29, 2011, Senate Bill 1 ("SB 1") was enacted. Among other provisions, SB 1 authorizes the use of the PSF to guarantee revenue bonds issued by certain open-enrollment charter schools that are designated as "charter districts" by the Commissioner. The program authorized by SB 1 is referred to herein as the "Charter School Guarantee Program." It is anticipated that the Charter School Guarantee Program will not become effective until certain contingent requirements are satisfied, including the establishment of regulations by the Commissioner for the administration of the program. It is also expected that certain federal tax law matters concerning the Charter School Guarantee Program will be submitted to the IRS for review prior to the implementation of the program, and it is possible that a legal opinion from the Attorney General with respect to certain provisions of the law may be requested. As a result, the date of implementation and the ultimate structure of the Charter School Guarantee Program is presently unknown.

In general, the Charter School Guarantee Program has been authorized through the enactment of amendments to the Act. As amended, the Act provides that a qualified charter district may make application to the Commissioner under the Act for a guarantee of its bonds, including refunding bonds, by the PSF. The capacity of the Charter School Guarantee Program is limited to the total amount that equals the result of the percentage that is equal to the ratio of the number of students enrolled in open-enrollment charter schools in the State compared to the total number of students enrolled in all public schools in the State multiplied by the of the combined capacities of the Guarantee Program and Charter School Guarantee Program. As of October 29, 2010 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools to the total State scholastic census was approximately 2.7%. For the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program."

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

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

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

Other Events and Disclosures

The State Investment Ethics Code governs the ethics and disclosure requirements for financial advisors and other service providers who advise certain State governmental entities, including the PSF. In accordance with the provisions of the State Investment Ethics Code, the SBOE periodically modifies its code of ethics, which occurred most recently in May 2010. The SBOE code of ethics includes prohibitions on sharing confidential information, avoiding conflict of interests and requiring disclosure filings with respect to contributions made or received in connection with the operation or management of the Fund. The code of ethics applies to members of the SBOE as well as to persons who are responsible by contract or by virtue of being a TEA PSF staff member for managing, investing, executing brokerage transactions, providing consultant services, or acting as a custodian of the PSF, and persons who provide investment and management advice to a member of the SBOE, with or without compensation under certain circumstances. The code of ethics is codified in the Texas Administrative Code at 19 TAC sections 33.5 et seq., and is available on the TEA web site at www.tea.state.tx.us/rules/tac/chapter033/index.html.

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

As of August 31, 2010, 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 I of the TEA Investment Procedure Manual, which relates to the Guarantee Program. The most recent amendment to the TEA Rule was adopted by the SBOE on November 19, 2010, and is summarized below. Through the adoption of the TEA Rule and its commitment to guarantee the Bonds, the SBOE has made the following agreement for the benefit of the District and holders and beneficial owners of the Bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an "obligated person," within the meaning of SEC Rule 15c2-12 ("Rule 15c2-12"), with respect to the Bonds. Nothing in the TEA Rule obligates the Agency to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the Agency under the TEA Rule pertain solely to the Guarantee Program. The district issuing the guaranteed bonds has assumed the applicable obligation under Rule 15c-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such district undertakings. Under the TEA agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

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

Annual Reports

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

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

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

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

Material Event Notices

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

Availability of Information

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

Limitations and Amendments

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

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

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

On April 9, 2001, four property wealthy districts filed suit in the 250th District Court of Travis County, Texas (the “District Court”) against the Texas Education Agency, the Texas State Board of Education, the Texas Commissioner of Education (the “Commissioner”) and the Texas Comptroller of Public Accounts in a case styled *West Orange-Cove Consolidated Independent School District, et al. v. Neeley, et al.* The plaintiffs alleged that the \$1.50 maximum maintenance and operations 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, that authorizes districts to secure their bonds by pledging the receipts of an unlimited ad valorem debt service tax as security for payment of such bonds. Reference is made, in particular, to the information under the heading "THE BONDS – Security and Source of Payment."

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

Although, as a matter of law, the Bonds, upon issuance and delivery, will be entitled to the protections afforded previously existing contractual obligations under the Contract Clauses, the District can make no representations or predictions concerning the effect of future legislation or litigation, or how such legislation or future court orders may affect the District's financial condition, revenues or operations. While the disposition of any possible future litigation or the enactment of future legislation to address school funding in Texas could substantially adversely affect the financial condition, revenues or operations of the District, as noted herein, the District does not anticipate that the security for payment of the Bonds, specifically, the District's obligation to levy an unlimited debt service tax 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 Public School Finance System (the "Financial 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 2010-11, 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 \$29,200,000 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 and 2010-11 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.

82nd Texas Legislature Actions – Impact of Texas Budget on the District

The Texas Legislature convened in its 82nd Regular Session (the "Regular Session") on January 11, 2011, and ended the Regular Session on May 30, 2011. During the Regular Session, the Legislature enacted a budget that cuts \$4 billion from public school finance for the 2012-13 State fiscal biennium, as compared to the budget for the 2010-11 State fiscal biennium. The cuts were made in light of a projected State deficit of up to \$27 billion for the 2012-13 State fiscal biennium, based upon the State Comptroller's biennial revenue estimate of

January 10, 2011. However, during the Regular Session, the Legislature did not adopt implementing legislation providing for funding the public school finance system for the upcoming biennium. As a result, the Governor called the Legislature into special session on May 31, 2011 (the "First Called Session").

On June 28, 2011, during the First Called Session, Senate Bill 1 ("SB 1") was enacted by the Legislature, and the bill has been sent to the Governor to be signed into law. SB 1 will reduce State funding for public schools in the State by \$2 billion for each fiscal year of the upcoming biennium. The cuts will be made by applying an across the board percentage reduction in funding for all school districts in 2012. The 2012 funding reductions are to be moderated by the use of \$830 million of Federal funds available for education jobs in the State in 2012. Of the \$2 billion in cuts for fiscal year 2013, \$500 million will be made proportionately to all school districts, and another \$1.5 billion will be cut by reducing the target revenue hold harmless funding provided in HB 1 adopted by the Legislature in 2007. Such cuts to target revenue hold harmless provisions of the current Finance System will impact higher spending districts that have a higher target revenue more significantly than districts with lower target revenues.

While the District has not made a comprehensive review of SB 1, it expects that, like other school districts in the State, it will experience a loss of State funding for the 2012-13 State fiscal biennium. Based upon financial projections of the impact of the \$4 billion in cuts to the public school finance system that were released by the Texas House of Representatives Committee on Appropriations on May 28, 2011, and assuming that the bill is signed into law by the Governor, the District anticipates that State funding to the District will be reduced by approximately 5.4% during the 2012 fiscal year and 3.9% during the 2013 fiscal year. SB 1 will not become effective until the start of the upcoming State biennium, and the Finance System described under "CURRENT PUBLIC FINANCE SYSTEM" will apply until the end of the current State fiscal year, on August 31, 2011.

At this time, Channelview ISD is addressing the budget shortfall by reducing staff through attrition and implementing a hiring freeze. The District is also reducing material and supply budgets and looking at departments and programs to help offset the deficit.

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

The District's wealth per student for the 2010-2011 school year is \$196,298 which is less than the equalized wealth value. Accordingly, the District has not been required to exercise one of the permitted wealth equalization options.

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, as amended, (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 Harris 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 Education 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 within the District Generally, during the last eight years of the ten-year term of a tax limitation agreement, the school district may only levy and collect ad valorem taxes for maintenance and operation purposes on the agreed-to limited appraised property value. The taxpayer is entitled to a tax credit from the school district for the amount of taxes imposed during the first two years of the tax limitation agreement on the appraised value of the property above the agreed-to limited value. Additional State funding is provided to a 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 a maintenance and operation tax ("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 60th day after the District receives the appraisal roll, whichever is later, the rate of taxation must be set by the Board of Education 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. A taxpayer who is 65 years of age or older or is disabled may defer the collection of delinquent property taxes on his or her residence homestead and prevent the filing of a lawsuit to collect delinquent taxes until the 181st day after the taxpayer no longer owns and occupies the property as a residence homestead. However, taxes and interest continue to accrue against the property, and the delinquent taxes incur a penalty of 8% per annum with no additional penalties or interest assessed. The lien securing such taxes and interest remains in existence during the deferral or abatement period.

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 has granted an additional \$35,000 exemption to the market value of the residence homestead of persons 65 years of age or older over the state-mandated exemption.

The District has not granted an additional local exemption of 20% of the market value of residence homesteads; but the District does grant the minimum exemption of \$5,000.

Ad valorem taxes are not levied by the District against the exempt value of residence homesteads for the payment of debt. The District does not tax non-business personal property. The District does not permit split payments, and discounts are not allowed. The District does tax freeport property. The District does not tax goods in transit. The District has not entered into any tax abatement agreements.

TAX RATE LIMITATIONS

A school district is authorized to levy an 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 October 2, 1971 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 6.67% 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, 2008-09 and 2009-10. For fiscal year 2011-12 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 2010-11, 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, 2010, the State contributed \$2,767,394 to TRS on behalf of the District, District employees paid \$3,079,394 and other contributions into the plan made from private grants and from the District for salaries above the statutory minimum were \$877,739.

In addition to the TRS retirement plan, the District provides health care coverage for its employees. For a discussion of the TRS retirement plan and the District's medical benefit plan, see the audited financial statements of the District that are attached hereto as Appendix B.

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, comprises approximately 20 square miles within Harris County, Texas. The District includes the unincorporated community of Channelview, a commercial center located approximately 15 miles east of downtown Houston on Interstate Highway 10. Harris County, the Harris Co. Dept. of Education, the Harris Co. Flood Control District, Harris County FSWD #6, Harris County MUD #53, the Harris County Toll Road Authority, Harris County WC&ID #21, Harris County WC&ID #84, the Port of Houston Authority, and the San Jacinto JCD within the District each have authority to levy ad valorem taxes on territory located in the District. See APPENDIX A – Table 6 – "Estimated Overlapping Debt."

For additional information regarding the District, see also "APPENDIX A – INFORMATION REGARDING THE DISTRICT."

Administration

The Board of Trustees is the governing body of the District and consists of seven members, who serve three-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 June 1, 2011, the District owned and operated a high school, junior high school, middle school, five elementary schools and an alternative school. The following table provides information regarding student enrollment in the District.

	Fiscal Year Ended August 31					
	<u>2011</u>^(a)	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Student Enrollment	8,609	8,644	8,461	8,409	8,256	8,035
Average Daily Attendance	8,265	8,212	8,089	7,989	7,843	7,633
Cost Per Student ^(a)	\$8,023	\$7,665	\$7,733	\$7,806	\$6,847	\$6,038

^(a) Projected

Financial Policies

General Fund – This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

Debt Service Fund – This fund is used to account for resources accumulated from the proceeds of debt service taxes levied for the purpose of the repayment of debt, the issuance of which has been approved by the voters of the District. Other resources include State Foundation program funds received for the purpose of bonded debt repayment. This fund is required to be budgeted on an annual basis.

Capital Projects Fund – This fund is used to account for revenues and expenses related to projects financed by the proceeds of bond issues or for capital projects otherwise mandated to be accounted for in this fund. This fund is not required to be budgeted on an annual basis.

Internal Service Funds – These funds are used to account for revenues and expenses related to services provided to parties inside the District. These funds facilitate distribution of support costs to the issues of support services on a cost-reimbursement basis. Because the principal users of the internal services are the District's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

Private-Purpose Trust Funds – These funds are used to report trust arrangements under which principal and income benefit individuals, private organizations, or other governments not reported in other fiduciary fund types.

Agency Funds – These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary Funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

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

Under current 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 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 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 entity 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 June 30, 2011, the District had approximately \$4,017,043 invested in Woodforest National Bank, \$21,001,939 invested in the Lone Star Investment Pool, and \$43,378,241 invested in TexPool, and \$717,319 invested in MBIA Investment Fund, and \$50,076 invested in Wells Fargo Bank. 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 EXEMPTION

In the opinion of Andrews Kurth LLP, Houston, Texas, Bond Counsel, interest on the Bonds is (1) excludable under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), from gross income of the owners thereof for federal income tax purposes and (2) is not includable in the alternative minimum taxable income of individuals or, except as described below, corporations.

The foregoing opinions of Bond Counsel are based on the Code and the regulations, rulings and court decisions thereunder in existence on the date of issue of the Bonds. Such authorities are subject to change and any such change could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof or change the treatment of such interest for purposes of computing alternative minimum taxable income.

In rendering its opinions, Bond Counsel has assumed continuing compliance by the District with certain covenants of the order authorizing the issuance of the Bonds (the "Order") and has relied on representations by the District with respect to matters solely within the knowledge of the District, which Bond Counsel has not independently verified. The covenants and representations relate to, among other things, the use of Bond proceeds and any facilities financed therewith, the source of repayment of the Bonds, the investment of Bond proceeds and certain other amounts prior to expenditure, and requirements that excess arbitrage earned on the investment of Bond proceeds and certain other amounts be paid periodically to the United States and that the District file an information report with the Internal Revenue Service (the "Service"). If the District should fail to comply with the covenants in the Order, or if its representations relating to

the Bonds that are contained in the Order should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

Interest on all tax-exempt obligations, such as the Bonds, owned by a corporation (other than an S corporation, a regulated investment company, a real estate investment trust (REIT), a real estate mortgage investment conduit (REMIC) or a financial asset securitization investment trust (FASIT)) will be included in such corporation's adjusted current earnings for purposes of calculating such corporation's alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by the Code is computed.

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

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Service with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the District as the "taxpayer," and the owners of the Bonds may have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Under the Code, taxpayers are required to provide information on their returns regarding the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. Such prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

TAX TREATMENT OF ORIGINAL ISSUE DISCOUNT AND PREMIUM BONDS

Discount Bonds

Some of the Bonds may be offered at initial offering prices which are less than the stated redemption prices at maturity of such Bonds. If a substantial amount of any maturity of the Bonds is sold to members of the public (which for this purpose excludes bond houses, brokers and similar persons or entities acting in the capacity of wholesalers or underwriters) at such initial offering price, an initial owner who purchases the Bonds of that maturity (the "Discount Bonds") will be considered to have "original issue discount" for federal income tax purposes equal to the difference between (a) the stated redemption price payable at the maturity of such Discount Bond and (b) the initial offering price to the public of such Discount Bond. Under existing law, such original issue discount will be treated for federal income tax purposes as additional interest on a Bond and such initial owner will be entitled to exclude from gross income for federal income tax purposes that portion of such original issue discount deemed to be earned (as discussed below) during the period while such Discount Bond continues to be owned by such initial owner. Except as otherwise provided herein, the discussion regarding interest on the Bonds under the caption "TAX EXEMPTION" generally applies to original issue discount deemed to be earned on a Discount Bond while held by an owner who has purchased such Bond at the initial offering price in the initial public offering of the Bonds and that discussion should be considered in connection with this portion of the Official Statement.

In the event of a redemption, sale, or other taxable disposition of a Discount Bond prior to its stated maturity, however, any amount realized by such initial owner in excess of the basis of such Discount Bond in the hands of such owner (increased to reflect the portion of the original issue discount deemed to have been earned while such Discount Bond continues to be held by such initial owner) will be includable in gross income for federal income tax purposes.

Because original issue discount on a Discount Bond will be treated for federal income tax purposes as interest on a Bond, such original issue discount must be taken into account for certain federal income tax purposes as it is deemed to be earned even though there will not be a corresponding cash payment. Corporations that purchase Discount Bonds must take into account original issue discount as it is deemed to be earned for purposes of determining alternative minimum tax. Other owners of a Discount Bond may be required to take into account such original issue discount as it is deemed to be earned for purposes of determining certain collateral federal tax consequences of owning a Bond. See "TAX EXEMPTION" for a discussion regarding the alternative minimum taxable income consequences for corporations and for a reference to collateral federal tax consequences for certain other owners.

The characterization of original issue discount as interest is for federal income tax purposes only and does not otherwise affect the rights or obligations of the owner of a Discount Bond or of the District. The portion of the principal of a Discount Bond representing original issue discount is payable upon the maturity or earlier redemption of such Bond to the registered owner of the Discount Bond at that time.

Under special tax accounting rules prescribed by existing law, a portion of the original issue discount on each Discount Bond is deemed to be earned each day. The portion of the original issue discount deemed to be earned each day is determined under an actuarial method of accrual, using the yield to maturity as the constant interest rate and semi-annual compounding.

Under special tax accounting rules prescribed by existing law, a portion of the original issue discount on each Discount Bond is deemed to be earned each day. The portion of the original issue discount deemed to be earned each day is determined under an actuarial method of accrual, using the yield to maturity as the constant interest rate and semi-annual compounding.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Discount Bonds by an owner that did not purchase such Bonds in the initial public offering and at the initial offering price may be determined according to rules which differ from those described above. All prospective purchasers of Discount Bonds should consult their tax advisors with respect to the determination for federal, state and local income tax purposes of interest and original issue discount accrued upon redemption, sale or other disposition of such Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Discount Bonds.

Premium Bonds

Some of the Bonds may be offered at initial offering prices which exceed the stated redemption prices payable at the maturity of such Bonds. If a substantial amount of any maturity of the Bonds is sold to members of the public (which for this purpose excludes bond houses, brokers and similar persons or entities acting in the capacity of wholesalers or underwriters) at such initial offering price, each of the Bonds of such maturity ("Premium Bonds") will be considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis for federal income tax purposes of a Premium Bond in the hands of an initial purchaser who purchases such Bond in the initial offering must be reduced each year and upon the sale or other taxable disposition of the Bond by the amount of amortizable bond premium. This reduction in basis will increase the amount of any gain (or decrease the amount of any loss) recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Bond by the initial purchaser. Generally, no corresponding deduction is allowed for federal income tax purposes, for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond which is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined under special tax accounting rules which use a constant yield throughout the term of the Premium Bond based on the initial purchaser's original basis in such Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition by an owner of Bonds that are not purchased in the initial offering or which are purchased at an amount representing a price other than the initial offering prices for the Bonds of the same maturity may be determined according to rules which differ from those described above. Moreover, all prospective purchasers of Bonds should consult their tax advisors with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of Premium Bonds.

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 Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org. See "The Permanent School Fund Guarantee Program" for a description of the TEA's continuing disclosure under taking to provide certain updated financial information and operations data annually with respect to the PDF and the provide timely notice of specified material events related to the guarantee to the MSRB.

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 other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements if the District commissions an audit and the audit is completed by the required time. If audited financial statements are not available by the required time, the District will provide such financial statements on an unaudited basis within the required time and audited financial statements when they become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation.

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

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

Compliance with Prior Undertakings

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

Standard & Poor's ("S&P") has assigned its municipal rating of "____" to the Bonds by virtue of the guarantee of the Texas Permanent School Fund for the Bonds. An explanation of the rating may be obtained from S&P. The rating reflects only the views of S&P and the District makes no representation as to the appropriateness of the rating. There is no assurance that such ratings will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P in the judgment of the company circumstances so warrant. Any such downward revision or withdrawal by such rating may have an adverse effect on the market price of the Bonds. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.)

No Litigation Certificate

The District will furnish to the Initial 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 Andrews Kurth LLP, Bond Counsel to the District, 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 the rendering of an opinion guarantee outcome of any legal dispute that may arise out of the transaction.

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 “Initial Purchaser”) to purchase the Bonds at the rate shown on the inside cover page of this Official Statement at a price of \$ _____ plus accrued interest from their date to the date of delivery. 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.

CERTIFICATION OF THE OFFICIAL STATEMENT

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 Initial 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.

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT

President, Board of Trustees

ATTEST:

Secretary, Board of Trustees

APPENDIX A
INFORMATION REGARDING THE DISTRICT

TABLE 1 - VALUATION, EXEMPTIONS AND TAX-SUPPORTED DEBT**District Direct Debt**

2011 Preliminary Taxable Assessed Valuation (100% of Estimated Market Value)	\$2,162,861,552 ^(a)
Outstanding Debt (August 16, 2011)	\$ 109,270,000
Plus: The Bonds	35,000,000 ^(b)
Total Direct Debt	\$ 144,270,000
As a % of Taxable Assessed Valuation	6.67%

^(a) Preliminary assessed value.^(b) Preliminary, subject to change.**TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY ^(a)**

	<u>Tax Year 2010</u>	<u>Tax Year 2009</u>	<u>Tax Year 2008</u>	<u>Tax Year 2007</u>	<u>Tax Year 2006</u>
Real Property	\$ 1,482,707,572	\$1,718,964,415	\$1,745,127,388	\$1,601,394,045	\$1,629,997,768
Personal Property	485,731,862	492,779,990	401,226,340	453,081,108	568,939,507
Gross Value	<u>\$ 1,968,439,434</u>	<u>\$2,211,744,405</u>	<u>\$2,146,353,728</u>	<u>\$2,054,475,153</u>	<u>\$2,198,937,275</u>
Less Adjustments ^(b)	<u>346,034,814</u>	<u>367,159,608</u>	<u>365,447,619</u>	<u>325,051,667</u>	<u>330,180,336</u>
Net Taxable Value	\$ 1,622,404,620	\$1,844,584,797	\$1,780,906,109	\$1,729,423,486	\$1,868,756,939

^(a) Values may differ from those shown elsewhere in the document due to subsequent additions, deletions, and adjustments to the tax rolls.

Source: Harris County Appraisal District

^(b) Includes exemptions, productivity loss and freeze adjustments.**TABLE 3 - TAX RATE, LEVY AND COLLECTION HISTORY; TAX RATE DISTRIBUTION**

<u>Fiscal Year End</u>	<u>Tax Year</u>	<u>Taxable Assessed Valuation ^(a)</u>	<u>Tax Rate</u>	<u>Tax Levy</u>	<u>Percent Collected</u>	
					<u>Current</u>	<u>Total ^(b)</u>
2006	2005	\$ 1,782,884,841	\$ 1.7762	\$ 31,939,146	97.66%	98.06%
2007	2006	1,949,251,672	1.6584	32,326,390	97.79%	98.75%
2008	2007	2,288,763,458	1.2302	28,156,368	97.79%	101.48%
2009	2008	2,434,181,369	1.2382	30,140,034	98.26%	100.35%
2010	2009	2,395,000,000 ^(c)	1.2508	22,983,169	92.92%	95.52%
2011	2010	2,200,000,000 ^(c)	1.2937	28,461,400	97.00% ^(d)	97.00% ^(d)
2012	2011	2,162,861,552 ^(e)			(In process of Collection)	

^(a) Freeze adjusted taxable value, net of exemptions. Assessed valuations do not include adjustments in supplemental rolls made after the end of each fiscal year.^(b) Excludes penalties and interest.^(c) Based on supplemental roll information provided by the District.^(d) Collections through June 30, 2011.^(e) Preliminary assessed value.**Tax Rate Distribution**

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Maintenance	\$ 1.0400	\$ 1.0401	\$ 1.0220	\$ 1.0220	\$ 1.3490
Debt Service	0.2537	0.2107	0.2163	0.2082	0.3094
Total	<u>\$ 1.2937</u>	<u>\$ 1.2508</u>	<u>\$ 1.2382</u>	<u>\$ 1.2302</u>	<u>\$ 1.6584</u>

TABLE 4 - TEN LARGEST TAXPAYERS

<u>Name</u>	<u>2010 Net Taxable Assessed Valuation</u>	<u>% of Total 2010 Assessed Valuation</u>
Lyondell Chemical	\$ 337,426,534	15.60%
Highman Barge (FKA Maryland Marine)	112,361,030	5.20%
Optim Energy Altura Cogen	88,183,395	4.08%
Kirby Inland Marine	81,942,191	3.79%
McJunkin Redman Corp	56,699,864	2.62%
Midland Pipe	37,523,618	1.73%
SocoTherm Labarge	34,173,310	1.58%
Ballard Exploration	32,877,487	1.52%
Pipeco Service	27,304,435	1.26%
Bayer Corp	26,631,000	1.23%
	<u>\$ 835,122,864</u>	<u>38.61%</u>

TABLE 5 - TAX ADEQUACY**Unlimited Tax Debt ^(a)**

Estimated Average Annual Debt Service Requirements (2011-2036):	\$ 10,045,248 ^(b)
0.4540 per \$100 AV against the 2011 Preliminary Taxable AV, at 95% collection, produces	\$ 10,055,293
Estimated Maximum Annual Debt Service Requirements (2012):	\$ 11,314,764 ^(b)
0.5158 per \$100 AV against the 2011 Preliminary Taxable AV, at 95% collection, produces	\$ 11,326,078

^(a) Includes the Bonds and estimated Tier Three (EDA) in the amount of \$940,300.

^(b) Includes the Bonds. Preliminary, subject to change.

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 or 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 Districts.

<u>Taxing Jurisdiction</u>	<u>Total Debt ^(a)</u>	<u>Estimated % Overlapping</u>	<u>Overlapping Debt</u>
Harris Co	\$ 2,235,736,628	0.82%	\$ 18,333,040
Harris Co Dept of Ed	7,980,000	0.82%	65,436
Harris Co FWSD # 6	1,185,000	100.00%	1,185,000
Harris Co Flood Control	94,092,820	0.84%	790,380
Harris Co MUD # 53	28,132,760	74.82%	21,048,931
Harris Co MUD # 285	45,729,786	1.00%	457,298
Harris Co Toll Road	-	0.84%	-
Harris Co WC&ID # 21	12,380,000	100.00%	12,380,000
Harris Co WC&ID # 84	7,560,000	100.00%	7,560,000
Port of Houston Authority	739,197,397	0.84%	6,209,258
San Jacinto CCD	257,105,000	6.09%	15,657,695
Estimated Overlapping Debt			<u>\$ 83,687,038</u>
The District ^(b)	\$ 144,270,000	100.00%	<u>144,270,000</u>
Total Direct & Estimated Overlapping Debt			<u>\$ 227,957,038</u>
As a % of 2011 Preliminary Taxable Assessed Valuation ^(c)			10.54%
Total Direct & Estimated Overlapping Debt Per Capita			6,324.23

^(a) Gross debt.

^(b) Includes the Bonds. Preliminary, subject to change.

^(c) Includes supplemental roll information provided by the District.

TABLE 7 - PROFORMA TAX SUPPORTED DEBT SERVICE REQUIREMENTS

FYE 31-Aug	Outstanding Debt Service	The Bonds ^(a)			Total Debt Service
		Principal	Interest ^(b)	Total	
2011	\$ 9,007,066	\$ -	\$ -	\$ -	\$ 9,007,066
2012	9,275,476	-	1,615,498	1,615,498	10,890,974
2013	9,276,570	-	1,690,638	1,690,638	10,967,207
2014	9,274,126	350,000	1,690,638	2,040,638	11,314,764
2015	8,686,089	925,000	1,674,013	2,599,013	11,285,101
2016	8,687,714	970,000	1,630,075	2,600,075	11,287,789
2017	8,687,686	1,015,000	1,584,000	2,599,000	11,286,686
2018	8,687,224	1,065,000	1,535,788	2,600,788	11,288,011
2019	8,610,774	1,115,000	1,485,200	2,600,200	11,210,974
2020	8,410,942	1,170,000	1,432,238	2,602,238	11,013,180
2021	8,496,777	1,225,000	1,376,663	2,601,663	11,098,440
2022	8,464,683	1,280,000	1,318,475	2,598,475	11,063,158
2023	8,439,466	1,340,000	1,257,675	2,597,675	11,037,141
2024	8,412,087	1,405,000	1,194,025	2,599,025	11,011,112
2025	8,384,762	1,470,000	1,127,288	2,597,288	10,982,050
2026	8,224,582	1,540,000	1,057,463	2,597,463	10,822,044
2027	8,162,096	1,615,000	984,313	2,599,313	10,761,408
2028	8,108,922	1,690,000	907,600	2,597,600	10,706,522
2029	7,189,109	1,770,000	827,325	2,597,325	9,786,434
2030	6,162,209	1,855,000	743,250	2,598,250	8,760,459
2031	5,401,176	1,945,000	655,138	2,600,138	8,001,313
2032	4,639,401	2,035,000	562,750	2,597,750	7,237,151
2033	4,246,934	2,140,000	461,000	2,601,000	6,847,934
2034	4,169,487	2,245,000	354,000	2,599,000	6,768,487
2035	4,094,040	2,360,000	241,750	2,601,750	6,695,790
2036	-	2,475,000	123,750	2,598,750	2,598,750
	<u>\$ 191,199,397</u>	<u>\$ 35,000,000</u>	<u>\$ 27,530,548</u>	<u>\$ 62,530,548</u>	<u>\$ 253,729,945</u>

Estimated Average Annual Debt Service Requirements (2011-2036): \$ 10,045,248 ^(a)
Estimated Maximum Annual Debt Service Requirements (2012): \$ 11,314,764 ^(a)

^(a) Preliminary, subject to change.

^(b) Interest calculated at market rates for illustration purposes only.

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 Bonds</u>	<u>Authorized But Unissued</u>
November 3, 2009	Proposition I - New School Facilities	\$ 73,775,000	\$ 49,720,000	\$ 18,000,000	\$ 6,055,000
	Proposition II - New School Facilities ^(a)	37,370,000	9,400,000	17,000,000	10,970,000
		<u>\$ 111,145,000</u>	<u>\$ 59,120,000</u>	<u>\$ 35,000,000</u>	<u>\$ 17,025,000</u>

^(a) Including athletic, agriculture, security and technology improvements, transportation facilities and school buses.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Estimated Tax Supported Debt Service Requirements, FYE August 31, 2011		\$ 9,007,066
Estimated Interest and Sinking Fund Balance, August 31, 2011	7,466,746	
Interest and Sinking Fund Tax Levy @ 95%	5,212,410	
EDA State Aid	716,710	
IFA State Aid	223,590	13,619,456
Estimated Balance, August 31, 2012		\$ 4,612,390

TABLE 10 - GENERAL FUND REVENUES AND EXPENDITURE HISTORY ^(a)

For Fiscal Year Ended August 31st	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
REVENUES					
Local and Intermediate Sources	\$ 25,294,839	\$26,545,057	\$25,994,078	\$28,747,429	\$ 27,910,267
State Program Revenues	35,037,320	35,222,624	35,661,151	27,862,624	22,339,890
Federal Program Revenues	125,208	98,454	89,580	158,847	175,845
Total Revenues	<u>\$ 60,457,367</u>	<u>\$61,866,135</u>	<u>\$61,744,809</u>	<u>\$56,768,900</u>	<u>\$ 50,426,002</u>
EXPENDITURES					
Instruction	\$ 37,129,218	\$37,914,822	\$36,247,935	\$31,639,193	\$ 28,697,296
Instructional Resources & Media Serv.	547,244	563,597	637,762	586,281	399,608
Curriculum and Staff Development	198,858	-	-	-	-
Instructional Leadership	984,944	1,175,562	1,108,119	1,113,144	1,341,161
School Leadership	3,753,761	3,561,749	3,538,168	2,882,754	2,555,234
Guidance, Counsel & Evaluation Serv.	1,547,024	1,462,246	1,469,982	1,247,152	1,209,356
Social Work Services	-	-	-	47,639	20,658
Health Services	662,742	657,007	614,912	529,532	475,884
Student (Pupil) Transportation	2,634,131	2,476,902	2,478,563	2,015,941	1,816,127
Cocurricular/Extracurricular Activities	1,059,528	1,127,582	1,169,038	916,094	926,394
General Administration	2,275,511	2,417,389	3,013,397	2,640,041	1,939,480
Plant Maintenance and Operations	5,420,104	5,904,983	10,030,406	6,652,846	5,232,328
Security and Monitoring Services	648,205	612,759	607,130	448,703	417,111
Data Processing Services	400,461	471,811	454,447	430,101	271,283
Principal on Long Term Debt	135,409	135,409	135,409	135,409	-
Payments to Fiscal Agent/Member Dist-SSA	2,551,713	2,816,027	-	-	-
Capital Outlay	214,018	107,309	793,485	417,069	409,221
Total Expenditures	<u>60,162,871</u>	<u>61,405,154</u>	<u>62,298,753</u>	<u>51,701,899</u>	<u>\$ 45,711,141</u>
Excess (Deficiency) Rev. Over Exp.	294,496	460,981	(553,944)	5,067,001	\$ 4,714,861
Other Resources	-	-	-	-	-
Other (Uses)	(215,285)	(249,150)	(101,390)	(2,002,490)	(376,379)
Excess (Deficiency) of Rev. and Other Resources Over Exp. and Other Uses	\$ 79,211	\$ 211,831	\$ (655,334)	\$ 3,064,511	\$ 4,338,482
Fund Balance - (Beginning)	\$ 23,797,923	\$23,586,092	\$24,241,425	\$21,176,914	\$ 16,838,432
Increase (Decrease) in Fund Balance					
Fund Balance - (Ending)	<u>23,877,134</u>	<u>23,797,923</u>	<u>23,586,091</u>	<u>24,241,425</u>	<u>\$ 21,176,914</u>

^(a) Source: District's audited financial reports. See "Appendix B -- EXCERPTS FROM THE DISTRICT'S AUDITED FINANCIAL REPORTS."

APPENDIX B

**EXCERPTS FROM THE DISTRICT'S
AUDITED FINANCIAL REPORT
For Year Ended
August 31, 2010**

CHANNELVIEW
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2010

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Channelview Independent School District
Annual Financial Report
For The Year Ended August 31, 2010

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Channelview Independent School District
Annual Financial Report
For The Year Ended August 31, 2010

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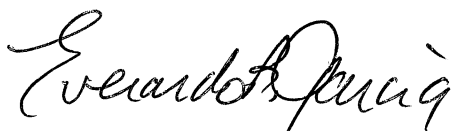
CERTIFICATE OF BOARD

Channelview Independent School District
Name of School District

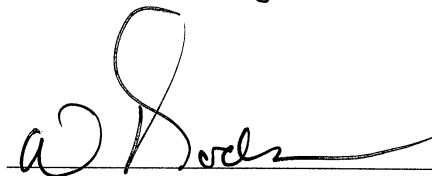
Harris
County

101-905
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) approved disapproved for the year ended August 31, 2010, at a meeting of the Board of Trustees of such school district on the 18 day of January, 2011.



Signature of Board Secretary



Signature of Board President

If the Board of Trustees disapproved of the auditors' report, the reason(s) for disapproving it is (are):
(attach list as necessary)

Financial Section

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Independent Auditors' Report on Financial Statements

To the Board of Trustees of the
Channelview Independent School District:

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 Channelview Independent School District as of and for the year ended August 31, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Channelview Independent School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Channelview Independent School District as of August 31, 2010, 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 10, 2011, on our consideration of Channelview Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

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

Providing Governmental & Nonprofit Audits Sealed with Excellence

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Channelview Independent School District's financial statements as a whole. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Respectfully submitted,

The logo features the names 'BELT HARRIS PECHACEK, LLP' in a decorative, calligraphic font. The letters are intertwined and stylized, with 'B', 'H', and 'P' being particularly large and ornate.

Belt Harris Pechacek LLLP
Certified Public Accountants
Bellville, Texas
January 10, 2011

Management's Discussion and Analysis (MD&A)

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

For the Year Ended August 31, 2010

This discussion and analysis of the Channelview Independent School District's financial performance provides an overview of the District's financial activities for the fiscal year ended August 31, 2010. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net assets for both governmental and business type activities at August 31, 2010 were \$47,411,610.
- For the fiscal year ended August 31, 2010, the District's total expenses were \$1,615,321 less than the \$80,924,038 generated from ad valorem tax collections, State foundation program entitlements and other grants and miscellaneous revenues.
- The General Fund reported a fund balance of \$23,877,134 at August 31, 2010, an increase of \$79,211 from the previous year.
- The District's long-term debt experienced a net increase of \$46,084,592, and the liability for compensated absences increased \$12,434 during this fiscal year.
- Over the three year period from 2006-2007 through 2009-2010, the District lowered its ad valorem tax rate from \$1.6584 to \$1.2507, a reduction of \$0.4077 or 32.60 percent.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of three parts – *Management's Discussion and Analysis* (this section), the *Basic Financial Statements*, and *Required Supplemental Information*. The basic financial statements include two kinds of statements that present different views of the District.

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

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The notes to the financial statements are followed by a section entitled *Required Supplementary Information* that further explains and supports the information in the financial statements.

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2010

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional non-financial factors such as changes in the District's tax base, staffing patterns, enrollment and attendance.

The government-wide financial statements of the District include the *Governmental activities*. Most of the District's basic services such as instruction, extracurricular activities, curriculum and staff development, health services, general administration and plant operation and maintenance are included in *Governmental activities*. Locally assessed property taxes, together with State Foundation Program entitlements, which are based upon student enrollment and attendance, finance most of the government activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's most significant *funds* – not the District as a whole. Funds are simply accounting devices that are used to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and other funds are mandated by bond agreements or bond covenants.
- The Board of Trustees establishes other funds to control and manage money set aside for particular purposes or to show that the District is properly using certain taxes and grants.
- Other funds are used to account for assets held by the District in a custodial capacity – these assets do not belong to the District but the District is responsible to properly account for them.

The District has the following kinds of funds:

- *Governmental Funds* – Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2010

- *Fiduciary funds* – the District serves as the trustee, or *fiduciary*, for certain funds such as student activity funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its governmental operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net assets were \$47,411,610 at August 31, 2010. *Table 1* focuses on the net assets while *Table 2* shows the revenues and expenses that changed the net asset balance during the fiscal year ended August 31, 2010.

Table 1
Net Assets

Description	Governmental Activities		Business Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current Assets	\$ 82,500,697	\$ 43,466,578	\$ -	\$ 2,754	\$ 82,500,697	\$ 43,469,332
Other Assets	1,349,856	833,104	-	-	1,349,856	833,104
Capital Assets	72,642,788	68,209,408	-	-	72,642,788	68,209,408
Total Assets	156,493,341	112,509,090	-	2,754	156,493,341	112,511,844
Current Liabilities	1,010,904	6,372,247	-	2,754	1,010,904	6,375,001
Long-Term Liabilities	108,070,827	60,340,554	-	-	108,070,827	60,340,554
Total Liabilities	109,081,731	66,712,801	-	2,754	109,081,731	66,715,555
Net Assets:						
Invested in Capital Assets	1,383,228	8,936,266	-	-	1,383,228	8,936,266
Restricted (1)	7,466,746	13,263,707	-	-	7,466,746	13,263,707
Unrestricted	38,561,636	23,596,316	-	-	38,561,636	23,596,316
Total Net Assets	\$ 47,411,610	\$ 45,796,289	\$ -	\$ -	\$ 47,411,610	\$ 45,796,289

Notes to Table 1

- (1) Restricted net assets includes \$7,466,746 which is restricted for the repayment of bonded indebtedness.

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2010

Table 2
Changes In Net Assets

Description	Governmental		Business-Type		Total	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
Program Revenues						
Charges for Service	\$ 72,037	\$ 978,652	\$ 214,618	\$ 185,422	\$ 286,655	\$ 1,164,074
Operating Grants and Contributions	15,484,196	15,249,656	12,495	12,733	15,496,691	15,262,389
General Revenues -					-	-
Property Taxes	30,404,389	30,463,377	-	-	30,404,389	30,463,377
State Foundation Program	33,015,965	32,706,140	-	-	33,015,965	32,706,140
Investment Earnings	165,943	418,115	-	-	165,943	418,115
Other Revenues	1,554,395	838,749	-	-	1,554,395	838,749
Total Revenues	<u>80,696,925</u>	<u>80,654,689</u>	<u>227,113</u>	<u>198,155</u>	<u>80,924,038</u>	<u>80,852,844</u>
Program Expenditures:						
Instruction	\$ 46,608,443	\$ 45,665,195	\$ -	\$ -	\$ 46,608,443	\$ 45,665,195
Instructional Resources and Media Services	499,896	529,906	-	-	499,896	529,906
Curriculum and Staff Development	199,633	7,430	-	-	199,633	7,430
Instructional Leadership	1,611,863	1,804,482	-	-	1,611,863	1,804,482
School Leadership	4,001,829	3,910,740	-	-	4,001,829	3,910,740
Guidance and Counseling	2,391,585	2,339,494	-	-	2,391,585	2,339,494
Social Work Services	2,593	3,572	-	-	2,593	3,572
Health Services	688,955	693,118	-	-	688,955	693,118
Student Transportation	2,767,092	2,426,350	-	-	2,767,092	2,426,350
Food Services	4,235,312	3,784,627	-	-	4,235,312	3,784,627
Extracurricular Activities	1,114,960	1,193,058	-	-	1,114,960	1,193,058
General Administration	2,743,324	3,189,729	-	-	2,743,324	3,189,729
Plant Operating and Maintenance	5,768,484	7,391,707	-	-	5,768,484	7,391,707
Security and Monitoring Services	992,582	633,394	-	-	992,582	633,394
Data Processing Services	461,239	503,160	-	-	461,239	503,160
Community Services	10,200	7,710	-	-	10,200	7,710
Interest & Fees on Debt	2,345,812	2,631,199	-	-	2,345,812	2,631,199
Capital Outlay	12,479	38,081	-	-	12,479	38,081
Payments Related to Shared Service Arrangements	2,551,713	2,816,027	-	-	2,551,713	2,816,027
Day Care		-	300,723	287,236	300,723	287,236
Total Expenses	<u>79,007,994</u>	<u>79,568,979</u>	<u>300,723</u>	<u>287,236</u>	<u>79,308,717</u>	<u>79,856,215</u>
Excess (Deficiency) Before Other Resources and Uses and Transfers	<u>1,688,931</u>	<u>1,085,710</u>	<u>(73,610)</u>	<u>(89,081)</u>	<u>1,615,321</u>	<u>996,629</u>
Transfers In (Out)	<u>(73,610)</u>	<u>-</u>	<u>73,610</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Assets	<u>\$ 1,615,321</u>	<u>\$ 1,085,710</u>	<u>\$ -</u>	<u>\$ (89,081)</u>	<u>\$ 1,615,321</u>	<u>\$ 996,629</u>

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2010

Governmental Activities

Revenues for the District increased by approximately \$42,056, or 0.05 percent, while expenses decreased by approximately \$969,561, or 1.22 percent.

Significant factors affecting the increase of \$1,615,321 in net assets included:

- State Foundation Program revenues increased by approximately \$309,825, or .95 percent, when compared to the 2009 fiscal year.
- General administration decreased approximately \$854,981, or 26.80 percent, when compared to the 2009 fiscal year.

Cost of District's Functions

The District records its expenses in various cost centers or "functions" in accordance with the requirements of the Texas Education Agency. *Table 4* presents the cost of each of the functions with some of the largest expense totals with that function's net costs (total cost less fees and grants that are directly attributable to that function). The net cost of each function reflects what was funded primarily from state foundation program and tax revenues.

Table 3
Total and Net Cost of Selected District Functions

Description	Total Cost of Services		Net Cost of Services		% Change
	2010	2009	2010	2009	
Instruction	\$ 46,608,433	\$ 45,665,195	\$ 39,758,543	\$ 38,453,928	(3.39%)
Plant Maintenance and Operation	5,768,484	7,391,707	5,754,360	6,019,842	4.41%
Student Transportation	2,767,092	2,426,350	2,767,242	2,304,671	(20.07%)
School Leadership	4,001,829	3,910,740	3,924,789	3,606,322	(8.83%)

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At the close of the fiscal year ending August 31, 2010, the District's combined governmental funds (as presented in the balance sheet, Exhibit C-1 on page 23 of this report) reported a combined fund balance of \$78,946,788. This represents an increase of \$43,140,229 compared to the combined fund balance of \$35,806,559 at August 31, 2009. The increase in fund balance was a result of two bond issuances for capital projects.

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2010

Budgetary Highlights

In accordance with State law and generally accepted accounting standards, the District prepares an annual budget for the General Fund, the Food Service Special Revenue Fund, and for the Debt Service Fund. The District budgets the Capital Projects Fund for each *project*, which normally cover multiple years. Special Revenue Funds have budgets approved by the funding agency and are amended throughout the year as required.

During the period ended August 31, 2010, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenses. There were no material changes between the original budget and the final amended budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Capital assets are generally defined as those items that have useful lives of two years or more and have an initial cost or valued (if donated) of an amount determined by the Board. The District follows the policy of capitalizing all purchases and gifts of capital type assets that have an initial purchase price or value of \$5,000 or more. District capital assets (except land) are depreciated on a straight-line basis over the anticipated life of the asset with annual depreciation expense charged to the functional categories based upon the relative use of the asset.

At August 31, 2010, the District had a total of \$137,917,164 invested in capital assets such as land, buildings, vehicles and equipment (*see Table 5*). This total includes \$8,216,268 invested during the fiscal year ended August 31, 2010, and a total of \$3,782,890, which was charged to the various expense functions as depreciation expense.

Table 5 shows the classifications of capital assets together with the District's accumulated cost and depreciation of those assets.

Table 5
Capital Assets and Depreciation

Asset Description	Governmental Activities		Total Percentage Change
	2010	2009	2010-2009
Land	\$ 5,190,532	\$ 5,190,532	0.00%
Construction in Progress	6,866,775	-	0.00%
Buildings and Improvements	116,458,255	116,458,255	0.00%
Equipment	9,401,602	8,052,109	16.76%
 Total Historical Cost	 137,917,164	 129,700,896	 6.33%
 Accumulated Depreciation	 65,274,376	 61,491,486	 6.15%
 Net Capital Assets	 \$ 72,642,788	 \$ 68,209,410	 6.50%

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2010

Long-Term Debt

At August 31, 2010, the District had nine general obligation bond issues and one QZAB limited maintenance tax note outstanding of which the unpaid principal totaled \$106,572,988. The District issued two general obligation bond series for a total of \$49,750,000 during the fiscal year and repaid a total of \$3,665,408 in principal on the outstanding debt.

As noted in the accompanying Notes to the Financial Statements, upon retirement and subject to certain limitations, the District has the policy of paying employees for unused local sick days at their current rate of pay at their date of retirement. Since there is no practical means of predicting when employees will retire, we cannot determine when this liability will be paid; therefore, the accumulated liability is carried in the accompanying financial statements as a long-term liability. At September 1, 2010, the accumulated liability for compensated absences was \$1,215,254. During the year, the District liability increased \$12,434.

Table 6 summarizes the District's outstanding debt at August 31, 2010. More detailed information regarding the District's debt obligation is presented in the Notes to the Financial Statements.

Table 6
Analysis of Debt

Description of Debt Outstanding	Governmental Activities		Total Amount Change	Total Percentage Change
	2010	2009	2010-2009	2010-2009
QZAB Notes Payable	\$ 1,542,734	\$ 1,678,142	\$ (135,408)	-8.07%
Bonds Payable	103,815,000	57,595,000	46,220,000	80.25%
Bond Premium	1,497,840	-	1,497,840	100.00%
Compensated Absences Payable	1,215,254	1,202,821	12,433	1.03%
 Total Debt Outstanding	 \$ 108,070,828	 \$ 60,475,963	 \$ 47,594,865	 78.70%

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2010

ECONOMIC FACTORS AND THE NEXT YEAR'S BUDGETS

Economic Factors

The following factors were considered in establishing the District's budget for 2010-2011:

- Student enrollment for 2010-2011 is projected to remain the same as 2009-2010.
- State Foundation Program entitlements are based on a combination of local values for property tax purposes, enrollment and attendance, as well as the educational characteristics of the student population. For 2010-2011, State Foundation Program entitlements are projected to increase slightly.
- No new programs were added and no significant changes to existing programs occurred during the current year and no significant changes are planned for 2010-2011.

We anticipate that the fund balance will remain the same as 2009-2010.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students and creditors with a general overview of the District's finances and to demonstrate the District's commitment to accountability for the money it receives. If you have questions about this report or need additional financial information, contact Greg Ollis, Superintendent, at (281) 452-8070.

Basic Financial Statements

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS

AUGUST 31, 2010

Data Control Codes	1 Governmental Activities	2 Business-type Activities	3 Total	
ASSETS:				
1110	Cash and Cash Equivalents	\$ 80,134,234	\$ --	\$ 80,134,234
1220	Property Taxes Receivable	3,595,603	--	3,595,603
1230	Allowance for Uncollectible Taxes	(1,229,140)	--	(1,229,140)
1240	Due from Other Governments	94,057	--	94,057
1300	Inventories	150,063	--	150,063
1410	Deferred Expenses	2,681	--	2,681
1420	Capitalized Bond and Other Debt Issuance Costs	1,103,055	--	1,103,055
Capital Assets:				
1510	Land	5,190,531	--	5,190,531
1520	Buildings and Improvements, Net	56,779,799	--	56,779,799
1530	Furniture and Equipment, Net	3,805,683	--	3,805,683
1580	Construction in Progress	6,866,775	--	6,866,775
1000	Total Assets	<u>156,493,341</u>	<u>--</u>	<u>156,493,341</u>
LIABILITIES:				
2140	Interest Payable	220,546	--	220,546
2165	Accrued Liabilities	788,435	--	788,435
2300	Unearned Revenue	1,923	--	1,923
Noncurrent Liabilities:				
2501	Due Within One Year	3,800,408	--	3,800,408
2502	Due in More Than One Year	104,270,419	--	104,270,419
2000	Total Liabilities	<u>109,081,731</u>	<u>--</u>	<u>109,081,731</u>
NET ASSETS				
3200	Invested in Capital Assets, Net of Related Debt	1,383,228	--	1,383,228
Restricted For:				
3850	Debt Service	7,466,746	--	7,466,746
3900	Unrestricted	38,561,636	--	39,776,890
3000	Total Net Assets	<u>\$ 47,411,610</u>	<u>\$ --</u>	<u>\$ 47,411,610</u>

The accompanying notes are an integral part of this statement.

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2010

Data Control Codes	Functions/Programs	1	3	4	6	7	8
		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
11	Instruction	\$ 46,608,443	\$ --	\$ 6,849,900	\$ (39,758,543)	\$ --	\$ (39,758,543)
12	Instructional Resources and Media Services	499,896	--	985	(498,911)	--	(498,911)
13	Curriculum and Staff Development	199,633	--	1,456	(198,177)	--	(198,177)
21	Instructional Leadership	1,611,863	--	552,851	(1,059,012)	--	(1,059,012)
23	School Leadership	4,001,829	--	77,040	(3,924,789)	--	(3,924,789)
31	Guidance, Counseling, & Evaluation Services	2,391,585	--	654,493	(1,737,092)	--	(1,737,092)
32	Social Work Services	2,593	--	--	(2,593)	--	(2,593)
33	Health Services	688,955	--	1,399	(687,556)	--	(687,556)
34	Student Transportation	2,767,092	--	4,850	(2,762,242)	--	(2,762,242)
35	Food Service	4,235,312	25,211	4,100,486	(109,615)	--	(109,615)
36	Cocurricular/Extracurricular Activities	1,114,960	46,826	2,236	(1,065,898)	--	(1,065,898)
41	General Administration	2,743,324	--	4,656	(2,738,668)	--	(2,738,668)
51	Plant Maintenance and Operations	5,768,484	--	14,124	(5,754,360)	--	(5,754,360)
52	Security and Monitoring Services	992,582	--	1,368	(991,214)	--	(991,214)
53	Data Processing Services	461,239	--	2,640,864	2,179,625	--	2,179,625
61	Community Services	10,200	--	--	(10,200)	--	(10,200)
72	Interest on Long-term Debt	2,345,812	--	572,103	(1,773,709)	--	(1,773,709)
73	Bond Issuance Costs and Fees	12,479	--	--	(12,479)	--	(12,479)
93	Payments Related to Shared Services Arrangements	2,551,713	--	5,385	(2,546,328)	--	(2,546,328)
TG	Total Governmental Activities	<u>79,007,994</u>	<u>72,037</u>	<u>15,484,196</u>	<u>(63,451,761)</u>	<u>--</u>	<u>(63,451,761)</u>
Business-type Activities:							
01	Day Care Enterprise	300,723	214,618	12,495	--	\$ (73,610)	(73,610)
TP	Total Primary Government	<u>\$ 79,308,717</u>	<u>\$ 286,655</u>	<u>\$ 15,496,691</u>	<u>(63,451,761)</u>	<u>(73,610)</u>	<u>(63,525,371)</u>
General Revenues:							
MT	Property Taxes, Levied for General Purposes				25,054,545	--	25,054,545
DT	Property Taxes, Levied for Debt Service				5,349,844	--	5,349,844
IE	Investment Earnings				165,943	--	165,943
GC	Grants and Contributions Not Restricted to Specific Progra				33,015,965	--	33,015,965
MI	Miscellaneous				1,554,395	--	1,554,395
FR	Transfers				(73,610)	73,610	--
TR	Total General Revenues				<u>65,067,082</u>	<u>73,610</u>	<u>65,140,692</u>
CN	Change in Net Assets				1,615,321	--	1,615,321
NB	Net Assets - Beginning				45,796,289	--	45,796,289
NE	Net Assets - Ending				<u>\$ 47,411,610</u>	<u>\$ --</u>	<u>\$ 47,411,610</u>

The accompanying notes are an integral part of this statement.

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2010

Data Control Codes	10 General Fund	50 Debt Service Fund
ASSETS:		
1110 Cash and Cash Equivalents	\$ 33,998,624	\$ 258,372
1220 Property Taxes Receivable	3,056,647	538,956
1230 Allowance for Uncollectible Taxes	(1,082,345)	(146,795)
1240 Due from Other Governments	89,507	--
1260 Due from Other Funds	1,365,269	6,739,970
1300 Inventories	33,442	--
1410 Deferred Expenditures	--	--
1000 Total Assets	<u>\$ 37,461,144</u>	<u>\$ 7,390,503</u>
LIABILITIES:		
Current Liabilities:		
2150 Payroll Deductions & Withholdings	\$ 10,488	\$ --
2160 Accrued Wages Payable	701,022	--
2170 Due to Other Funds	10,898,197	--
2300 Unearned Revenue	1,974,303	392,160
2000 Total Liabilities	<u>13,584,010</u>	<u>392,160</u>
FUND BALANCES:		
Reserved Fund Balances:		
3410 Investments in Inventory	31,690	--
3420 Debt Service	--	6,998,343
3450 Reserve for Food Service	--	--
3490 Other Reserves of Fund Balance	--	--
Designated Fund Balance:		
3510 Construction	--	--
3600 Unreserved	23,845,444	--
Unreserved, Reported in Nonmajor:		
3610 Special Revenue Funds	--	--
3620 Capital Projects Funds	--	--
3000 Total Fund Balances	<u>23,877,134</u>	<u>6,998,343</u>
4000 Total Liabilities and Fund Balances	<u>\$ 37,461,144</u>	<u>\$ 7,390,503</u>

EXHIBIT C-1

60 Capital Projects 2010	Other Governmental Funds	98 Total Governmental Funds
\$ 34,304,400	\$ 9,579,365	\$ 78,140,761
--	--	3,595,603
--	4,550	(1,229,140)
--	4,843,456	94,057
--	116,621	12,948,695
--	416	150,063
<u>\$ 34,304,400</u>	<u>\$ 14,544,408</u>	<u>\$ 93,700,455</u>
\$ --	\$ 652	\$ 11,140
--	73,729	774,751
--	701,193	11,599,390
--	1,923	2,368,386
<u>--</u>	<u>777,497</u>	<u>14,753,667</u>
--	116,621	148,311
--	--	6,998,343
--	4,511,638	4,511,638
34,304,400	9,444,734	43,749,134
--	861,308	861,308
--	--	23,845,444
--	(458,906)	(458,906)
--	(708,484)	(708,484)
<u>34,304,400</u>	<u>13,766,911</u>	<u>78,946,788</u>
<u>\$ 34,304,400</u>	<u>\$ 14,544,408</u>	<u>\$ 93,700,455</u>

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT
*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 AUGUST 31, 2010*

Total fund balances - governmental funds balance sheet	\$ 77,448,948
Amounts reported for governmental activities in the Statement of Net Assets ("SNA") are different because:	
Capital assets used in governmental activities are not reported in the funds.	72,642,789
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	2,366,463
The assets and liabilities of internal service funds are included in governmental activities in the SNA.	643,890
Payables for bond principal which are not due in the current period are not reported in the funds.	(103,815,000)
Payables for bond interest which are not due in the current period are not reported in the funds.	(220,546)
Payables for notes which are not due in the current period are not reported in the funds.	(1,542,733)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(1,215,255)
Other long-term assets are not available to pay for current period expenditures and are deferred in the funds.	1,103,055
Rounding difference	<u>(1)</u>
Net assets of governmental activities - Statement of Net Assets	<u>\$ 47,411,610</u>

The accompanying notes are an integral part of this statement.

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2010

Data Control Codes	10 General Fund	50 Debt Service Fund
REVENUES:		
5700 <i>Local and Intermediate Sources</i>	\$ 25,294,839	\$ 4,971,737
5800 <i>State Program Revenues</i>	35,037,320	572,103
5900 <i>Federal Program Revenues</i>	125,208	--
5020 Total Revenues	<u>60,457,367</u>	<u>5,543,840</u>
EXPENDITURES:		
Current:		
0011 <i>Instruction</i>	37,129,218	--
0012 <i>Instructional Resources and Media Services</i>	547,244	--
0013 <i>Curriculum and Staff Development</i>	198,858	--
0021 <i>Instructional Leadership</i>	984,944	--
0023 <i>School Leadership</i>	3,753,761	--
0031 <i>Guidance, Counseling, & Evaluation Services</i>	1,547,024	--
0033 <i>Health Services</i>	662,742	--
0034 <i>Student Transportation</i>	2,634,131	--
0035 <i>Food Service</i>	--	--
0036 <i>Cocurricular/Extracurricular Activities</i>	1,059,528	--
0041 <i>General Administration</i>	2,275,511	--
0051 <i>Plant Maintenance and Operations</i>	5,420,104	--
0052 <i>Security and Monitoring Services</i>	648,205	--
0053 <i>Data Processing Services</i>	400,461	--
0061 <i>Community Services</i>	--	--
0071 <i>Principal on Long-term Debt</i>	135,409	3,530,000
0072 <i>Interest on Long-term Debt</i>	--	3,171,554
0073 <i>Bond Issuance Costs and Fees</i>	--	12,478
0081 <i>Capital Outlay</i>	214,018	--
0093 <i>Payments to Shared Service Arrangements</i>	2,551,713	--
6030 Total Expenditures	<u>60,162,871</u>	<u>6,714,032</u>
1100 Excess (Deficiency) of Revenues Over (Under)		
1100 Expenditures	<u>294,496</u>	<u>(1,170,192)</u>
Other Financing Sources and (Uses):		
7911 <i>Capital-Related Debt Issued (Regular Bonds)</i>	--	--
7915 <i>Transfers In</i>	--	701,789
7916 <i>Premium or Discount on Issuance of Bonds</i>	--	--
8911 <i>Transfers Out</i>	(215,285)	--
7080 Total Other Financing Sources and (Uses)	<u>(215,285)</u>	<u>701,789</u>
1200 Net Change in Fund Balances	79,211	(468,403)
0100 Fund Balances - Beginning	23,797,923	7,466,746
3000 Fund Balances - Ending	<u>\$ 23,877,134</u>	<u>\$ 6,998,343</u>

The accompanying notes are an integral part of this statement.

EXHIBIT C-2

60 Capital Projects 2010	Other Governmental Funds	98 Total Governmental Funds
\$ 51,297	\$ 907,217	\$ 31,225,090
--	965,561	36,574,984
--	11,797,284	11,922,492
<u>51,297</u>	<u>13,670,062</u>	<u>79,722,566</u>
--	7,245,689	44,374,907
--	3,443	550,687
--	1,037	199,895
--	550,584	1,535,528
--	90,788	3,844,549
--	770,818	2,317,842
--	--	662,742
--	--	2,634,131
--	4,234,900	4,234,900
--	--	1,059,528
--	--	2,275,511
--	--	5,420,104
--	--	648,205
--	--	400,461
--	10,200	10,200
--	--	3,665,409
--	--	3,171,554
431,173	135,671	579,322
5,746,897	1,537,582	7,498,497
--	--	2,551,713
<u>6,178,070</u>	<u>14,580,712</u>	<u>87,635,685</u>
<u>(6,126,773)</u>	<u>(910,650)</u>	<u>(7,913,119)</u>
40,955,000	8,795,000	49,750,000
--	--	701,789
--	1,497,840	1,497,840
(523,827)	(157,169)	(896,281)
<u>40,431,173</u>	<u>10,135,671</u>	<u>51,053,348</u>
34,304,400	9,225,021	43,140,229
--	4,541,890	35,806,559
<u>\$ 34,304,400</u>	<u>\$ 13,766,911</u>	<u>\$ 78,946,788</u>

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT
*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED AUGUST 31, 2010*

Net change in fund balances - total governmental funds	\$ 41,642,389
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	8,216,268
The depreciation of capital assets used in governmental activities is not reported in the funds.	(3,782,890)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	953,566
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	3,530,000
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	135,409
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	1,103,055
(Increase) decrease in accrued interest from beginning of period to end of period.	(116,591)
The net revenue (expense) of internal service funds is reported with governmental activities.	(303,449)
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	(12,434)
Proceeds of bonds do not provide revenue in the SOA, but are reported as current resources in the funds.	(49,750,000)
Rounding difference	<u>(3)</u>
Change in net assets of governmental activities - Statement of Activities	<u>\$ 1,615,321</u>

The accompanying notes are an integral part of this statement.

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

AUGUST 31, 2010

Data Control Codes	Nonmajor Enterprise Fund <hr/> Day Care Fund <hr/>	Internal Service Funds <hr/>
ASSETS:		
Current Assets:		
1110 <i>Cash and Cash Equivalents</i>	\$ --	\$ 1,993,474
1410 <i>Deferred Expenditures</i>	--	2,265
Total Current Assets	<hr/> --	<hr/> 1,995,739
1000 Total Assets	<hr/> \$ --	<hr/> \$ 1,995,739
LIABILITIES:		
Current Liabilities:		
2150 <i>Payroll Deduction & Withholdings</i>	\$ --	\$ 757
2160 <i>Accrued Wages Payable</i>	--	1,787
2170 <i>Due to Other Funds</i>	--	1,349,304
Total Current Liabilities	<hr/> --	<hr/> 1,351,848
2000 Total Liabilities	<hr/> --	<hr/> 1,351,848
NET ASSETS:		
3900 <i>Unrestricted Net Assets</i>	--	642,451
3000 Total Net Assets	<hr/> \$ --	<hr/> \$ 643,891

The accompanying notes are an integral part of this statement.

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
 IN FUND NET ASSETS - PROPRIETARY FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2010

Data Control Codes	Nonmajor Enterprise Fund	Internal Service Funds
	Day Care Fund	
OPERATING REVENUES:		
5700 <i>Local and Intermediate Sources</i>	\$ 214,618	\$ 120,986
5800 <i>State Program Revenues</i>	12,495	4,698
5020 <i>Total Revenues</i>	<u>227,113</u>	<u>125,684</u>
OPERATING EXPENSES:		
6100 <i>Payroll Costs</i>	274,234	73,886
6200 <i>Professional and Contracted Services</i>	--	159,400
6300 <i>Supplies and Materials</i>	26,489	38,267
6400 <i>Other Operating Costs</i>	--	299,256
6030 <i>Total Expenses</i>	<u>300,723</u>	<u>570,809</u>
Income (Loss) before Contributions and Transfers	(73,610)	(445,125)
7915 <i>Transfers In</i>	73,610	141,676
1300 <i>Change in Net Assets</i>	<u>--</u>	<u>(303,449)</u>
0100 <i>Total Net Assets - Beginning</i>	--	947,340
3300 <i>Total Net Assets - Ending</i>	<u>\$ --</u>	<u>\$ 643,891</u>

The accompanying notes are an integral part of this statement.

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CHANNELVIEW INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED AUGUST 31, 2010

	Internal Service Funds
Cash Flows from Operating Activities:	
<i>Cash Received from Customers</i>	\$ 120,986
<i>Cash Received from Grants</i>	1,354,269
<i>Cash Payments to Employees for Services</i>	(75,216)
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(1,517,687)
Net Cash Provided (Used) by Operating Activities	<u>(117,648)</u>
Cash Flows from Non-capital Financing Activities:	
<i>Transfers From (To) Other Funds</i>	141,676
Net Cash Provided (Used) by Non-capital Financing Activities	<u>141,676</u>
Net Increase (Decrease) in Cash and Cash Equivalents	24,028
Cash and Cash Equivalents at Beginning of Year	<u>1,969,446</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,993,474</u>
Reconciliation of Operating (Loss) to Net Cash (Used) by Operating Activities:	
Operating Income (Loss)	\$ (445,125)
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Interfund Receivables</i>	1,349,571
<i>Increase (Decrease) in Payroll Deductions</i>	(42)
<i>Increase (Decrease) in Accrued Wages Payable</i>	(1,288)
<i>Increase (Decrease) in Interfund Payables</i>	(1,020,764)
Total Adjustments	<u>327,477</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (117,648)</u>

The accompanying notes are an integral part of this statement.

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

AUGUST 31, 2010

Data Control Codes	Private-purpose Trust Fund	Agency Fund
<u>ASSETS:</u>	<u>Private-Purpose Trust Fund</u>	<u>Student Activity</u>
1110 <i>Cash and Cash Equivalents</i>	\$ 147,207	\$ 165,378
1000 Total Assets	<u>\$ 147,207</u>	<u>\$ 165,378</u>
 LIABILITIES:		
Current Liabilities:		
2190 <i>Due to Student Groups</i>	\$ --	\$ 165,378
2000 Total Liabilities	<u>--</u>	<u>165,378</u>
 NET ASSETS		
3800 <i>Held in Trust</i>	147,207	--
3000 Total Net Assets	<u>\$ 147,207</u>	<u>--</u>

The accompanying notes are an integral part of this statement.

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2010

	Private- Purpose Trusts
Additions:	
Net (Decrease) in Fair Value of Investments	\$ 22,128
Employer Contributions	--
Plan Member Contributions	--
Total Additions	<u>22,128</u>
Deductions:	
Scholarship Awards	--
Benefits	--
Refunds of Contributions	--
Administrative Expenses	--
Total Deductions	<u>--</u>
Change in Net Assets	22,128
Net Assets-Beginning of the Year	125,079
Net Assets-End of the Year	<u>\$ 147,207</u>

The accompanying notes are an integral part of this statement.

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2010

A. Summary of Significant Accounting Policies

The basic financial statements of Channelview Independent School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide ("Resource Guide"). The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The Board of School Trustees ("Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental "reporting entity" as defined by the GASB in its Statement No. 14, "The Financial Reporting Entity," as revised by GASB Statement No.39, and there are no component units included within the reporting entity.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Financial Statements: The statement of net assets and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District reports the following major governmental funds:

General Fund: This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2010

Debt Service Fund: This fund is used to account for revenues received subject to restrictions for payment of principal, interest, and other costs related to the repayment of general obligation bonds approved by the voters of the District. This is a budgeted fund and separate bank and investment accounts are maintained for this fund. Any unused debt service funds that remain after all obligations relative to voter approved bonded indebtedness have been satisfied are transferred to the General Fund and may be used for any lawful purpose.

In addition, the District reports the following fund types:

Special Revenue Funds: These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Capital Project Funds: These funds are used to account for the proceeds of long-term debt financing and other sources restricted to the acquisition or construction and equipping of land, buildings, and related equipment. This fund is budgeted on a project basis, not on a fiscal year basis. Depending upon the contractual terms of the debt issue or grant, funds remaining after the completion of the project(s) are transferred to the Debt Service Fund or held for future projects similar in nature to the original project(s).

Enterprise Fund: These funds are proprietary funds which are accounted for on the accrual basis and are not required to be budgeted or reported to the State of Texas through PEIMS. Generally accepted accounting principles of the private sector are applicable, as financial position, results of operation and cash flows are to be determined. The District uses this fund to account for its Day Care Fund, which provides day care services to employees and students.

Internal Service Funds: These funds are used to account for revenues and expenses related to services provided to parties inside the District. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the District's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements. The District uses these funds to account for the District's Print Shop and the Worker Compensation Insurance Fund.

Private-Purpose Trust Funds: These funds are used to report trust arrangements under which principal and income benefit individuals, private organizations, or other governments not reported in other fiduciary fund types. The District utilizes this fund type to account for Scholarship funds.

Agency Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments. Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and, therefore, are not available to support District programs, these funds are not included in the government-wide statements.

b. Measurement Focus, Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2010

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The District has chosen not to apply future FASB standards.

3. Financial Statement Amounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. 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.

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2010

c. Inventories and Prepaid Items

Inventories of supplies on the balance sheet are stated at weighted average cost, while inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Inventory items are recorded as expenditures when they are consumed. Supplies are used for almost all functions of activity, while food commodities are used only in the food service program. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount. Inventories also include plant maintenance and operation supplies as well as instructional supplies. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30 years
Buildings	50 years
Building Improvements	20 years
Vehicles	2-15 years
Office Equipment	3-15 years
Computer Equipment	3-15 years

e. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

f. 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. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line on the government-wide statement of net assets.

g. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT

*NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2010*

h. Data Control Codes

Data Control Codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to insure accuracy in building a statewide database for policy development and funding plans.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
Not applicable	Not applicable

2. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
Capital Projects 2003 fund	\$587,112	The District will increase fund balance by decreasing overall spending.

C. Deposits and Investments

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

1. Cash Deposits:

At August 31, 2010, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$2,149,272 and the bank balance was \$2,078,680. The District's cash deposits at August 31, 2010 and during the year ended August 31, 2010, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

The District is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2010

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies. The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

The District's investments at August 31, 2010 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Texpool	N/A	\$ 56,707,331
Lone Star Investment Pool	N/A	20,874,142
MBIA Investment Pool	N/A	716,074
Total Investments		<u>\$ 78,297,547</u>

3. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

At August 31, 2010, the District's investments, other than those which are obligations of or guaranteed by the U. S. Government, are rated as to credit quality as follows:

<u>Investment or Investment Type</u>	<u>Administrator</u>	<u>Rating</u>
Texpool	Federal Investors Inc.	AAAm
Lone Star Investment Pool	First Public LLC	AAAm
MBIA Investment Pool	Texas Class	AAAm

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2010

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

Investment Accounting Policy

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

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2010

D. Capital Assets

Capital asset activity for the year ended August 31, 2010, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 5,190,532	\$ --	\$ --	\$ 5,190,532
Construction in progress	--	6,866,775	--	6,866,775
Total capital assets not being depreciated	<u>5,190,532</u>	<u>6,866,775</u>	<u>--</u>	<u>12,057,307</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	116,458,255	--	--	116,458,255
Vehicles and Equipment	8,052,109	1,349,493	--	9,401,602
Total capital assets being depreciated	<u>124,510,364</u>	<u>1,349,493</u>	<u>--</u>	<u>125,859,857</u>
Less accumulated depreciation for:				
Buildings and improvements	(56,797,865)	(2,880,591)	--	(59,678,456)
Vehicles and Equipment	(4,693,621)	(902,299)	--	(5,595,920)
Total accumulated depreciation	<u>(61,491,486)</u>	<u>(3,782,890)</u>	<u>--</u>	<u>(65,274,376)</u>
Total capital assets being depreciated, net	63,018,878	(2,433,396)	--	60,585,482
Governmental activities capital assets, net	<u>\$ 68,209,410</u>	<u>\$ 4,433,378</u>	<u>\$ --</u>	<u>\$ 72,642,788</u>

Depreciation was charged to functions as follows:

Instruction	\$ 1,795,022
Instructional Resources and Media Services	33,402
Instructional Leadership	77,488
School Leadership	157,280
Guidance, Counseling, & Evaluation Services	73,743
Social Work Services	2,593
Health Services	26,213
Student Transportation	469,020
Food Services	210,318
Extracurricular Activities	55,657
General Administration	128,619
Plant Maintenance and Operations	348,380
Security and Monitoring Services	344,377
Data Processing Services	60,778
	<u>\$ 3,782,890</u>

E. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2010, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
Enterprise Fund	General Fund	\$ 2,179	Net pooled accounts
General Fund	Debt Service Fund	6,739,970	Net pooled accounts
General Fund	Capital Projects Fund	1,376,057	Net pooled accounts
General Fund	Internal Service Fund	1,349,304	Net pooled accounts
Special Revenue Fund	General Fund	2,136,862	Net pooled accounts
	Total	<u>\$ 11,604,372</u>	

All amounts due are scheduled to be repaid within one year.

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2010

2. Transfers To and From Other Funds

Transfers to and from other funds at August 31, 2010, consisted of the following:

Transfers From	Transfers To	Amount	Reason
General fund	Enterprise Fund	\$ 73,610	Cover deficit from operations
General fund	Internal Service Fund	141,675	Cover deficit from operations
	Total	<u>\$ 215,285</u>	

F. Short-Term Debt Activity

Short term debt is debt that has a maturity date after one year. The District had no short term debt issued or outstanding at any time during the year ended August 31, 2010.

G. Long-Term Obligations

The District has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

1. Long-Term Obligation Activity

The District had nine general obligation bond issues outstanding during the year. In addition to the outstanding general obligation bond issues, the District had one Qualified Zone Academy Limited Maintenance Tax Note issue outstanding and an ongoing long term obligation for accumulated, unpaid compensated absences. Changes in long term obligations for the year ended August 31, 2010, are as follows:

	Original Issue	Beginning Balance	Increases/Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>					
Bonds, notes, and other payables:					
Series 2003 - 3.625%	\$ 5,948,096	\$ 2,920,000	\$ (745,000)	\$ 2,175,000	\$ 735,000
Series 2003B - 3.250%	14,599,997	11,200,000	(400,000)	10,800,000	425,000
Series 2004A - 4.000%	18,700,000	10,925,000	(1,785,000)	9,140,000	1,900,000
Series 2004B - 5.250%	10,000,000	10,000,000	--	10,000,000	--
Series 2005B - 4.000%	9,800,000	8,925,000	(250,000)	8,675,000	250,000
Series 2006 - 4.000%	9,800,000	9,160,000	(240,000)	8,920,000	250,000
Series 2007 - 5.000%	4,700,000	4,465,000	(110,000)	4,355,000	105,000
Series 2010A - 5.000%	8,795,000	--	8,795,000	8,795,000	--
Series 2010B - 4.509%	40,955,000	--	40,955,000	40,955,000	--
Series 2005 QZAB Notes - 0.00%	2,500,000	1,678,142	(135,408)	1,542,734	135,409
Series 2010A Bond Premium	--	--	1,497,840	1,497,840	--
Compensated absences *	--	1,202,820	12,434	1,215,254	--
Total governmental activities	<u>\$ 125,798,093</u>	<u>\$ 60,475,962</u>	<u>\$ 47,594,866</u>	<u>\$ 108,070,828</u>	<u>\$ 3,800,409</u>

* Other long-term liabilities - compensated absences - will be paid from the General Fund as qualified employee retire.

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2010

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2010, are as follows:

<u>Year Ending August 31,</u>	<u>Note Principal</u>	<u>Bond Principal</u>	<u>Bond Interest</u>	<u>Total</u>
2011	\$ 135,409	\$ 3,665,000	\$ 5,072,548	\$ 8,872,957
2012	135,409	3,820,000	4,921,070	8,876,479
2013	135,409	3,980,000	4,762,161	8,877,570
2014	135,409	4,150,000	4,589,717	8,875,126
2015	135,409	2,985,000	4,406,680	7,527,089
2016-2020	677,045	17,140,000	19,827,153	37,644,198
2021-2025	188,644	21,630,000	15,504,276	37,322,920
2026-2030		27,230,000	9,730,568	36,960,568
2031-2035		19,215,000	3,336,038	22,551,038
Totals	\$ <u>1,542,734</u>	\$ <u>103,815,000</u>	\$ <u>72,150,211</u>	\$ <u>177,507,945</u>

3. Capital Leases

The District had no commitments under capitalized lease agreements for facilities and equipment as of August 31, 2010

H. Commitments Under Noncapitalized Leases

During the year ended August 31, 2010, the District expended a total of \$530,413 for operating (non-capitalized) leases and, in accordance with standard non-appropriation clauses in the various lease agreements. The District has no future obligation in relation to these leases.

I. Risk Management

The District is exposed to various risks of loss related to torts; theft, damage or destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2010, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

J. Pension Plan

1. Plan Description

The District contributes to the Teacher Retirement System of Texas (the "System"), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the District, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates primarily under the provisions of the Texas Constitution and Texas Government Code, Title 8, Subtitle C. The Texas legislature has the authority to establish or amend benefit provisions. The System issues a publicly available financial report that includes financial statements and required supplementary information for the District. That report may be obtained by writing the Teacher Retirement System of Texas, 1000 Red River Street, Austin, TX 78701-2698 or by calling (800) 223-8778.

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2010

2. Funding Policy

Under provisions in State law, plan members are required to contribute 6.4% of their annual covered salary and the State of Texas contributes an amount equal to 6.644% of the District's covered payroll. The District's employees' contributions to the System for the years ending August 31, 2010, 2009 and 2008 were \$3,079,394, \$2,962,410 and \$2,794,983, respectively, and were equal to the required contributions for each year. Other contributions made from federal and private grants and from the District for salaries above the statutory minimum for the years ending August 31, 2010, 2009 and 2008 were \$877,739, \$880,640 and \$770,518, respectively, and were equal to the required contributions for each year. The amount contributed by the State on behalf of the District was \$2,767,394 for the year ended August 31, 2010.

K. Retiree Health Care Plan

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

2. Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2010, 2009 and 2008. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended August 31, 2010, 2009, and 2008, the State's contributions to TRS-Care were \$34,104, \$30,760, and \$25,557, respectively, the active member contributions were \$312,751, \$300,870, and \$283,865, respectively, and the District's contributions were \$264,636, \$254,582, and \$240,194, respectively, which equaled the required contributions each year.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2010, 2009, and 2008, the subsidy payments received by TRS-Care on behalf of the District were \$119,848, \$103,571, and \$98,289, respectively.

L. Employee Health Care Coverage

During the year ended August 31, 2010, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$225 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a third party administrator, acting on behalf of the licensed insurer. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT
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FOR THE YEAR ENDED AUGUST 31, 2010

The contract between the District and the third party administrator is renewable September 1, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the TRS Active Care - Blue Cross Blue Shield are available for the year ended 2010, have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

M. Worker Compensation Insurance

During the year ended August 31, 2009, the District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Worker Compensation Program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members and their injured employees.

Channelview Independent School District participates in the Fund's reimbursable aggregate deductible program. As such, the member is responsible for a certain amount of claims liability as outlined in the member's Contribution and Coverage Summary document. After the member's deductible has been met, the Fund is responsible for additional claims.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of \$1.5 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. For the year-ended August 31, 2010, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions and reimbursable aggregate deductibles.

The Fund engages the services of independent auditors to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2009, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

N. Unemployment Compensation Insurance

During the year ended August 31, 2010, the district provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute interlocal agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligations to the Texas Workforce Commission. Expenses are accrued each month until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop loss coverage for Unemployment Compensation pool members.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. This audit is reviewed and approved by the Fund's Board of Trustees in February of the following year. The fund's audited financial statements as of August 31, 2009, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

September 14, 2011

WE HAVE ACTED as Bond Counsel for the Channelview Independent School District (the “District”) in connection with an issue of bonds (the “Bonds”) described as follows:

CHANNELVIEW INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2011, dated September 1, 2011, in the aggregate principal amount of \$52,025,000.

The Bonds mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the order (the “Order”) adopted by the Board of Trustees of the District authorizing their issuance.

WE HAVE ACTED as Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income under federal income tax law. In such capacity we have examined the Constitution and laws of the State of Texas; federal income tax law; and a transcript of certain certified proceedings pertaining to the issuance of the Bonds, as described in the Order. The transcript contains certified copies of certain proceedings of the District; certain certifications and representations and other material facts within the knowledge and control of the District, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds. We have also examined executed Bond No. I-1 of this issue.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the District’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

BASED ON SUCH EXAMINATION, it is our opinion as follows:

- (1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; the Bonds constitute valid and legally binding obligations of the District enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to

bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with law; and

- (2) The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, without legal limit as to rate or amount, upon taxable property located within the District, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds.

BASED ON OUR EXAMINATION AS DESCRIBED ABOVE, it is further our opinion that, subject to the restrictions hereinafter described, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes under existing law and is not subject to the alternative minimum tax on individuals or, except as hereinafter described, corporations. The opinion set forth in the first sentence of this paragraph is subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted in the Bond Order to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. The Code and the existing regulations, rulings and court decisions thereunder, upon which the foregoing opinions of Bond Counsel are based, are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof for federal income tax purposes.

INTEREST ON all tax-exempt obligations, including the Bonds, owned by a corporation (other than an S corporation, a regulated investment company, a real estate investment trust (REIT), a real estate mortgage investment conduit (REMIC) or a financial asset securitization investment trust (FASIT)) will be included in such corporation's adjusted current earnings for purposes of calculating such corporation's alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by the Code is computed.

EXCEPT AS DESCRIBED HEREIN, we express no opinions as to any other matters except with respect to the excludability of the interest on the Bonds from gross income from the owners thereof for federal income tax purposes.

IN PROVIDING THE FOREGOING OPINIONS, we have relied upon representations of the District with respect to matters solely within the knowledge of the District, which we have not independently verified, and have assumed the accuracy and completeness thereof.

September 14, 2011

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IN ADDITION, EXCEPT AS DESCRIBED ABOVE, we express no opinion as to any federal, state or local tax consequences under present law, or future legislation, resulting from the ownership of, receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to, among others, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualified for the earned income credit. For the foregoing reasons, prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

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

COASTAL SECURITIES, INC.

Financial Advisor to the District