

OFFICIAL STATEMENT

Dated September 29, 2009

Ratings:

S&P: "AAA/Negative Outlook"

"A+" (Unenhanced)

(See "BOND INSURANCE" and  
"OTHER INFORMATION - Ratings"  
herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations.

THE BONDS HAVE BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS"  
FOR FINANCIAL INSTITUTIONS

\$1,485,000

MAY INDEPENDENT SCHOOL DISTRICT

(Brown and Comanche Counties, Texas)

UNLIMITED TAX REFUNDING BONDS, SERIES 2009

Dated: September 15, 2009

Due: As shown on Page 2 hereof

**PAYMENT TERMS...** The \$1,485,000 May Independent School District Unlimited Tax Refunding Bonds, Series 2009 (the "Bonds") will be issued in part as current interest bonds (the "Current Interest Bonds") and in part as premium capital appreciation bonds (the "Premium Capital Appreciation Bonds"), as shown on Page 2 hereof. Interest on the Current Interest Bonds will accrue from the dated date, September 15, 2009, and will be payable February 15 and August 15 of each year commencing on February 15, 2010, until maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Interest on the Premium Capital Appreciation Bonds will accrete from the date of their delivery to the Underwriter and such accreted interest will be payable at maturity on February 15, 2010 and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The sum of the principal of, initial premium, if any, and accreted interest on the Premium Capital Appreciation Bonds (the "Maturity Amount") is payable at maturity. The Current Interest Bonds will be issued as fully registered obligations in the denominations of \$5,000 of principal amount or any integral multiple thereof for any one stated maturity, and the Premium Capital Appreciation Bonds will be issued in integral multiples of \$5,000 of the Maturity Amount. **The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in authorized denominations thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof.** The principal and Maturity Amount of the Bonds and interest on the Current Interest Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is U.S. Bank National Association, Dallas, Texas (see "THE BONDS - Paying Agent/Registrar").

**AUTHORITY FOR ISSUANCE...** The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Vernon's Texas Codes Annotated ("V.T.C.A."), Government Code, Chapter 1207, as amended, and a bond order (the "Bond Order") passed by the Board of Trustees of the May Independent School District (the "District"). In the Bond Order, the District delegated pricing of the Bonds and certain other matters to a "Pricing Officer" who approved a "Pricing Certificate" (the Bond Order and the Pricing Certificate are jointly referred to herein as the "Order"). The Bonds are direct obligations of the District, payable from an ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District, as provided in the Order authorizing the Bonds (see "THE BONDS - Authority for Issuance").

**INSURANCE...** The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Corp. ("Assured Guaranty").

**ASSURED  
GUARANTY**

**PURPOSE...** Proceeds from the sale of the Bonds will be used to refund the District's outstanding obligations (the "Refunded Bonds," as described on Schedule I hereto) for debt service savings, and to pay the costs associated with the sale of the Bonds (see "PLAN OF FINANCING - Purpose").

**CUSIP<sup>(1)</sup> PREFIX: 577821 - MATURITY SCHEDULE AND 9-DIGIT CUSIP - See Schedule on Page 2**

**LEGALITY...** The Bonds are offered for delivery when, as and if issued and received by the Underwriter and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel (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., Dallas, Texas.

**DELIVERY...** It is expected that the Bonds will be available for delivery through DTC on October 28, 2009.

**MORGAN KEEGAN & COMPANY, INC.**

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. CUSIP numbers are provided for convenience of reference only. Neither the District, the Financial Advisor, nor the Underwriter take any responsibility for the accuracy of such numbers.

## MATURITY SCHEDULE

### \$45,000 PREMIUM CAPITAL APPRECIATION BONDS

Principal Amount	Maturity	Initial Offering Price per \$5,000 Amount	Initial Yield to Maturity	Total Payment at Maturity	CUSIP <sup>(1)</sup>
\$45,000.00	February 15, 2010	\$ 4,985.15	1.00%	\$ 120,000	577821CF6

(Interest to accrue from Date of Delivery)

### \$1,440,000 CURRENT INTEREST BONDS

Principal Amount	Maturity 2/15	Interest Rate	Initial Yield	CUSIP <sup>(1)</sup>
\$ 100,000	2011	2.000%	1.000%	577821BT7
105,000	2012	2.000%	1.350%	577821BU4
110,000	2013	2.000%	1.650%	577821BV2
110,000	2014	2.250%	2.000%	577821BW0
110,000	2015	2.500%	2.250%	577821BX8
115,000	2016	2.750%	2.600%	577821BY6
120,000	2017	3.000%	2.900%	577821BZ3
125,000	2018	3.250%	3.100%	577821CA7
125,000	2019	3.250%	3.250%	577821CB5
135,000	2020	4.000%	(2) 3.400%	577821CC3
140,000	2021	4.000%	(2) 3.550%	577821CD1
145,000	2022	4.000%	(2) 3.700%	577821CE9

(Accrued interest from September 15, 2009 to be added)

**OPTIONAL REDEMPTION...**The District reserves the right, at its option, to redeem Current Interest Bonds having stated maturities on and after February 15, 2020, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2019, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS - Optional Redemption").

The Premium Capital Appreciation Bonds are not subject to redemption prior to maturity.

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(2) Yield shown is yield to first call date, February 15, 2019.

*No dealer, broker, salesman or other person has been authorized by the District or the Underwriter 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 or the Underwriter. This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.*

*Certain information set forth herein has been obtained from the District and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Financial Advisor or the Underwriter. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. See "CONTINUING DISCLOSURE INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.*

*Assured Guaranty makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, Assured Guaranty has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading "BOND INSURANCE" and "Appendix D - Specimen Financial Guaranty Insurance Policy".*

*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 JURISDICTION IN WHICH THE BONDS HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.*

*NEITHER THE DISTRICT, THE UNDERWRITER, NOR THE DISTRICT'S FINANCIAL ADVISOR MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM OR ASSURED GUARANTY OR ITS BOND INSURANCE POLICY, AS SUCH INFORMATION HAS BEEN PROVIDED BY THE DEPOSITORY TRUST COMPANY AND ASSURED GUARANTY, RESPECTIVELY.*

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

*The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with and as part of, its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does 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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The cover page hereof, this page, the schedules and appendices included herein and any addenda, supplement or amendment hereto, are part of the Official Statement.

**OFFICIAL STATEMENT SUMMARY**

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

- THE DISTRICT**..... The District is a political subdivision located in Brown and Comanche Counties, Texas. The District is approximately 207 square miles in area (see “INTRODUCTION - Description of District”).
- THE BONDS** ..... The \$1,485,000 Unlimited Tax Refunding Bonds, Series 2009 are issued in part as premium capital appreciation bonds maturing on February 15, 2010 (the “Premium Capital Appreciation Bonds” or the “P-CABs”) and in part as current interest bonds maturing on February 15 in the years 2011 through 2022, inclusive (the “Current Interest Bonds,” and together with the Premium Capital Appreciation Bonds, the “Bonds”). See “THE BONDS - Description of the Bonds”.
- PAYMENT OF INTEREST** ..... Interest on the Current Interest Bonds accrues from September 15, 2009 and is due semiannually on February 15 and August 15 commencing February 15, 2010 until maturity or prior redemption. Interest on the Premium Capital Appreciation Bonds will accrete from the date of their delivery to the Underwriter and such interest will be paid at maturity on February 15, 2010. The principal, initial premium, if any, and accreted interest on the Premium Capital Appreciation Bonds is payable only at maturity (see “THE BONDS - Description of the Bonds” and “THE BONDS - Optional Redemption”).
- AUTHORITY FOR ISSUANCE**..... The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the “State”), including particularly Vernon's Texas Codes Annotated (“V.T.C.A.”), Government Code, Chapter 1207, as amended, and a bond order (the “Bond Order”) passed by the Board of Trustees of the District. In the Bond Order, the District delegated pricing of the Bonds and certain other matters to a “Pricing Officer” who approved a “Pricing Certificate” (the Bond Order and the Pricing Certificate are jointly referred to herein as the “Order”) (see “THE BONDS - Authority for Issuance”).
- SECURITY FOR THE BONDS** ..... The Bonds constitute direct obligations of the District, payable from a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, on all taxable property within the District, as provided in the Order (see “THE BONDS - Security and Source of Payment”).
- BOND INSURANCE**.....The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Corp. See “BOND INSURANCE” and “FINANCIAL GUARANTY INSURANCE RISK FACTORS” herein
- QUALIFIED TAX-EXEMPT OBLIGATIONS**..... The District **has** designated the Bonds as “Qualified Tax-Exempt Obligations” for financial institutions (see “TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions”).
- OPTIONAL REDEMPTION** ..... The District reserves the right, at its option, to redeem Current Interest Bonds having stated maturities on and after February 15, 2020, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2019, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE BONDS - Optional Redemption”).
- The Premium Capital Appreciation Bonds are not subject to redemption prior to maturity.
- TAX EXEMPTION**..... In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under the caption “TAX MATTERS” herein, including the alternative minimum tax consequences for corporations.
- USE OF PROCEEDS** ..... Proceeds from the sale of the Bonds will be used to refund the District’s outstanding obligations (as described in Schedule I hereto) (the “Refunded Bonds”) for debt service savings, and pay the costs associated with the sale of the Bonds (see “PLAN OF FINANCING – Purpose”).

**RATINGS** ..... The Bonds are rated “A+” by Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. (“S&P”) without regard to credit enhancement. The Bonds are expected to be rated “AAA/Negative Outlook” by S&P by virtue of a municipal bond insurance policy being issued by Assured Guaranty on the date of the delivery of the Bonds. In addition, the presently outstanding tax-supported debt of the District is rated “AAA” by Fitch Ratings (“Fitch”) by virtue of the guarantee of such issue by the Permanent School Fund of the State of Texas. **The Bonds will not be guaranteed by the Texas Permanent School Fund** (see “OTHER INFORMATION - Ratings”).

**BOOK-ENTRY-ONLY**

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

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

**SELECTED FINANCIAL INFORMATION**

Fiscal Year Ended 8/31	Estimated District Population <sup>(1)</sup>	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	Tax Supported Debt Outstanding at End of Year	Per Capita Tax Supported Debt	Ratio of Tax Supported Debt to Taxable Assessed Valuation	% of Total Tax Collections
2006	1,818	\$ 87,290,184	<sup>(2)</sup> \$ 48,014	\$ 1,710,000	\$ 941	1.96%	93.76%
2007	1,817	105,061,985	<sup>(2)</sup> 57,822	1,640,000	903	1.56%	93.63%
2008	1,773	112,753,864	<sup>(2)</sup> 63,595	1,565,000	883	1.39%	102.60%
2009	1,758	120,606,041	<sup>(3)</sup> 68,604	1,485,000	845	1.23%	92.78% <sup>(5)</sup>
2010	1,758	115,976,164	<sup>(3)</sup> 65,971	1,440,000 <sup>(4)</sup>	819	1.24%	N/A

(1) Source: District Officials.

(2) As reported in the District’s comprehensive annual financial report.

(3) As reported by the Brown County and Comanche County Appraisal Districts on District’s annual State Property Tax Reports; subject to change during the ensuing year.

(4) Does not include the District’s outstanding limited tax obligations (see “DEBT INFORMATION - Table 11 - Other Obligations” for a description of the District’s outstanding limited tax obligations).

(5) In the process of collection. Payments will be due by February 1, 2010.

**GENERAL FUND CONSOLIDATED STATEMENT SUMMARY**

	For Fiscal Year Ended August 31,				
	2008	2007	2006	2005	2004
Beginning Balance	\$ 715,956	\$ 583,143	\$ 547,091	\$ 520,304	\$ 252,835
Total Revenue	2,617,790	2,399,546	2,262,461	2,139,845	2,287,398
Total Expenditures	2,638,626	2,385,585	2,288,581	2,074,452	1,979,143
Other Financing Sources (Uses)	235,042	117,384	62,256	(38,606)	(40,786)
Prior Period Adjustment	(1,675)	1,468	(84)	-	-
Ending Balance	\$ 928,487	\$ 715,956	\$ 583,143	\$ 547,091	\$ 520,304

For additional information regarding the District, please contact:

Don Rhodes  
 Superintendent  
 May Independent School District  
 3400 CR 411 E  
 May, Texas 76857  
 (254) 259-2091

or

George Williford  
 Managing Director  
 First Southwest Company  
 325 North St. Paul Street, Suite 800  
 Dallas, Texas 75201  
 (214) 953-4000

**DISTRICT OFFICIALS, STAFF AND CONSULTANTS**

**ELECTED OFFICIALS**

<u>Board of Trustees</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Bo E. Allen President	22 Years	November, 2010	Oil & Gas Producer
Jeff Phillips Vice President	6 Years	November, 2012	Earth Moving Business
Ada Turner Secretary	7 Years	November, 2010	Bank Officer
Joe Crume Boardmember	12 Years	November, 2010	Rancher
Jeff Hoskinson Boardmember	3 Years	November, 2012	Scrap Metal Business Owner
Katy Lord Boardmember	Newly Elected	November, 2012	Business Owner
Kevin Mote Boardmember	4 Years	November, 2010	Wildlife Biologist

**SELECTED ADMINISTRATIVE STAFF**

<u>Name</u>	<u>Position</u>	<u>Length of Service with the District</u>	<u>Total School District Service</u>
Don Rhodes	Superintendent	34 Years	35 Years
Teresa Lawrence	Business Manager	10 Years	10 Years

**CONSULTANTS AND ADVISORS**

Auditors ..... Burl D. Lowery, CPA  
Brownwood, Texas

Bond Counsel ..... McCall, Parkhurst & Horton L.L.P.  
Dallas, Texas

Financial Advisor ..... First Southwest Company  
Dallas, Texas

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**OFFICIAL STATEMENT**

**RELATING TO**

**\$1,485,000  
MAY INDEPENDENT SCHOOL DISTRICT  
UNLIMITED TAX REFUNDING BONDS, SERIES 2009**

**INTRODUCTION**

This Official Statement, which includes the Schedules and Appendices hereto, provides certain information regarding the issuance of \$1,485,000 May Independent School District Unlimited Tax Refunding Bonds, Series 2009 (the “Bonds”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Order (hereinafter defined) authorizing the issuance and sale of the Bonds, except as otherwise indicated herein.

There follows in this Official Statement, descriptions of the Bonds and certain information regarding the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District’s Financial Advisor, First Southwest Company, Dallas, Texas.

**DESCRIPTION OF THE DISTRICT...**The May Independent School District (the “District”) is a political subdivision located in Brown and Comanche Counties, Texas. The District is governed by a seven-member Board of Trustees (the “Board”) the members of which serve staggered four-year terms with elections being held in November every two years. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. The District covers approximately 207 square miles, encompassing the City of May in northern Brown County with a small portion of the District extending into Comanche County. For additional information regarding the District, see “Appendix A – General Information Regarding the District.”

**PLAN OF FINANCING**

**PURPOSE...**The Bonds are being issued for the purpose of refunding the District’s outstanding obligations (as described on Schedule I hereto) (the “Refunded Bonds”) for debt service savings and to pay the costs of issuance of the Bonds. See Schedule I for a detailed listing of the Refunded Bonds and their redemption date and price.

**REFUNDED BONDS...** The payments due on the Refunded Bonds are to be paid on the redemption date of such Refunded Bonds, from funds to be deposited pursuant to a certain Escrow Agreement (the “Escrow Agreement”) between the District and U.S. Bank, National Association, Dallas, Texas (the “Escrow Agent”). The Order provides that from the proceeds of the sale of the Bonds received from the Underwriter, the District will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds on their redemption date. 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 (the “Federal Securities”). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds and amounts therein will not be available to pay the Bonds. The Paying Agent/Registrar for the Refunded Bonds will determine and certify at the time of delivery of the Bonds that the amounts deposited to the Escrow Fund will equal an amount sufficient to pay, on the scheduled redemption date, the principal of and interest on the Refunded Bonds. Investment earnings on amounts in the Escrow Fund will be paid to the District once the Refunded Bonds are paid in full.

By the deposit of the Federal Securities and cash, if necessary, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of all of the Refunded Bonds in accordance with State law. The Refunded Bonds will be outstanding only for the purpose of receiving payments from the Federal Securities and any cash held for such purpose by the Escrow Agent and such Refunded Bonds will not be deemed as being outstanding obligations of the District payable from taxes nor for the purpose of applying any limitation on the issuance of debt. The District has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to make payments on the Refunded Bonds, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

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

Sources of Funds	
Par Amount of Bonds	\$ 1,485,000.00
Net Reoffering Premium	99,052.85
Accrued Interest	5,161.49
Total Sources of Funds	<u>\$ 1,589,214.34</u>
Uses of Funds	
Deposit to Current Refunding Fund	\$ 1,507,450.31
Deposit to Debt Service Fund	5,851.25
Cost of Issuance and Underwriter's Discount <sup>(1)</sup>	75,912.78
Total Uses of Funds	<u>\$ 1,589,214.34</u>

(1) Includes bond insurance premium.

## THE BONDS

**DESCRIPTION OF THE BONDS...** The Bonds will be dated September 15, 2009 (the "Dated Date") and will be issued in part as current interest bonds (the "Current Interest Bonds") and in part as premium capital appreciation bonds (the "Premium Capital Appreciation Bonds" or "P-CABs"). The Current Interest Bonds will bear interest from the Dated Date and will mature on the dates and in the principal amounts set forth on page 2 of this Official Statement. The P-CABs will mature on the date and in the Maturity Amount set forth on page 2 of this Official Statement. The P-CABs will accrete in value commencing on the date of initial delivery to the Underwriter at the approximate yield based upon the initial offering price to the public, which is set forth on page 2 of this Official Statement. Interest on the Bonds will be computed or calculated on the basis of a 360 day year of twelve 30-day months. Interest on the Current Interest Bonds is payable on each August 15 and February 15, commencing February 15, 2010, until maturity or prior redemption. Accreted interest on the P-CABs will be paid at maturity on February 15, 2010. See "THE BONDS – Yield on Premium Capital Appreciation Bonds."

The Bonds will be issued only in fully registered form in any integral multiple of \$5,000 of principal amount (with respect to the Current Interest Bonds) or Maturity Amount (with respect to the P-CABs), or any integral multiple thereof 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 and interest on the Current Interest Bonds and the Maturity Amount of the P-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" herein.

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

In the Bond Order, the Board delegated to the Superintendent of Schools or the Business Manager, pursuant to certain provisions of Chapter 1207, authority to complete the sale of the Bonds. The terms of the sale are included in a "Pricing Certificate" which completed the sale of the Bonds (the Bond Order and the Pricing Certificate are collectively referred to as the "Order").

**SECURITY AND SOURCE OF PAYMENT...**All taxable property within the District is subject to a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, sufficient to provide for the payment of principal of and interest on the Bonds.

**OPTIONAL REDEMPTION...**The District reserves the right, at its option, to redeem Current Interest Bonds having stated maturities on and after February 15, 2020, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2019, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Current Interest Bonds are to be redeemed, the District may select the maturities of Current Interest Bonds to be redeemed. If less than all the Current Interest Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Current Interest Bonds, or portions thereof, within such maturity to be redeemed.

The Premium Capital Appreciation Bonds are not subject to redemption prior to maturity.

**NOTICE OF REDEMPTION...** Not less than 30 days prior to a redemption date for the Current Interest Bonds, a notice of redemption will be sent by United States mail, first class postage prepaid, in the name of the District and at the District's expense, by the Paying Agent/Registrar to each registered owner of a Current Interest Bond to be redeemed in whole or in part at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on

the business day next preceding the date of mailing such notice, and any notice of redemption so mailed will be conclusively presumed to have been duly given irrespective of whether received by the registered owner.

With respect to any optional redemption of the Current Interest Bonds, unless certain prerequisites to such redemption required by the Order have been met and money sufficient to pay the principal of and premium, if any, and interest on the Current Interest Bonds to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice will state that said redemption may, at the option of the District, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the District will not redeem such Current Interest Bonds, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that such Current Interest Bonds have not been redeemed.

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

**DEFEASANCE...** The Order provides for the defeasance of the Bonds when the payment of the Maturity Amount of the Premium Capital Appreciation Bonds or the principal of the Current Interest Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with the Paying Agent/Registrar or other authorized escrow agent, in trust (1) money sufficient to make such payment or (2) Defeasance Securities to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money, together with any moneys deposited therewith, if any, to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds. The Order provides that "Defeasance Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. Provided, however, the District has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Current Interest Bonds which have been defeased to their maturity date, if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Current Interest Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Current Interest Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

**AMENDMENTS...** In the Order, the District has reserved the right to amend the Order without the consent of any holder for the purpose of amending or supplementing the Order to (i) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the holders, (ii) grant additional rights or security for the benefit of the holders, (iii) add events of default as shall not be inconsistent with the provisions of the Order that do not materially adversely affect the interests of the holders, (iv) qualify the Order under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect or (v) make such other provisions in regard to matters or questions arising under the Order that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the District, do not materially adversely affect the interests of the holders.

The Order further provides that the holders of the Bonds aggregating in principal amount of a majority of the outstanding Bonds shall have the right from time to time to approve any amendment not described above to the Order if it is deemed necessary or desirable by the District; provided, however, that without the consent of 100% of the holders in original principal amount of the then outstanding Bonds, no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Bonds; (ii) reducing the rate of interest borne by any of the outstanding Bonds; (iii) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Bonds; (iv) modifying the terms of payment of principal or of interest or redemption premium on outstanding Bonds, or imposing any condition with respect to such payment; or (v)

changing the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment. Reference is made to the Order for further provisions relating to the amendment thereof.

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

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

The Depository Trust Company, New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for the Bonds in the aggregate principal amount or Maturity Amount thereof and will be deposited with DTC.

DTC, the world's largest 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, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owners entered into the transaction. Transfers of ownership interest in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 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 Participant to whose account such Bonds are credited, which may or may not be the Beneficial Owners. The 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.

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

Neither DTC nor Cede & Co. will consent or vote with respect to the 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal, interest and Maturity Amount payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar on payable dates 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 in 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, 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, interest and Maturity Amount to DTC is the responsibility of the District, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

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

*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.

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

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

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

In the event the Book-Entry-Only System should be discontinued, interest on the Current Interest Bonds will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest will be paid (i) by check sent United States mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal and Maturity Amount of the Bonds will be paid to the registered owner at the stated maturity or earlier redemption (with respect to the Current Interest Bonds) upon presentation to the designated payment/transfer office of the Paying Agent/Registrar. If the date for any payment on the Bonds is a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated

payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due. So long as Cede & Co. is the registered owner of the Bonds, payments of principal of and interest on the Bonds will be made as described in "THE BONDS - Book-Entry-Only System," above.

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

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

**YIELD ON PREMIUM CAPITAL APPRECIATION BONDS...**The original principal amount of a Premium Capital Appreciation Bond plus the initial premium, if any, paid therefor with interest thereon accreted to February 15, 2010, using the yield to maturity stated on page 2, means the "Maturity Amount" for the Premium Capital Appreciation Bonds. The yields on the Premium Capital Appreciation Bonds to a particular purchaser may differ depending upon the price paid by that purchaser. For various reasons, securities that do not pay interest periodically, such as the Premium Capital Appreciation Bonds, have traditionally experienced greater price fluctuation in the secondary market than securities that pay interest on a periodic basis.

**BONDHOLDERS' REMEDIES...** The Order establishes specific events of default with respect to the Bonds. If the District defaults in the payment of the principal of or interest on the Bonds when due or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Order, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the District, the Order provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions, as well as enforce rights of payment under the Permanent School Fund Guarantee. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Order and the District's obligations are not uncertain or disputed. The remedy 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 ruled in *Tooke v. City of Mexia* 197 S.W.3d 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. 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. 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.

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## BOND INSURANCE

*The following information has been supplied by Assured Guaranty Corp. (“Assured Guaranty” or the “Insurer”) for inclusion in this Official Statement. No representation is made by the District, the Financial Advisor or the Underwriter as to the accuracy or completeness of the information.*

*The following information is not complete and reference is made to Appendix D for a specimen of the financial guaranty insurance policy (the “Policy”) of Assured Guaranty.*

### THE INSURANCE POLICY

Concurrently with the issuance of the Bonds, Assured Guaranty will issue its Policy for the Bonds. The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as Appendix D to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

### THE INSURER

Assured Guaranty is a Maryland-domiciled insurance company regulated by the Maryland Insurance Administration and licensed to conduct financial guaranty insurance business in all fifty states of the United States, the District of Columbia and Puerto Rico. Assured Guaranty commenced operations in 1988. Assured Guaranty is a wholly owned, indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO.” AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, structured finance and mortgage markets. Neither AGL nor any of its shareholders is obligated to pay any debts of Assured Guaranty or any claims under any insurance policy issued by Assured Guaranty.

Assured Guaranty’s financial strength is rated “AAA” (negative outlook) by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. (“S&P”), “Aa2” (on review for possible downgrade) by Moody’s Investors Service, Inc. (“Moody’s”) and “AA” (ratings watch negative) by Fitch, Inc. (“Fitch”). Each rating of Assured Guaranty should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by Assured Guaranty. Assured Guaranty does not guaranty the market price of the securities it guarantees, nor does it guaranty that the ratings on such securities will not be revised or withdrawn.

### RECENT DEVELOPMENTS

#### RATINGS

On July 1, 2009, S&P published a Research Update in which it affirmed its “AAA” counterparty credit and financial strength ratings on Assured Guaranty. At the same time, S&P revised its outlook on Assured Guaranty to negative from stable. Reference is made to the Research Update, a copy of which is available at [www.standardandpoors.com](http://www.standardandpoors.com), for the complete text of S&P’s comments.

On May 20, 2009, Moody’s issued a press release stating that it had placed the “Aa2” insurance financial strength rating of Assured Guaranty on review for possible downgrade. Subsequently, in an announcement dated July 24, 2009 entitled “Moody’s Comments on Assured’s Announcement to Guarantee and Delist FSA Debt”, Moody’s announced that it expected to conclude its review by mid-August 2009. Reference is made to the press release and the announcement, copies of which are available at [www.moodys.com](http://www.moodys.com), for the complete text of Moody’s comments.

In a press release dated August 10, 2009, Fitch revised its outlook on Assured Guaranty to negative from evolving. Reference is made to the press release, a copy of which is available at [www.fitchratings.com](http://www.fitchratings.com), for the complete text of Fitch’s comments.

There can be no assurance as to the outcome of Moody’s review, or as to the further action that Fitch or S&P may take with respect to Assured Guaranty.

For more information regarding Assured Guaranty’s financial strength ratings and the risks relating thereto, see AGL’s Annual Report on Form 10-K for the fiscal year ended December 31, 2008, which was filed by AGL with the Securities and Exchange Commission (“SEC”) on February 26, 2009, AGL’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009, which was filed by AGL with the SEC on May 11, 2009, and AGL’s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2009, which was filed by AGL with the SEC on August 10, 2009.

## ACQUISITION OF FSA

On July 1, 2009, AGL acquired the financial guaranty operations of Financial Security Assurance Holdings Ltd. (“FSA”), the parent of financial guaranty insurance company Financial Security Assurance Inc. For more information regarding the acquisition by AGL of FSA, see Item 1.01 of the Current Report on Form 8-K filed by AGL with the SEC on July 8, 2009.

### *CAPITALIZATION OF ASSURED GUARANTY CORP.*

As of June 30, 2009, Assured Guaranty had total admitted assets of \$1,950,949,811 (unaudited), total liabilities of \$1,653,306,246 (unaudited), total surplus of \$297,643,565 (unaudited) and total statutory capital (surplus plus contingency reserves) of \$1,084,906,800 (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

### *INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE*

The portions of the following documents relating to Assured Guaranty are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- the Annual Report on Form 10-K of AGL for the fiscal year ended December 31, 2008 (which was filed by AGL with the SEC on February 26, 2009);
- the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009 (which was filed by AGL with the SEC on May 11, 2009);
- the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2009 (which was filed by AGL with the SEC on August 10, 2009); and
- the Current Reports on Form 8-K filed by AGL with the SEC relating to the periods following the fiscal year ended December 31, 2008.

All consolidated financial statements of Assured Guaranty and all other information relating to Assured Guaranty included in documents filed by AGL with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds shall be deemed to be incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such consolidated financial statements.

Any statement contained in a document incorporated herein by reference or contained herein under the heading “BOND INSURANCE-The Insurer” shall be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any subsequently filed document which is incorporated by reference herein also modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

Copies of the consolidated financial statements of Assured Guaranty incorporated by reference herein and of the statutory financial statements filed by Assured Guaranty with the Maryland Insurance Administration are available upon request by contacting Assured Guaranty at 31 West 52nd Street, New York, New York 10019 or by calling Assured Guaranty at (212) 974-0100. In addition, the information regarding Assured Guaranty that is incorporated by reference in this Official Statement that has been filed by AGL with the SEC is available to the public over the Internet at the SEC’s web site at <http://www.sec.gov> and at AGL’s web site at <http://www.assuredguaranty.com>, from the SEC’s Public Reference Room at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, and at the office of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

Assured Guaranty makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, Assured Guaranty has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading “BOND INSURANCE.”

## **FINANCIAL GUARANTY INSURANCE RISK FACTORS**

### **FINANCIAL GUARANTY INSURER**

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the Policy for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption, other than any advancement of maturity pursuant to a



mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the District which is recovered by the District from the Bondholder as a voidable preference under applicable bankruptcy law is covered by the Policy, however, such payments will be made by the Insurer at such time and in such amounts as would have been due absent such prepayment by the District unless the Insurer chooses to pay such amounts at an earlier date.

Under no circumstances does default of payment of principal and interest obligate acceleration of the obligations of the Insurer without their consent.

In the event the Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the moneys received by the Paying Agent pursuant to the Order. In the event the Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

The long-term ratings on the Bonds are dependent in part on the financial strength of the Insurer and its claim paying ability. The Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Insurer and of the ratings on the Bonds insured by the Insurer will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See description "OTHER INFORMATION - Ratings" herein.

The obligations of the Insurer are general obligations of the Insurer and in an event of default by the Insurer, the remedies available to the Bondholders may be limited by applicable bankruptcy law or other similar laws related to insolvency.

Neither the District nor the Underwriter have made independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is given.

## **STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS**

### **RECENT LITIGATION RELATING TO THE TEXAS PUBLIC SCHOOL FINANCE SYSTEM**

On April 9, 2001, four property wealthy districts filed suit in the 250th District Court of Travis County, Texas (the "District Court") against the Texas Education Agency, the Texas State Board of Education, the Texas Commissioner of Education (the "Commissioner") and the Texas Comptroller of Public Accounts in a case styled *West Orange-Cove Consolidated Independent School District, et al. v. Neeley, et al.* The plaintiffs alleged that the \$1.50 maximum maintenance and operations tax rate 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.

As stated above, in West Orange-Cove I the plaintiff school districts asserted that the \$1.50 per \$100.00 of taxable assessed valuation tax that was generally authorized by State law to be levied for school maintenance and operations purposes (the "M&O Tax"), though imposed locally, had become in effect a State property tax prohibited by Article VIII, Section 1-e 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 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 system was suitable for adequately and efficiently providing a public education.

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

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

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

#### **FUNDING CHANGES IN RESPONSE TO WEST ORANGE-COVE II**

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

#### **POSSIBLE EFFECTS OF LITIGATION AND CHANGES IN LAW ON DISTRICT BONDS**

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

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

Although, as a matter of law, the Bonds, upon issuance and delivery, will be entitled to the protections afforded previously existing contractual obligations under the Contract Clauses, the District can make no representations or predictions concerning the effect of future legislation or litigation, or how such legislation or future court orders may affect the District's financial condition, revenues or operations. While the disposition of any possible future litigation or the enactment of future legislation to

address school funding in Texas could substantially adversely affect the financial condition, revenues or operations of the District, as noted herein, the District does not anticipate that the security for payment of the Bonds, specifically, the District's obligation to levy an unlimited debt service tax would be adversely affected by any such litigation or legislation. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM."

#### **EFFECTS OF THE 81<sup>ST</sup> TEXAS LEGISLATIVE SESSION**

The Texas Legislature convened in regular session on January 13, 2009, and adjourned its regular session on June 1, 2009. Numerous bills relating to education and public schools were enacted, including bills that impact school finance. However, such bills may require administrative rules or other interpretation by one or more State agencies, including the Texas Education Agency and the Comptroller of Public Accounts. This legislation generally became effective on September 1, 2009. At this time, the anticipated impact on the District from this legislation has not been determined.

### **CURRENT PUBLIC SCHOOL FINANCE SYSTEM**

#### **GENERAL**

The following description of the Finance System includes material provisions of the Reform Legislation. For a more complete description of school finance and fiscal management in the State, reference is made to Vernon's Texas Codes Annotated, Education Code, Chapters 41 through 46, as amended.

The Reform Legislation, which generally became effective at the beginning of the 2006-07 fiscal year of each district, made substantive changes to the manner in which the Finance System is funded, but did not modify the basic structure of the Finance System. The changes to the manner in which the Finance System is funded are intended to reduce local M&O Tax rates by one third over two years, with M&O Tax levies declining by approximately 11% in fiscal year 2006-07 and approximately another 22% in fiscal year 2007-08. Additional State funding needed to offset local tax rate reductions must be generated by the modified State franchise, motor vehicle and tobacco taxes or any other revenue source appropriated by the Legislature. The Legislative Budget Board ("LBB") projected that the Reform Legislation will be underfunded from the Reform Legislation revenue sources by a cumulative amount of \$25 billion over fiscal years 2006-07 through 2010-11, although State surpluses were appropriated to offset the revenue shortfall in fiscal year 2006-07 and for the 2008-09 State biennium, and the shortfall could be addressed in future years if the Reform Legislation, particularly the ad valorem tax compression measures of HB 1, should prove to be an economic stimulus for the State or if there is sustained growth in the economy of the State that generates greater State revenues than were originally forecast by the LBB.

Under the Finance System, school districts are guaranteed to receive State funding necessary to provide the district the greater of (A) the amount of State and local revenue per student for the district in the 2005-06 fiscal year, (B) the amount of State and local revenue per student the district would have been entitled to for the 2006-07 fiscal year based on the funding elements in place prior to the Reform Legislation using the M&O Tax rate the district adopted for the 2005-06 fiscal year, or (C) the amount of State and local revenue per student the district would have been entitled to for the 2006-07 fiscal year based on the funding elements in place prior to the Reform Legislation using an M&O Tax rate that would allow the district to maintain total revenue per student under the funding elements in place prior to the Reform Legislation. In addition to the greater of (A), (B) or (C), HB 1 provided a \$2,500 salary allotment to fund a salary increase for teachers and certain other employees and a high school student allotment of \$275 per student in average daily attendance for dropout prevention and college readiness programs. During the 2007 Regular Legislative Session, which convened on January 9, 2007 and adjourned on May 28, 2007, a new funding allotment was created and funded by the Legislature to provide an average \$425 salary increase for educators at each school district. State funds appropriated to provide districts the guaranteed amount may only be used for maintenance and operating purposes and not to fund facilities, debt service or other purposes. If a district adopts an M&O Tax rate in any fiscal year below a rate equal to the state compression percentage for the district in that year multiplied by the M&O Tax rate adopted by the district for the 2005-06 fiscal year, the district's guaranteed amount is reduced in a proportionate amount. If a district would receive more State and local revenue from the Tier One and Tier Two allotments and wealth equalization than the guaranteed amount described above, the amount of State funding will be reduced by the amount of such surplus over the guaranteed amount described above.

In general terms, funds are allocated to districts in a manner that requires districts to "compress" their tax rates in order to receive increased State funding at a level that equalizes local tax wealth at the 88th percentile yield for the 2006-07 fiscal year. A basic component of the funding formulas is the "state compression percentage". The state compression percentage was 88.67% for fiscal year 2006-07 and 66.67% for fiscal years 2007-08 and 2008-09. For fiscal year 2009-10 and thereafter, the Commissioner is required to determine the state compression percentage for each fiscal year based on the percentage by which a district is able to reduce its M&O Tax rate for that year, as compared to such district's adopted M&O Tax rate for the 2005-06 fiscal year, as a result of State funds appropriated for distribution for the current fiscal year from the property tax relief fund established under the Reform Legislation, or from any other funding source made available by the Legislature for school district property tax relief. For fiscal year 2009-10, the Commissioner has determined to maintain the State compression percentage at 66.67%.

## STATE FUNDING FOR LOCAL SCHOOL DISTRICTS

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

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

Tier One allotments are intended to provide all districts a basic program of education rated academically acceptable and meeting other applicable legal standards. If needed, the State will subsidize local tax receipts at a tax rate of \$.86 per \$100 of property value to ensure that the cost to a district of the basic program is met. Tier Two allotments are intended to guarantee each school district that is not subject to the wealth transfer provisions described below an opportunity to supplement that program at a level of its own choice, however Tier Two allotments may not be used for the payment of debt service or capital outlay. The cost of the basic program is based on an allotment per student known as the “Tier One Basic Allotment.” The Tier One Basic Allotment is adjusted for all districts by a cost-of-living factor known as the “cost of education index.” In addition, a district-size adjustment further adjusts the Tier One Basic Allotment for districts that (i) contain at least 300 square miles and have not more than 1,600 students in average daily attendance, (ii) contain less than 300 square miles and have not more than 1,600 students in average daily attendance or (iii) offer a kindergarten through grade 12 program and have less than 5,000 students in average daily attendance. For fiscal year 2007-08, the Tier One Basic Allotment was \$3,135 based upon a guaranteed yield of \$36.45 for each cent of tax effort. For fiscal year 2008-09, the Tier One Basic Allotment was \$3,218 based upon a guaranteed yield of \$37.42 for each cent of tax effort. Tier Two consists of State equalization funding for local M&O Tax levies that exceed \$0.86. For fiscal year 2007-08, State funding to equalize local M&O Tax levies above \$0.86, up to a district’s compressed rate, was funded at a guaranteed yield of \$36.45 per student in weighted average daily attendance (“WADA”) for each cent of tax effort; any amount above a district’s compressed rate up to \$0.04 was funded at a guaranteed yield of \$46.94 per WADA for each cent of tax effort; and any tax effort associated with a tax approved by voters at a roll back election was funded at a guaranteed yield of \$31.95 per WADA for each cent of tax effort above a district’s compressed rate plus \$0.04. For fiscal year 2008-09, these three levels of Tier Two were funded at \$37.42, \$50.98 and \$31.95, respectively. See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM - General” for a discussion of the state compression percentage.

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

State financial assistance is provided for certain existing debt issued by school districts (referred to herein as EDA) to produce a guaranteed yield (the “EDA Yield”), which for the 2006-07 State Biennium was \$35.00 (subject to adjustment as described below) in State and local revenue per student for each cent of debt service tax levy; however, for bonds that became eligible for EDA funding after August 31, 2001, and prior to August 31, 2005, EDA assistance for such eligible bonds may be less than \$35

in revenue per student for each cent of debt service tax, as a result of certain administrative delegations to the Commissioner under State law. Effective September 1, 2003, the portion of the local debt service rate that has qualified for equalization funding by the State has been limited to the first 29 cents of debt service tax or a greater amount for any year provided by appropriation by the Legislature. In general, a district's bonds are eligible for the allotment if, during the 2004-05 fiscal year, the district (i) made payments on such bonds or (ii) levied and collected debt service taxes for the payment of principal and interest on such bonds. In 2007, the Legislature appropriated funds for outstanding school district bonds that qualified in prior budget cycles for EDA allotments, provided additional EDA funding for the State's 2008-09 fiscal biennium for new bonds that qualify for the allotment and rolled forward the eligibility date from 2004-05 to 2006-07 fiscal year. A district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the district receives overlapping IFA funding.

A district may also qualify for an allotment for operational expenses associated with opening new instructional facilities. This funding source may not exceed \$25,000,000 in one school year on a State-wide basis. For the first school year in which students attend a new instructional facility, a district is entitled to an allotment of \$250 for each student in average daily attendance at the facility. For the second school year in which students attend that facility, a district is entitled to an allotment of \$250 for each additional student in average daily attendance at the facility. The new facility operational expense allotment will be deducted from wealth per student for purposes of calculating a district's Tier Two State funding.

#### **LOCAL REVENUE SOURCES - PROPERTY TAX AUTHORITY**

The primary source of local funding for school districts is ad valorem taxes levied against the local tax base. The former provision of the Education Code, Section 45.003, that in general limited the M&O Tax rate to \$1.50 per \$100 of taxable assessed value, was replaced with a formula using the state compression percentage so that the maximum tax rate that may be adopted by a district in any fiscal year is limited based on the amount of State funds to be received by the District in that year. For the 2006-07 and 2007-08 fiscal years, districts were authorized to generate additional local funds by raising their M&O Tax rate by \$0.04 above the compressed tax rates (without taking into account changes in taxable valuation) without voter approval, and such amounts generated equalized funding dollars from the State under the Tier Two program. In fiscal year 2008-09 and thereafter, districts may, in general, increase their tax rate by an additional two or more cents and receive State equalization funds for such taxing effort so long as the voters approve such tax rate increase. Many school districts, however, voted their M&O Tax under prior law and may be subject to other limitations on the M&O Tax rate. School districts are also authorized to levy a bond debt service tax that may be unlimited in rate. See "TAX INFORMATION-Tax Rate Limitations" herein. The governing body of a school district cannot adopt an annual tax rate which exceeds the district's "rollback tax rate" without submitting such proposed tax rate to the voters at a referendum election. See "TAX INFORMATION-Public Hearing and Rollback Tax Rate" herein.

#### **WEALTH TRANSFER PROVISIONS**

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

The wealth level that required wealth reduction measures for fiscal year 2006-07 was \$319,500 per student in average daily attendance. For 2007-08 that wealth level was increased to \$364,500 per student in average daily attendance with respect to that portion of a district's M&O tax effort that did not exceed its compressed tax rate, and remained at \$319,500 with respect to that portion of a district's local tax effort that was beyond its compressed rate plus \$.04. For 2008-2009 that wealth level was further increased to \$374,200 per student in average daily attendance with respect to that portion of a district's M&O tax effort that did not exceed its compressed tax rate, and remained at \$319,500 with respect to that portion of a district's local tax effort that was beyond its compressed rate plus \$.06. For 2009-2010 that wealth level has been increased to \$476,500 per student in average daily attendance with respect to that portion of a district's M&O tax effort that does not exceed its compressed tax rate, and remains at \$319,500 with respect to that portion of a district's local tax effort that is beyond its compressed rate plus \$.06. Property wealthy districts may also be able to levy up to an additional \$.06 per \$100 of assessed valuation of M&O Taxes above their compressed rate to provide revenue that is not subject to recapture.

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

A district has three options to transfer tax revenues from its excess property wealth. First, a district with excess wealth per student may purchase "attendance credits" by paying the tax revenues to the State for redistribution under the Foundation School Program. Second, it can contract to disburse the tax revenues to educate students in another district, if the payment does not

result in effective wealth per student in the other district to be greater than the equalized wealth level. Both options to transfer property wealth are subject to approving elections by the transferring district's qualified voters. Third, a wealthy district may reduce its wealth by paying tuition to a non-wealthy district for the education of students that reside in the wealthy district.

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

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

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

The District's wealth per student for the 2008-09 school year is approximately \$290,233, which 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 equalized wealth level, the District must reduce its wealth per student by the 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.

#### **TAX INFORMATION**

**AD VALOREM TAX LAW...**The appraisal of property within the District is the responsibility of the Brown and Comanche County Appraisal Districts (jointly, the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under Title I of the Texas Tax Code (the "Property Tax Code") to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the property's market value in the most recent tax year in which the market value was determined by the Appraisal District or (2) the sum of (a) 10% of the property's appraised value for the preceding tax year, (b) the appraised value of the property for the preceding tax year and (c) the market value of all new improvements to the property. The value placed upon property within each respective Appraisal District is subject to review by an Appraisal Review Board, consisting of members appointed by the Board of Directors of each respective Appraisal District. Each respective Appraisal District is required to review the value of property within each respective Appraisal District at least every three years. The District may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the District by petition filed with the appropriate Appraisal Review Board.

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

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

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

\$15,000; and an additional

\$10,000 for those 65 years of age or older, or the disabled. A person over 65 and disabled may receive only one \$10,000 exemption, and only one such exemption may be received per family, per residence homestead.

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

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

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

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

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

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

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

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

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

A city or county may create a tax increment financing district (“TIF”) within the city or county with defined boundaries and establish a base value of taxable property in the TIF at the time of its creation. Overlapping taxing units, including school

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

**TAX RATE LIMITATIONS...** A school district is authorized to levy maintenance and operation taxes ("M&O Tax") subject to approval of a proposition submitted to district voters. The maximum M&O Tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next succeeding paragraph. The maximum voted M&O Tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on April 3, 1954 under the predecessor statutes to Section 45.003, Texas Education Code.

The maximum tax rate per \$100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) \$1.50, or such lower rate as described in the preceding paragraph, and (B) the sum of (1) the rate of \$0.17, and (2) the product of the “state compression percentage” multiplied by \$1.50. The state compression percentage was 88.67% for fiscal year 2006-07 and 66.67% for fiscal years 2007-08 and 2008-09. For fiscal year 2009-10 and thereafter, the Commissioner is required to determine the state compression percentage for each fiscal year which is based on the amount of State funds appropriated for distribution to the District for the current fiscal year (for a more detailed description of the state compression percentage, see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM - General”). For fiscal year 2009-10, the Commissioner has determined to maintain the State compression percentage at 66.67%. Furthermore, a school district cannot annually increase its tax rate in excess of the district’s “rollback tax rate” without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate. See “TAX INFORMATION - Public Hearing and Rollback Tax Rate.”

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

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



test from a tax rate of \$0.45 per \$100 of valuation. The District has not used projected property values to satisfy this threshold test.

**PUBLIC HEARING AND ROLLOVER 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 - General" for a description of the "state compression percentage").

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.

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

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

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

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

Taxes levied by the District are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with tax liens of all other such taxing units. A tax lien on real property has priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. Personal property under certain circumstances is subject to seizure and sale for the payment of

delinquent taxes, penalty and interest. 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. The ability of the District to collect delinquent taxes by foreclosure may be adversely affected by the amount of taxes owed to other taxing units, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of a taxpayer's debt. **Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.**

**DISTRICT APPLICATION OF TAX CODE...**Aside from State mandated exemptions of \$15,000 for general homestead and an additional \$10,000 for persons who are over 65 years old or older and who are disabled, the District does not grant any other local exemptions.

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

See Table 1 for a listing of the amounts of the exemptions described above.

Ad valorem taxes are not levied by the District against the exempt value of residence homesteads for the payment of debt.

The District does not tax non-business personal property; and Brown County Appraisal District collects taxes for the District.

The District does not permit split payments, and discounts are not allowed.

The District does tax freeport property.

The District has not taken action to tax goods-in-transit.

The District does not participate in an TIFs.

The District has not adopted a tax abatement policy.

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

2008/09 Market Valuation Established by the Appraisal District (excluding totally exempt property)		\$ 336,211,975
Less Exemptions/Reductions at 100% Market Value:		
Homestead Exemption	\$ 9,429,759	
Homestead Exemption (Over-65)	2,905,939	
Veterans Exemption Loss	368,581	
Productivity Loss	196,457,033	
Solar/Wind Exemption Loss	40,601	
10% Cap Loss	2,043,151	
Freeze Loss	4,360,870	<u>215,605,934</u>
2008/09 Taxable Assessed Valuation		\$ 120,606,041
2009/10 Taxable Assessed Valuation <sup>(1)</sup>		\$ 115,976,164
Debt Payable from Ad Valorem Taxes as of September 15, 2009		
The Bonds		<u>1,485,000</u>
Total Debt Payable from Ad Valorem Taxes <sup>(2)</sup>		\$ 1,485,000
Ratio Tax Supported Debt to Taxable Assessed Valuation		1.28%

2009/10 Estimated Population - 1,758  
Per Capita 2009/10 Taxable Assessed Valuation - \$65,971  
Per Capita Debt Payable from Ad Valorem Taxes - \$845

- (1) Detail for 2009/10 tax roll exemptions is not currently available.  
(2) Excludes the Refunded Bonds. Does not include the District's outstanding limited tax obligations (see "DEBT INFORMATION - Table 11 - Other Obligations" for a description of the District's outstanding limited tax obligations).

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**TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY**

Category	Taxable Appraised Value for Fiscal Year Ended August 31,					
	2009		2008		2007	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 50,549,110	15.03%	\$ 45,107,510	14.20%	\$ 43,126,290	17.33%
Real, Residential, Multi-Family	34,760	0.01%	34,760	0.01%	34,760	0.01%
Real, Vacant Lots/Tracts	12,919,781	3.84%	13,476,071	4.24%	13,671,901	5.49%
Real, Acreage (Land Only)	211,821,110	63.00%	207,658,520	65.37%	143,027,840	57.47%
Real, Farm and Ranch Improvements	32,470,561	9.66%	29,001,520	9.13%	27,726,580	11.14%
Real, Commercial	993,010	0.30%	974,840	0.31%	944,540	0.38%
Real, Industrial	388,230	0.12%	102,190	0.03%	101,690	0.04%
Oil, Gas, and Minerals	13,244,553	3.94%	8,235,828	2.59%	7,559,525	3.04%
Real and Tangible Personal, Utilities	7,770,780	2.31%	7,316,020	2.30%	7,425,210	2.98%
Tangible Personal, Commercial	1,653,840	0.49%	818,590	0.26%	649,020	0.26%
Tangible Personal, Industrial	752,950	0.22%	1,155,570	0.36%	1,165,500	0.47%
Tangible Personal, Other, Mobile Homes	2,615,310	0.78%	2,741,560	0.86%	2,448,110	0.98%
Residential/Special Inventory	997,980	0.30%	1,046,930	0.33%	972,620	0.39%
Total Appraised Value Before Exemptions	\$ 336,211,975	100.00%	\$ 317,669,909	100.00%	\$ 248,853,586	100.00%
Less: Total Exemptions/Reductions	(215,605,934)		(204,916,045)		(143,791,601)	
Taxable Assessed Value	\$ 120,606,041		\$ 112,753,864		\$ 105,061,985	

Category	Taxable Appraised Value for Fiscal Year Ended August 31,			
	2006		2005	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 32,767,541	14.49%	\$ 27,566,880	15.62%
Real, Residential, Multi-Family	34,760	0.02%	34,760	0.02%
Real, Vacant Lots/Tracts	13,729,970	6.07%	12,560,930	7.12%
Real, Acreage (Land Only)	140,608,800	62.16%	100,968,709	57.22%
Real, Farm and Ranch Improvements	22,511,181	9.95%	20,967,068	11.88%
Real, Commercial	825,100	0.36%	790,150	0.45%
Real, Industrial	103,850	0.05%	103,500	0.06%
Oil, Gas, and Minerals	4,012,750	1.77%	2,453,480	1.39%
Real and Tangible Personal, Utilities	6,837,220	3.02%	6,864,490	3.89%
Tangible Personal, Commercial	627,030	0.28%	510,470	0.29%
Tangible Personal, Industrial	1,136,420	0.50%	892,970	0.51%
Tangible Personal, Other, Mobile Homes	1,964,500	0.87%	1,569,060	0.89%
Residential/Special Inventory	1,049,230	0.46%	1,179,900	0.67%
Total Appraised Value Before Exemptions	\$ 226,208,352	100.00%	\$ 176,462,367	100.00%
Less: Total Exemptions/Reductions	(138,918,168)		(100,705,751)	
Taxable Assessed Value	\$ 87,290,184		\$ 75,756,616	

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

NOTE: Net taxable assessed values, with the exception of Fiscal Year Ended 2009, are as reported in the District's comprehensive annual financial reports for each year.

NOTE: The District's Tax Year 2009/10 Certified Taxable Value is \$115,976,164. A category breakdown is not currently available.

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**TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY**

Fiscal Year Ended 8/31	Estimated Population <sup>(1)</sup>	Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Tax Supported Debt Outstanding at End of Year	Ratio of Tax Supported Debt to Taxable Assessed Valuation	Tax Supported Debt Per Capita
2006	1,818	\$ 87,290,184	<sup>(2)</sup> \$ 48,014	\$ 1,710,000	1.96%	\$ 941
2007	1,817	105,061,985	<sup>(2)</sup> 57,822	1,640,000	1.56%	903
2008	1,773	112,753,864	<sup>(2)</sup> 63,595	1,565,000	1.39%	883
2009	1,758	120,606,041	<sup>(3)</sup> 68,604	1,485,000	1.23%	845
2010	1,758	115,976,164	<sup>(3)</sup> 65,971	1,440,000 <sup>(4)</sup>	1.24%	819

(1) Source: District Officials.

(2) As reported in the District's comprehensive annual financial annual report.

(3) As reported by the Appraisal District on District's annual State Property Tax Board Reports; subject to change during the ensuing year.

(4) Projected; includes the Bonds and excludes the Refunded Bonds. Does not include the District's outstanding limited tax obligations (see "DEBT INFORMATION - Table 11 - Other Obligations" for a description of the District's outstanding limited tax obligations).

**TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY**

Fiscal Year Ended 8/31	Tax Rate	Local Maintenance	Interest & Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2006	\$ 1.4593	\$ 1.3250	\$ 0.1343	\$ 1,273,826	87.61%	93.76%
2007	1.3448	1.2148 <sup>(1)</sup>	0.1300	1,412,874	88.40%	93.63%
2008	1.1840	1.0400 <sup>(1)</sup>	0.1440	1,335,006	89.76%	102.60%
2009	1.1669	1.0400	0.1269	1,385,564	88.78%	92.78%
2010	1.1540	1.0400	0.1140	1,373,989	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>

(1) The declines in the District's Maintenance & Operation Tax for the 2006/07 and 2007/08 fiscal years are a function of House Bill 1 adopted by the Texas Legislature in May 2006 (see "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM").

(2) In the process of collection. Payments will be due by February 1, 2010.

**TABLE 5 - TEN LARGEST TAXPAYERS**

Name of Taxpayer	Nature of Property	2009/2010 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Enbridge Gathering LP	Natural Gas	\$ 1,738,130	1.44 %
Lake Brownwood Partners LLC	Realty	1,590,930	1.32
Providence Point LTD	Natural Gas	1,417,090	1.17
SMK Fabricators Inc.	Manufacturing	1,380,770	1.14
WTG Jameson LP	Natural Gas	1,316,880	1.09
Bitter, James L.	Private Real Estate	1,260,380	1.05
Comanche County Electric Co-Op	Utility	1,171,390	0.97
Southwest Gas Systems	Natural Gas	1,011,474	0.84
Brazos Electric Power Co-Op	Utility	946,650	0.78
Chaparral Pipeline	Natural Gas	794,400	0.66
		<u>\$ 12,628,094</u>	<u>10.47 %</u>

**TABLE 6 - TAX ADEQUACY**

2010 Principal and Interest Requirements .....	\$	159,611
\$.1365 Tax Rate at 97% Collection Produces .....	\$	159,688
Maximum Annual Principal and Interest Requirements, Fiscal Year 2010.....	\$	159,611
\$.1365 Tax Rate at 97% Collection Produces .....	\$	159,688

**TABLE 7 - ESTIMATED OVERLAPPING DEBT**

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

Taxing Jurisdiction	2008/2009 Taxable Assessed Value	2008/2009 Tax Rate	Total Tax Supported Debt	Estimated % Applicable	Overlapping Tax Supported Debt
May Independent School District	\$ 120,606,041	\$ 1.1540	\$ 1,485,000 <sup>(1)</sup>	100.00%	\$ 1,485,000
Brown County	1,964,207,869	0.4439	6,890,000	10.30%	709,670
Comanche County	609,708,446	0.4260	2,224,000	1.53%	34,027
Comanche County Cons. Hospital District	593,037,676	0.2500	11,785,000	1.58%	186,203
Total Direct and Overlapping Tax Supported Debt					\$ 2,414,900
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation					2.00%
Per Capita Overlapping Tax Supported Debt					\$ 1,374

(1) Includes the Bonds and excludes the Refunded Bonds. Does not include the District's outstanding limited tax obligations (see "DEBT INFORMATION - Table 11 - Other Obligations" for a description of the District's outstanding limited tax obligations).

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**DEBT INFORMATION**

**TABLE 8 - TAX SUPPORTED DEBT SERVICE REQUIREMENTS**

Fiscal Year Ending 8/31	The Bonds <sup>(1)</sup>			% of Principal Retired
	Principal	Interest	Total	
2010	\$ 45,000	\$ 114,611	\$ 159,611	3.03%
2011	100,000	42,213	142,213	
2012	105,000	40,163	145,163	
2013	110,000	38,013	148,013	24.24%
2014	110,000	35,675	145,675	
2015	110,000	33,063	143,063	
2016	115,000	30,106	145,106	46.80%
2017	120,000	26,725	146,725	
2018	125,000	22,894	147,894	
2019	125,000	18,831	143,831	71.72%
2020	135,000	14,100	149,100	
2021	140,000	8,600	148,600	
2022	145,000	2,900	147,900	100.00%
	<u>\$ 1,485,000</u>	<u>\$ 427,893</u>	<u>\$ 1,912,893</u>	

(1) Excludes the Refunded Bonds. Average life of the issue – 6.654 years. True Interest Cost is 3.224%.

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

Tax Supported Debt Service Requirements, Fiscal Year Ending 8/31/2010	\$	159,611
Ending Interest and Sinking Fund Balance, 8/31/2009	76,187	
Calculated Interest and Sinking Fund Tax Levy at 97%	157,495	<u>\$ 233,682</u>
Estimated Balance, Fiscal Year Ending 8/31/2010	\$	<u>74,070</u>

**TABLE 10 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS**

The District has no authorized but unissued unlimited tax bond authority.

**ANTICIPATED ISSUANCE OF ADDITIONAL DEBT...**The District does not anticipate issuing additional unlimited tax debt within the next 12 months.

**TABLE 11 - OTHER OBLIGATIONS**

The District has a maintenance tax note (the “Note”) currently outstanding with an interest rate of 4.875% per annum. Payments on the Note are due on February 1 of each year in the following amounts: (i) \$46,267.50 for the first five years, (ii) \$29,156.83 for the next four years and (iii) a final payment of \$15,850 on February 1, 2018. The Note is a limited tax obligation payable from the District’s maintenance taxes.

**PENSION FUND...**Pension funds for employees of Texas school districts, and any employee in public education in Texas, are administered by the Teacher Retirement System of Texas (the “System”). The individual employees contribute a fixed amount of their salary to the System, currently 6.4%, and the State of Texas contributes funds to the System based on statutory required minimum salary for certified personnel, except any District personnel paid by Federally funded programs (for more detailed information concerning the District’s pension plan, see “Note H. - Pension Plan” in the audited financial statements of the District for the year ended August 31, 2008, set forth in Appendix B hereto).

**OTHER POST-EMPLOYMENT BENEFITS...**The District participates in the Texas Public School Retired Employees Group Insurance Program (“TRS-Care”) (for more detailed information concerning the retiree health plan, see “Note I. - Retiree Health Plan” in the audited financial statements of the District for the year ended August 31, 2008, set forth in Appendix B hereto).

As a result of the District's participation in TRS-Care and having no other post-employment benefit plans, the District has no obligations for other post-employment benefits within the meaning of Governmental Accounting Standards Board Statement 45.

## FINANCIAL INFORMATION

**TABLE 12 - GENERAL FUND REVENUES AND EXPENDITURE HISTORY**

	Fiscal Year Ended August 31,				
	2008	2007	2006	2005	2004
<b>Revenues:</b>					
Local and Intermediate Sources	\$ 1,362,691	\$ 1,305,736	\$ 1,271,130	\$ 1,017,849	\$ 1,060,073
State Program Revenues	1,254,045	1,093,669	980,801	1,110,760	1,215,461
Federal Program Revenues	1,054	141	10,530	11,236	11,864
Total Revenues	<u>\$ 2,617,790</u>	<u>\$ 2,399,546</u>	<u>\$ 2,262,461</u>	<u>\$ 2,139,845</u>	<u>\$ 2,287,398</u>
<b>Expenditures:</b>					
Instruction	\$ 1,261,469	\$ 1,184,181	\$ 1,113,502	\$ 1,027,895	\$ 977,317
Instructional Resources & Media Services	58,000	60,237	74,641	76,174	80,597
Curriculum and Staff Development	43,397	26,447	12,104	10,989	11,178
School Leadership	198,302	188,451	180,899	178,111	174,178
Guidance, Counseling, & Evaluation Services	59,836	63,312	45,607	43,862	40,183
Student Transportation	102,558	96,045	224,452	162,693	94,009
Extracurricular Activities	116,321	72,918	77,144	81,542	72,666
General Administration	175,799	182,708	178,151	163,961	154,441
Plant Maintenance & Operations	230,392	215,183	223,155	247,340	308,712
Data Processing Services	35,682	34,185	37,166	30,000	28,715
Debt Service	206,912	101,831	52,893	9,109	9,071
Capital Outlay	119,471	129,320	39,035	12,711	-
Intergovernmental Charges	30,487	30,767	29,832	30,065	28,076
Total Expenditures	<u>\$ 2,638,626</u>	<u>\$ 2,385,585</u>	<u>\$ 2,288,581</u>	<u>\$ 2,074,452</u>	<u>\$ 1,979,143</u>
Excess of revenue over (under) expenditures	\$ (20,836)	\$ 13,961	\$ (26,120)	\$ 65,393	\$ 308,255
Other Resources (Uses)	235,042	117,384	62,256	(38,606)	(40,786)
Fund balance - Sept. 1 (Beginning)	\$ 715,956	\$ 583,143	\$ 547,091	\$ 520,304	\$ 252,835
Increase (Decrease) in Fund Balance	214,206	131,345	36,136	26,787	267,469
Prior Period Adjustment	(1,675)	1,468	(84)	-	-
Fund balance - Aug. 31 (Ending) <sup>(1)</sup>	<u>\$ 928,487</u>	<u>\$ 715,956</u>	<u>\$ 583,143</u>	<u>\$ 547,091</u>	<u>\$ 520,304</u>

(1) The District's General Fund balance on August 31, 2009 was approximately \$705,000 and the District anticipates that its General Fund balance at the end of the 2009/10 fiscal year will be approximately \$799,000.

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**TABLE 12A - CHANGE IN NET ASSETS**

	Fiscal Year Ended August 31,				
	2008	2007	2006	2005	2004
<b>Revenues:</b>					
<b>Program Revenues:</b>					
Charges for Services	\$ 69,996	\$ 64,058	\$ 65,756	\$ 62,084	\$ 62,725
Operating Grants and Contributions	356,250	325,462	347,886	256,204	287,814
<b>General Revenues:</b>					
Property Taxes	1,391,743	1,385,714	1,268,212	1,095,463	1,047,666
State aid - formula grants	1,157,202	1,006,800	923,368	1,154,513	1,249,200
Investment Earnings	63,091	41,905	20,119	13,077	19,570
Other Revenues	2,351	13,759	108,180	16,288	95,947
<b>Total Revenues</b>	<b>\$ 3,040,633</b>	<b>\$ 2,837,698</b>	<b>\$ 2,733,521</b>	<b>\$ 2,597,629</b>	<b>\$ 2,762,922</b>
<b>Expenditures:</b>					
Instruction	\$1,475,655	\$1,342,554	\$1,296,353	\$ 1,185,319	\$ 1,171,925
Instructional Resources and Media Services	61,561	63,911	80,872	83,044	87,468
Curriculum and Staff Development	47,801	29,864	19,909	11,699	11,749
Instructional and School Leadership	208,576	198,409	191,695	188,493	184,063
Guidance and Counseling Services	62,936	66,658	51,540	49,930	44,242
Health Services	15,279	13,417	14,487	14,200	13,237
Student Transportation	107,872	101,120	114,399	106,771	99,098
Food Services	211,280	197,865	192,544	181,728	190,704
Curricular/Extracurricular Activities	122,348	76,771	81,374	85,802	76,379
General Administration	184,907	192,363	188,258	173,065	162,869
Plan Maintenance and Operation	242,329	226,554	236,805	262,129	326,359
Data Processing	37,531	35,991	39,162	31,567	30,182
Debt Service	98,489	91,933	95,442	95,517	99,968
Payments to fiscal agent/member districts SSA	30,487	30,767	29,832	30,065	28,076
<b>Total Expenditures</b>	<b>\$ 2,907,051</b>	<b>\$ 2,668,177</b>	<b>\$ 2,632,672</b>	<b>\$ 2,499,329</b>	<b>\$ 2,526,319</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ 133,582</b>	<b>\$ 169,521</b>	<b>\$ 100,849</b>	<b>\$ 98,300</b>	<b>\$ 236,603</b>
<b>Net Assets - September 1 (beginning)</b>	<b>\$2,563,434</b>	<b>\$2,393,325</b>	<b>\$2,292,561</b>	<b>\$ 2,194,261</b>	<b>\$ 1,957,658</b>
Increase (Decrease) in Net Assets	133,582	169,521	100,849	98,300	236,603
Prior Period Adjustment	(5,384)	588	(85)	-	-
<b>Net Assets - August 31 (ending)</b>	<b>\$ 2,691,632</b>	<b>\$ 2,563,434</b>	<b>\$ 2,393,325</b>	<b>\$ 2,292,561</b>	<b>\$ 2,194,261</b>

**FINANCIAL POLICIES***Basis of Accounting*

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

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

GASB Statement No. 34 established a new financial reporting model for state and local governments that includes the addition of management's discussion and analysis, government-wide financial statements, required supplementary information, and the

elimination of the effects of internal service activities, and the use of account groups to the already required fund financial statements and notes.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing 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.

The 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 collected within the current period or soon enough thereafter to pay liabilities of the current period. For this period, the government considers revenues to be available if they are collected within 60-days of the end of the current fiscal period. Revenues susceptible to accrual are principally certain inter-governmental revenues, property taxes and investment income. 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.

#### Budget Process

The District is legally required to adopt budgets for General Fund, Debt Service Fund, Capital Projects Fund, and Enterprise Fund. Each budget is presented on the modified accrual basis of accounting, except for the Enterprise Fund, which is on a full accrual basis. Both modified accrual basis and full accrual basis are consistent with generally accepted accounting principles. The District is not legally required to adopt Special Revenue Fund budgets.

The District follows these procedures preparing and approving its annual budget:

1. The superintendent or his designate prepares a budget covering all estimated revenues and proposed expenditures of the District for the next succeeding fiscal year. The budget is prepared by generic fund type and function.
2. A public hearing is held, allowing the public to comment on the proposed budget.
3. A public meeting of the Board of Trustees is called for the purpose of adopting the budget after ten days public notice of the meeting has been given. The State Board of Education requires that the budget be prepared no later than August 20 each year.
4. Budget data must be received by the Texas Education Agency on or before December 15 each year. The legal level of budgetary control is at the function level within each generic fund type. Budget amounts are as originally adopted, or as amended by the Board on August 31. Once a budget is approved, it can be amended at the function and fund level only by approval of a majority of the members of the Board of Trustees. Changes can be made to the budget at any detail within the function level without an amendment approved by the Board. During the year, several budget amendments were made with Board approval. The most significant amendments were for carryover funding; mid-year adjustment of state revenues and appropriations and operating costs; and year-end adjustments to revise estimates of revenues and expenditures based on the latest information on student attendance, interest earnings, and operating costs. All budget appropriations lapse at year-end.

#### **INVESTMENTS**

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

**INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE DISTRICT...**Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligation, the principal and interest of which 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 and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (i) that are issued by or through an institution that has its main office or a branch office 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; or (ii) where: (a) the funds are invested by the District through a depository institution that has a main office or branch office in the State and that is selected by the District; (b) the depository institution selected by the District arranges for the deposit of funds in one or more federally insured depository institutions, wherever located, for the account of the District; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; (d) the depository institution acts as a custodian for the District with respect to the certificates of deposit; and (e) at the same time that the certificates of deposit are issued, the depository institution selected by the District receives deposits from customers of other federally insured depository institutions, wherever located, that is equal to or greater than the funds invested by the District through the depository institution selected under clause (ii)(a) above; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by 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 governmental body or a third party designated by the governmental body; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less; (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (11) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (12) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, and (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

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

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for District funds, the maximum allowable stated maturity of any individual investment 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, the District's 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 probable income to be derived." At least quarterly the District's investment officers must submit an investment report to the Board of Trustees detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and 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 strategies and (b) Texas law. No person may invest District funds without express written authority from the Board of Trustees.

**ADDITIONAL PROVISIONS...** Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment

strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Trustees; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the District's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

**TABLE 13 - CURRENT INVESTMENTS**

As of July 30, 2009, the District's investable funds were invested in the following categories:

<u>Investment Description</u>	<u>Book Value</u>	<u>Market Value</u>	<u>% of Portfolio</u>
LoneStar	\$ 630,980	\$ 630,980	74.44%
Certificates of Deposit	216,662	216,662	25.56%
Totals	<u>\$ 847,642</u>	<u>\$ 847,642</u>	<u>100.00%</u>

- (1) All investments will mature within 6 months, and the market value of the investments is approximately 100% of their purchase price. 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**

**OPINION...** On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel to the District, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), for federal income tax purposes, interest on the Bonds (i) will be excludable from the "gross income" of the holders thereof and (ii) will not be includable in the owner's alternative minimum taxable income under section 55 of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel to the District will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See Appendix C -- Form of Opinion of Bond Counsel.

In rendering its opinion, Bond Counsel to the District will rely upon (a) certain information and representations of the District, including information and representations contained in the District's federal tax certificate and (b) covenants of the District contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the Refunded Bonds and the property financed or refinanced therewith. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel to the District is conditioned on compliance by the District with such requirements, and Bond Counsel to the District has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel's opinion represents its legal judgement based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds or the Refunded Bonds. No assurances can be given as to whether the Internal Revenue

Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

**FEDERAL INCOME TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT...**The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount or maturity amount thereof or one or more periods for the payment of interest on the bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under existing law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under existing law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

**COLLATERAL FEDERAL INCOME TAX CONSEQUENCES...**The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

**THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.**

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation

is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

**STATE, LOCAL AND FOREIGN TAXES...**Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

**QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS...**Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year, except that such amount will be \$30,000,000 for taxable years beginning after December 31, 2008 and ending prior to January 1, 2011. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the District has covenanted to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as "qualified tax-exempt obligations." Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000 (\$30,000,000 for taxable years beginning after December 31, 2008 and ending prior to January 1, 2011), there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 (\$30,000,000 for taxable years beginning after December 31, 2008 and ending prior to January 1, 2011) is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the aforementioned dollar limitation and the Bonds would not be "qualified tax-exempt obligations."

## CONTINUING DISCLOSURE INFORMATION

The offering of the Bonds qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) regarding the District's continuing disclosure obligations because the District has not issued more than \$10,000,000 in aggregate amount of outstanding debt and no person is committed by contract or other arrangement with respect to payment of the Bonds. Pursuant to the exemption, the District in the Order 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 and timely notice of specified material events annually to the Municipal Securities Rulemaking Board (the "MSRB").

**ANNUAL REPORTS . . .** The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables numbered 1 through 6, 8 through 13 and in Appendix B to the extent that it is customarily prepared by the District and is publicly available (currently an audit and appraisal district reports of property values). The District will update and provide this information within six months after the end of each fiscal year. The District will provide the updated information to the MSRB through the "EMMA" information system in accordance with recent amendments to Rule 15c2-12 (the "Rule") promulgated by the United States Securities and Exchange Commission (the "SEC").

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the Securities and Exchange Commission (the "SEC"), as permitted by the Rule. The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B

or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation.

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

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

**AVAILABILITY OF INFORMATION.** . . Effective July 1, 2009 (the "EMMA Effective Date"), the SEC implemented amendments to the Rule which approved the establishment by the MSRB of EMMA, which is now the sole successor to the national municipal securities information repositories with respect to filings made in connection with undertakings made under the Rule after the EMMA Effective Date. Commencing with the EMMA Effective Date, all information and documentation filing required to be made by the District in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

The District has agreed to provide the information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at [www.emma.msrb.org](http://www.emma.msrb.org).

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

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (1) the agreement, as amended would have permitted an underwriter to purchase or sell the Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances, and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provisions of the Order that authorizes such amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the registered owners and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in type of information and data provided.

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

## OTHER INFORMATION

### RATINGS

The Bonds are rated "A+" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") without regard to credit enhancement. The Bonds are expected to be rated "AAA/Negative Outlook" by S&P by virtue of a municipal bond insurance policy being issued by Assured Guaranty on the date of the delivery of the Bonds. In addition, the presently outstanding tax-supported debt of the District is rated "AAA" by Fitch Ratings ("Fitch") by virtue of the guarantee of such issue by the Permanent School Fund of the State of Texas. **The Bonds will not be guaranteed by the Texas Permanent School Fund.** An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The rating reflects only the view of such organization and the District makes no representation as to the appropriateness of the rating.

There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

It should be noted that the state of the financial guaranty insurance industry is under stress with multiple financial guaranty insurers having been downgraded. Further downgrades of certain financial guaranty insurers, including Assured Guaranty, could occur. Any changes in the rating of Assured Guaranty could have a material adverse impact on the price of the Bonds as well as affect the liquidity of the Bonds. Accordingly, investors should evaluate the underlying credit quality of Assured Guaranty as well as the District. The District has no obligation to maintain the rating on the Bonds after delivery of the Bonds to the Underwriter (see "Bond Insurance" herein).

#### **LITIGATION**

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

#### **REGISTRATION AND QUALIFICATION OF BONDS FOR SALE**

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

#### **LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS**

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency. See "OTHER INFORMATION - Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the District has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

#### **LEGAL MATTERS**

The District will furnish to the Underwriter a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas as to the Bonds to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel with respect to the Bonds issued in compliance with the provisions of the Order, a form of which opinion is attached to this Official Statement as Appendix C. Though it represents the Financial Advisor and the Underwriter from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in connection with the issuance of the Bonds. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds which would affect the provision made for their payment or security or in any manner questioning the validity of said Bonds will also be furnished to the Underwriter. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions and subcaptions "PLAN OF FINANCING" (except under the subcaption "Sources and Uses of Proceeds"), "THE BONDS" (excluding the information under the subcaptions "Book-Entry-Only System", "Yield on Premium Capital Appreciation Bonds" and "Bondholders' Remedies"), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" (except for the information under the subcaption "Effects of the 81<sup>st</sup> Texas Legislative Session"), "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" (except under the subcaption "Possible Effects of Wealth Transfer Provisions on the District's Financial Condition"), "TAX INFORMATION - Tax Rate Limitations", "TAX MATTERS", "CONTINUING DISCLOSURE INFORMATION" (excluding the information under the subcaption "Compliance with Prior Undertakings"), "OTHER INFORMATION -



Registration and Qualification of Bonds for Sale”, “OTHER INFORMATION - Legal Investments and Eligibility to Secure Public Funds In Texas”, and “OTHER INFORMATION - Legal Matters” (excluding the last sentence of the first paragraph thereof) in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the provisions of the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriter by their counsel, Fulbright & Jaworski L.L.P., Dallas, Texas, whose legal fees are contingent on the sale and delivery of the Bonds.

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

#### **FINANCIAL ADVISOR**

First Southwest Company is employed as Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. First Southwest Company, in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies. In the normal course of business, the Financial Advisor may also from time to time sell investment securities to the District for the investment of bond proceeds or other funds of the District upon the request of the District.

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

#### **UNDERWRITING**

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the District at a price equal to the initial offering prices to the public, as shown on the inside cover page of this Official Statement, less an underwriting discount of \$16,348.32. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriter.

The Underwriter has provided the following sentence for inclusion in this official statement. The Underwriter has reviewed the information in this official statement in accordance with, and as part of, its responsibility to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

#### **FORWARD-LOOKING STATEMENTS DISCLAIMER**

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

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

**MISCELLANEOUS**

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

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

/S/ Bo E. Allen  
\_\_\_\_\_  
President, Board of Trustees  
May Independent School District

ATTEST:

/S/ Ada Turner  
\_\_\_\_\_  
Secretary, Board of Trustees  
May Independent School District

## SCHEDULE OF REFUNDED BONDS

School Building Unlimited Tax Bonds, Series 1997<sup>(1)</sup>

Original Dated Date	Original Maturity (2/15)	Outstanding Principal Amount	Interest Rates
10/15/1997	2010	\$ 80,000	4.900%
	2011	85,000	5.000%
	2012	90,000	5.100%
	2013	95,000	5.150%
	2014	100,000	5.150%
	2015	105,000	5.200%
	2016	110,000 <sup>(2)</sup>	5.200%
	2017	120,000 <sup>(2)</sup>	5.200%
	2018	125,000 <sup>(3)</sup>	5.250%
	2019	130,000 <sup>(3)</sup>	5.250%
	2020	140,000 <sup>(3)</sup>	5.250%
	2021	150,000 <sup>(3)</sup>	5.250%
	2022	155,000 <sup>(3)</sup>	5.250%
		<u>\$ 1,485,000</u>	

- (1) These maturities will be redeemed at a redemption price of par plus accrued interest prior to maturity on 11/30/2009.
- (2) Represents mandatory sinking fund payments for a term bond maturing February 15, 2017.
- (3) Represents mandatory sinking fund payments for a term bond maturing February 15, 2022.

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**APPENDIX A**

GENERAL INFORMATION REGARDING THE DISTRICT

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**THE DISTRICT...** The May Independent School District (the "District") is located in Brown and Comanche Counties, but mainly in Brown County, Texas. The District is located 2 blocks off U.S. Highway 183. Part of Lake Brownwood is in the area. The administrative offices of the District are located in the City of May. The District is located in an agricultural and ranching area.

**BROWN COUNTY...** Brown County is located in central Texas, and is traversed by U.S. Highways 67, 183 & 377, State Highway 279, and thirteen farm-to-market roads. The economy is based on agriculture and manufacturing. The Texas Almanac designates beef cattle, goats, hogs, wheat, and peanuts as principal sources of agricultural income. The county seat is Brownwood.

Minerals produced in the County include oil, gas, paving materials, gravel, and clay. Howard Payne University had a fall 2008 enrollment of 1,356. Lake Brownwood State Park attracted 73,320 visitors during 2008.

**DISTRICT ENROLLMENT**

FYE 8/31	Enrollment	Average Daily Attendance	FYE 8/31	Enrollment	Average Daily Attendance
2005	270	259.2	2008	261	251.8
2006	268	253.8	2009	256	245.7
2007	266	251.9	2010	249	243.6

**SCHOOL INFORMATION <sup>(1)</sup>**

Campus	Number of Schools	Capacity	Number of Portables
Elementary School	1	250	0
Junior High	1	75	0
High School	1	150	0
Totals	3	475	0

(1) Source: The District.

**EMPLOYEE INFORMATION <sup>(1)</sup>**

May Independent School District	
Employee Information:	
Number of Employees	47
Number of Teachers	25
Number of Teachers with Masters Degrees:	2
Number of Teachers with Bachelors Degrees:	23
Teacher/pupil ratio for 2009/10	
Elementary School	1:10
Junior High	1:15
High School	1:10

(1) Source: The District.

**LABOR FORCE**

	Annual Averages				
	2009	2008	2007	2006	2005
<b>Brown County</b>					
Civilian Labor Force	19,161	18,507	18,576	19,053	18,749
Total Employment	17,871	17,666	17,802	18,200	17,869
Unemployment	1290	841	774	853	880
Percent Unemployment	6.7%	4.5%	4.2%	4.5%	4.7%
<b>State of Texas</b>					
Civilian Labor Force	11,910,721	11,701,585	11,474,987	11,348,147	11,170,574
Total Employment	11,066,357	11,126,436	10,972,152	10,787,397	10,568,414
Unemployment	844,364	575,149	502,835	560,750	602,160
Percent Unemployment	7.1%	4.9%	4.4%	4.9%	5.4%

(1) Source: The Texas Workforce Commission



**APPENDIX B**

EXCERPTS FROM THE  
MAY INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT

For the Year Ended August 31, 2008

The information contained in this Appendix consists of excerpts from the May Independent School District Annual Financial Report for the Year Ended August 31, 2008, and is not intended to be a complete statement of the District's financial condition. Reference is made to the complete Report for further information.

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**BURL D. LOWERY**  
CERTIFIED PUBLIC ACCOUNTANT  
311 CENTER AVENUE  
BROWNWOOD, TEXAS 76801

**Independent Auditor's Report on Financial Statements**

Board of Trustees  
May Independent School District  
P.O. Box 38  
May, Texas 76857

Members of the Board of Trustees:

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of May Independent School District as of and for the year ended August 31, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of May Independent School District's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinions.

In my 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 May Independent School District as of August 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated January 19, 2009, on my consideration of May Independent School District's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The Management's Discussion and Analysis and the budgetary comparison information identified as Required Supplementary Information in the table of contents 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. I 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, I did not audit the information and express no opinion on it.

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My audit was performed for the purpose of forming opinions on the financial statements which collectively comprise the May Independent School District's basic financial statements. The accompanying combining financial statements and supporting 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. This information, except for that portion marked "unaudited" on which I express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,



Burl D. Lowery  
Certified Public Accountant

January 19, 2009

# MAY INDEPENDENT SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

This section of May 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, 2008. 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 \$2,691,632 at August 31, 2008.
- During the year, the District's expenses were \$133,582 less than the \$3,040,633 generated in taxes and other revenues for governmental activities.
- The total cost of the District's programs increased by \$238,874 and its revenues increased by \$202,935 during the current year.
- The general fund reported a fund balance this year of \$928,487.
- The District financed the costs of reroofing the high school and the main gym during the current year with a maintenance tax loan. The District also refinanced the balance of the capital lease purchase loan and the track resurfacing loan to include those balances in the maintenance tax loan with the reroofing project. The total financing was \$296,042 at an interest rate of 4.875%. The loan is to be repaid in annual payments over a 10-year period. The first five years requires annual payments of \$47,268, with four additional years at an annual payment of \$29,157, and a final payment in 2018 of \$15,850.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual* parts of the government, reporting the District's operations in more detail than the government-wide statements.
- The *governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short-* and *long-term* financial information about the activities the government operates *like businesses*, such as food service.
- *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.

### **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 information about 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 improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in the District's tax base.

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 the following kinds of funds:

- *Governmental funds*-Most of the District's basic services are included in governmental funds, which focus on (1) how *cash* and *other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary funds*-Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. The District has no Proprietary Fund Types.
- We use *internal service funds* to report activities that provided workers compensation insurance for the District's employees in prior years.

- *Fiduciary funds*-The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that-because of a trust arrangement-can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We excluded these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations. These funds consist of student activity funds that belong to clubs and organizations and scholarship funds.

## **FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

Net assets. The District's combined net assets were \$2,691,632 at August 31, 2008 and \$2,563,434 at August 31, 2007.

The net assets invested in capital assets, net of related debt was \$1,350,295 at August 31, 2008 and \$1,400,923 at August 31, 2007. The District has restricted net assets totaling \$166,528, which are restricted to future bond payments, capital expenditures, and amounts restricted for specific state and federal programs. The remaining balance of net assets is \$1,174,809 of unrestricted net assets at August 31, 2008. The unrestricted net assets represents funds available for future uses.

**Changes in net assets.** The District's total revenues were \$3,040,633. A significant portion, 46%, of the District's revenue comes from taxes. State available and foundation grants provide 38% of total revenues; operating grants provide 12% of the total revenues, while only 3% relates to charges for services.

The total cost of all programs and services was \$2,907,051; 52.88% of these costs are for instruction and instructional related services. (Expenditure Functions 11 and 12).

### **Governmental Activities**

- Property tax rates for maintenance decreased \$0.1748 to a rate of \$1.04 per \$100 valuation during the current year. The debt service tax rate increased slightly from \$0.13 to \$0.144 per \$100 valuation. Even though the taxable values in the District increased for the year, the decrease in the tax rate saw a drop in tax revenue amounting to approximately \$85,000.

## **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

Revenues from governmental fund types in the individual funds totaled \$3,040,633, an increase of 7.16% over the preceding year. The increase in local revenues is a result of an increase in state foundation revenues of about \$150,000; operating grants of about \$31,000; and investment earnings of about \$21,000. State foundation revenue fluctuates with student enrollment. In 2006-2007, the District's average daily attendance was 251.86 while in 2007-2008 the District's average daily attendance was 251.765, a very slight decrease.

### **General Fund Budgetary Highlights**

Over the course of the year, the District revised its budget several times. Even with these adjustments, actual expenditures were \$161,393 above final budgeted amounts of the General Fund. The excess actual expenditures over budgeted expenditures was the result of the District incorrectly recording all transactions necessary to record debt refinancing transactions and accounts payable at year end.

Resources available were \$227,014 below the final estimated revenues.



## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of 2008, the District had invested \$5,338,126 in a broad range of capital assets, including land, equipment, buildings, vehicles, and infrastructure. This amount represents a net increase (including additions and deductions) of \$119,470 or 2.29% over last year. After depreciation, the District's net capital assets decreased slightly \$17,375 to \$3,216,660 at August 31, 2008.

The District's fiscal year 2008-2009 General Fund budget does not project any spending for construction. The District has restricted net assets of \$69,249 in its capital projects fund. More detailed information about the District's capital assets is presented in the notes to the financial statements.

### **Long Term Debt**

At year-end, the District had \$1,861,042 outstanding long-term debt. During the year, the District refinanced the capital lease purchase debt and the debt incurred in resurfacing the track in 2006-2007 and borrowed additional funds to reroof the high school and main gym. The District now has one maintenance tax loan with a balance of \$296,042 at August 31, 2008 and the old bonded debt with a balance of \$1,565,000 at August 31, 2008. More detailed information about the District's debt is presented in the notes to the financial statements.

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## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- Appraised value used for the 2008-2009 budget preparation increased approximately \$13 million from the 2007-2008 appraised value before taxable freeze. The District's total tax rate decreased from a total \$1.184 per \$100 valuation to \$1.1669 per \$100 valuation. These changes will result in an increase in tax revenue of approximately \$127,000 for 2008-2009.
- General operating fund spending increases in the 2008-2009 budget approximately \$109,000 from the final budget for 2007-2008. This is an increase of 4.41%.
- The District's 2008-2009 refined average daily attendance has remained approximately the same as in 2007-2008.

These indicators were taken into account when adopting the general fund budget for 2008-2009. Amounts available in net assets for appropriation in the general fund budget are \$923,264. Estimated revenues for 2008-2009 are \$2,579,521, a decrease of 9.33% over the final 2007-2008 estimated revenues budget of \$2,844,804. Property taxes will increase due to the increase in taxable values. State revenue will increase or decrease as the student population changes in size. The District will use these increases in revenues to finance programs we currently offer.

General fund expenditures are budgeted to increase by approximately 4.41% as disclosed above. The District has added no major new programs or initiatives to the 2008-2009 budget.

If these estimates are realized, the District's budgetary general fund balance is expected to stay approximately the same at the close of 2008-2009.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors 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 Superintendent's Office.

**MAY INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT DISCUSSION AND ANALYSIS - TABLES**  
**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

Net assets. The District's combined net assets were \$2,691,632 at August 31, 2008 and \$2,563,434 at August 31, 2007. (See Table 1)

**Table 1**  
 May Independent School District's Net Assets

	Governmental Activities	
	2008	2007
<b>Current Assets:</b>		
Cash and cash equivalents	\$154,258	\$81,791
Investments	\$810,878	\$748,479
Property taxes receivable net of uncollectible	\$212,069	\$277,564
Due from other governments	\$273,821	\$301,627
Other receivables	\$263	\$5,013
Capitalized bond and other debt issuance costs	\$2,679	\$0
<b>Total Current Assets</b>	<b>\$1,453,968</b>	<b>\$1,414,474</b>
<b>Noncurrent Assets:</b>		
Land	\$88,322	\$88,323
Buildings, net	\$2,878,988	\$2,864,894
Equipment and vehicles, net	\$124,879	\$152,037
Infrastructure, net	\$124,471	\$128,781
<b>Total Noncurrent Assets</b>	<b>\$3,216,660</b>	<b>\$3,234,035</b>
<b>Total Assets</b>	<b>\$4,670,628</b>	<b>\$4,648,509</b>
<b>Current Liabilities:</b>		
Accounts payable and accrued expenses	\$112,583	\$90,945
Due to other governments	\$1,338	\$0
Due to other funds	\$0	\$0
Unearned revenue	\$4,033	\$163,745
<b>Total Current Liabilities</b>	<b>\$117,954</b>	<b>\$254,690</b>
<b>Long-term Liabilities:</b>		
Bonds Payable	\$1,565,000	\$1,640,000
Notes Payable	\$296,042	\$128,520
Capital Leases payable	\$0	\$61,864
<b>Total Long-term Liabilities</b>	<b>\$1,861,042</b>	<b>\$1,830,384</b>
<b>Total Liabilities</b>	<b>\$1,978,996</b>	<b>\$2,085,074</b>
<b>Net Assets:</b>		
Invested in capital assets	\$1,350,295	\$1,400,923
Restricted for state and federal programs	\$562	\$982
Restricted for debt service	\$96,717	\$116,818
Restricted for capital projects	\$69,249	\$66,278
Unrestricted	\$1,174,809	\$978,433
<b>Total Net Assets</b>	<b>\$2,691,632</b>	<b>\$2,563,434</b>

MAY INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - TABLES

Table 2  
May Independent School District's Changes in Net Assets

	Governmental Activities	
	2008	2007
Program Revenues:		
Charges for services	\$69,996	\$64,058
Operating grants and contributions	\$356,250	\$325,462
Capital grants and contributions		
General Revenues:		
Property taxes	\$1,391,743	\$1,385,714
State aid - formula	\$1,157,202	\$1,006,800
Investment earnings	\$63,091	\$41,905
Other revenues	\$2,351	\$13,759
Total Revenues	<u>\$3,040,633</u>	<u>\$2,837,698</u>
Expenditures:		
Instruction	\$1,475,655	\$1,342,554
Instructional resources and media services	\$61,561	\$63,911
Curriculum development and staff development	\$47,801	\$29,864
School leadership	\$208,576	\$198,409
Guidance and counseling services	\$62,936	\$66,658
Health services	\$15,279	\$13,417
Student (pupil) transportation	\$107,872	\$101,120
Food services	\$211,280	\$197,865
Curricular/extracurricular activities	\$122,348	\$76,771
General administration	\$184,907	\$192,363
Plant maintenance & operation	\$242,329	\$226,554
Data processing services	\$37,531	\$35,991
Debt services	\$98,489	\$91,933
Payments to fiscal agent/member districts SSA	\$30,487	\$30,767
Total Expenditures	<u>\$2,907,051</u>	<u>\$2,668,177</u>
Excess (Deficiency) Before Other Resources, Uses, and Transfers	\$133,582	\$169,521
Other Resources (Uses) Transfers In (Out)	<u>\$0</u>	<u>\$0</u>
Increase (Decrease) in Net Assets	\$133,582	\$169,521
Net Assets - Beginning	\$2,563,434	\$2,393,325
Prior Period Adjustments	<u>(\$5,384)</u>	<u>\$588</u>
Net Assets - Ending	<u><u>\$2,691,632</u></u>	<u><u>\$2,563,434</u></u>

**MAY INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - TABLES**

**Table 3**  
May Independent School District's Capital Assets

	Governmental Activities	
	2008	2007
Land	\$88,322	\$88,323
Buildings and improvements	\$4,777,380	\$4,657,909
Equipment and vehicles	\$343,104	\$343,104
Infrastructure	\$129,320	\$129,320
<b>Total Capital Assets</b>	<b>\$5,338,126</b>	<b>\$5,218,656</b>
<b>Total Accumulated Depreciation</b>	<b>\$2,121,466</b>	<b>\$1,984,621</b>
<b>Net Capital Assets</b>	<b>\$3,216,660</b>	<b>\$3,234,035</b>

**Table 4**  
May Independent School District's Long-term Debt

	Governmental Activities	
	2008	2007
Bonds payable	\$1,565,000	\$1,640,000
Capital leases payable	\$0	\$61,864
Loans payable	\$296,042	\$128,520
<b>Total Long-term Debt</b>	<b>\$1,861,042</b>	<b>\$1,830,384</b>

**MAY INDEPENDENT SCHOOL DISTRICT**STATEMENT OF NET ASSETS  
AUGUST 31, 2008

1

Data Control Codes		Governmental Activities
<b>ASSETS:</b>		
1110	Cash and Cash Equivalents	\$ 154,258
1120	Current Investments	810,878
1225	Property Taxes Receivable (Net)	212,069
1240	Due from Other Governments	273,821
1290	Other Receivables (Net)	263
1420	Capitalized Bond and Other Debt Issuance Costs	2,679
Capital Assets:		
1510	Land	88,322
1520	Buildings and Improvements, Net	2,878,988
1530	Furniture and Equipment, Net	124,879
1590	Infrastructure, Net	124,471
1000	Total Assets	<u>4,670,628</u>
<b>LIABILITIES:</b>		
2110	Accounts Payable	37,670
2140	Interest Payable	8,002
2165	Accrued Liabilities	66,911
2180	Due to Other Governments	1,338
2300	Unearned Revenue	4,033
Noncurrent Liabilities:		
2501	Due Within One Year	115,644
2502	Due in More Than One Year	1,745,398
2000	Total Liabilities	<u>1,978,996</u>
<b>NET ASSETS</b>		
3200	Invested in Capital Assets, Net of Related Debt	1,350,295
Restricted For:		
3820	State and Federal Programs	562
3850	Debt Service	96,717
3860	Capital Projects	69,249
3900	Unrestricted	1,174,809
3000	Total Net Assets	<u>\$ 2,691,632</u>

The accompanying notes are an integral part of this statement.

**MAY INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED AUGUST 31, 2008**

Data Control Codes	Functions/Programs	1	3	4	Net (Expense) Revenue and Changes in Net Assets
		Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
	<b>Governmental Activities:</b>				
11	<i>Instruction</i>	\$ 1,475,655	\$ --	\$ 205,058	\$ (1,270,597)
12	<i>Instructional Resources and Media Services</i>	61,561	--	3,617	(57,944)
13	<i>Curriculum and Staff Development</i>	47,801	--	2,553	(45,248)
23	<i>School Leadership</i>	208,576	--	8,219	(200,357)
31	<i>Guidance, Counseling, &amp; Evaluation Services</i>	62,936	--	3,363	(59,573)
33	<i>Health Services</i>	15,279	--	14,526	(753)
34	<i>Student Transportation</i>	107,872	--	3,965	(103,907)
35	<i>Food Service</i>	211,280	55,429	82,370	(73,481)
36	<i>Cocurricular/Extracurricular Activities</i>	122,348	11,567	2,223	(108,558)
41	<i>General Administration</i>	184,907	--	4,242	(180,665)
51	<i>Plant Maintenance and Operations</i>	242,329	3,000	4,236	(235,093)
53	<i>Data Processing Services</i>	37,531	--	--	(37,531)
72	<i>Interest on Long-term Debt</i>	97,937	--	21,878	(76,059)
73	<i>Bond Issuance Costs and Fees</i>	552	--	--	(552)
93	<i>Payments Related to Shared Services Arrangements</i>	30,487	--	--	(30,487)
TG	Total Governmental Activities	<u>2,907,051</u>	<u>69,996</u>	<u>356,250</u>	<u>(2,480,805)</u>
TP	Total Primary Government	<u>\$ 2,907,051</u>	<u>\$ 69,996</u>	<u>\$ 356,250</u>	<u>(2,480,805)</u>
	<b>General Revenues:</b>				
MT	<i>Property Taxes, Levied for General Purposes</i>				1,226,338
DT	<i>Property Taxes, Levied for Debt Service</i>				165,405
IE	<i>Investment Earnings</i>				63,091
GC	<i>Grants and Contributions Not Restricted to Specific Programs</i>				1,157,202
MI	<i>Miscellaneous</i>				2,351
TR	Total General Revenues				<u>2,614,387</u>
CN	Change in Net Assets				<u>133,582</u>
NB	Net Assets - Beginning				2,563,434
PA	Prior Period Adjustment				(5,384)
	Net Assets - Beginning, as Restated				<u>2,558,050</u>
NE	Net Assets - Ending				<u>\$ 2,691,632</u>

The accompanying notes are an integral part of this statement.

## MAY INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2008

Data Control Codes	10 General Fund	Other Governmental Funds	98 Total Governmental Funds
<b>ASSETS:</b>			
1110 Cash and Cash Equivalents	\$ 164,051	\$ (10,602)	\$ 153,449
1120 Current Investments	650,327	160,551	810,878
1225 Taxes Receivable, Net	190,365	21,704	212,069
1240 Due from Other Governments	266,977	6,844	273,821
1290 Other Receivables	263	--	263
1000 Total Assets	\$ 1,271,983	\$ 178,497	\$ 1,450,480
<b>LIABILITIES:</b>			
Current Liabilities:			
2110 Accounts Payable	\$ 18,000	\$ 717	\$ 18,717
2160 Accrued Wages Payable	58,908	6,829	65,737
2170 Due to Other Funds	74,100	--	74,100
2180 Due to Other Governments	1,338	--	1,338
2200 Accrued Expenditures	784	390	1,174
2300 Unearned Revenue	190,366	25,737	216,103
2000 Total Liabilities	343,496	33,673	377,169
<b>FUND BALANCES:</b>			
Reserved Fund Balances:			
3420 Debt Service	--	75,013	75,013
3450 Reserve for Food Service	--	562	562
3490 Other Reserves of Fund Balance	--	69,249	69,249
Designated Fund Balance:			
3510 Construction	450,000	--	450,000
3600 Unreserved	478,487	--	478,487
3000 Total Fund Balances	928,487	144,824	1,073,311
4000 Total Liabilities and Fund Balances	\$ 1,271,983	\$ 178,497	\$ 1,450,480

The accompanying notes are an integral part of this statement.

**MAY INDEPENDENT SCHOOL DISTRICT**

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
AUGUST 31, 2008

Total fund balances - governmental funds balance sheet	\$ 1,073,311
Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:	
Capital assets used in governmental activities are not reported in the funds.	3,216,660
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	212,069
The assets and liabilities of internal service funds are included in governmental activities in the SNA.	55,957
Payables for bond principal which are not due in the current period are not reported in the funds.	(1,565,000)
Payables for accrued note interest which are not due in the current period are not reported in the funds.	(4,450)
Payables for bond interest which are not due in the current period are not reported in the funds.	(3,552)
Payables for notes which are not due in the current period are not reported in the funds.	(296,042)
Other long-term assets are not available to pay for current-period expenditures and are deferred in the funds.	2,680
Rounding difference	(1)
<b>Net assets of governmental activities - statement of net assets</b>	<b>\$ 2,691,632</b>

The accompanying notes are an integral part of this statement.



**MAY INDEPENDENT SCHOOL DISTRICT**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2008

Data Control Codes	10 General Fund	Other Governmental Funds	98 Total Governmental Funds
<b>REVENUES:</b>			
5700 Local and Intermediate Sources	\$ 1,362,691	\$ 229,987	\$ 1,592,678
5800 State Program Revenues	1,254,045	65,138	1,319,183
5900 Federal Program Revenues	1,054	193,215	194,269
5020 Total Revenues	<u>2,617,790</u>	<u>488,340</u>	<u>3,106,130</u>
<b>EXPENDITURES:</b>			
Current:			
0011 Instruction	1,261,469	137,001	1,398,470
0012 Instructional Resources and Media Services	58,000	529	58,529
0013 Curriculum and Staff Development	43,397	2,049	45,446
0023 School Leadership	198,302	--	198,302
0031 Guidance, Counseling, & Evaluation Services	59,836	--	59,836
0033 Health Services	--	14,526	14,526
0034 Student Transportation	102,558	--	102,558
0035 Food Service	--	200,873	200,873
0036 Cocurricular/Extracurricular Activities	116,321	--	116,321
0041 General Administration	175,799	--	175,799
0051 Plant Maintenance and Operations	230,392	--	230,392
0053 Data Processing Services	35,682	--	35,682
0071 Principal on Long-term Debt	190,384	75,000	265,384
0072 Interest on Long-term Debt	13,778	82,593	96,371
0073 Bond Issuance Costs and Fees	2,750	482	3,232
0081 Capital Outlay	119,471	--	119,471
0093 Payments to Shared Service Arrangements	30,487	--	30,487
6030 Total Expenditures	<u>2,638,626</u>	<u>513,053</u>	<u>3,151,679</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	(20,836)	(24,713)	(45,549)
Other Financing Sources and (Uses):			
7914 Non-Current Loan Proceeds	296,042	--	296,042
7915 Transfers In	--	61,000	61,000
8911 Transfers Out	(61,000)	--	(61,000)
7080 Total Other Financing Sources and (Uses)	<u>235,042</u>	<u>61,000</u>	<u>296,042</u>
1200 Net Change in Fund Balances	214,206	36,287	250,493
0100 Fund Balances - Beginning	715,956	108,537	824,493
1300 Prior Period Adjustment	(1,675)	--	(1,675)
Fund Balances - Beginning, as Restated	714,281	108,537	822,818
3000 Fund Balances - Ending	\$ <u>928,487</u>	\$ <u>144,824</u>	\$ <u>1,073,311</u>

The accompanying notes are an integral part of this statement.

**MAY INDEPENDENT SCHOOL DISTRICT**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2008

Net change in fund balances - total governmental funds	\$ 250,493
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	119,471
The depreciation of capital assets used in governmental activities is not reported in the funds.	(136,845)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(65,496)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	75,000
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	61,864
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	128,520
Long Term Note issuance costs and similar items are amortized in the SOA but not in the funds	2,680
(Increase) decrease in accrued interest from beginning of period to end of period	(1,566)
The net revenue (expense) of internal service funds is reported with governmental activities.	(4,496)
Proceeds of notes do not provide revenue in the SOA, but are reported as current resources in the funds.	(296,042)
Rounding difference	(1)
Change in net assets of governmental activities - statement of activities	<u>\$ 133,582</u>

The accompanying notes are an integral part of this statement.

**MAY INDEPENDENT SCHOOL DISTRICT**

STATEMENT OF NET ASSETS  
 INTERNAL SERVICE FUND  
 AUGUST 31, 2008

Data Control Codes		Nonmajor Internal Service Fund
Codes		Public Entity Risk Pool
<b>ASSETS:</b>		
Current Assets:		
1110	Cash and Cash Equivalents	\$ 810
Receivables:		
1260	Due from Other Funds	74,100
	Total Current Assets	<u>74,910</u>
1000	Total Assets	<u>\$ 74,910</u>
 <b>LIABILITIES:</b>		
Current Liabilities:		
2110	Accounts Payable	\$ 18,953
	Total Current Liabilities	<u>18,953</u>
2000	Total Liabilities	<u>18,953</u>
 <b>NET ASSETS:</b>		
3900	Unrestricted Net Assets	55,957
3000	Total Net Assets	<u>\$ 55,957</u>

The accompanying notes are an integral part of this statement.

**MAY INDEPENDENT SCHOOL DISTRICT**  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
 IN FUND NET ASSETS - INTERNAL SERVICE FUND  
 FOR THE YEAR ENDED AUGUST 31, 2008

Data Control Codes	Nonmajor Internal Service Fund
	Public Entity Risk Pool
<b>OPERATING EXPENSES:</b>	
6200 Professional and Contracted Services	\$ 4,496
6030 Total Expenses	<u>4,496</u>
1300 Change in Net Assets	(4,496)
0100 Total Net Assets - Beginning	60,453
3300 Total Net Assets - Ending	<u>\$ 55,957</u>

The accompanying notes are an integral part of this statement.

**MAY INDEPENDENT SCHOOL DISTRICT**

## STATEMENT OF CASH FLOWS

## PROPRIETARY FUNDS

FOR THE YEAR ENDED AUGUST 31, 2008

	Internal Service Funds
<b>Cash Flows from Operating Activities:</b>	
<i>Cash Receipts (Payments) for Quasi-external     Operating Transactions with Other Funds</i>	7,556
<i>Cash Payments to Employees for Services</i>	--
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(7,902)
Net Cash Provided (Used) by Operating Activities	<u>(346)</u>
<b>Cash Flows from Non-capital Financing Activities:</b>	
<i>Operating Grants Received</i>	--
<i>Transfers From (To) Primary Government</i>	--
<i>Transfers From (To) Other Funds</i>	--
Net Cash Provided (Used) by Non-capital Financing Activities	<u>--</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
<i>Proceeds from Issuance of Long-term Debt</i>	--
<i>Principal and Interest Paid</i>	--
<i>Acquisition or Construction of Capital Assets</i>	--
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>--</u>
<b>Cash Flows from Investing Activities:</b>	
<i>Purchase of Investment Securities</i>	--
<i>Interest and Dividends on Investments</i>	--
Net Cash Provided (Used) for Investing Activities	<u>--</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(346)
Cash and Cash Equivalents at Beginning of Year	1,156
Cash and Cash Equivalents at End of Year	<u>\$ 810</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>	
Operating Income (Loss)	\$ (4,496)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
<i>Depreciation</i>	--
<i>Provision for Uncollectible Accounts</i>	--
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Receivables</i>	7,556
<i>Increase (Decrease) in Accounts Payable</i>	(3,406)
<i>Increase (Decrease) in Unearned Revenue</i>	--
Total Adjustments	<u>4,150</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (346)</u>

The accompanying notes are an integral part of this statement.

**MAY INDEPENDENT SCHOOL DISTRICT**

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

AUGUST 31, 2008

Data Control Codes	Private-purpose Trust Funds	Agency Funds  Student Activity
<b>ASSETS:</b>		
1110 <i>Cash and Cash Equivalents</i>	\$ 4,755	\$ 25,204
1120 <i>Current Investments</i>	23,567	--
1000 <b>Total Assets</b>	<u>\$ 28,322</u>	<u>\$ 25,204</u>
<b>LIABILITIES:</b>		
Current Liabilities:		
2190 <i>Due to Student Groups</i>	\$ --	\$ 25,204
2000 <b>Total Liabilities</b>	<u>--</u>	<u>25,204</u>
<b>NET ASSETS</b>		
3800 <i>Held in Trust</i>	28,322	--
3000 <b>Total Net Assets</b>	<u>\$ 28,322</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

**MAY INDEPENDENT SCHOOL DISTRICT**  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2008

	Private- Purpose Trusts
<b>Additions:</b>	
Investment Income	\$ 948
Net (Decrease) in Fair Value of Investments	--
Donations	4,000
Plan Member Contributions	--
Total Additions	<u>4,948</u>
<b>Deductions:</b>	
Scholarship Awards	1,500
Benefits	--
Refunds of Contributions	--
Administrative Expenses	--
Total Deductions	<u>1,500</u>
<b>Change in Net Assets</b>	<b>3,448</b>
Net Assets-Beginning of the Year	<u>24,873</u>
Net Assets-End of the Year	<u>\$ 28,321</u>

The accompanying notes are an integral part of this statement.

# MAY INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2008

### A. Summary of Significant Accounting Policies

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

#### 1. Reporting Entity

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

#### 2. Basis of Presentation, Basis of Accounting

##### a. Basis of Presentation

**Government-wide Financial Statements:** The statement of net assets and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

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

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

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

The District reports the following major governmental funds:

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



## **MAY INDEPENDENT SCHOOL DISTRICT**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2008**

In addition, the District reports the following fund types:

**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.

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

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

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

#### **b. Measurement Focus, Basis of Accounting**

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

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

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

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

# MAY INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2008

### 3. Financial Statement Amounts

#### a. Cash and Cash Equivalents

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

#### b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the fiscal year.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

#### c. Inventories and Prepaid Items

The District records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with the Resource Guide.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

#### d. Capital Assets

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

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

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

**MAY INDEPENDENT SCHOOL DISTRICT**

*NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2008*

e. Receivable and Payable Balances

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

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

f. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

g. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

h. Data Control Codes

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

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

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

<u>Violation</u>	<u>Action Taken</u>
Unfavorable budget variances	The District will monitor the budget more closely and make budget amendments as necessary. The District will also seek assistance in proper accounting for debt refinancing.

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

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

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

**MAY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2008**

C. Deposits and Investments

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

1. Cash Deposits:

At August 31, 2008, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$490,902 and the bank balance was \$529,043. The District's cash deposits at August 31, 2008 and during the year ended August 31, 2008, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

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

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

The District's investments at August 31, 2008 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
<u>General Fund:</u>		
Lone Star Investment Pool	N/A	\$ 524,459
Certificate of Deposit	10-2008	<u>125,868</u>
Total General Fund		<u>650,326</u>
<u>Interest and Sinking Fund:</u>		
Certificate of Deposit	11-2008	<u>73,161</u>
<u>Capital Projects Fund:</u>		
Certificate of Deposit	10-2008	<u>87,390</u>
Total District Investments		<u>\$ 810,877</u>

**MAY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2008**

Investment or Investment Type	Maturity	Fair Value
<u>Fiduciary Funds:</u>		
<u>Private Purpose Trust Funds:</u>		
Certificate of Deposit	10-2008	\$ 11,206
Certificate of Deposit	9-2008	<u>12,361</u>
Total Fiduciary Funds Investments		<u>23,567</u>
Total Investments		<u>\$ 834,444</u>

3. Analysis of Specific Deposit and Investment Risks

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

a. Credit Risk

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

At August 31, 2008, the District's investments, other than those which are obligations of or guaranteed by the U. S. Government, are rated as to credit quality as follows:

Lone Star Investment Pool    \$ 524,459    Standard & Poor's Rating AAA

b. Custodial Credit Risk

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

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

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

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

**MAY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2008**

Investment Accounting Policy

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

Public Funds Investment Pools

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

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

**D. Capital Assets**

Capital asset activity for the year ended August 31, 2008, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 88,323	\$ --	\$ --	\$ 88,323
Construction in progress	--	--	--	--
Total capital assets not being depreciated	<u>88,323</u>	<u>--</u>	<u>--</u>	<u>88,323</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	4,657,909	119,471	--	4,777,380
Equipment	--	--	--	--
Vehicles	343,104	--	--	343,104
Infrastructure	129,320	--	--	129,320
Total capital assets being depreciated	<u>5,130,333</u>	<u>119,471</u>	<u>--</u>	<u>5,249,804</u>
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	(1,793,015)	(105,377)	--	(1,898,392)
Equipment	--	--	--	--
Vehicles	(191,067)	(27,158)	--	(218,224)
Infrastructure	(539)	(4,311)	--	(4,849)
Total accumulated depreciation	<u>(1,984,620)</u>	<u>(136,845)</u>	<u>--</u>	<u>(2,121,465)</u>
Total capital assets being depreciated, net	<u>3,145,712</u>	<u>(17,374)</u>	<u>--</u>	<u>3,128,338</u>
Governmental activities capital assets, net	<u>\$ 3,234,035</u>	<u>\$ (17,374)</u>	<u>\$ --</u>	<u>\$ 3,216,661</u>

**MAY INDEPENDENT SCHOOL DISTRICT**

*NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2008*

Depreciation was charged to functions as follows:

Instruction	\$ 72,689
Instructional Resources and Media Services	3,032
Curriculum and Staff Development	2,355
School Leadership	10,274
Guidance, Counseling, & Evaluation Services	3,100
Health Services	753
Student Transportation	5,314
Food Services	10,407
Extracurricular Activities	6,027
General Administration	9,108
Plant Maintenance and Operations	11,937
Data Processing Services	1,849
	<u>\$ 136,845</u>

Current year additions consisted of the replacements of roofs on the high school, the main gym, and the concession stand and locker room.

**E. Interfund Balances and Activities**

**1. Due To and From Other Funds**

Balances due to and due from other funds at August 31, 2008, consisted of the following:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
Internal Service Fund	General Fund	\$ 74,100	Self insurance funding
	Total	<u>\$ 74,100</u>	

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

**2. Transfers To and From Other Funds**

Transfers to and from other funds at August 31, 2008, consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
General fund	Other Governmental Funds	\$ 61,000	Supplement other funds sources
	Total	<u>\$ 61,000</u>	

**MAY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2008**

F. Long-Term Obligations

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

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2008, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<b>Governmental activities:</b>					
General obligation bonds	\$ 1,640,000	\$ --	\$ 75,000	\$ 1,565,000	\$ 80,000
Capital leases	61,864	--	61,864	--	--
Notes	128,520	296,042	128,520	296,042	35,644
Total governmental activities	\$ 1,830,384	\$ 296,042	\$ 265,384	\$ 1,861,042	\$ 115,644

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2008, are as follows:

Year Ending August 31,	Governmental Activities		
	Principal	Interest	Total
2009	\$ 115,644	\$ 89,516	\$ 205,160
2010	113,573	87,707	201,280
2011	120,210	81,985	202,195
2012	126,926	75,849	202,775
2013	133,726	69,307	203,034
2014-2018	675,963	243,888	919,851
2019-2023	575,000	62,606	637,606
Totals	\$ 1,861,042	\$ 710,859	\$ 2,571,901

During the year ended August 31, 2008, the District refinanced its capital lease note and maintenance tax note. Interest rate on the 2008 Maintenance Tax Notes, Series 2008 is 4.875% per annum. Payments required are annually on February 1 of each year in the amount of \$46,267.50 for 5 years, then \$29,156.83 for the next four years, and a final payment of \$15,850 on February 1, 2018. The District received \$120,000 proceeds during the refinancing. Refinancing costs amounted to \$2,750, which is amortized over the life of the notes in the government-wide financial statements.

Interest rates on the Unlimited Tax School Building Bonds, Series 1997 range from 5.25% to 6.25%. Interest is paid semi-annually on February 15 and August 15. Principal is paid on February 15 of each year. Annual payment requirements range in various amounts from \$152,000 to \$162,000. Final payment on the bonds is scheduled on February 15, 2022.

G. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2008, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.



# MAY INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED AUGUST 31, 2008

#### H. Pension Plan

##### 1. Plan Description

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

##### 2. Funding Policy

Under provisions in State law, plan members are required to contribute 6.4% of their annual covered salary and the State of Texas contributes an amount equal to 6.58% of the District's covered payroll. The District's employees' contributions to the System for the years ending August 31, 2008, 2007 and 2006 were \$102,097, \$96,997 and \$87,068, respectively, and were equal to the required contributions for each year. Other contributions made from federal and private grants and from the District for salaries above the statutory minimum for the years ending August 31, 2008, 2007 and 2006 were \$19,630, \$15,234 and \$15,275, respectively, and were equal to the required contributions for each year. The amount contributed by the State on behalf of the District was \$100,791 for the year ended August 31, 2008.

#### I. Retiree Health Care Plan

##### 1. Plan Description

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

##### 2. Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2008, 2007 and 2006. 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, 2008, 2007, and 2006, the State's contributions to TRS-Care were \$15,953, \$15,156, and \$13,604, respectively, the active member contributions were \$10,369, \$9,951, and \$8,843, respectively, and the District's contributions were \$10,255, \$15,288, and \$14,610, respectively, which equaled the required contributions each year.

## MAY INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2008

#### J. Employee Health Care Coverage

During the year ended August 31, 2008, employees of the District were covered by TRS Active Care. The District paid premiums of \$275 per pay period per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to TRS Active Care. The Plan was authorized by the Texas Education Code.

#### K. Commitments and Contingencies

##### 1. Contingencies

The District participates in 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, refunds of any money received may be required and the collectibility of any related receivable 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 basic financial statements for such contingencies.

##### 2. Litigation

No reportable litigation was pending against the District at August 31, 2008.

#### L. Shared Services Arrangements

##### Shared Services Arrangement - Membership

The District participates in a shared services arrangement ("SSA") for local special education services with the following school districts:

##### Member Districts

De Leon ISD	Gustine ISD
Comanche ISD	Sidney ISD
Cross Plains ISD	

The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, De Leon ISD, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the SSA.

#### M. Workers Compensation Insurance

The District is a participant in the North Texas Educational Insurance Association Workers' Compensation Self-Insurance Fund. The purpose of the fund is to provide the statutory benefits for the fund members through self-insurance of workers compensation prescribed by Article 8309h, Revised Civil Statutes of Texas as amended.

The interlocal agreement between the May Independent School District and the North Texas Education Insurance Association Workers' Compensation Self-Insurance Fund is for a term beginning September 1, 2007 and terminating on September 1, 2008. Either party may terminate the agreement upon 60 days written notice with the termination becoming effective at the end of the plan term currently in force.

The required contributions for each plan sponsor are based on the State Board of Insurance workers' compensation rates for the various payroll classifications included in the fund members annual payroll. The interlocal agreement states that the May Independent School District's maximum loss exposure for 2007-2008 is \$15,157. These losses are appropriated in the financial records of the May Independent School District. The District's fixed cost for 2007-2008 is \$8,6

**MAY INDEPENDENT SCHOOL DISTRICT**

*NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2008*

The "pooled risk" self-insurance fund is managed by a six member board. Any excess of the cumulative contributions and investment earnings of all fund members are available for reduction of annual contributions. The District had estimated unpaid claims of \$18,953 at August 31, 2008. The Board reserved the right in the interlocal agreement to adjust this stop loss provision in the event that the fiscal soundness of the fund would justify such an adjustment and/or result in savings to fund members. All claims are processed and paid by the pool through the servicing contractor employed by the Fund.

**N. Due from Other Governments**

The District had the following amounts due from other governments at August 31, 2008:

General Fund:	
Foundation Revenue	\$ <u>266,977</u>
Special Revenue Funds:	
State Sources	5,798
Federal Sources	<u>1,046</u>
	\$ <u>6,844</u>
<hr/>	
Total Due from Other Governments	\$ <u><u>273,821</u></u>

**O. Unearned Revenues**

The District had the following unearned revenues in its individual governmental funds at August 31, 2008:

General Fund:	
Property taxes	\$ 190,366
Interest and Sinking Fund:	
Property taxes	21,704
Special Revenue Funds:	
State Sources	<u>4,033</u>
Total Unearned Revenues	\$ <u><u>216,103</u></u>

**P. Due to Other Governments**

At August 31, 2008, the District owed \$1,338 to Education Service Center, Region XV for a settle-up on Chapter 41 agreement for 2007-2008. That payment was paid in October, 2008.

**Q. Prior Period Adjustments**

Prior period adjustments were posted to the following individual funds net assets accounts:

General Fund:	
Prior year corrections	\$ <u>(1,675)</u>

Prior period adjustments were posted to the government-wide net assets accounts:

General Fund:	
Prior year corrections	\$ (1,675)
Adjustment to record prior year accrued interest on bonds	<u>(3,709)</u>
	\$ <u><u>(5,384)</u></u>

**MAY INDEPENDENT SCHOOL DISTRICT**

*NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2008*

The prior period adjustment for recording prior year accrued interest on bonds does not affect the individual funds accounts as interest expense is recognized when paid rather than when accrued.

**R. Unfavorable Budget Variances**

As of August 31, 2008, the District had unfavorable budget variances at several function levels. The budget variances were caused by adjustments recorded during the audit to properly reflect all year-end accounts payable and to record proper accounting entries in the refinancing of debt.

General Fund:

0036	Cocurricular/Extracurricular Activities	\$	5,850
0041	General Administration		337
0071	Principal on Long-Term Debt		167,295
0072	Interest on Long-Term Debt		5,997
0073	Bond Issuance Costs and Fees		2,750

The District failed to properly record all accounting entries necessary to reflect the refinancing of general fund debt. Consequently, the debt service expenditures were in excess of the amounts budgeted. In addition, the District failed to properly amend the budget for all supplies and services acquired prior to August 31, 2008. The budget variances were caused when the accounts payable entries were recorded.

**APPENDIX C**

FORM OF BOND COUNSEL'S OPINION

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**Proposed Form of Opinion of Bond Counsel**

*An opinion in substantially the following form will be delivered by McCall,  
Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the  
Bonds, assuming no material changes in facts or law.*

**\$1,485,000  
MAY INDEPENDENT SCHOOL DISTRICT  
UNLIMITED TAX REFUNDING BONDS  
SERIES 2009**

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AS BOND COUNSEL for the MAY INDEPENDENT SCHOOL DISTRICT, the Issuer (the "Issuer") of the Bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, until maturity or prior redemption, at the rates and payable on the dates as stated in the text of the Bonds, and maturing on the dates and subject to redemption prior to maturity as specified in the text of the Bonds, all in accordance with the terms and conditions stated in the text of the Bonds.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, and a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance of the Bonds, including two of the executed Bonds (Bond Number TR-1 and TCAB-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that said Bonds have been authorized, issued and duly delivered in accordance with law, and that said Bonds, except as may be limited by laws applicable to the Issuer relating to bankruptcy, reorganization and other similar matters affecting creditors' rights or by general principles of equity which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the Issuer, and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Bonds have been levied and pledged for such purpose, without limit as to rate or amount, on all taxable property within the Issuer.

IN EXPRESSING SUCH OPINION, we have considered the effect of the November 22, 2005 decision by the Texas Supreme Court in *West Orange-Cove Consolidated Independent School District, et al. v. Neeley, et al.*, upholding, in part, a lower court judgment concluding that the local ad valorem maintenance and operation tax authorized under the school finance system then in effect had become a State property tax in violation of article VIII, section 1-e of the Texas Constitution, in that school districts did not have meaningful discretion in levying the tax. The Court's opinion further noted that the court "...remain convinced...that defects in the structure of the public school finance system expose the system to constitutional challenge. . . . [Such challenges] will repeat until the system is overhauled." Subsequent to such decision, legislation was enacted by the Texas Legislature to address the constitutional issues raised in the court's ruling. Reference is made to the Official Statement for the Bonds for a further description of the rulings and the legislation enacted by the Texas Legislature.

IT IS FURTHER OUR OPINION, that, except as discussed below, under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion, for federal income tax purposes, the interest on the Bonds (i) is excludable from the gross income of the owners and (ii) is not includable in an owner's alternative minimum taxable income under section 55 of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property financed therewith. We call your

attention to the fact that if such representations are determined to be inaccurate or upon a failure by the Issuer to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

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

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering our opinions 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 from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

Respectfully,



**APPENDIX D**

**SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY**

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## Financial Guaranty Insurance Policy

Issuer:

Policy No.:

Obligations:

Premium:

Effective Date:

Assured Guaranty Corp., a Maryland corporation ("**Assured Guaranty**"), in consideration of the payment of the Premium and on the terms and subject to the conditions of this Policy (which includes each endorsement hereto), hereby unconditionally and irrevocably agrees to pay to the trustee (the "**Trustee**") or the paying agent (the "**Paying Agent**") for the Obligations (as set forth in the documentation providing for the issuance of and securing the Obligations) for the benefit of the Holders, that portion of the Insured Payments which shall become Due for Payment but shall be unpaid by reason of Nonpayment.

Assured Guaranty will make such Insured Payments to the Trustee or the Paying Agent on the later to occur of (i) the date applicable principal or interest becomes Due for Payment, or (ii) the Business Day next following the day on which Assured Guaranty shall have Received a completed Notice of Nonpayment. If a Notice of Nonpayment by Assured Guaranty is incomplete or does not in any instance conform to the terms and conditions of this Policy, it shall be deemed not Received, and Assured Guaranty shall promptly give notice to the Trustee or the Paying Agent. Upon receipt of such notice, the Trustee or the Paying Agent may submit an amended Notice of Nonpayment. The Trustee or the Paying Agent will disburse the Insured Payments to the Holders only upon receipt by the Trustee or the Paying Agent, in form reasonably satisfactory to it of (i) evidence of the Holder's right to receive such payments, and (ii) evidence, including without limitation any appropriate instruments of assignment, that all of the Holder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Assured Guaranty. Upon and to the extent of such disbursement, Assured Guaranty shall become the Holder of the Obligations, any appurtenant coupon thereto and right to receipt of payment of principal thereof or interest thereon, and shall be fully subrogated to all of the Holder's right, title and interest thereunder, including without limitation the right to receive payments in respect of the Obligations. Payment by Assured Guaranty to the Trustee or the Paying Agent for the benefit of the Holders shall discharge the obligation of Assured Guaranty under this Policy to the extent of such payment.

This Policy is non-cancelable by Assured Guaranty for any reason. The Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment premium or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Assured Guaranty, nor against any risk other than Nonpayment.

Except to the extent expressly modified by any endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "**Avoided Payment**" means any amount previously distributed to a Holder in respect of any Insured Payment by or on behalf of the Issuer, which amount has been recovered from such Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder. "**Business Day**" means any day other than (i) a Saturday or Sunday, (ii) any day on which the offices of the Trustee, the Paying Agent or Assured Guaranty are closed, or (iii) any day on which banking institutions are authorized or required by law, executive order or governmental decree to be closed in the City of New York or in the State of Maryland. "**Due for Payment**" means (i) when referring to the principal of an Obligation, the stated maturity date thereof, or the date on which such Obligation shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and (ii) when referring to interest on an Obligation, the stated date for payment of such interest. "**Holder**" means, in respect of any Obligation, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Obligation to payment of principal or interest thereunder, except that Holder shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Obligations. "**Insured Payments**" means that portion of the principal of and interest on the Obligations that shall become Due for Payment but shall be unpaid by reason of Nonpayment. Insured Payments shall not include any additional amounts owing by the Issuer solely as a result of the failure by the Trustee or the Paying Agent to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee or the Paying Agent by reason of such failure. "**Nonpayment**" means, in respect of an Obligation, the failure of the Issuer to have provided sufficient funds to the Trustee or the Paying Agent for payment in full of all principal and interest Due for Payment on such Obligation. It is further understood that the term "Nonpayment" in respect of an Obligation includes any Avoided Payment. "**Receipt**" or "**Received**" means actual receipt or notice of or, if notice is given by overnight or other delivery service, or by certified or registered United States mail, by a delivery receipt signed by a person authorized to accept delivery on behalf of the person to whom the notice was given. Notices to Assured Guaranty may be mailed by registered mail or personally delivered or telecopied to it at 31 West 52<sup>nd</sup> Street, New York, New York 10019, Telephone Number: (212) 974-0100, Facsimile Number: (212) 581-3268, Attention: Risk Management Department - Public Finance Surveillance, with a copy to the General Counsel at the same address and at [generalcounsel@assuredguaranty.com](mailto:generalcounsel@assuredguaranty.com) or at the following Facsimile

Number: (212) 445-8705, or to such other address as shall be specified by Assured Guaranty to the Trustee or the Paying Agent in writing. A Notice of Nonpayment will be deemed to be Received by Assured Guaranty on a given Business Day if it is Received prior to 12:00 noon (New York City time) on such Business Day; otherwise it will be deemed Received on the next Business Day. "Term" means the period from and including the Effective Date until the earlier of (i) the maturity date for the Obligations, or (ii) the date on which the Issuer has made all payments required to be made on the Obligations.

At any time during the Term of this Policy, Assured Guaranty may appoint a fiscal agent (the "Fiscal Agent") for purposes of this Policy by written notice to the Trustee or the Paying Agent, specifying the name and notice address of such Fiscal Agent. From and after the date of Receipt of such notice by the Trustee or the Paying Agent, copies of all notices and documents required to be delivered to Assured Guaranty pursuant to this Policy shall be delivered simultaneously to the Fiscal Agent and to Assured Guaranty. All payments required to be made by Assured Guaranty under this Policy may be made directly by Assured Guaranty or by the Fiscal Agent on behalf of Assured Guaranty. The Fiscal Agent is the agent of Assured Guaranty only, and the Fiscal Agent shall in no event be liable to the Trustee or the Paying Agent for any acts of the Fiscal Agent or any failure of Assured Guaranty to deposit, or cause to be deposited, sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Assured Guaranty hereby waives, in each case for the benefit of the Holders only, all rights and defenses of any kind (including, without limitation, the defense of fraud in the inducement or in fact or any other circumstance that would have the effect of discharging a surety, guarantor or any other person in law or in equity) that may be available to Assured Guaranty to deny or avoid payment of its obligations under this Policy in accordance with the express provisions hereof. Nothing in this paragraph will be construed (i) to waive, limit or otherwise impair, and Assured Guaranty expressly reserves, Assured Guaranty's rights and remedies, including, without limitation, its right to assert any claim or to pursue recoveries (based on contractual rights, securities law violations, fraud or other causes of action) against any person or entity, in each case, whether directly or acquired as a subrogee, assignee or otherwise, subsequent to making any payment to the Trustee or the Paying Agent, in accordance with the express provisions hereof, and/or (ii) to require payment by Assured Guaranty of any amounts that have been previously paid or that are not otherwise due in accordance with the express provisions of this Policy.

This Policy (which includes each endorsement hereto) sets forth in full the undertaking of Assured Guaranty with respect to the subject matter hereof, and may not be modified, altered or affected by any other agreement or instrument, including, without limitation, any modification thereto or amendment thereof. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. This Policy will be governed by, and shall be construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, Assured Guaranty has caused this Policy to be affixed with its corporate seal, to be signed by its duly authorized officer, and to become effective and binding upon Assured Guaranty by virtue of such signature.

**ASSURED GUARANTY CORP.**

(SEAL)

By: \_\_\_\_\_  
[Insert Authorized Signatory Name]  
[Insert Authorized Signatory Title]

Signature attested to by:

\_\_\_\_\_  
Counsel



Financial Advisory Services  
Provided By

