

OFFICIAL STATEMENT DATED OCTOBER 31, 2011

Rating: Moody's Investors Service: "Aaa"
See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" AND
"OTHER INFORMATION – RATING" 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 MATTERS - Tax Exemption" herein, and is not includable in the alternative minimum taxable income of individuals. See "TAX MATTERS - Tax Exemption" for a discussion of the opinion of Bond Counsel, including the alternative minimum tax on corporations.

\$9,194,998.35
ORANGEFIELD INDEPENDENT SCHOOL DISTRICT
(Orange County, Texas)
UNLIMITED TAX REFUNDING BONDS
SERIES 2011

(The Bonds have been designated as Qualified Tax-Exempt Obligations for Financial Institutions)

Dated Date: November 1, 2011

Due: As shown on the inside cover page hereof

The Orangefield Independent School District Unlimited Tax Refunding Bonds, Series 2011 (the "Bonds") are issued in part as current interest bonds ("CIBs") and in part as premium capital appreciation bonds ("CABs"). The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 1207, Texas Government Code, as amended, and an order adopted by the Board of Trustees of the Orangefield Independent School District (the "District") authorizing the issuance of the Bonds (the "Bond Order"). In the Bond Order, the Board of Trustees delegated the authority to certain District officials to execute an approval certificate establishing the pricing terms for the Bonds (the "Pricing Certificate"). The Bonds are direct obligations of the District, payable from a continuing direct annual ad valorem tax levied, without legal limit as to rate or amount, on all taxable property located within the District, as provided in the Bond Order. (See "THE BONDS – Authority for Issuance").

Interest on the CIBs will accrue from the Dated Date and will be payable on February 15 and August 15 of each year until maturity or prior redemption, commencing February 15, 2012, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Interest on the CABs will accrete from the date they are initially delivered to the Underwriter, compounded semiannually on February 15 and August 15 of each year until maturity, commencing February 15, 2012, will be payable only upon maturity and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The CIBs will be issued in principal denominations of \$5,000 or any integral multiple thereof. The CABs will be issued in denominations of \$5,000 of the total amount of principal, plus the initial premium, if any, and accrued interest payable upon maturity (the "Maturity Amount"), or any integral multiple thereof. Principal of the CIBs and the Maturity Amount of the CABs will be payable by the Paying Agent/Registrar, initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar"), upon presentation and surrender of the Bonds for payment. (See "THE BONDS—Description").

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 of principal or Maturity Amount, as applicable, or integral multiples thereof. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal, premium, if any, and interest on the CIBs and the Maturity Amount on the CABs 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 DTC for subsequent payment to the beneficial owners of the Bonds. (See "THE BONDS – Book-Entry-Only System").

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

Proceeds from the sale of the Bonds will be used to (1) advance refund certain of the District's outstanding bonds, as indicated in APPENDIX A – Table 11, attached hereto (the "Refunded Bonds") and (2) pay costs of issuing the Bonds. (See "THE BONDS—Sources and Uses of Funds").

The CIBs maturing on and after February 15, 2021, are subject to optional redemption in whole or in part on February 15, 2020, or any date thereafter, at a price equal to the par value thereof, plus accrued interest from the most recent interest payment date to the date of redemption. (See "THE BONDS—Optional Redemption"). The CABs are not subject to redemption prior to stated maturity. The CIBs maturing February 15 in the years 2032 and 2034 (the "Term Bonds") are additionally subject to mandatory sinking fund redemption prior to maturity. (See "THE BONDS-Mandatory Redemption").

SEE MATURITY SCHEDULE ON THE INSIDE COVER PAGE

The Bonds are offered for delivery when, as and if issued and received by the underwriters listed below (the "Underwriters") and will be subject to the approving opinion of the Attorney General of Texas and the opinion of Andrews Kurth, LLP, Houston, Texas (see "APPENDIX C – FORM OF BOND COUNSEL'S OPINION"). Certain legal matters will be passed upon for the Underwriter by its counsel, Fulbright & Jaworski, L.L.P., Houston, Texas.

It is expected that the Bonds will be available for delivery through the facilities of DTC on or about November 29, 2011.

FirstSouthwest

RBC Capital Markets

Southwest Securities

MATURITY SCHEDULE

**ORANGEFIELD INDEPENDENT SCHOOL DISTRICT
(Orange County, Texas)**

\$9,194,998.35 UNLIMITED TAX REFUNDING BONDS, SERIES 2011

\$6,550,000 Current Interest Serial Bonds

Initial					Initial				
<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Reoffering Yield^(b)</u>	<u>CUSIP No.^(c)</u>	<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Reoffering Yield^(b)</u>	<u>CUSIP No.^(c)</u>
2/15/2012	\$ 180,000	2.000%	0.400%	685440GX1	2/15/2022 ^(a)	\$ 425,000	3.500%	2.250%	685440GL7
2/15/2013	55,000	2.000%	0.600%	685440GY9	2/15/2023 ^(a)	440,000	3.500%	2.400%	685440GM5
****	****	****	****	****	2/15/2024 ^(a)	460,000	3.500%	2.550%	685440GN3
2/15/2016	155,000	2.000%	1.340%	685440GE3	2/15/2025 ^(a)	475,000	3.500%	2.700%	685440GP8
2/15/2017	160,000	2.000%	1.530%	685440GF0	2/15/2026 ^(a)	495,000	3.500%	2.850%	685440GQ6
2/15/2018	370,000	3.000%	1.750%	685440GG8	2/15/2027 ^(a)	510,000	3.500%	2.950%	685440GR4
2/15/2019	380,000	3.000%	1.920%	685440GH6	2/15/2028 ^(a)	530,000	3.500%	3.050%	685440GS2
2/15/2020	390,000	3.500%	2.050%	685440GJ2	2/15/2029 ^(a)	545,000	3.500%	3.150%	685440GT0
2/15/2021 ^(a)	410,000	3.500%	2.150%	685440GK9	2/15/2030 ^(a)	570,000	3.500%	3.250%	685440GU7

(Interest to accrue from the Dated Date)

\$2,505,000 Current Interest Term Bonds

\$1,205,000 4.000% Term Bonds Due February 15, 2032^(a) to Yield 3.450%^(b) CUSIP^(c) 685440GV5
\$1,300,000 4.000% Term Bonds Due February 15, 2034^(a) to Yield 3.550%^(b) CUSIP^(c) 685440GW3

(Interest to accrue from the Dated Date)

\$139,998.35 Capital Appreciation Bonds

<u>Maturity</u>	<u>Principal</u>	<u>Yield to Maturity^(b)</u>	<u>Maturity Value</u>	<u>Price per \$5,000 in Maturity Value</u>	<u>CUSIPS No.^(c)</u>
2/15/2014 ^(d)	\$ 61,012.05	1.000%	\$ 165,000	\$ 1,848.85	685440GZ6
2/15/2015 ^(d)	78,986.30	1.400%	335,000	1,178.90	685440HA0

(Interest to accrete from the Date of Delivery)

^(a) The CIBs maturing on and after February 15, 2021, are subject to optional redemption in whole or in part on February 15, 2020, or any date thereafter, at a price equal to the par value thereof, plus accrued interest from the most recent interest payment date to the date of redemption. (See "THE BONDS—Optional Redemption"). The CIBs maturing February 15 in the years 2032 and 2034 (the "Term Bonds") are additionally subject to mandatory sinking fund redemption prior to maturity. (See "THE BONDS-Mandatory Redemption").

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

^(c) CUSIP numbers have been assigned to this issue by the CUSIP Global Services managed by Standard and Poor's Financial Services LLC on behalf of the American Bankers Association and are included solely for the convenience of the purchasers of the Bonds. None of the District, the Financial Advisor, or the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

^(d) The CABs are not subject to redemption prior to maturity.

DISTRICT OFFICIALS, STAFF AND CONSULTANTS

Board of Trustees

<u>Trustee</u>	<u>Office</u>	<u>Years of Service</u>	<u>Term Expires May</u>	<u>Occupation</u>
Susan Gunstream	President	10	2012	Programmer
Nancy Ashworth	Vice President	11	2012	Property Manager
Wanda Woods	Secretary	5	2014	Retired
Jack Smith	Treasurer	3	2014	Medical Sales Manager
Donovan Weldon	Member	8	2014	Business Owner
Donna Gail Ford	Member	18	2012	Retired
Thad Angelle	Member	10	2012	CEO Credit Union

Administrators

<u>Name</u>	<u>Title</u>	<u>Years of Service In Position</u>
Philip Welch	Superintendent	4
Chrissy Hickman	Business Manager	4

Consultants and Advisors

Certified Public Accountant	West, Davis & Company, LLP Austin, Texas
Bond Counsel	Andrews Kurth LLP Houston, Texas
Financial Advisor	Coastal Securities, Inc. Houston, Texas

USE OF INFORMATION IN OFFICIAL STATEMENT

This Official Statement, which includes the cover page, inside cover page, Schedule I, 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 Underwriters. 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. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

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.

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

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

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

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

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

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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** Orangefield Independent School District (the “District”) operates as an independent school district under the laws of the State of Texas. It is located in Orange County, Texas. (See “THE DISTRICT”).
- The CIBs**..... The District’s Unlimited Tax Refunding Bonds, Series 2011 (the “Bonds”) are issued in part as current interest bonds (the “CIBs”). The CIBs are being issued in the principal amounts and mature on the dates set forth on the inside cover page hereof. Interest on the CIBs will accrue from November 1, 2011 at the rates per annum set forth on the inside cover hereof, which interest is payable each February 15 and August 15, commencing February 15, 2012, until maturity or earlier redemption. (See “THE BONDS—Description”).
- The CABs** The Bonds are also issued in part as premium capital appreciation bonds (the “CABs”). The CABs are being issued in Maturity Amounts (hereafter defined) and mature on the dates set forth on the inside cover page hereof. Interest on the CABs accretes from the date of delivery and will be compounded February 15 and August 15 of each year, commencing February 15, 2012, and will be payable only at maturity. (See “THE BONDS – Description”).
- Authority for Issuance** The Bonds are being issued pursuant to an order passed by the Board of Trustees of the District (the “Bond Order”), and the Constitution and general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended. In the Bond Order, the Board of Trustees delegated the authority to certain District officials to execute a pricing certificate (the “Pricing Certificate”) establishing the pricing terms for the Bonds.
- Security for Bonds**..... Principal of and interest on the Bonds will be payable from the receipts of a continuing, direct, annual 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 Texas Permanent School Fund. (See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).
- Mandatory Redemption**... The CIBs maturing February 15 in the years 2032 and 2034 (the “Term Bonds”) are subject to mandatory sinking fund redemption prior to maturity. (See “THE BONDS-Mandatory Redemption”).
- Optional Redemption**..... The District reserves the right, at its option, to redeem the CIBs having stated maturities on and after February 15, 2021, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2020, or any date thereafter, at the par value thereof plus accrued interest from the most recent interest payment date to the date of redemption. (See “THE BONDS – Optional Redemption”). The CABs are not subject to redemption prior to stated maturity.
- Use of Proceeds** Proceeds from the sale of the Bonds will be used to (1) advance refund certain of the District’s outstanding bonds, as indicated in APPENDIX A – Table 11, attached hereto (the “Refunded Bonds”), and (2) pay 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 MATTERS - Tax Exemption” herein, and is not includable in the alternative minimum taxable income of individuals. See “TAX MATTERS - Tax Exemption” for a discussion of the opinion of Bond Counsel, including the alternative minimum tax on corporations.
- Qualified Tax-Exempt Obligations** The District has designated the Bonds as Qualified Tax-Exempt Obligations. See “QUALIFIED TAX-EXEMPT OBLIGATIONS” herein.
- Ratings**..... Moody’s Investors Service (“Moody’s”) has assigned its municipal bond ratings of “Aaa” to the Bonds by virtue of the guarantee of the Permanent School Fund of the State of Texas of the Bonds. (See “OTHER INFORMATION - Rating”, and “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).
- Book-Entry-Only System**..... The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of Depository Trust Company (“DTC”), pursuant to the Book-Entry-Only System described herein. The Bonds will be issued in principal or Maturity Amount denominations of \$5,000, as applicable, or any integral multiple thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the CIBs and the Maturity Amount of the CABs 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 Assessed Valuation	Tax Year
2007	7,132	\$ 277,546,062	\$ 38,916	\$ 11,145,000	4.02%	4.02%	2006
2008	7,158	313,304,122	43,770	10,940,000	3.49%	3.49%	2007
2009	7,107	321,110,673	45,182	10,720,000	3.34%	3.34%	2008
2010	7,186	355,266,068	49,439	10,490,000	2.95%	2.95%	2009
2011	7,186	360,950,197	50,230	10,250,000	2.84%	2.84%	2010
2012	7,186	380,048,108	52,887	9,989,998 ^(c)	2.63% ^(c)	2.63% ^(c)	2011

^(a) Population estimates obtained from Texas Municipal Reports.

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

^(c) Includes the Bonds and excludes the Refunded Bonds.

General Fund Consolidated Statement Summary

	2010	2009	2008	2007	2006
Beginning Balance	\$ 2,514,486	\$ 3,542,675	\$ 5,733,432	\$ 5,694,641	\$ 2,193,130
Adjustment to Fund Balance	-	-	-	-	-
Total Revenue	11,786,611	11,371,753	10,967,528	10,683,410	10,113,390
Total Expenditures	11,810,722	12,453,562	13,171,022	11,011,612	11,020,800
Net Other Resources (Uses)	(175,029)	53,620	12,737	366,993	4,408,921
Ending Balance	\$ 2,315,346	\$ 2,514,486	\$ 3,542,675	\$ 5,733,432	\$ 5,694,641

Source: The District's audited financial statements.

For additional information regarding the District, please contact:

Philip Welch
 Superintendent
 9974 FM 105
 Orangefield, TX 77630
 Phone: 409-735-5337
 Fax: 409-735-2080

Chrissy Hickman
 Director of Finance
 9974 FM 105
 Orangefield, TX 77630
 Phone: 409-735-4873
 Fax: 409-735-2080

Lewis Wilks
 Coastal Securities, Inc.
 5555 San Felipe, Suite 2200
 Houston TX, 77056
 Phone: 713-435-4336
 Fax: 713-435-4448

ORANGEFIELD INDEPENDENT SCHOOL DISTRICT
(Orange County, Texas)

\$9,194,998.35
UNLIMITED TAX REFUNDING BONDS
SERIES 2011

INTRODUCTION

This Official Statement, including Schedule I and the Appendices hereto, provides certain information regarding the issuance of the Orangefield Independent School District Unlimited Tax Refunding 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 “Bond Order”) adopted by the Board of Trustees (the “Board of Trustees”) of the Orangefield Independent School District (the “District”) authorizing the issuance of the Bonds. As permitted by the provisions of Chapter 1207, Texas Government Code, as amended, the Board, in the Bond Order, delegated the authority to certain District officials to execute an approval certificate establishing the pricing terms for the Bonds. The terms of the sale of the Bonds will be included in a “Pricing Certificate” which will complete the sale of the Bonds (the Bond Order and the Pricing Certificate are collectively referred to as the “Order”).

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

This Official Statement speaks only as of its date, and the information contained herein is subject to change. A copy of the Official Statement will be submitted to the Municipal Securities Rulemaking Board and will be available through its Electronic Municipal Market Access system. See “CONTINUING DISCLOSURE OF INFORMATION” for information regarding the Electronic Municipal Market Access system and for a description of the District’s undertaking to provide certain information on a continuing basis.

THE BONDS

Description

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by the Order, which may be obtained upon request to the District.

The Bonds are being issued in part as current interest bonds (the “CIBs”) and in part as premium capital appreciation bonds (the “CABs”). The Bonds are dated November 1, 2011 (the “Dated Date”), and mature on February 15 in each of the years and in the amounts shown on the inside cover page hereof. Interest on the CIBs will accrue from the Dated Date and will be payable each February 15 and August 15, commencing February 15, 2012, until maturity or earlier redemption. Interest on the CIBs will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The CABs will mature on August 15 in each of the years and in the amounts shown on the inside cover page hereof. Interest on the CABs will accrete from the date they are initially delivered to the Underwriter, compounded semi-annually on February 15 and August 15, commencing February 15, 2012, and will be payable only upon maturity. The amount of principal, plus the initial premium, if any, and accrued interest paid at maturity with respect to the CABs is hereinafter referred to as the “Maturity Amount.”

The term “Accreted Value” as used in this Official Statement and in the Order means the original principal amount of a CAB plus the initial premium, if any, paid therefor with interest thereon compounded semiannually to February 15 or August 15, as the case may be, next preceding the date of such calculation (or the date of calculation, if such calculation is made on February 15 or August 15), at the respective yields stated on the inside cover page of this Official Statement and, with respect to each \$5,000 Maturity Amount, as set forth in the Accreted Value tables attached hereto as Schedule I. Such Accreted Value table is provided for informational purposes only and may not reflect prices for the CABs in the secondary market.

The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 of principal amount or Maturity Amount for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and accrued interest on the CIBs and the Maturity Amount of the CABs will be payable by the Paying Agent/Registrar, initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the “Paying Agent/Registrar”), to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “THE BONDS - Book-Entry-Only System” herein.

Yield on CABs

The yields of the CABs as set forth on the inside cover page of this Official Statement are the approximate yields based upon the initial offering prices therefor set forth on the inside cover page of this Official Statement. Such offering price includes the principal amount of such CABs plus premium equal to the amount by which such offering price exceeds the principal amount of such CABs. Because of such premium, the approximate offering yield on the CABs is lower than the bond interest rates thereon. The yield on the CABs to a particular purchaser may differ depending upon the price paid by the purchaser. For various reasons, securities that do not pay interest periodically, such as the CABs, have traditionally experienced greater price fluctuations in the secondary market than securities that pay interest on a periodic basis.

Authority for Issuance

The Bonds are issued pursuant to the Order and by the authority conferred by the Constitution and general laws of the State of Texas, including particularly, Chapter 1207, Texas Government Code, as amended.

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.

Permanent School Fund Guarantee

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

Mandatory Redemption

The CIBs maturing on February 15 in the years 2032 and 2034 (the "Term Bonds") are subject to mandatory sinking fund redemption prior to maturity in part at random, by lot or other customary method selected by the Paying Agent/Registrar, at par plus accrued interest to the redemption date, in amounts sufficient to redeem the Term Bonds on February 15 in the years and principal amounts shown on the following schedule:

	<u>Maturity</u>	<u>Principal Amount</u>
2032 Term Bonds	2/15/2031	\$ 590,000
	2/15/2032	615,000 (Maturity)
2034 Term Bonds	2/15/2033	\$ 635,000
	2/15/2034	665,000 (Maturity)

Optional Redemption

The District reserves the right, at its option, to redeem CIBs having stated maturities on and after February 15, 2021, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2020, or any date thereafter, at the par value thereof plus accrued interest from the most recent interest payment date to the date of redemption. If a CIB (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such CIB (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date. The CABs are not subject to redemption prior to maturity.

Notice of Redemption

NOT LESS THAN 30 DAYS PRIOR TO A REDEMPTION DATE FOR THE CIBS, THE PAYING AGENT/REGISTRAR SHALL CAUSE A NOTICE OF REDEMPTION TO BE SENT BY UNITED STATES MAIL, FIRST CLASS, POSTAGE PREPAID, TO THE REGISTERED OWNERS OF THE CIBS TO BE REDEEMED, IN WHOLE OR IN PART, AT THE ADDRESS OF THE REGISTERED OWNER APPEARING ON THE REGISTRATION BOOKS OF THE PAYING AGENT/REGISTRAR. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE CIBS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, NOTWITHSTANDING THAT ANY CIB OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH CIB OR PORTION THEREOF SHALL CEASE TO ACCRUE.

The Paying Agent/Registrar and the District, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Order or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the CIBs called for redemption or any other action premised on any such notice. Redemption of portions of the CIBs by the District will reduce the outstanding principal amount of such CIBs held by DTC.

In such an event, DTC may implement, through its Book-Entry-Only System, a redemption of such CIBs held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such CIBs from the beneficial owners.

Any such selection of CIBs to be redeemed will not be governed by the Order and will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the CIBs for redemption (see "THE BONDS – Book-Entry-Only System").

Defeasance

The Bonds may be defeased in any manner now or hereafter permitted by law.

Book-Entry-Only System

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

The District cannot and does not give any assurance that (1) DTC will distribute 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 each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is a holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+." The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com 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 CIBs within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

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

Redemption proceeds, principal, and interest payments on the CIBs and the Maturity Amount on the CABs will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, and interest payments on the CIBs and the Maturity Amount on the CABs 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 disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but none of the District, the Financial Advisor or the Underwriter takes 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 at its designated 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 for 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 designated payment office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 of principal or Maturity Amount, as applicable, for any one maturity and for a like aggregate principal amount or Maturity Amount as the Bond or Bonds surrendered for exchange or transfer. See "THE BONDS - Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Record Date for Interest Payment

The record date for the interest payable on the CIBs on any interest payment date means the close of business on the last business day of the month next preceding such interest payment date. 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 CIB 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

If the District defaults in the payment of principal, interest or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions or obligations set forth in the Order, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the covenants contained in the Bonds or in the Order and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W. 3rd 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants in the absence of District action. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and may be limited by general principles of equity which permit the exercise of judicial discretion.

Amendments

In the Order, the District has reserved the right to amend the Order without the consent of or notice to any Owners in any manner not detrimental to the interest of the Owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein.

Refunded Bonds

Certain proceeds from the sale of the Bonds will be used to advance refund certain of the District's outstanding bonds as indicated in Appendix A – Table 11 attached hereto (the "Refunded Bonds"). The Refunded Bonds and the interest due thereon are to be paid on their scheduled interest payment and maturity dates or dates of redemption from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., (the "Escrow Agent"), pursuant to an Escrow Agreement (the "Escrow Agreement") between the District and the Escrow Agent.

The Order provides that from the proceeds of the sale of the Bonds to the Underwriter, the District will deposit with the Escrow Agent an amount, together with other available funds which, when added to the investment earnings thereon, will be sufficient to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase direct obligations of the United States of America or agency securities backed by the full faith and credit of the United States of America (the "Federal Securities").

Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds.

In the Order, the District will give irrevocable instructions to provide the required notice to the owners of the Refunded Bonds that the Refunded Bonds will be redeemed on the redemption date described herein, on which date money will be made available to redeem the Refunded Bonds from money held under the Escrow Agreement.

Grant Thornton LLP, Minneapolis, MN, Certified Public Accountants, will verify from the information provided to them the mathematical accuracy as of the date of the closing of the Bonds of the computations contained in the provided schedules to determine that the anticipated receipts from the Federal Securities in the schedules provided by Coastal Securities, Inc. will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. Such maturing principal of and interest on the Federal Securities will not be available to pay the debt service on the Bonds.

By the deposit of the Federal Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the final payment and discharge of the Refunded bonds pursuant to Chapter 1207, Texas Government Code, as amended, and the order which authorized the issuance of the Refunded Bonds. As a result of such deposit, firm banking and financial arrangements will have been made for the discharge and final payment of the Refunded Bonds, and such Refunded Bonds will be deemed to be fully paid and no longer outstanding except for the purpose of being paid from funds provided therefor in the Escrow Agreement. Upon defeasance of the Refunded Bonds, the payment of such Refunded Bonds will no longer be guaranteed by the Permanent School Fund Guarantee Program of Texas.

Sources and Uses of Funds

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

Sources of Funds

Par Amount of the CIBs	\$9,055,000.00
Par Amount of the CABs	139,998.35
Accrued Interest on the CIBs	24,690.56
Net Premium	798,221.80
Total	<u>\$10,017,910.71</u>

Uses of Funds

Deposit to Escrow Fund	\$9,833,550.94
Costs of Issuance	92,500.00
Underwriters' Discount	67,014.85
Deposit to Debt Service Fund (Accrued Interest & Additional Proceeds)	24,844.92
Total	<u>\$10,017,910.71</u>

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 Program

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

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

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

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

For a discussion of legislative developments that have authorized the use of the Fund to guarantee revenue bonds issued by certain open-enrollment charter schools, see "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</u> <u>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 October 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 ("M&O") tax rate had become in effect a state property tax, in violation of Article VIII, Section 1-e of the Texas Constitution, because it precluded them and other school districts from having meaningful discretion to tax at a lower rate. Forty school districts intervened alleging that the Texas public school finance system (the "Finance System") was inefficient, inadequate, and unsuitable, in violation of Article VII, Section 1 of the Texas Constitution, because the State of Texas (the "State") did not provide adequate funding. As described below, this case has twice reached the Texas Supreme Court (the "Supreme Court"), which rendered decisions in the case on May 29, 2003 ("West Orange-Cove I") and November 22, 2005 ("West Orange-Cove II"). After the remand by the Supreme Court back to the District Court in West Orange-Cove I, 285 other school districts were added as plaintiffs or intervenors. The plaintiffs joined the intervenors in their Article VII, Section 1 claims that the Finance System was inadequate and unsuitable, but not in their claims that the Finance System was inefficient.

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

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

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

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

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

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

Current Litigation Related to the Texas Public School Finance System

On October 10, 2011, a suit was filed in the 200th District Court of Travis County, Texas styled "*The Texas Taxpayer & Student Fairness Coalition, et al. vs. Robert Scott, Commissioner of Education et al.*" This suit was filed by seven school districts, along with several other interested parties against the Texas Commissioner of Education, the Texas Comptroller of Public Accounts and the Texas State Board of Education. The suit alleges that the Finance System, as modified by legislation enacted by the Legislature since the Supreme Court's decision in *West Orange Cove II*, and in particular, as modified by Senate Bill 1 in 2011 (see "*CURRENT PUBLIC SCHOOL FINANCE SYSTEM - 2011 Legislation*"), has resulted in a funding system, built around the "target revenue" system implemented by the Reform Legislation (see "*CURRENT PUBLIC SCHOOL FINANCE SYSTEM - 2006 Legislation*"), that has resulted in "huge differences in yields for similar tax effort that gave property-wealthy districts unconstitutionally greater access to educational dollars." The plaintiffs assert that the Finance System as modified by Senate Bill 1, which made cuts in State funding of over \$4 billion for the 2012-13 State biennium, is constitutionally inadequate with respect to funding operating costs and debt service subsidies and with respect to the use of local taxing power for support of unlimited tax bonds. As a result, the plaintiffs allege that the current Finance System violates principles established in *West Orange Cove I* and *West Orange Cove II*, and prior decisions of the Supreme Court relating to the constitutionality of the Finance System. The plaintiffs also assert that the Finance System violates several provisions of the Texas Constitution, including provisions that require the establishment of an "efficient" public educational system. Plaintiffs also contend and seek a declaratory judgment to the effect that current law fails to make suitable provision for the support and maintenance of the Finance System, that the Finance System imposes a tax that is unequal and not uniform, that the Finance System has created a State ad valorem tax in violation of the Texas Constitution and that the Finance System violates the equal protection clause of the Texas Constitution. The plaintiffs have also asked the trial court to issue

an injunction to the State and its officials from distributing any funds under the current Finance System until an equitable system is created. The defendants in this suit have yet to respond to the initial petition and request for declaratory judgment, and the statutory time limit for making such a response has not yet tolled.

The District can make no representations or predictions concerning (i) the effect that this litigation may have on the District's financial condition, revenues or operations or (ii) whether additional litigation challenging the Finance System will be filed. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS – Possible Effects of Litigation and Changes in Law on District Bonds."

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

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview

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

Funding for school districts in the State is provided primarily from State and local sources. State funding for all school districts is provided through a set of funding formulas comprising the "Foundation School Program," as well as two facilities financing programs. Generally, the Finance System is designed to promote wealth equalization among school districts by balancing State and local sources of funds available to school districts. In particular, because districts with relatively high levels of property wealth per student can raise more local funding, such districts receive less State aid, and in some cases, are required to disburse local funds to equalize their overall funding relative to other school districts. Conversely, because districts with relatively low levels of property wealth per student have limited access to local funding, the Finance System is designed to provide more State funding to such districts. Thus, as a school district's property wealth per student increases, State funding to the school district is reduced. As a school district's property wealth per student declines, the Finance System is designed to increase its State funding. A similar equalization system exists for facilities funding wherein districts with the same tax rate for debt service raise the same amount of combined State and local funding. Facilities funding for debt incurred in prior

years is expected to continue in future years; however, State funding for new school facilities was not appropriated by the 82nd Texas Legislature for the 2012–13 fiscal biennium.

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

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

Local Funding for School Districts

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

State Funding for School Districts

State funding for school districts is provided through the Foundation School Program, which provides each school district with a minimum level of funding (a "Basic Allotment") for each student in average daily attendance ("ADA"). The Basic Allotment is calculated for each school district using various weights and adjustments. This basic level of funding is referred to as "Tier One" of the Foundation School Program. The basic level of funding is then "enriched" with additional funds known as "Tier Two" of the Foundation School Program. Tier Two provides a guaranteed level of funding for each cent of local tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates above \$1.00 per \$100 of taxable value). The Finance System also provides an Existing Debt Allotment ("EDA") to subsidize debt service on eligible outstanding school district bonds and an Instructional Facilities Allotment ("IFA") to subsidize debt service on newly issued bonds. IFA primarily addresses the debt service needs of property-poor school districts. A New Instructional Facilities Allotment ("NIFA") also is available to help pay operational expenses associated with the opening of a new instructional facility. Future-year IFA and NIFA awards, however, were not funded by the Legislature for the 2012–13 fiscal biennium, although funding awards for IFA made in prior years will continue to be funded (but not the second year for NIFA for the 2012–13 fiscal biennium for districts that first became eligible for NIFA in the 2010–11 fiscal year).

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

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

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

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

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

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

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

2006 Legislation

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

2009 Legislation

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

2011 Legislation

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

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

Wealth Transfer Provisions

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

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

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

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

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE ORANGEFIELD INDEPENDENT SCHOOL DISTRICT

The District's wealth per student for the 2011-12 school year is less than the equalized wealth value. Accordingly, the District has not been required to exercise one of the permitted wealth equalization options. As a district with wealth per student less than the equalized wealth value, the District may benefit in the future by agreeing to accept taxable property or funding assistance from or agreeing to consolidate with a property-rich district to enable such district to reduce its wealth per student to the permitted level.

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

As described above under "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - 2011 Legislation" during the 82nd legislative sessions in 2011, the Texas Legislature adopted SB 1, which failed to fully fund the Finance System for the 2012-13 State biennium. As a result of the funding action in the 2011 Legislature, and as compared to State funding for fiscal year 2011, the District expects to have its State funding reduced by approximately 9% during the 2011-12 fiscal year and 3% during the 2012-13 fiscal year (such reductions are net of additional local ad valorem tax revenues generated in each year). The estimated reduction in State funding for fiscal years 2011-12 and 2012-13 will be offset by reductions in expenditures in 10 (ten) categories including, but not limited to, an approximate \$8,000,000 savings as a result of the elimination of various positions (administration, teachers and other staff) through attrition. Other reductions include various line item cuts in general operating expenditures for all budget accounts

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 Orange 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 Texas law, all real and certain tangible personal property with a tax situs in the District is subject to taxation by the District. Principal categories of exempt property (including certain exemptions which are subject to local option by the Board of Trustees) include property owned by the State of Texas 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; so-called "freepoint property" including property detained in the District for up to 175 days for purpose of assembly or other processing; 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. 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 spouse or children of a deceased veteran who died while on active duty in the armed forces; \$15,000 in market value for all residential homesteads, (see "Residential Homestead Exemption" below); and certain classes of intangible property. In addition State law mandates a complete exemption for the residential homestead of disabled veterans determined to be 100% disabled by the U.S. Department of Veterans Affairs. A constitutional amendment was approved by the voters on November 6, 2007, that authorizes the Legislature to enact legislation to reduce the frozen amount of taxes for taxpayers 65 years of age or older and the disabled, so that the frozen tax amount will be proportionate to the reduction in local ad valorem taxes under the Reform Legislation. Legislation to implement the constitutional amendment has been passed by the 80th Legislature and signed by the

Governor. Owners of agricultural and open space land, under certain circumstances, may request valuation of such land on the basis of productive capacity rather than market value.

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 on certain eligible property to encourage economic development in their tax base and provides additional State funding for each year of such tax abatement in the amount of the tax credit provided to the taxpayer by the district.

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.

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

The "effective maintenance and operations tax rate" for a school district is the tax rate that, applied to the current tax values, would provide local maintenance and operating funds, when added to State funds to be distributed to the district pursuant to Chapter 42 of the Texas Education Code for the school year beginning in the current tax year, in the same amount as would have been available to the district in the preceding year if the funding elements of wealth equalization and State funding for the current year had been in effect for the preceding year.

Section 26.05 of the Property Tax Code provides that the governing body of a taxing unit is required to adopt the annual tax rate for the unit before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit for the tax year to be the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. Before adopting its annual tax rate, a public meeting must be held for the purpose of adopting a budget for the succeeding year. A notice of public meeting to discuss budget and proposed tax rate must be published in the time, format and manner prescribed in Section 44.004 of the Texas Education Code. Section 44.004(e) of the Texas Education Code provides that a person who owns taxable property in a school district is entitled to an injunction restraining the collection of taxes by the district if the district has not complied with such notice requirements or the language and format requirements of such notice as set forth in Section 44.004(b), (c) and (d) and if such failure to comply was not in good faith. Section 44.004(e) further provides the action to enjoin the collection of taxes must be filed before the date the district delivers substantially all of its tax bills. A district may adopt its budget after adopting a tax rate for the tax year in which the fiscal year covered by the budget begins if the district elects to adopt its tax rate before receiving the certified appraisal roll. A district that adopts a tax rate before adopting its budget must hold a public hearing on the proposed tax rate followed by another public hearing on the proposed budget rather than holding a single hearing on the two items.

Tax Freeze

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" herein). The school property tax limitation provided by the constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years.

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 Trustees of the District based upon the valuation of property within the District as of the preceding January 1. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty from six percent (6%) to twelve percent (12%) of the amount of the tax, depending on the time of payment, and accrued interest at the rate of one percent (1%) per month. If the tax is not paid by the following July 1, an additional penalty of up to twenty percent (20%) may under certain circumstances be imposed by the District. The Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

District's Rights in the Event of Tax Delinquencies

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

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

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

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

Penalties and Interest

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

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

After July, the cumulative penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, a 20% attorney's collection fee may be added to the total tax, penalty and interest charge.

District Application of Tax Code

The District has not granted an additional exemption to the market value of the residence homestead of persons 65 years of age or older or disabled veterans over the state-mandated exemption. The District has granted an additional exemption of 20% to the market value of residence homesteads.

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

Tax Rate Limitations

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next succeeding paragraph. The maximum voted M&O tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on July 27, 1957, pursuant to Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended ("Article 2784e-1"). Article 2784e-1 limits the District's annual M&O tax rate based upon a comparison between the District's outstanding bonded indebtedness and the District's taxable assessed value per \$100 of assessed valuation. Article 2784e-1 provides for a reduction of \$0.10 for each one percent (1%) or major fraction thereof increase in bonded indebtedness beyond seven percent (7%) of assessed valuation of property in the District. This limitation is capped when the District's bonded indebtedness is ten percent (10%) (or greater) of the District's assessed valuation which would result in an annual M&O tax rate not to exceed \$1.20. Lastly, the Texas Attorney General in reviewing the District's transcript of proceedings will allow the District to reduce the amount of its outstanding bonded indebtedness by the amount of funds (on a percentage basis) that the District receives in State assistance for the repayment of this bonded indebtedness (For example, if the District anticipates that it will pay 75% of its bonded indebtedness from State assistance, for the purposes of Article 2784e-1, the Texas Attorney General will assume that only 25% of the District's bonded indebtedness is outstanding and payable

from local ad valorem taxes). The bonded indebtedness of the District after the issuance of the Bonds will be approximately 2.70% of the District's current taxable assessed valuation of property. See Appendix A- Table 1 herein.

The maximum tax rate per \$100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) \$1.50, or such lower rate as described in the preceding paragraph, and (B) the sum of (1) the rate of \$0.17, and (2) the product of the "State Compression Percentage" multiplied by \$1.50. The State Compression Percentage has been set, and will remain, at 66.67% for fiscal years 2007–08 through 2012–13. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For a more detailed description of the State Compression Percentage, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Local Funding for School Districts". Furthermore, a school district cannot annually increase its tax rate in excess of the district's "rollback tax rate" without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate. See "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 - Source and Security for 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 issued as refunding bonds issued pursuant to Chapter 1207, Texas Government Code, and are not subject to the \$0.50 threshold tax rate test. Under current law, a district may demonstrate its ability to comply with the \$0.50 threshold tax rate test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a district uses projected future taxable values to meet the \$0.50 threshold tax rate test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Attorney General must find that the district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the \$0.50 threshold tax rate test from a tax rate of \$0.45 per \$100 of valuation. The District has not used projected property values to satisfy this threshold test.

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 \$573,436.33 to TRS on behalf of the District, District employees paid \$627,184.75 and other contributions into the plan made from private grants and from the District for salaries above the statutory minimum were \$83,716.40.

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 is a political subdivision of the State of Texas, comprising 629 square miles of Orange County, Texas. Orange County, along with other governmental entities, has authority to levy ad valorem taxes. See Appendix A, Table 6, "ESTIMATED OVERLAPPING DEBT."

Administration

The Board of Education 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

As of September, 2011, the District owned and operated a high school, a junior high school, and an elementary school.

	Fiscal Year Ending August 31				
	2012^(a)	2011	2010	2009	2008
Enrollment	1,741	1,706	1,750	1,736	1,671
Average Daily Attendance	1,583	1,615	1,645	1,618	1,566
Cost Per Student	\$7,023	\$7,105	\$7,032	\$7,266	\$7,152

^(a) Preliminary, subject to change.

Governmental Fund Types

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.

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.

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 – These funds are reported in the fiduciary 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.

Unemployment Statistics

	Orange County				
	2011 (a)	2010	2009	2008	2007
Labor Force	43,020	42,059	41,383	41,155	40,582
Employed	37,890	37,530	37,315	38,468	38,443
Unemployed	5,130	4,529	4,068	2,687	2,139
Unemployment Rate	11.9%	10.8%	9.8%	6.5%	5.3%

(a) As of August 2011

INVESTMENTS

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

Legal Investments

Available District funds are invested as authorized by Texas law and in accordance with investment policies approved by the Board of Trustees. Both state law and the District’s investment policies are subject to change. Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than “A” or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan

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

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

Investment Policies

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment owned by the District and the maximum average dollar-weighted maturity allowed for pooled fund groups. All District funds must be invested consistent with a formally adopted “Investment Strategy Statement” that specifically addresses each fund’s investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

Additional Provisions

Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Trustees; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District’s investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District’s investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the District’s entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the District’s investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and

restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

Current Investments

As of August 31, 2011, the District had approximately \$2,164,763 invested in Lone Star and \$309,512 invested in Orange Savings 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 MATTERS

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 bond 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.

Impact of Proposed Jobs Creation Act

On September 12, 2011, President Obama released the language of his proposed Jobs Creation Act of 2011 (the “Act”). One of the provisions of the Act would have the effect of imposing an additional amount of tax on certain “high income” taxpayers based on, among other things, the amount of interest on tax-exempt obligations, such as the Bonds, received by such taxpayers. As originally proposed, the Act will be effective for taxable years beginning on or after January 1, 2013, and will apply to interest on the Bonds and other tax-exempt obligations received by such taxpayers on or after that date. The introduction or enactment of the Act or any similar legislative proposal may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds are advised to consult their tax advisors with respect to any impact of the Act or other legislative proposals, as to which Bond Counsel expresses no opinion.

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 MATTERS - 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 MATTERS - 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.

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.

QUALIFIED TAX-EXEMPT OBLIGATIONS

Section 265(a) of the Code provides, in general, that interest expenses incurred to acquire or carry tax-exempt obligations are not deductible from the gross income of the holder. For certain holders that are "financial institutions" within the meaning of such section, complete disallowance of such expense would apply to taxable years beginning after December 31, 1986, with respect to tax-exempt obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this rule for interest expense incurred by financial institutions to carry tax-exempt obligations (other than certain private activity bonds) which are designated by an issuer as "qualified tax-exempt obligations." An issuer may only designate an issue as an issue of "qualified tax-exempt obligations" where less than \$10 million of tax-exempt obligations are issued by the issuer during the calendar year in which the issue so designated is issued.

The District has designated the Bonds as "qualified tax-exempt obligations." Further, the District will represent that it has or will take such action necessary for the Bonds to constitute "qualified tax-exempt obligations."

Notwithstanding the designation of the Bonds as "qualified tax-exempt obligations," financial institutions acquiring the Bonds will be subject to a twenty percent (20%) disallowance of interest expenses allocable to the 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.

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 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. The District shall notify the MSRB in an electronic format prescribed by the MSRB, in a timely manner, of any failure by the District to provide financial information or operating data in accordance with the Rule.

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

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

Rating

Moody's Investors Service, ("Moody's") has assigned its municipal rating of "Aaa" to the Bonds by virtue of the guarantee of the Texas Permanent School Fund on the Bonds. An explanation of the rating may be obtained from Moody's. The rating reflects only the views of Moody's and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by Moody's if 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 Underwriter a certificate, dated as of the date of delivery of the Bonds, executed by an authorized officer of the Board of Trustees, 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 offered, sold 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, as amended), 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, as amended, requires the Bonds to be assigned a rating of not less than “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 a continuing, direct, 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 Creighton, Fox, Johnson & Mills, PLLC, Bond Counsel to the District (“Bond Counsel”), in substantially the form attached as APPENDIX C. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds.

The District will furnish the Underwriter a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the legal opinion of the Attorney General of the State of Texas and the approving legal opinion of Bond Counsel. Bond Counsel was engaged by and only represents the District. Bond Counsel was not requested to participate, and did not take part, in the preparation of this Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, has reviewed the statements and information contained in the Official Statement under the captions and sub-captions “THE BONDS,” (except for the information under the sub-captions “Yield on CABs,” “Permanent School Fund Bond Guarantee,” “Book-Entry-Only System,” “Bondholders’ Remedies,” and “Sources and Uses of Funds,” as to which no opinion is expressed), and “CONTINUING DISCLOSURE OF INFORMATION” (except for the information under the sub-caption “Compliance With Prior Undertakings,” as to which no opinion is expressed), and Bond Counsel is of the opinion that the statements and information contained therein fairly and accurately reflect the provisions of the Order; further, Bond Counsel has reviewed the statements and information contained in the Official Statement under the captions and sub-captions “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS,” “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” “AD VALOREM TAX PROCEDURES – Tax Rate Limitations” (first paragraph only), “TAX MATTERS,” “QUALIFIED TAX-EXEMPT OBLIGATIONS,” “OTHER INFORMATION – Registration and Qualification of Bonds for Sale,” “- The Bonds as Legal Investments in Texas,” and “- Legal Matters,” (except the last sentence of the second paragraph thereof) and Bond Counsel is of the opinion that the statements and information contained therein are correct as to matters of law. Certain legal matters will be passed upon for the Underwriter by its counsel, Fulbright & Jaworski, L.L.P., whose fees are contingent upon the sale and delivery of the Bonds.

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

Verification of Accuracy of Mathematical Computations

The arithmetical accuracy of certain computations included in the schedules provided by Coastal Securities, Inc. on behalf of the District relating to (a) computation of forecasted receipts of principal and interest on the restricted acquired obligations and the forecasted payments of principal and interest to redeem the Refunded Bonds, and (b) computation of the yields on the Bonds and the restricted obligations was examined by Grant Thornton LLP, certified public accountants. Such computations were completed using certain assumptions and information supplied by Coastal Securities, Inc. Grant Thornton LLP has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions or the achievability of the forecasted outcome.

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.

Underwriting

The Bonds are being purchased by the Underwriters pursuant to a bond purchase agreement with the District, at a price of \$9,926,205.30, which reflects the par amount of the Bonds, less an underwriting discount (including underwriting expenses) of \$67,014.85, plus a net premium of \$798,221.80, plus accrued interest to the delivery date.

The Underwriters’ obligation to purchase the Bonds is subject to certain conditions precedent, and the Underwriters will be obligated to purchase all of the Bonds if any of the Bonds are purchased. The District has no control over the price at which the Bonds are subsequently sold and the initial yields at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Underwriter.

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

MISCELLANEOUS

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 such 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 things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the District. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

Concluding Statement

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.

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

The Order authorizing the issuance of the Bonds also approved the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorized its further use in the re-offering of the Bonds by the Underwriters.

ORANGEFIELD INDEPENDENT SCHOOL DISTRICT

/s/ Susan Gunstream
President, Board of Trustees

ATTEST:

/s/ Wanda Woods
Secretary, Board of Trustees

SCHEDULE 1 - TABLE OF ACCRETED VALUES OF CAPITAL APPRECIATION BONDS

The following schedule is calculated based on yields as of the date of sale, and is included for information purposes only. The accreted values may not reflect market values in the secondary market from time to time, if any.

Date	Capital Appreciation Bonds 2/15/2014 @ 1.00%	Capital Appreciation Bonds 2/15/2015 @ 1.40%
11/29/2011	\$4,890.90	\$4,780.90
2/15/2012	4,901.20	4,795.05
8/15/2012	4,925.70	4,828.60
2/15/2013	4,950.35	4,862.40
8/15/2013	4,975.10	4,896.45
2/15/2014	5,000.00	4,930.70
8/15/2014	-	4,965.20
2/15/2015	-	5,000.00
8/15/2015		
2/15/2016		
8/15/2016		
2/15/2017		
8/15/2017		
2/15/2018		
8/15/2018		
2/15/2019		
8/15/2019		
2/15/2020		
8/15/2020		
2/15/2021		
8/15/2021		
2/15/2022		

APPENDIX A
INFORMATION REGARDING THE DISTRICT

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

2011 Certified Net Taxable Valuation (100% of Estimated Market Value)	\$ 380,048,108
Outstanding Debt (August 31, 2011)	\$ 10,250,000
Plus: The Bonds	9,194,998
Less: Refunded Bonds	<u>9,205,000</u>
Total Direct Debt	\$ 10,239,998
As a % of Assessed Valuation	2.69%

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY ^(a)

	<u>Tax Year 2011</u>	<u>Tax Year 2010</u>	<u>Tax Year 2009</u>	<u>Tax Year 2008</u>	<u>Tax Year 2007</u>
Real Property	\$ 399,495,204	\$ 393,718,118	\$ 388,384,475	\$ 345,865,005	\$ 261,737,859
Personal Property	<u>140,380,728</u>	<u>137,390,736</u>	<u>109,419,179</u>	<u>113,420,409</u>	<u>84,197,959</u>
Gross Value	\$ 539,875,932	\$ 531,108,854	\$ 497,803,654	\$ 459,285,414	\$ 345,935,818
Less Exemption(s) ^(b)	<u>159,827,824</u>	<u>170,158,657</u>	<u>157,153,706</u>	<u>157,386,272</u>	<u>43,630,720</u>
Net Taxable Value	\$ 380,048,108	\$ 360,950,197	\$ 340,649,948	\$ 301,899,142	\$ 302,305,098

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

^(b) Includes exemptions, productivity loss, freeze adjustments and cap 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>
2007	2006	\$ 277,546,062	\$ 1.5000	\$ 4,163,191	97.22%	99.67%
2008	2007	313,304,122	1.1700	3,665,658	97.15%	101.06%
2009	2008	321,110,673	1.1700	3,756,995	97.13%	99.37%
2010	2009	355,266,068	1.1700	4,156,613	96.38%	98.80%
2011	2010	360,950,197	1.1700	4,461,805	95.00%	95.00%
2012	2011	380,048,108	1.1700	4,446,563	(In process of Collection)	

^(a) 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.

Tax Rate Distribution (Tax Year)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Maintenance	\$ 1.04000	\$ 1.04000	\$ 1.04000	\$ 1.04000	\$ 1.04000
Debt Service	<u>0.13000</u>	<u>0.13000</u>	<u>0.13000</u>	<u>0.13000</u>	<u>0.13000</u>
Total	\$ 1.17000	\$ 1.17000	\$ 1.17000	\$ 1.17000	\$ 1.17000

TABLE 4 - TEN LARGEST TAXPAYERS

<u>Name</u>	<u>2011 Net Taxable Assessed Valuation</u>	<u>% of Total 2011 Assessed Valuation</u>
GOLDEN PASS PIPELINE	\$ 18,165,620	4.78%
ENBRIDGE PIPELINES L.P.	11,322,821	2.98%
GOLDEN TRIANGLE STORAGE	9,750,120	2.57%
CLOEREN COMPANY	8,203,440	2.16%
COLONIAL PIPELINE	7,867,530	2.07%
EQUISTAR CHEMICALS L.P.	6,468,180	1.70%
ALLOY POLYMERS INC	5,501,260	1.45%
ERG RESOURCES L.L.C.	5,246,720	1.38%
ENTERGY TEXAS INC	4,668,960	1.23%
DUPHIL INC	4,214,655	1.11%
	<u>\$ 81,409,306</u>	<u>21.42%</u>

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

Average Annual Debt Service Requirements (20012-2034):	\$ 673,865
\$0.1221 per \$100 AV against the 2011 Taxable AV, at 95% collection, produces ^(b)	\$ 674,539
Maximum Annual Debt Service Requirements (2012):	\$ 719,363
\$0.1347 per \$100 AV against the 2011 Taxable AV, at 95% collection, produces ^(b)	\$ 720,082

^(a) Includes the Bonds and excludes the refunded Bonds.

^(b) Tax rate net of estimated state funding in the amount of \$233,750.

TABLE 6 - ESTIMATED OVERLAPPING DEBT

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

<u>Taxing Jurisdiction</u>	<u>Total Debt ^(a)</u>	<u>As of</u>	<u>Estimated % Overlapping</u>	<u>Overlapping Debt</u>
Orange Co	\$ 270,000	1/31/2008	8.82%	\$ 23,814
Orange, City of	<u>11,576,792</u>	1/31/2008	1.66%	<u>192,175</u>
Estimated Overlapping Debt	11,846,792			\$ 215,989
The District	\$ 10,239,998 ^(b)		100.00%	<u>10,239,998 ^(b)</u>
Total Direct & Estimated Overlapping Debt				\$ 10,455,987
As a % of 2011 Taxable Assessed Valuation				2.75%

^(a) Gross debt.

^(b) Includes the Bonds and excludes the Refunded Bonds.

TABLE 7 - TAX SUPPORTED DEBT SERVICE REQUIREMENTS

FYE 31-Aug	Outstanding Debt Service	Refunded Debt Service	The Bonds ^(a)			Total Debt Service
			Principal	Interest ^(b)	Total	
2012	\$ 718,960	\$ 428,230	\$ 180,000	\$ 248,633	\$ 428,633	\$ 719,363
2013	715,829	428,230	55,000	313,300	368,300	655,899
2014	718,333	535,480	61,012	416,738	477,750	660,603
2015	721,788	706,988	78,986	568,764	647,750	662,550
2016	720,045	528,845	155,000	311,200	466,200	657,400
2017	722,745	528,945	160,000	308,050	468,050	661,850
2018	729,478	729,478	370,000	300,900	670,900	670,900
2019	729,985	729,985	380,000	289,650	669,650	669,650
2020	729,503	729,503	390,000	277,125	667,125	667,125
2021	732,925	732,925	410,000	263,125	673,125	673,125
2022	735,113	735,113	425,000	248,513	673,513	673,513
2023	731,388	731,388	440,000	233,375	673,375	673,375
2024	736,553	736,553	460,000	217,625	677,625	677,625
2025	735,206	735,206	475,000	201,263	676,263	676,263
2026	737,525	737,525	495,000	184,288	679,288	679,288
2027	738,656	738,656	510,000	166,700	676,700	676,700
2028	738,600	738,600	530,000	148,500	678,500	678,500
2029	737,356	737,356	545,000	129,688	674,688	674,688
2030	739,519	739,519	570,000	110,175	680,175	680,175
2031	739,956	739,956	590,000	88,400	678,400	678,400
2032	738,944	738,944	615,000	64,300	679,300	679,300
2033	736,481	736,481	635,000	39,300	674,300	674,300
2034	737,444	737,444	665,000	13,300	678,300	678,300
	<u>\$ 16,822,328.75</u>	<u>\$ 15,661,347.50</u>	<u>\$9,194,998.35</u>	<u>\$5,142,909.43</u>	<u>\$ 14,337,907.78</u>	<u>\$ 15,498,889.03</u>

Average Annual Debt Service Requirements (2012-2034): \$ 673,865

Maximum Annual Debt Service Requirements (2012): \$ 719,363

TABLE 8 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

The District has no authorized but unissued limited tax bonds.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Estimated Tax Supported Debt Service Requirements, FYE August 31, 2012		\$	719,363
Debt Service Fund, August 31, 2011	\$	459,805	
EDA State Funding		233,750	
Interest and Sinking Fund Tax Levy @ 95%		469,359	<u>1,162,914</u>
Estimated Balance, August 31, 2012		\$	443,552

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

FOR FISCAL YEAR END	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
REVENUES					
Local and Intermediate Sources	\$ 3,805,501	\$ 3,691,135	\$ 3,560,637	\$ 4,157,131	\$ 4,230,993
State Program Revenues	7,931,668	7,666,602	7,392,286	6,519,696	5,880,057
Federal Program Revenues	49,442	14,016	14,605	6,583	2,340
Total Revenues	<u>\$ 11,786,611</u>	<u>\$ 11,371,753</u>	<u>\$ 10,967,528</u>	<u>\$ 10,683,410</u>	<u>\$ 10,113,390</u>
EXPENDITURES					
Instruction	\$ 5,903,170	\$ 6,098,005	\$ 5,899,034	\$ 5,327,464	\$ 5,207,906
Instructional Resources and Media Serv.	217,642	218,736	206,091	192,900	186,988
Curriculum & Instructional Staff Develop.	265,858	222,815	240,617	158,155	117,124
Instructional Leadership	120,509	112,860	111,218	108,574	96,702
School Leadership	735,782	701,141	686,764	626,699	523,783
Guidance, Counseling, & Evaluation Serv.	425,819	383,804	375,222	350,090	322,481
Social Work Services	20,373	1,091	-	-	-
Health Services	165,637	156,097	150,370	114,613	104,725
Student (Pupil) Transportation	574,206	571,408	628,076	555,683	503,540
Food Services	36,820	35,720	-	-	-
Cocurricular/Extracurricular Activities	741,466	618,186	621,446	560,948	544,298
General Administration	564,391	552,030	497,330	534,316	463,059
Plant Maintenance and Operations	1,879,890	2,463,968	2,118,012	2,256,164	2,844,485
Security and Monitoring Services	29,869	26,973	24,589	26,286	17,902
Data Processing Services	39,526	32,116	32,894	17,372	17,007
Community Services	1,233	-	-	631	-
Capital Outlay	88,531	258,612	1,579,359	181,717	70,800
Total Expenditures	<u>\$ 11,810,722</u>	<u>\$ 12,453,562</u>	<u>\$ 13,171,022</u>	<u>\$ 11,011,612</u>	<u>\$ 11,020,800</u>
Excess (Deficiency) Rev. Over Exp.	\$ (24,111)	\$ (1,081,809)	\$ (2,203,494)	\$ (328,202)	\$ (907,410)
Other Resources	107	275,076	157,218	471,578	4,521,949
Other (Uses)	(175,136)	(221,456)	(144,481)	(104,585)	(113,028)
Excess (Deficiency) of Rev. and Other Resources Over Exp. and Other Uses	\$ (199,140)	\$ (1,028,189)	\$ (2,190,757)	\$ 38,791	\$ 3,501,511
Fund Balance - (Beginning)	\$ 2,514,486	\$ 3,542,675	\$ 5,733,432	\$ 5,694,641	2,193,130
Increase (Decrease) in Fund Balance	-	-	-	-	-
Fund Balance - (Ending)	<u>\$ 2,315,346</u>	<u>\$ 2,514,486</u>	<u>\$ 3,542,675</u>	<u>\$ 5,733,432</u>	<u>\$ 5,694,641</u>

^(a) Source: District's audited financial reports.

TABLE 11 - SCHEDULE OF REFUNDED BONDS

Series to be Refunded		Maturity Date	Par Amount	Call Date	Call Price
U/L Tax School Building Bonds, Series 2003					
(2015 maturity of 2017 Term)	TERM	2/15/2017	\$ 175,000	2/15/2013	100%
		2/15/2018	200,000	2/15/2013	100%
		2/15/2019	210,000	2/15/2013	100%
		2/15/2020	220,000	2/15/2013	100%
		2/15/2021	235,000	2/15/2013	100%
		2/15/2022	245,000	2/15/2013	100%
		2/15/2023	255,000	2/15/2013	100%
		2/15/2024	270,000	2/15/2013	100%
	TERM	2/15/2028	1,230,000	2/15/2013	100%
	TERM	2/15/2031	1,095,000	2/15/2013	100%
	TERM	2/15/2034	1,275,000	2/15/2013	100%
U/L Tax School Building Bonds, Series 2004					
		2/15/2014	110,000	2/15/2013	100%
		2/15/2015	115,000	2/15/2013	100%
		2/15/2016	120,000	2/15/2013	100%
		2/15/2017	125,000	2/15/2013	100%
		2/15/2018	135,000	2/15/2013	100%
	TERM	2/15/2020	285,000	2/15/2013	100%
	TERM	2/15/2024	650,000	2/15/2013	100%
	TERM	2/15/2029	1,000,000	2/15/2013	100%
	TERM	2/15/2034	1,255,000	2/15/2013	100%
			<u>\$ 9,205,000</u>		

APPENDIX B

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

ORANGEFIELD INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2010

**ORANGEFIELD INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2010**

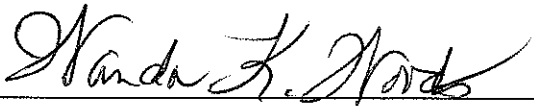
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CERTIFICATE OF BOARD

Orangefield Independent School District Orange 181-905
Name of School District County 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 15 day of November, 2010.



Signature of Board Secretary



Signature of Board President

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

Harold C. Graves, CPA
J. Pat O'Neill, III, CPA

Wathen,
DeShong
& Juncker,
L.L.P.
Certified Public Accountants

Michael W. Kiefer, CPA, CFE, CFF
Troy W. Domingue, CPA
Stanley "Chip" Majors, Jr., CPA, CTP

November 1, 2010

INDEPENDENT AUDITOR'S REPORT

UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION AND SUPPLEMENTARY INFORMATION
INCLUDING THE SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Trustees
Orangefield Independent School District
Orangefield, Texas

Members of the Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Orangefield Independent School District (the 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 the District's administration. Our responsibility is to express opinions on these financial statements based on our audit.

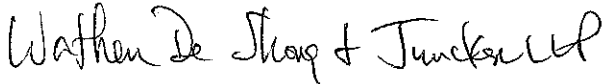
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Orangefield Independent School District, as of August 31, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2010, on our consideration of the 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.

The management's discussion and analysis and the budgetary comparison information on pages 4 through 10 and page 35 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The 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 not a required part of the basic financial statements. In addition, the TEA required schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards and the TEA required schedules (except for Exhibit J-3, The Fund Balance and Cash Flow Calculation Worksheet, which is marked UNAUDITED and on which we express no opinion) have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



WATHEN, DeSHONG & JUNCKER, L.L.P.
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Orangefield Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2010. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net assets were \$8,469,803 at August 31, 2010.
- During the year, the District's expenses were \$482,293 more than the \$15,577,843 generated in taxes and other revenues for governmental activities.
- The total cost of the District's programs was \$16,060,136.
- The General Fund reported a fund balance this year of \$2,315,346. This is a decrease of \$199,140 from the fund balance at August 31, 2009.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- 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 resources in question belong.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-1
Required Components of
Orangefield Independent School District's
Annual Financial Report

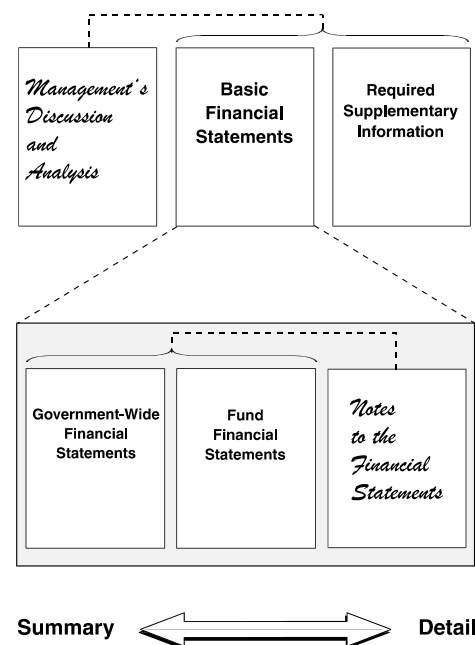


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

Figure A-2. Major Features of the District’s Government-wide and Fund Financial Statements

<i>Type of Statements</i>	Government-wide	Fund Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire District's government (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary	Instances in which the District is the trustee or agent for someone else's resources
Required financial statements	Statement of net assets Statement of activities	Balance sheet Statement of revenues, expenditures & changes in fund balance	Statement of fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both short-term and long-term, the District's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the government’s assets and liabilities. All of the current year’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 – the difference between the District’s assets and liabilities – is one way to measure the District’s financial health or *position*.

- Over time, increases or decreases in the District’s net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District’s tax base, changes in the District’s student population, the makeup of the student population in regards to funding for special programs, and non-funded federal and state mandates.

The government-wide financial statements of the District include the *Governmental activities*. Most of the District’s basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services and general administration. Property taxes and grants finance most of these activities.

Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has two 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 on the subsequent page that explains the relationship (or differences) between them.
- *Fiduciary funds* – The District is the trustee, or *fiduciary*, for certain 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. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

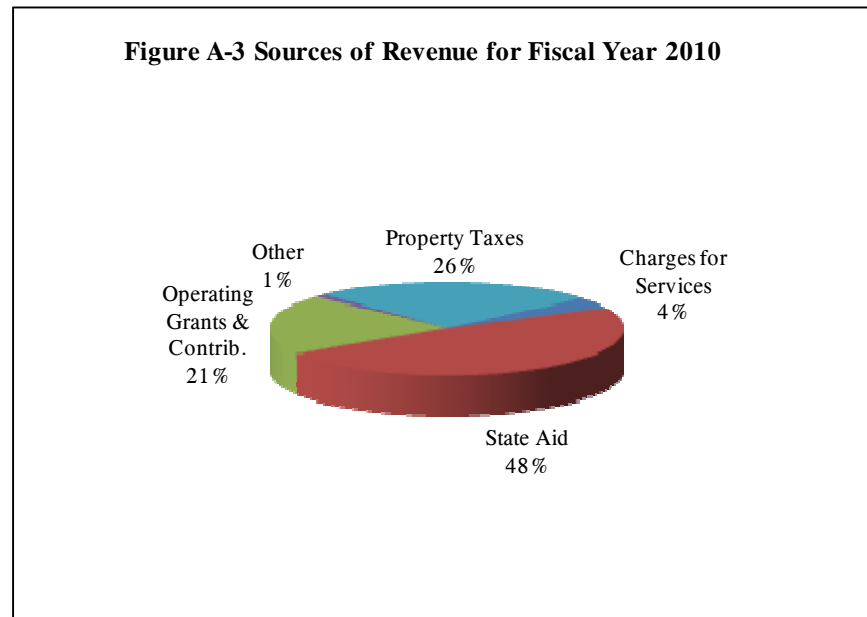
Net assets. The District's *combined* net assets were \$8,469,083 at August 31, 2010. (See Table A-1).

**Table A-1
The District's Net Assets**

	Governmental Activities		Percentage Change
	2010	2009	
Current and Other Assets	\$ 4,192,797	\$ 4,577,065	-8.4%
Capital and Non-Current Assets	15,835,017	15,872,009	-0.2%
Total Assets	<u>20,027,814</u>	<u>20,449,074</u>	-2.1%
Current Liabilities	1,053,528	890,745	18.3%
Long Term Liabilities	10,505,203	10,606,953	-1.0%
Total Liabilities	<u>11,558,731</u>	<u>11,497,698</u>	0.5%
Net Assets:			
Invested in Capital Assets	5,161,665	5,152,009	0.2%
Restricted	623,682	947,319	-34.2%
Unrestricted	2,683,736	2,852,048	-5.9%
Total Net Assets	<u>\$ 8,469,083</u>	<u>\$ 8,951,376</u>	-5.4%

The District's restricted net assets consist of \$81,498 for food service, \$51,633 for campus activities, \$490,486 for debt service and \$65 for capital projects.

Changes in net assets. The District's total revenues were \$15,577,843. A significant portion, 26%, of the District's revenue comes from taxes. (See Figure A-3). 48% comes from state aid – formula grants, while only 4% relates to charges for services.



The total cost of all programs and services was \$16,060,136; 75.1% of these costs are for instructional and student services.

Governmental Activities

Property tax rates remained constant at \$1.17 per \$100 valuation. The total taxes levied increased by \$399,616.

Average daily attendance increased by 27 students from 2009 to 2010. Total state aid increased by \$943,271.

**Table A-2
Changes in the District's Net Assets**

	Governmental Activities		Total % Change
	2010	2009	
Revenues:			
<u>Program Revenues</u>			
Charges for Services	\$ 633,610	\$ 566,856	11.8%
Operating Grants and Contributions	3,254,012	2,239,759	45.3%
<u>General Revenues</u>			
Property Taxes	4,060,052	3,756,793	8.1%
Investment Earnings	5,750	42,940	-86.6%
State Aid - formula	7,464,943	7,301,075	2.2%
Other	159,476	302,927	-47.4%
Total Revenues	15,577,843	14,210,350	9.6%
<u>Expenses:</u>			
Instruction and instructional related	8,592,458	7,779,334	10.5%
Instructional leadership/school administration	898,881	839,103	7.1%
Guidance, social work, health, transportation	1,426,004	1,280,976	11.3%
Food services	1,047,205	1,019,128	2.8%
Extracurricular activities	998,128	806,596	23.7%
General Administration	609,402	595,467	2.3%
Plant maintenance and security	1,949,871	2,483,776	-21.5%
Data processing services	39,526	32,116	23.1%
Community services	1,233	-	n/a
Debt Service	497,428	509,109	-2.3%
Facilities Acquisition and Construction	-	41,894	-100.0%
Total Expenses	16,060,136	15,387,499	4.4%
(Decrease) in Net Assets	(482,293)	(1,177,149)	-59.0%
Beginning Net Assets	8,951,376	10,128,525	-11.6%
Ending Net Assets	\$ 8,469,083	\$ 8,951,376	-5.4%

Table A-3 presents cost of each of the District's largest functions as well as each function's *net cost* (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

- The cost of all *governmental* activities this year was \$16,060,136.
- The amount that our taxpayers paid for these activities through property taxes was \$4,060,052.
- Some of the cost was paid by those who directly benefited from the programs \$633,610, or
- By grants and contributions \$3,254,012.

**Table A-3
Net Cost of Selected District Functions**

	Total cost of Services		%	Net Cost of Services		%
	2010	2009		Change	2010	
Instruction	\$ 7,944,129	\$ 7,244,867	9.7%	\$ 5,937,678	\$ 6,108,283	-2.8%
School leadership	756,439	720,882	4.9%	715,151	683,871	4.6%
Student Transportation	799,236	726,936	9.9%	461,538	501,573	-8.0%
Food Services	1,047,205	1,019,128	2.8%	242,007	294,185	-17.7%
Extracurricular Activities	998,128	806,596	23.7%	749,833	617,401	21.4%
General Administration	609,402	595,467	2.3%	590,618	578,987	2.0%
Plant Maintenance and Operations	1,920,002	2,456,803	-21.8%	1,865,335	2,055,684	-9.3%
Interest on Long Term Debt	493,391	505,072	-2.3%	493,391	505,072	-2.3%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled \$15.6 million, an increase of \$1,376,167 from the preceding year. Tax revenues increased \$330,259. Investment income decreased \$37,190. Insurance proceeds decreased \$206,481. State revenue increased \$62,730 and Federal revenue increased by \$1,115,391.

General Fund Budgetary Highlights

- Over the course of the year, the District revised its budget several times. Actual expenditures were \$24,994 above final budget amounts. The most significant negative variance occurred in Instruction. Actual revenues were \$54,518 above budgeted amounts due primarily to local and state revenue.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2010, the District had invested \$26 million in capital assets, including land, equipment, buildings and vehicles. (See Table A-4). This amount represents a net increase (including additions and adjustments) of \$0.9 million or 3.7 percent from last year.

Table A-4
District's Capital Assets

	Governmental Activities		% Change
	2010	2009	
Land	\$ 526,449	\$ 526,449	0.0%
Buildings and Improvements	20,756,624	20,121,775	3.2%
Furniture and Equipment	4,600,189	4,496,326	2.3%
Property under capital lease	179,106	-	n/a
Totals at Historical Cost	26,062,368	25,144,550	3.7%
Total Accumulated Depreciation	(10,227,351)	(9,272,541)	10.3%
Net Capital Assets	<u>\$ 15,835,017</u>	<u>\$ 15,872,009</u>	-0.2%

Long-Term Debt

Total outstanding bonds at August 31, 2010 are \$10,490,000 as shown in Table A-5.

Table A-5
District's Long-Term Debt

	Governmental Activities		% Change
	2010	2009	
Bonds payable	\$ 10,490,000	\$ 10,720,000	-2.1%
Unamortized premium	11,503	12,003	-4.2%
Capital leases payable	171,849	-	n/a
Accrued sick leave	108,263	105,450	2.7%
Total Long-term Debt	<u>\$ 10,781,615</u>	<u>\$ 10,837,453</u>	-0.5%

More detailed information about the District's debt is presented in the Notes to the Financial Statements. The District's bonds carry a Moody's Investor Services rating of "Aaa" with a Permanent School Fund guarantee and "Baa2" with no assistance.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2011 budget preparation will be up \$28,109,325, or 7.5 from 2010.
- General Operating Fund spending per student decreases in the 2011 budget from \$7,175 to \$7,076. This is a decrease of 1.3%.
- The District's 2011 refined average daily attendance is expected to be 1,678, up 1.9%.

These indicators were taken into account when adopting the general fund budget for 2011. Amounts available for appropriation in the general fund budget are \$11,910,668, an increase of 1% from the final 2010 actual revenue of \$11,786,611.

Expenditures are budgeted to increase \$63,558 to \$11,874,280. The District has added no new major programs or initiatives to the budget. The District has budgeted a transfer of \$70,000 to the food service fund.

If these estimates are realized, the District's budgetary general fund fund balance is expected to increase \$36,388 at the close of 2011.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Business Department.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

ORANGEFIELD ISD
STATEMENT OF NET ASSETS
AUGUST 31, 2010

Data Control Codes	Primary Government
	Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 272,229
1120 Current Investments	2,280,062
1220 Property Taxes Receivable (Delinquent)	475,642
1230 Allowance for Uncollectible Taxes	(152,205)
1240 Due from Other Governments	1,125,478
1267 Due from Fiduciary Funds	216
1410 Deferred Expenses	110,085
1420 Capitalized Bond and Other Debt Issuance Costs	81,290
Capital Assets:	
1510 Land	526,449
1520 Buildings, Net	12,721,895
1530 Furniture and Equipment, Net	2,407,567
1550 Leased Property Under Capital Leases, Net	179,106
1000 Total Assets	20,027,814
LIABILITIES	
2110 Accounts Payable	113,187
2160 Accrued Wages Payable	601,874
2200 Accrued Expenses	61,779
2300 Deferred Revenues	276
Noncurrent Liabilities	
2501 Due Within One Year	276,412
2502 Due in More Than One Year	10,505,203
2000 Total Liabilities	11,558,731
NET ASSETS	
3200 Invested in Capital Assets, Net of Related Debt	5,173,168
3820 Restricted for Federal and State Programs	81,498
3850 Restricted for Debt Service	490,486
3860 Restricted for Capital Projects	65
3870 Restricted for Campus Activities	51,633
3900 Unrestricted Net Assets	2,672,233
3000 Total Net Assets	\$ 8,469,083

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

ORANGEFIELD ISD
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2010

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
		3	4	
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 7,944,129	\$ -	\$ 2,006,451	\$ (5,937,678)
12 Instructional Resources and Media Services	340,516	-	52,558	(287,958)
13 Curriculum and Staff Development	307,813	-	44,109	(263,704)
21 Instructional Leadership	142,442	-	28,532	(113,910)
23 School Leadership	756,439	-	41,288	(715,151)
31 Guidance, Counseling and Evaluation Services	438,393	-	32,397	(405,996)
32 Social Work Services	20,378	-	1,136	(19,242)
33 Health Services	167,997	-	11,893	(156,104)
34 Student (Pupil) Transportation	799,236	-	337,698	(461,538)
35 Food Services	1,047,205	409,738	395,460	(242,007)
36 Extracurricular Activities	998,128	223,872	24,423	(749,833)
41 General Administration	609,402	-	18,784	(590,618)
51 Plant Maintenance and Operations	1,920,002	-	54,667	(1,865,335)
52 Security and Monitoring Services	29,869	-	-	(29,869)
53 Data Processing Services	39,526	-	-	(39,526)
61 Community Services	1,233	-	-	(1,233)
72 Debt Service - Interest on Long Term Debt	493,391	-	-	(493,391)
73 Debt Service - Bond Issuance Cost and Fees	4,037	-	-	(4,037)
81 Capital Outlay	-	-	204,616	204,616
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 16,060,136	\$ 633,610	\$ 3,254,012	(12,172,514)

Data Control Codes	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	3,609,553
DT	Property Taxes, Levied for Debt Service	450,499
SF	State Aid - Formula Grants	7,141,263
GC	Grants and Contributions not Restricted	323,680
IE	Investment Earnings	5,750
MI	Miscellaneous Local and Intermediate Revenue	159,476
TR	Total General Revenues	11,690,221
CN	Change in Net Assets	(482,293)
NB	Net Assets--Beginning	8,951,376
NE	Net Assets--Ending	\$ 8,469,083

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

GOVERNMENTAL FUND FINANCIAL STATEMENTS

ORANGEFIELD ISD
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2010

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds	
ASSETS					
1110	Cash and Cash Equivalents	\$ 154,872	\$ 325	\$ 117,032	\$ 272,229
1120	Investments - Current	1,812,980	433,266	33,816	2,280,062
1220	Property Taxes - Delinquent	420,512	55,130	-	475,642
1230	Allowance for Uncollectible Taxes (Credit)	(134,564)	(17,641)	-	(152,205)
1240	Receivables from Other Governments	1,006,594	19,406	99,478	1,125,478
1260	Due from Other Funds	4,624	-	-	4,624
1410	Deferred Expenditures	670	-	-	670
1000	Total Assets	<u>\$ 3,265,688</u>	<u>\$ 490,486</u>	<u>\$ 250,326</u>	<u>\$ 4,006,500</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
2110	Accounts Payable	\$ 91,753	\$ -	\$ 21,434	\$ 113,187
2160	Accrued Wages Payable	514,752	-	87,122	601,874
2170	Due to Other Funds	-	-	4,408	4,408
2200	Accrued Expenditures	57,889	-	3,890	61,779
2300	Deferred Revenues	285,948	37,489	276	323,713
2000	Total Liabilities	<u>950,342</u>	<u>37,489</u>	<u>117,130</u>	<u>1,104,961</u>
Fund Balances:					
Reserved For:					
3420	Retirement of Long Term Debt	-	452,997	-	452,997
3450	Food Service/Federal or State Funds	-	-	81,498	81,498
3490	Other Reserved/Restricted Fund Balance	-	-	51,633	51,633
Unreserved Designated For:					
3510	Construction	200,000	-	-	200,000
3520	Claims and Judgements	800,000	-	-	800,000
Unreserved and Undesignated:					
3600	Reported in the General Fund	1,315,346	-	-	1,315,346
3620	Reported in Capital Projects Funds	-	-	65	65
3000	Total Fund Balances	<u>2,315,346</u>	<u>452,997</u>	<u>133,196</u>	<u>2,901,539</u>
4000	Total Liabilities and Fund Balances	<u>\$ 3,265,688</u>	<u>\$ 490,486</u>	<u>\$ 250,326</u>	<u>\$ 4,006,500</u>

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

ORANGEFIELD ISD
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 AUGUST 31, 2010

Total Fund Balances - Governmental Funds	\$	2,901,539
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds.		15,835,017
2 Property tax receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds.		323,437
3 Bonds are not due and payable in the current period and, therefore, are not reported in the funds.		(10,490,000)
4 Deferred expenditures which were expended in the funds are included in the statement of net assets.		109,415
5 Deferred debt issuance costs were previously reported as reductions of other sources in the funds.		81,290
6 Premium on bond issuance was previously reported as an increase in other sources in the funds.		(11,503)
7 Other long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		(280,112)
19 Net Assets of Governmental Activities	\$	8,469,083

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

ORANGEFIELD ISD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2010

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 3,805,501	\$ 458,686	\$ 567,603	\$ 4,831,790
5800 State Program Revenues	7,931,668	277,868	238,966	8,448,502
5900 Federal Program Revenues	49,442	-	2,221,011	2,270,453
5020 Total Revenues	11,786,611	736,554	3,027,580	15,550,745
EXPENDITURES:				
Current:				
0011 Instruction	5,903,170	-	1,644,101	7,547,271
0012 Instructional Resources and Media Services	217,642	-	45,515	263,157
0013 Curriculum and Instructional Staff Development	265,858	-	34,277	300,135
0021 Instructional Leadership	120,509	-	21,914	142,423
0023 School Leadership	735,782	-	3,320	739,102
0031 Guidance, Counseling and Evaluation Services	425,819	-	10,589	436,408
0032 Social Work Services	20,373	-	-	20,373
0033 Health Services	165,637	-	1,367	167,004
0034 Student (Pupil) Transportation	574,206	-	112,489	686,695
0035 Food Services	36,820	-	934,718	971,538
0036 Extracurricular Activities	741,466	-	163,590	905,056
0041 General Administration	564,391	-	-	564,391
0051 Facilities Maintenance and Operations	1,879,890	-	12,616	1,892,506
0052 Security and Monitoring Services	29,869	-	-	29,869
0053 Data Processing Services	39,526	-	-	39,526
0061 Community Services	1,233	-	-	1,233
Debt Service:				
0071 Debt Service - Principal on Long Term Debt	-	230,000	-	230,000
0072 Debt Service - Interest on Long Term Debt	-	493,891	-	493,891
0073 Debt Service - Bond Issuance Cost and Fees	-	650	-	650
Capital Outlay:				
0081 Facilities Acquisition and Construction	88,531	-	555,704	644,235
6030 Total Expenditures	11,810,722	724,541	3,540,200	16,075,463
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(24,111)	12,013	(512,620)	(524,718)
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	107	-	175,136	175,243
8911 Transfers Out (Use)	(175,136)	-	(107)	(175,243)
7080 Total Other Financing Sources (Uses)	(175,029)	-	175,029	-
1200 Net Change in Fund Balances	(199,140)	12,013	(337,591)	(524,718)
0100 Fund Balance - September 1 (Beginning)	2,514,486	440,984	470,787	3,426,257
3000 Fund Balance - August 31 (Ending)	\$ 2,315,346	\$ 452,997	\$ 133,196	\$ 2,901,539

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

ORANGEFIELD ISD
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED AUGUST 31, 2010

Total Net Change in Fund Balances - Governmental Funds	\$	(524,718)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation.		(208,841)
Capital Outlays	\$ 745,969	
Depreciation Expense	(954,810)	
Property taxes revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		19,841
Prior year delinquent taxes collected in year ended August 31, 2010	(\$80,903)	
Current year uncollected levy net of allowance for uncollectible portion	100,744	
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds. This transaction has no effect on net assets.		230,000
Governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the treatment of long-term debt and related items.		(2,887)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. Conversely, certain items reported as expenditures in the governmental funds are considered assets in the governmental-wide statements.		4,312
Compensated absences	(\$2,813)	
Deferred expenditures	7,125	
Change in Net Assets of Governmental Activities	\$	(482,293)

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

FIDUCIARY FUND FINANCIAL STATEMENTS

ORANGEFIELD ISD
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2010

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 69,651
Total Assets	<u>\$ 69,651</u>
LIABILITIES	
Due to Other Funds	\$ 216
Due to Student Groups	<u>69,435</u>
Total Liabilities	<u>\$ 69,651</u>

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

NOTES TO THE FINANCIAL STATEMENTS

ORANGEFIELD INDEPENDENT SCHOOL DISTRICT

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

The Board of Trustees ("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 these funding source 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" and there are no component units included within this reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges for services such as food service or extracurricular activities and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

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

ORANGEFIELD INDEPENDENT SCHOOL DISTRICT

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

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

Grant revenues and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental fund:

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

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

Additionally, the government reports the following other 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Districts also have the *option* of following subsequent private-sector guidance for their business-type activities, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as *program revenues* include 1) charges for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

ORANGEFIELD INDEPENDENT SCHOOL DISTRICT

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

In accordance with the FASRG, the District has adopted and installed an accounting system, which exceeds the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure presented in the Accounting Code Section of the FASRG. Mandatory codes are utilized in the form provided in that section.

D. ASSETS, LIABILITIES, AND NET ASSETS

1. Cash and cash equivalents

The District's cash and cash equivalents are considered to be cash on hand and demand deposits.

2. Property taxes

Property tax receivables are shown net of an allowance for uncollectibles. The property tax receivable allowance is equal to 32% of the outstanding property taxes at August 31, 2010.

3. Inventories

The purchase method is used to account for inventories of food products, school supplies and athletic equipment. Under this method, these items are recorded as an expenditure when purchased.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment of the District is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	30
Building improvements	30
Equipment	5-18
Buses	10
Vehicles	10

ORANGEFIELD INDEPENDENT SCHOOL DISTRICT

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, AND NET ASSETS (CONTINUED)

5. *Compensated absences*

District employees, working under a 260 day per year arrangement (custodians and maintenance employees), earn vacation days on an annual basis. Vacations are to be taken within the same year they are earned. Any liability would be immaterial and none has been accrued in the accompanying financial statements. The District has a local sick leave policy, which provides for an accrual of five days of state leave and five days of local leave per year. Unused local days accumulate to a maximum of 20 days. The District also has a policy for extended sick leave with reduced benefits in the case of a catastrophic illness. Upon retirement from the District, an employee is paid for each day of accrued leave to a maximum of 75 days at a rate of either \$100 or \$50 based on classification of employment. This program represents the only potential non-payroll cost to the District. The liability estimate assumes thirty percent of the eligible employees will retire from the District under the terms of the plan and the other seventy percent will leave the District prior to retirement or are otherwise ineligible. This liability is estimated to be \$108,263 at August 31, 2010.

6. *Long-term obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts and bond issuance costs, which are reported as deferred charges are amortized over the term of the related debt.

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

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Designations of fund balance are included in Unrestricted Net Assets in the government-wide Statement of Net Assets.

At August 31, 2010, Reserved Fund Balance includes reserves of \$81,498 for Food Service, \$452,997 for Debt Service, \$65 for Capital Projects and \$51,633 for Campus Activities.

8. *Use of estimates*

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

ORANGEFIELD INDEPENDENT SCHOOL DISTRICT

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

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

Formal budgetary accounting is employed for all required Governmental Fund Types, as outlined in TEA's FASRG module, and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles. The budget is prepared and controlled at the function level within each organization to which responsibility for controlling operations is assigned.

The official school budget is prepared for adoption for required Governmental Fund Types prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The budget is formally adopted by the Board at a public meeting held at least ten days after public notice has been given.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, the Debt Service Fund and the Food Service Special Revenue Fund. The remaining special revenue funds adopt project-length budgets, which do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

B. REQUIRED INDIVIDUAL FUND DISCLOSURES

For the year ended August 31, 2010, Instruction, Instructional Resources and Media Services, Curriculum and Instructional Staff Development, Social Work Services, Food Services, and Security and Monitoring Services expenditures in the General Fund exceeded appropriations by immaterial amounts. Actual expenditures in excess of the budgeted line item are due primarily to the recording of year-end salary accruals and payables.

C. DATA CONTROL CODES

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

D. HEALTH CARE

The District contributes to the State sponsored healthcare program \$170 per month per employee (in addition to the \$75 per month that is provided by the State of Texas). Employees, at their option, contribute for dependent coverage through payroll withholdings.

The District does not provide any post-retirement health benefits to its employees.

E. RISK MANAGEMENT AND PARTICIPATION IN RISK POOLS

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Most of these risks are protected by insurance. There were no significant reductions in coverage in the past fiscal year, and there were no settlements or significant losses exceeding insurance coverage or state and federal reimbursement awards for each of the past three fiscal years.

ORANGEFIELD INDEPENDENT SCHOOL DISTRICT

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

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

E. RISK MANAGEMENT AND PARTICIPATION IN RISK POOLS (CONTINUED)

The District participates in the following risk pools:

During the year ended August 31, 2010, 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 workers' 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.

The estimated liability for open claims is reported in the General Fund at August 31, 2010 and is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements, and the amount of loss can be reasonably estimated. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the liability does not result necessarily in an exact amount. The liability booked is the undiscounted estimate of the actuary. Changes in the balances of claims liabilities during the most recent two years are as follow:

	<u>2010</u>	<u>2009</u>
Claims liabilities (including incurred but not reported), beginning of year	\$ 48,034	\$ 54,283
Incurred claims	17,598	8,764
Claims paid	<u>(18,191)</u>	<u>(15,013)</u>
Claims liabilities (including incurred but not reported), end of year	<u>\$ 47,441</u>	<u>\$ 48,034</u>

The Fund engages the services of independent auditors to conduct a financial audit after the close of each plan year on August 31. This 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.

During the year ended August 31, 2010, Orangefield Independent School 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 obligation 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.

ORANGEFIELD INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
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NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

E. RISK MANAGEMENT AND PARTICIPATION IN RISK POOLS (CONTINUED)

The Fund engages the services of an independent auditor 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.

During the year ended August 31, 2010, the District participated in the TASB Risk Management Fund's Property Casualty Program with coverage as follows:

Auto Liability	Manuscript Special
Auto Physical Damage	Property
Equipment Breakdown	Sexual Misconduct Endorsement
General Liability	SP Legal Liability

The Fund was created and is operated under the provision of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for the Property Casualty Program. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2010, the Fund anticipates that Orangefield Independent School District has no additional liability beyond the contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor 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.

NOTE 3. BUDGETARY LEGAL COMPLIANCE

The Official Budget was prepared for adoption for the General Fund, Food Service Fund and Debt Service Fund prior to August 20, 2009 and was adopted by the Board on August 31, 2009. The budget is prepared by fund, function, object, and organization. The budget is controlled at the organizational level by the appropriate department head or campus principal within Board allocations. Therefore, organizations may transfer appropriations as necessary without the approval of the Board unless the intent is to cross fund or function or increase the overall budget allocations. Control of appropriations by the Board is maintained within Fund Groups at the function code level and revenue object code level.

The Budget is formally adopted by the Board at a duly advertised public meeting in accordance with law prior to the expenditure of funds. The approved budget is filed with the Texas Education Agency (TEA) through the Public Education Information Management System.

Should any change in the approved budget be required, budget amendment requests are presented to the Board for consideration. Amendments are to be requested and approved before the fact and once approved are reflected in the official minutes. The Board approved the final amendment on August 31, 2010.

ORANGEFIELD INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
AT AND FOR THE
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NOTE 4. DEPOSITS AND INVESTMENTS

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

1. Cash Deposits: At August 31, 2010, the carrying amount of the District's cash, savings and time deposits was \$341,881. The bank balance was \$426,528. During 2009 - 2010, the District's combined deposits were fully-insured by federal depository insurance or securities pledged to the District and held by the depository's agent 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.

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 restricts, (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.

3. Deposit and Investment Risks:

Interest rate risk. In accordance with its investing policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to one year or less.

Credit risk. For fiscal year 2010, the District invested in Lone Star Investment Pool. Lone Star Investment Pool is duly chartered by the State of Texas Interlocal Cooperation Act and is administered by First Public, LLC formerly the Texas Association of School Boards Financial Services. The District's investments in Lone Star Investment Pool were rate AAAs/s1+ by Standard & Poor's Investors Service.

Concentration of credit risk. The District's investment policy does not limit an investment in any one issuer. The District monitors the need to diversify investments on a regular basis.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of August 31, 2010, District deposits at the local depository were insured and collateralized with securities held by the depository's agent and in the District's name.

ORANGEFIELD INDEPENDENT SCHOOL DISTRICT

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

NOTE 4. DEPOSITS AND INVESTMENTS (CONTINUED)

3. Deposit and Investment Risks (Continued):

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District is not exposed to custodial risk due to the fact that investments are insured or registered, or the investments are held by the District or its agent in the District’s name.

The District’s investment at August 31, 2010 is shown below:

	<u>Maturity</u>	<u>Fair Value</u>
Lone Star Investment Pool	N/A	<u>\$ 2,280,062</u>

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.

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.

Fair values of Lone Star Investment Pool Liquidity Plus fund are based on quoted market prices of the underlying assets as provided by the Fund Sponsor, Texas Association of School Boards, Inc. These investments are reported by the District at cost which approximates fair value. Governmental Accounting Standards Board Statement (GASB) No. 31, “Accounting and Financial Reporting for Certain Investments and for External Investment Pools” allows the reporting of these investments at cost due to short-term maturities.

ORANGEFIELD INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
AT AND FOR THE
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NOTE 5. PROPERTY TAXES

Property taxes are considered available when collected within the current period. The District levies its taxes on October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. The net assessed value of the property tax roll on August 1, 2009, upon which the levy for the 2009 - 2010 fiscal year was based, was \$355,266,068. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to both penalty and interest charges plus 15 % delinquent collection fees for attorney costs.

The tax rates assessed for the year ended August 31, 2010, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.04 and \$0.13 per \$100 valuation, respectively, for a total of \$1.17 per \$100 valuation.

Current tax collections for the year ended August 31, 2010 were 95.38% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of August 31, 2010, property taxes receivable, net of estimated uncollectible taxes of \$134,564 and \$17,641, totaled \$285,948 and \$37,489 for the General and Debt Service Funds, respectively.

NOTE 6. DUE FROM OTHER GOVERNMENTS

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2010, are summarized below. Federal grants shown below are passed primarily through the Texas Education Agency and are reported on the combined financial statements as Due from Other Governments.

<u>Fund</u>	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>Total</u>
General	\$ 1,006,594	\$ -	\$ 1,006,594
Special Revenue	95,796	3,682	99,478
Debt Service	<u>19,406</u>	<u>-</u>	<u>19,406</u>
Total	<u>\$ 1,121,796</u>	<u>\$ 3,682</u>	<u>\$ 1,125,478</u>

ORANGEFIELD INDEPENDENT SCHOOL DISTRICT

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

NOTE 7. CAPITAL ASSETS

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

	Balance September 1, 2009	Additions	Retirements and Transfers	Balance August 31, 2010
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 526,449	\$ -	\$ -	\$ 526,449
Capital assets, being depreciated:				
Buildings and Improvements	20,121,775	644,249	(9,400)	20,756,624
Furniture and Equipment	4,496,326	94,463	9,400	4,600,189
Property under Capital Lease	-	179,106	-	179,106
Total capital assets, being depreciated	24,618,101	917,818	-	25,535,919
Less accumulated depreciation for:				
Buildings and Improvements	(7,358,425)	(676,461)	157	(8,034,729)
Furniture and Equipment	(1,914,116)	(278,349)	(157)	(2,192,622)
Total accumulated depreciation	(9,272,541)	(954,810)	-	(10,227,351)
Total capital assets, being depreciated, net	15,345,560	(36,992)	-	15,308,568
Governmental activities capital assets, net	\$ 15,872,009	\$ (36,992)	\$ -	\$ 15,835,017

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

Governmental activities:	
11 Instruction	\$ 395,291
12 Library & Media	77,340
13 Curriculum Development & Instructional Staff Development	7,638
23 School Leadership	17,187
31 Guidance, Counseling and Evaluation Services	1,910
33 Health Services	955
34 Student (Pupil) Transportation	199,555
35 Food Services	75,430
36 Co-Curricular/Extracurricular Activities	100,255
41 General Administration	44,876
51 Facilities Maintenance and Operations	34,373
Total depreciation expense - governmental activities	\$ 954,810

ORANGEFIELD INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
AT AND FOR THE
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NOTE 8. RETIREMENT PLAN

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

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2010, 2009 and 2008, and a state contribution rate of 6.644% for fiscal year 2010 and 6.58% for fiscal years 2009 and 2008. In certain instances the reporting district is required to make all or a portion of the state's 6.644% contribution, limited to 6.4% for the period of September through December 2009 and increased to 6.644% for the period of January through August 2010. State contributions to TRS made on behalf of the Orangefield Independent School District's employees for the years ended August 31, 2010, 2009 and 2008 were \$573,436, \$538,944 and \$504,074, respectively. The Orangefield Independent School District paid additional state contributions for the years ended August 31, 2010, 2009 and 2008 in the amount of \$83,605, \$78,386 and \$77,776, respectively, on the portion of the employees' salaries that exceeded the statutory minimum and on employees funded through Federal Programs.

NOTE 9. SCHOOL DISTRICT RETIREE HEALTH PLAN

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

ORANGEFIELD INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
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NOTE 9. SCHOOL DISTRICT RETIREE HEALTH PLAN (CONTINUED)

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 \$88,916, \$83,794 and \$78,762, respectively, the active member contributions were \$57,796, \$54,466 and \$51,195, respectively and the school District's contributions were \$48,904, \$46,086 and \$43,319, respectively, which equaled the required contributions each year.

Medicare Part D On-Behalf Payments. The Medicare Prescription Drug Act of 2003, which became 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. These on behalf payments for Orangefield Independent School District for the years August 31, 2010, 2009 and 2008 were \$22,256, \$20,047 and \$18,754, respectively

NOTE 10. LONG-TERM LIABILITIES

The District's long-term liabilities consist of general obligation bonds to provide funds for the construction of major capital facilities, capital leases related to the lease purchase of equipment, and compensated absences payable. General obligation bonds and capital leases are direct obligations and pledge the full faith and credit of the District. The current requirements for general obligation bonds principal and interest expenditures are accounted for in the Debt Service Fund. The current requirements for capital leases and compensated absences payable are accounted for in the General Fund.

Changes in long-term liabilities

Long-term liability activity for the year ended August 31, 2010, was as follows:

Series	Interest Rate Payable	Amounts Original Issue	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2003	3.70 - 5.50%	\$ 7,000,000	\$ 6,525,000	\$ -	\$ 135,000	\$ 6,390,000	\$ 140,000
2004	3.90 - 5.00%	4,500,000	4,195,000	-	95,000	4,100,000	100,000
Total bonds payable - principal			10,720,000	-	230,000	10,490,000	240,000
Unamortized premium			12,003	-	500	11,503	500
Capital leases payable			-	171,849	-	171,849	35,912
Compensated absences payable			105,450	2,813	-	108,263	-
Total governmental activities long-term liabilities			<u>\$ 10,837,453</u>	<u>\$ 174,662</u>	<u>\$ 230,500</u>	<u>\$ 10,781,615</u>	<u>\$ 276,412</u>

ORANGEFIELD INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
AT AND FOR THE
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NOTE 10. LONG-TERM LIABILITIES (CONTINUED)

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ended August 31,	Governmental Obligations	
	Principal	Interest
2011	\$ 240,000	\$ 481,660
2012	250,000	468,960
2013	260,000	455,829
2014	275,000	443,332
2015	290,000	431,788
2016-2020	1,665,000	1,966,755
2021-2025	2,120,000	1,551,184
2026-2030	2,705,000	986,656
2031-2035	2,685,000	267,825
	<u>\$ 10,490,000</u>	<u>\$ 7,053,989</u>

NOTE 11. LEASE OBLIGATIONS

A. Operating Leases

Orangefield Independent School District is obligated under operating (noncapitalized) leases for equipment. For the year ended August 31, 2010, lease expenditures of \$50,706 were made from the General Fund. The following is a schedule of minimum lease payments under non-cancelable operating leases as of August 31, 2010.

Year Ended August 31	General Fund
2011	\$ 51,727
2012	45,892
2013	29,249
2014	9,811
2015	1,635
	<u>\$ 138,314</u>

B. Capital Leases

Orangefield Independent School District has entered into a lease agreement for purchase of equipment. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at present value of their future minimum lease payments as of the inception date.

ORANGEFIELD INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
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NOTE 11. LEASE OBLIGATIONS (CONTINUED)

B. Capital Leases (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of August 31, 2010 were as follows:

Year Ended August 31	General Fund	
	Principal	Interest
2011	\$ 35,912	\$ 1,832
2012	31,853	5,891
2013	33,234	4,511
2014	34,674	3,071
2015	36,176	1,568
	<u>\$ 171,849</u>	<u>\$ 16,873</u>

For the year ended August 31, 2010, lease expenditures for both operating (noncapitalized) and capital leases were a combined \$50,706.

NOTE 12. REVENUES FROM LOCAL AND INTERMEDIATE SOURCES

During the current year, revenues from local and intermediate sources consisted of the following:

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Property Taxes	\$ 3,607,610	\$ -	\$ 448,592	\$ -	\$ 4,056,202
Food Sales	-	409,738	-	-	409,738
Insurance	2,923	-	-	-	2,923
Investment Income	4,168	150	1,076	357	5,751
Penalties, interest and other tax related income	72,399	-	9,018	-	81,417
Co-curricular student activities	67,293	156,580	-	-	223,873
Other	51,108	778	-	-	51,886
Total	<u>\$ 3,805,501</u>	<u>\$ 567,246</u>	<u>\$ 458,686</u>	<u>\$ 357</u>	<u>\$ 4,831,790</u>

ORANGEFIELD INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
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NOTE 13. DEFERRED REVENUE

Deferred revenue at year-end consisted of the following:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Net Tax Revenue	\$ 285,948	\$ -	\$ 37,489	\$ 323,437
Advanced Placement Grant	-	276	-	276
 Total Deferred Revenue	 <u>\$ 285,948</u>	 <u>\$ 276</u>	 <u>\$ 37,489</u>	 <u>\$ 323,713</u>

NOTE 14. INTERFUND PAYABLES AND RECEIVABLES

Interfund balances at August 31, 2010 consisted of the following individual fund receivables and payables.

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund		
Special Revenue Funds	\$ 4,408	\$ -
Fiduciary Funds	216	-
	<u>4,624</u>	<u>-</u>
 Special Revenue Funds		
General Fund	<u>-</u>	<u>4,408</u>
 Agency Fund	<u>-</u>	<u>216</u>
	<u>\$ 4,624</u>	<u>\$ 4,624</u>

NOTE 15. RELATED PARTY TRANSACTIONS

For the year ended August 31, 2010, the District purchased \$24,734 of products and services from an entity in which a member of the Board had a financial interest.

NOTE 16. GENERAL FUND INTERFUND TRANSFER

During the fiscal year ended August 31, 2010, the Operating Fund completed the following interfund transfer:

To Special Revenue Funds for Child Nutrition Services	<u>\$ 175,136</u>
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During the fiscal year ended August 31, 2010, the Special Revenue Funds completed the following interfund transfers:

To General Fund for reimbursement of expenses	<u>\$ 107</u>
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ORANGEFIELD INDEPENDENT SCHOOL DISTRICT

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

NOTE 17. LITIGATION AND CONTINGENCIES

Prior to August 31, 2006, a general contractor invoiced the District for approximately \$420,000 in hurricane repair charges, which the District's insurance carrier has refused to pay subject to verification by an independent third-party construction consultant. To date, no acceptable supporting documentation has been provided by the general contractor. The District's August 31, 2010 financial statements do not include an accrual for this potential liability. The District does not intend to pay this claim unless the insurer receives acceptable supporting documentation and provides reimbursement. The District intends to vigorously defend any potential resultant legal action.

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectibility of any related receivable at August 31, 2010 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

_____, 2011

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

ORANGEFIELD INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX REFUNDING BONDS, SERIES 2011, dated November 1, 2011, in the aggregate principal amount of \$9,194,998.35.

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 and the bonds that are being refunded (the “Refunded Bonds”) with the proceeds of the Bonds, as described in the Order. The transcript contains certified copies of certain proceedings of the District and the Bank of New York Mellon Trust Company, N.A. (the “Escrow Agent”); the report (the “Report”) of Grant Thornton LLP (the “Verification Agent”), which verifies the sufficiency of the deposits made with the Escrow Agent for the defeasance of the Refunded Bonds and the mathematical accuracy of certain computations of the yield on the Bonds and the obligations acquired with the proceeds of the Bonds; 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 and the firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds. We have also examined executed Bonds No. R-1 and CR-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;
- (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 all taxable property located within the District, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds; and
- (3) The escrow agreement between the District and the Escrow Agent (the "Escrow Agreement") has been duly executed and delivered and constitutes a binding and enforceable agreement in accordance with its terms; the establishment of the Escrow Fund pursuant to the Escrow Agreement and the deposit made therein constitute the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds; in reliance upon the accuracy of the calculations contained in the Report, the Refunded Bonds, having been discharged and paid, are no longer outstanding and the lien on and pledge of ad valorem taxes and other revenues as set forth in the order authorizing their issuance will be appropriately and legally defeased; the holders of the Refunded Bonds may obtain payment of the principal of, redemption premium, if any, and interest in the Refunded Bonds only out of the funds provided therefor now held in escrow for that purpose by the Escrow Agent pursuant to the terms of the Escrow Agreement; and therefore the Refunded Bonds are deemed to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefor in such Escrow Agreement.

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 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.

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