OFFICIAL STATEMENT
Dated: September 17, 2013

Rating: Moody's:.....“Aaa”
Underlying Rating: Moody's:....“A1”
(See “OTHER INFORMATION – RATINGS” herein)

NEW ISSUE - Book-Entry Only

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

The District has designated the Bonds as “Qualified Tax-Exempt Obligations” for Financial Institutions.

$9,365,000
WINK-LOVING INDEPENDENT SCHOOL DISTRICT
(Winkler and Loving Counties, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS
SERIES 2013

Dated Date: September 15, 2013 **Due: February 15, as shown on the inside cover page**

Wink-Loving Independent School District (the “District”) is issuing $9,365,000 Unlimited Tax School Building Bonds, Series 2013 (the “Bonds”). The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly Chapter 45, Texas Education Code, as amended, and an election held in the District on May 12, 2012, and are direct obligations of the District. The Bonds are payable from an ad valorem tax levied, without legal limit as to rate or amount, on all taxable property located within the District, as provided in the order authorizing issuance of the Bonds (the “Order”) (see “THE BONDS – Authority for Issuance”). Additionally, the District has received conditional approval of the Bonds to be guaranteed by the Permanent School Fund of the State of Texas (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).

Interest on the Bonds will accrue from the date of their delivery and will be payable on February 15 and August 15 of each year, commencing February 15, 2014, until maturity. The Bonds will be issued in principal denominations of $5,000 or any integral multiple thereof within a maturity. Interest accruing on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months (see “THE BONDS – Description of the Bonds”).

The District intends to use the Book-Entry Only System of The Depository Trust Company (“DTC”), but use of such system could be discontinued. The principal of the Bonds at maturity and interest on the Bonds will be payable to Cede & Co., as nominee for DTC, by BOKF, NA dba Bank of Texas, Austin, Texas, as the initial Paying Agent/Registrar (the “Paying Agent/Registrar”) for the Bonds. No physical delivery of the Bonds will be made to the beneficial owners thereof. Such Book-Entry Only System will affect the method and timing of payment and the method of transfer of the Bonds (see “BOOK-ENTRY ONLY SYSTEM”).

Proceeds from the sale of the Bonds will be used to (i) finance the construction, acquisition and equipment of school buildings, the purchase of necessary sites for school buildings and the purchase of new school buses and (ii) pay the costs incurred in the issuance of the Bonds. (See “THE BONDS – Purpose” and “THE BONDS – Sources and Uses of Funds”).

The Bonds are not subject to optional redemption prior to stated maturity (see “THE BONDS – No Optional Redemption”).

See Principal Amounts, Maturities, Interest Rates, and Prices on the Inside Cover Page

The Bonds are offered for delivery when, as, and if issued and received by the underwriters listed below (the “Underwriters”) and subject to the approving opinions of the Attorney General of Texas and the opinion of Andrews Kurth LLP, Houston, Texas, Bond Counsel (see “APPENDIX C – Form of Bond Counsel's Opinion”). Certain legal matters will be passed upon for the Underwriters by Fulbright & Jaworski LLP, Houston, Texas, a member of Norton Rose Fulbright, as Counsel to the Underwriters.

It is expected that the Bonds will be available for delivery through DTC on or about October 8, 2013.

OPPENHEIMER & CO.

HUTCHINSONSHOCKEYERLEY&CO DUNCAN-WILLIAMS, INC.

PRINCIPAL AMOUNTS, MATURITIES, INTEREST RATES AND PRICES

$9,365,000 UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2013

Maturity (2/15)[a]	Principal Amount	Interest Rate	Initial Reoffering Yield[b]	CUSIP No.[c] (974170)	Maturity (2/15)[a]	Principal Amount	Interest Rate	Initial Reoffering Yield[b]	CUSIP No.[c] (974170)
2015	$515,000	2.000%	0.500%	BN 1	2020	$575,000	2.500%	2.000%	BT 8
2016	525,000	3.000	0.750	BP 6	2021	595,000	3.000	2.200	BU 5
2017	540,000	2.000	1.000	BQ 4	2022	2,425,000	3.000	2.400	BV 3
2018	550,000	2.000	1.450	BR 2	2023	2,500,000	3.000	2.600	BW 1
2019	565,000	2.500	1.750	BS 0	2024	575,000	3.500	2.800	BX 9

(Interest accrues from date of delivery)

(a) The Bonds are not subject to optional redemption prior to stated maturity. (See "THE BONDS – No Optional Redemption").

(b) The initial yields and prices are established by, and are the sole responsibility of the Underwriters and may subsequently be changed.

(c) CUSIP numbers have been assigned to this issue by the CUSIP Global Services managed by Standard and Poor's Financial Services LLC on behalf of the American Bankers Association and are included solely for the convenience of the purchasers of the Bonds. Neither the District, the Financial Advisor, nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

USE OF INFORMATION IN THIS OFFICIAL STATEMENT

This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of the 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 OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

THE BONDS ARE EXEMPTED 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 THESE SECURITIES HAVE BEEN REGISTERED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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

Neither the District nor the Financial Advisor makes any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company or its Book-Entry Only System or the affairs of the Texas Education Agency described under "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM".

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

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

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

OFFICIAL STATEMENT SUMMARY

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

The District.....	The Wink-Loving Independent School District (the "District") is a political subdivision located in Winkler and Loving Counties. The District is governed by a seven-member Board of Trustees (the "Board"), who serve staggered three-year terms with elections being held in May of each year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Consultants and advisors supply support services. See "INTRODUCTION – Description Of The District." The District is approximately 1,118 square miles in area.
Authority For Issuance.....	The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 45, Texas Education Code, as amended, an election held in the District May 12, 2012, and the order authorizing the issuance of the Bonds passed by the Board of Trustees of the District (the "Order") (see "THE BONDS – Authority for Issuance").
The Bonds.....	The District's Unlimited Tax School Building Bonds, Series 2013 (the "Bonds") shall mature on the dates and in the amounts set forth on the inside cover page of this Official Statement (see "THE BONDS – Description of the Bonds").
Payment of Interest.....	Interest on the Bonds will accrue from the date of delivery and will be payable semiannually on February 15 and August 15 of each year, commencing February 15, 2014, until maturity (see "THE BONDS – Description of the Bonds").
Paying Agent/Registrar.....	The initial Paying Agent/Registrar is BOKF, NA dba Bank of Texas, Austin, Texas (see "THE BONDS – Paying Agent/Registrar"). Initially, the District intends to use the Book-Entry Only System of The Depository Trust Company (see "THE BONDS – Book-Entry Only System").
Security For The Bonds.....	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. (See "THE BONDS – Security and Source of Payment"). In addition, the District has received conditional approval for payment of the Bonds to be guaranteed by the Permanent School Fund of the State of Texas (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").
No Optional Redemption.....	The Bonds are not subject to optional redemption prior to stated maturity (see "THE BONDS – No Optional Redemption").
Tax Matters	In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS" herein, and is not includable in the alternative minimum taxable income of individuals. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel, including the alternative minimum tax on corporations. The District has designated the Bonds as qualified tax-exempt obligations. See "QUALIFIED TAX-EXEMPT OBLIGATIONS" herein.

Use of Proceeds	Proceeds from the sale of the Bonds will be used to (i) finance the construction, acquisition and equipment of school buildings, the purchase of necessary sites for school buildings and the purchase of new school buses and (ii) pay the costs incurred in the issuance of the Bonds. (See "THE BONDS – Purpose" and "THE BONDS – Sources and Uses of Funds.").
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. The Bonds will be issued in principal denominations of $5,000 or any integral multiple thereof within a maturity. No physical delivery of the Bonds will be made to the beneficial owners thereof. The principal of the Bonds at maturity 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").
Ratings.....	Moody's Investors Service, Inc. ("Moody's") has assigned its municipal bond rating of "Aaa" to the Bonds by virtue of the guarantee of the Permanent School Fund of the State of Texas of the Bonds. In addition, Moody's has assigned its underlying unenhanced rating of "A1" to the Bonds. An explanation of the significance of such ratings may be obtained from Moody's (See "OTHER INFORMATION – Ratings").
Payment Record.....	The District has never defaulted on the payment of its bonded indebtedness.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 8/31	Estimated Population[1]	Taxable Assessed Valuation[2]	Taxable Assessed Valuation Per Capita	Tax Supported Debt Outstanding	Ratio of Tax Supported Debt to Assessed Valuation	Tax Supported Debt Per Capita
2009	995	$1,253,959,735	$1,260,261	$0	0.00%	$0
2010	1,083	1,388,702,952	1,282,274	0	0.00%	0
2011	1,067	1,224,699,959	1,147,798	0	0.00%	0
2012	1,093	1,270,848,817	1,162,716	16,560,000	1.30%	15,151
2013	1,093	1,162,865,330	1,063,921	23,195,000[3]	2.00%	21,221

(1) Source: Municipal Advisory Council of Texas.

(2) As reported by the Winkler County Appraisal District and Loving County Appraisal District. Such values are subject to change during ensuing year. A large portion of the District's assessed valuation consists of oil and natural gas mineral interests. Because drilling activity is dependent upon the prices of volatile commodities, the District's tax base may grow or constrict in any particular year as a result of fluctuations in mineral values. In addition, the majority of such oil, gas and mineral assessed values are not subject to exemptions, and therefore constitute an even larger portion of the District's taxable assessed values than the percentages shown in the table above. As a result, the District's taxable assessed valuation and, therefore, the tax rates required to pay debt service on the District's bonds, may be subject to volatility in future years.

(3) Includes the Bonds.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

For Fiscal Year Ended August 31,

	2012	2011	2010	2009	2008
Beginning Balance	$3,314,350	$ 816,167	$5,458,214	$3,532,947	$3,722,822
Total Revenue	17,649,914	19,979,634	16,503,298	20,831,634	15,791,336
Total Expenditures	18,524,938	17,211,259	20,871,067	18,436,350	15,527,450
Excess/(Deficiency) of Revenues	(875,024)	2,768,375	(4,367,769)	2,395,284	263,886
Net Transfers/Adjustments	(251,026)	(270,192)	(274,278)	(470,017)	(453,761)
Ending Balance	$2,188,300	$3,314,350	$ 816,167	$5,458,214	$3,532,947

Source: The District's audited financial statements.

For additional information regarding the District, please contact:

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DISTRICT OFFICIALS, STAFF, AND CONSULTANTS

Elected Officials

Board of Trustees	Length of Service	Term Expires	Occupation
Eddie Brewer, President	10 Years	May, 2016	Gas Measurement Specialist
Minerva Soltero, Vice President	16 Years	May, 2016	Tax Assessor/Collector
Kristyl Hotze, Assistant Secretary	6 Years	May, 2014	Housewife
Russ Slaughter, Board Member	15 Years	May, 2014	Water hauling company owner
Larry Antley, Board Member	5 Years	May, 2015	Production Foreman
Brad White, Board Member	5 Years	May, 2015	Pipeliner
Melissa Halterman, Board Member	4 Years	May, 2016	Day care owner

Selected Administrative Staff

Name	Position	Length of Service Within District	Total Industry Experience
Dewitt Smith	Superintendent	2 Years	14 Years
Scotty Carman	Elementary Principal	5 Years	21 Years
Eddie Boggess	Director of Operations	15 Years	29 Years
Daron Worrell	High School Principal	1 Year	12 Years

Consultants and Advisors

Auditors ..... Smith & Rives, PC, CPA
Monahans, Texas

Bond Counsel ..... Andrews Kurth LLP
Houston, Texas

Financial Advisor ..... Government Capital Securities Corporation
Southlake, Texas

OFFICIAL STATEMENT

RELATING TO
WINK-LOVING INDEPENDENT SCHOOL DISTRICT

$9,365,000 UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2013

INTRODUCTION

This Official Statement, which includes APPENDICES A, B, and C hereto, provides certain information regarding the issuance of the $9,365,000 Wink-Loving Independent School District Unlimited Tax School Building Bonds, Series 2013 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the order (the "Order") adopted by the Board of Trustees ("the Board") of the Wink-Loving Independent School District (the "District") on the date of sale of the Bonds, which will authorize the issuance of the Bonds, except as otherwise indicated herein.

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

Included in this Official Statement are descriptions of the Bonds, the Order, and certain other information about 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 by writing the Wink-Loving Independent School District, 206 East Main Street, Wink, Texas 75956, and, during the offering period, from the District's Financial Advisor, Government Capital Securities Corporation, 559 Silicon Drive, Suite 102, Southlake, Texas 76092, upon payment of reasonable copying, mailing, and handling charges.

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

Description of the District

The District is a political subdivision of the State of Texas located in Winkler and Loving Counties. The District is governed by the Board who serve staggered three-year terms with elections being held in May of each year. Policymaking 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 is approximately 1,118 square miles in area.

THE BONDS

Description of the Bonds

The Bonds shall be dated September 15, 2013. Interest will accrue on the Bonds from the date of delivery thereof and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued in principal denominations of $5,000 or any integral multiple thereof within a maturity. The paying agent and transfer agent (the "Paying Agent/Registrar") for the Bonds is initially BOKF, NA dba Bank of Texas, Austin, Texas.

Initially, the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry Only System described below. No physical delivery of the Bonds will be made to the beneficial owners. The principal of the Bonds at maturity and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will distribute the amounts paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry Only System" for a more complete description of such system.

No Optional Redemption

The Bonds are not subject to optional redemption prior to their stated maturity.

Authority For Issuance

The Bonds are being issued pursuant to authority conferred by the Constitution and general laws of the State of Texas, including particularly Chapter 45, Texas Education Code, as amended, by the Order, and by an election held in the District on May 12, 2012. Capitalized terms used herein have the same meanings assigned to such terms in the Order, except as otherwise indicated.

Purpose

Proceeds from the sale of the Bonds will be used to (i) finance the construction, acquisition and equipment of school buildings, the purchase of necessary sites for school buildings and the purchase of new school buses and (ii) to provide funds to pay issuance costs associated with the Bonds.

Sources and Uses of Funds

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

Sources of Funds:	
Par Amount of the Bonds	$9,365,000.00
Plus: Net Premium	367,016.70
Total Sources of Funds	$9,732,016.70
Uses of Funds	
Deposit to Project Fund	$9,500,000.00
Underwriter's Discount and Issuance Costs[(a)]	232,016.70
Total Uses of Funds	$9,732,016.70

(a) Includes Underwriters' discount and the fees of Bond Counsel, the Paying Agent/Registrar, the rating agency and other costs related to the issuance of the Bonds.

Security and Source of Payment

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. In addition, the District has received approval, subject to certain conditions, for the Bonds to be guaranteed by the Permanent School Fund of The State of Texas. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM") herein.

Permanent School Fund Guarantee

In connection with the sale of the Bonds, the District has submitted an application to the Texas Education Agency for the payment of the Bonds to be guaranteed under the Guarantee Program for School District Bonds (Chapter 45, Subchapter C, of the Texas Education Code). Subject to meeting certain conditions discussed under the heading "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein, the payment of the Bonds will be guaranteed by the corpus of the Permanent School Fund of the State in accordance with the terms of the Guarantee Program for School District Bonds (the "Permanent School Fund Guarantee"). In the event of default, registered owners will receive all payments due from the corpus of the Permanent School Fund. In the event the District defeases any of the Bonds, the payment of such defeased Bonds will cease to be guaranteed by the Permanent School Fund Guarantee.

Legality

The Bonds are offered when, as, and if issued, and subject to the approval of legality by the Attorney General of the State of Texas and the opinion of the District's Bond Counsel, Andrews Kurth LLP, Houston, Texas ("Bond Counsel") (see "OTHER INFORMATION – Legal Matters" and "APPENDIX C – FORM OF BOND COUNSEL'S OPINION").

Amendments to the Order

In the Order, the District has reserved the right to amend the Order without the consent of any holder in any manner not detrimental to the interests of the holders, including the curing of any ambiguity, inconsistency, or formal defect or omission herein. In addition, the District has reserved the right, with the consent of holders who own in the aggregate 51% of the principal amount of the Bonds then Outstanding, to amend, add to, or rescind any of the provisions of the Order; provided that, without the

consent of all holders of Outstanding Bonds, no such amendment, addition, or rescission shall (i) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of Bonds required to be held by holders for consent to any such amendment, addition, or rescission.

Defeasance

The Order provides that the District may defease the Bonds and discharge its obligation to the holders of any or all of the Bonds to pay the principal of and interest thereon in any manner now or hereafter permitted by law, including by depositing with the Registrar or with the Comptroller of the State of Texas either: (a) cash in an amount equal to the principal amount of and interest thereon to the date of maturity; or (b) pursuant to an escrow or trust agreement, cash and/or (i) direct noncallable obligations of United States of America, including obligations that are unconditionally guaranteed by the United States of America; (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Board approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; or (iii) 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 the Board approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, which, in the case of (i), (ii), or (iii), may be in book entry form, and the principal of and interest on which will, when due or redeemable at the option of the holder, without further investment or reinvestment of either the principal amount thereof or the interest earnings thereon, provide money in an amount which, together with other moneys, if any, held in such escrow at the same time and available for such purpose, shall be sufficient to provide for the timely payment of the principal of and interest thereon to the date of maturity or earlier redemption; provided, however, that if any of the Bonds are to be redeemed prior to their respective dates of maturity, provision shall be made for the giving of notice of redemption as provided in the Order. Any surplus amount not required to accomplish such defeasance shall be returned to the District.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the 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 authorize.

The Permanent School Fund guarantee of the Bonds will be released upon the defeasance of the Bonds.

Book-Entry Only System

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

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered Bonds 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 of such issue, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic

computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+". The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

Principal, interest, and redemption payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, 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 principal, interest, and redemption payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

Paying Agent/Registrar

BOKF, NA dba Bank of Texas, Austin, Texas has been named to serve as initial Paying Agent/Registrar for the Bonds. In the Order, the District retains the right to replace the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank; a trust company organized under applicable law; or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

In the event the Book-Entry Only System should be discontinued, interest on the Bonds will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest will be paid (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 redemption payments of the Bonds will be paid to the registered owner at the stated maturity or earlier redemption upon presentation to the designated payment/transfer office of the Paying Agent/Registrar. If the date for the payment of the principal or interest on the Bonds is a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the designated 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, principal, interest, and redemption payments on the Bonds will be made as described in "Book-Entry Only System" above.

Transfer, Exchange, and Registration

In the event the Book-Entry Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar 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 principal office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "THE BONDS - Book-Entry Only System" for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Neither the District nor the Paying Agent/Registrar shall be required to transfer or exchange Bonds (i) during a period beginning at the close of business on any Record Date and ending with the next interest payment date or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Record Date for Interest Payment

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

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have 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 registered owner of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Owners' Remedies

The Order does not provide for the appointment of a trustee to represent the interests 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, in the event of any such failure to perform, the registered owners would be responsible for the initiation and cost of any legal action to enforce performance of the Order. Furthermore, the Order does not establish specific events of default with respect to the Bonds and, under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the District to observe any covenant under the Order. A registered owner of Bonds could seek a judgment against the District if a default occurred in the payment of principal of or interest on any such Bonds; however, such judgment could not be satisfied by execution against any property of the District and a suit for monetary damages could be vulnerable to the defense of sovereign immunity. A registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the District to levy, assess, and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due or perform other material terms and covenants contained in the Order. In general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform legally imposed ministerial duties necessary for the performance of a valid contract, and Texas law provides that, following their approval by the Attorney General and issuance, the Bonds are valid and binding obligations for all purposes according to their terms. However, the enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. The District is also 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 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 Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

The information below concerning the State Permanent School Fund and the Guarantee Program for School District Bonds has been provided by the Texas Education Agency and is not guaranteed as to accuracy or completeness by, and should not be construed as a representation by the District.

This disclosure statement provides information relating to the program administered by the Texas Education Agency (the "TEA") with respect to the Texas Permanent School Fund guarantee of Texas school district bonds, which program is referred to, and defined herein, as the Guarantee Program.

Some of the information contained in this Section may include projections or other forward-looking statements regarding future events or the future financial performance of the Texas Permanent School Fund (the "PSF" or the "Fund"). Actual results may differ materially from those contained in any such projections or forward-looking statements.

History and Purpose

The PSF was created with a $2,000,000 appropriation by the Texas Legislature (the "Legislature") in 1854 expressly for the benefit of the public schools of Texas. The Constitution of 1876 stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the state, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U. S. Supreme Court on May 31, 1960, affirmed Texas' historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund is established and administered, which occurred on September 13, 2003 (the "Total Return Constitutional Amendment"), and which is further described below, the PSF had as its main sources of revenues capital gains from securities transactions and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF. The State School Land Board ("SLB") maintains the land endowment of the Fund on behalf of the Fund and is authorized to manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a three member board, the membership of which consists of the Commissioner of the Texas General Land Office (the "Land Commissioner") and two citizen members, one appointed by the Governor and one by the Texas Attorney General (the "Attorney General").

The Texas Constitution describes the PSF as "permanent" and "perpetual." Prior to the approval by Total Return Constitutional Amendment, only the income produced by the PSF was to be used to complement taxes in financing public education.

On November 8, 1983, the voters of the State approved a constitutional amendment that provides for the guarantee of school district bonds by the PSF. On approval by the State Commissioner of Education (the "Commissioner"), bonds properly issued by a school district are fully guaranteed by the corpus of the PSF. See "The Guarantee Program."

The sole purpose of the PSF is to assist in the funding of public education for present and future generations. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividends produced by Fund investments flowed into the Available School Fund (the "ASF"), where they are distributed to local school districts based on average daily attendance. Any net gains from investments of the Fund accrue to the corpus of the PSF. Prior to the approval by the voters of the State of the Total Return Constitutional Amendment, costs of administering the PSF were allocated to the ASF. With the approval of the Total Return Constitutional Amendment, the administrative costs of the Fund have shifted from the ASF to the PSF. In fiscal year 2012, distributions to the ASF amounted to $221.04 per student and the total amount distributed to the ASF was $1.021 billion.

Audited financial information for the PSF is provided annually through the PSF Annual Report (the "Annual Report"), which is filed with the Municipal Securities Rulemaking Board ("MSRB"). The Annual Report includes the Message of the Executive Administrator of the Fund (the "Message") and the Management's Discussion and Analysis ("MD&A"). The Annual Report for the year ended August 31, 2012, when filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 ("Rule 15c2-12") of the federal Securities and Exchange Commission (the "SEC"), as described herein, and simultaneously posted to the PSF web site, as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended August 31, 2012 is derived from the audited financial statements of the PSF, which are included in the Annual Report when it is filed and posted. Reference is made to the Annual Report, when filed, for the complete Message and MD&A for the year ended August 31, 2012 and for a description of the financial results of the PSF for the year ended August 31, 2012, the most recent year for which audited financial information regarding the Fund is available. The 2012 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2012 Annual Report or any other Annual Report. The TEA posts each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, the most recent disclosure for the Guarantee Program, the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (the "Investment Policy"), monthly updates with respect to the capacity of the Guarantee Program (collectively, the "Web Site Materials") on the TEA web site at http://www.tea.state.tx.us/index4.aspx?id=3413&menu_id=2147483695 and with the MSRB at www.emma.msrb.org. Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund's holdings of securities specified in Section 13(f), including exchange-traded (e.g., NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at www.sec.gov/edgar.shtml. A list of the Fund's equity and fixed income holdings as of August 31 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund's securities lending program. Such list, when filed, is incorporated herein and made a part hereof for all purposes.

The Total Return Constitutional Amendment

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

that results from such events from one biennium may not be paid over to the ASF in a subsequent biennium as the SBOE would make a separate payout determination for that subsequent biennium.

In determining the Distribution Rate, the SBOE has adopted the goal of maximizing the amount distributed from the Fund in a manner designed to preserve "intergenerational equity." Intergenerational equity is the maintenance of endowment purchasing power to ensure that endowment spending keeps pace with inflation, with the ultimate goal being to ensure that current and future generations are given equal levels of purchasing power. In making this determination, the SBOE takes into account various considerations, and relies particularly upon its external investment consultant, which undertakes a probability analysis for long term projection periods that includes certain assumptions. Among the assumptions used in the analysis are a projected rate of growth of the average daily scholastic attendance State-wide, the projected contributions and expenses of the Fund, projected returns in the capital markets and a projected inflation rate.

The SBOE established the Distribution Rate from the Fund to the ASF for fiscal years 2008 and 2009 at 3.5% and for fiscal years 2010 and 2011 at 2.5% of the average of the PSF market value during the respective Distribution Measurement Periods, which ended in November 2006 and November 2008, respectively. The decision of the SBOE regarding the Distribution Rate for 2008 through 2011 took into account a commitment by the SLB to transfer at least $100 million per year in fiscal years 2008 through 2011. The distribution rate for fiscal years 2010 and 2011 produced total transfers of $1.1535 billion to the ASF from the PSF during those years. The SBOE has set the Distribution Rate for the 2012-13 biennium at 4.2%, which rate was determined after the SLB authorized the release of a total of $500 million to the PSF in quarterly installments during the 2012-13 biennium. In November 2012, the SBOE set the Distribution Rate for the 2014-15 biennium at 3.3%, which is expected to produce an effective rate of 3.5% taking into account the broadening of the calculation base for the Fund that was effected by a 2011 State constitutional amendment, which amendment did not increase Fund revenues. See "2011 Constitutional Amendment" below for a description of amendments made to the Texas Constitution on November 8, 2011 that permits the SLB to make transfers directly to the ASF up to the amount of $300 million in each fiscal year.

Since the enactment of a prior amendment to the Texas Constitution in 1964, the investment of the Fund has been managed with the dual objectives of producing current income for transfer to the ASF and growing the Fund for the benefit of future generations. As a result of this prior constitutional framework, prior to the adoption of the 2004 Asset Allocation Policy (as defined below) the investment of the Fund historically included a significant amount of fixed income investments and dividend-yielding equity investments, to produce income for transfer to the ASF.

With respect to the management of the Fund's investment portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted by the SBOE in February 2004 (the "2004 Asset Allocation Policy"), in July 2006 (as subsequently reaffirmed in July 2008 such asset allocation is referred to herein as the "2008 Asset Allocation Policy") and in July 2010 (the "2010 Asset Allocation Policy"), which have significantly altered the asset allocations of the Fund. The SBOE further modified the asset allocation policy for the Fund in July 2012 (the "2012 Asset Allocation"). The Fund's investment policy provides for minimum and maximum ranges among the components of each of the three general asset classifications: equities, fixed income and alternative asset investments. The 2004 Asset Allocation Policy decreased the fixed income target from 45% to 25% of Fund investment assets and increased the allocation for equities from 55% to 75% of investment assets. In July 2006, the SBOE modified its asset allocation to reduce the equity allocation, including both domestic and foreign equity portfolios, to a target of 53% of Fund assets, further reduced the fixed income allocation target to 19% and added an alternative asset allocation, which included real estate, real return, absolute return and private equity components, totaling 28% of the Fund's asset target. Alternative asset classes diversify the SBOE-managed assets and are not as correlated to traditional asset classes, which is intended to increase investment returns over the long run while reducing risk and return volatility of the portfolio. In July 2010, the SBOE modified the 2008 Asset Allocation Policy by decreasing the equity allocation to 50%, and the fixed income allocation to 15%, while increasing the alternative asset allocation (which may include equity and fixed income investments as part of a variety of alternative investment strategies) to 35%. In July 2012, the SBOE modified the 2010 Asset Allocation Policy by decreasing the equity allocation to 46%, increasing the fixed income allocation to 17%, and increasing the alternative asset allocation (which may include equity and fixed income investments as part of a variety of alternative investment strategies) to 37%. The 2012 Asset Allocation changes decreased the target for large cap equity investments from 21% to 18%, replaced a 4% allocation for international small cap equities with a 3% allocation for emerging international equities, reduced core fixed income bond investments from 15% to 12% and added a new 5% allocation for emerging market debt in the fixed income portfolio. In July 2012 and April 2013, the SBOE also realigned the management of certain of the investment portfolios within the absolute return allocation of the alternative investments and its private equity asset class. These new alignments in investment portfolios have created strategic relationships between the external manager and investment staff of the PSF, which has reduced administrative costs with respect to those portfolios. In response to a legal opinion request made by the Chair of the SBOE in October 2012, the Attorney General has advised the SBOE in Op. Tex. Att'y Gen. No. GA-0998 (2013) ("GA-0998"), that the PSF is not subject to requirements of certain State competitive bidding laws with respect to the selection of investments. In GA-0998, the Attorney General also advised that the SBOE generally must use competitive bidding for the selection of investment managers and other third party providers of investment services, such as record keeping and insurance, but excluding certain professional services, such as accounting services, as State law prohibits the use of competitive bidding for specified professional services. GA-0998 provides guidance to the SBOE in connection with the direct management of alternative investments through investment vehicles to be created by the SBOE, in lieu of contracting with external managers for such services, as has been the recent practice of the PSF. The PSF Staff and the Fund's investment advisor are tasked with advising the SBOE with respect to the implementation of the 2010 Asset

Allocation Policy, including the timing and manner of the selection of any external managers and other consultants. For a variety of reasons, each change in asset allocation for the Fund, including the 2012 Asset Allocation Policy, has been, and is being, implemented in phases. At August 31, 2012, the Fund was invested as follows: 54.33% in public market equity investments; 21.33% in fixed income investments; 10.04% in absolute return assets; 1.71% in private equity assets; 2.45% in real estate assets; 7.13% in risk parity assets; 2.96% in real return assets; and 0.05% in cash.

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

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

Management and Administration of the Fund

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

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

Texas law assigns control of the Fund's land and mineral rights to the three-member SLB, which consists of the elected Commissioner of the General Land Office ("GLO"), an appointee of the Governor, and an appointee of the Attorney General. Administrative duties related to the land and mineral rights reside with the GLO, which is under the guidance of the Commissioner of the GLO. In 2007, the Legislature established the real estate special fund account of the PSF (the "Real Estate Account") consisting of the land, mineral or royalty interest, real estate investment, or other interest, including revenue received from those sources, that is set apart to the PSF under the Texas Constitution and laws, together with the mineral estate in riverbeds, channels, and the tidelands, including islands. The investment of the Real Estate Account is subject to the sole and exclusive management and control of the SLB and the Land Commissioner, who is also the head of the GLO. The 2007 legislation presented constitutional questions regarding the respective roles of the SBOE and the SLB relating to the disposition of proceeds of real estate transactions to the ASF, among other questions. Amounts in the investment portfolio of the PSF are taken into account by the SBOE for purposes of determining the Distribution Rate. An amendment to the Texas Constitution was approved by State voters on November 8, 2011, which permits the SLB to make transfers directly to the ASF, see "2011 Constitutional Amendment" below.

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

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

The Guarantee Program

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

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

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

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

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

Capacity Limits for the Guarantee Program

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

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

On September 16, 2013, the IRS published proposed regulations (the "Proposed Regulations") that, among other things, would enact the IRS Notice. The preamble to the Proposed Regulations provides that issuers may elect to apply the Proposed Regulations, in whole or in part, to bonds sold on or after September 16, 2013, and before the date that final regulations become effective.

The IRS Notice and the Proposed Regulations establish a static capacity for the Guarantee Program based upon the cost value of Fund assets on December 16, 2009 multiplied by five. On December 16, 2009, the cost value of the Guarantee Program was $23,463,730,608 (estimated and unaudited), thereby producing an IRS Limit of approximately $117.3 billion. The State Capacity Limit is determined on the basis of the cost value of the Fund from time to time multiplied by the capacity multiplier determined annually by the SBOE, but not to exceed a multiplier of five. The capacity of the Guarantee Program will be limited to the lower of the State Capacity Limit and the IRS Limit. On May 21, 2010, the SBOE modified the regulations that govern the Guarantee Program (the "Guarantee Program Rules"), and increased the State Law Capacity to an amount equal to three times the cost value of the PSF. Such modified regulations, including the revised capacity rule, became effective on July 1, 2010. The Guarantee Program Rules provide that the Commissioner may reduce the multiplier to maintain the AAA credit rating of the Guarantee Program, but provide that any changes to the multiplier made by the Commissioner are to be ratified or rejected by the SBOE at the next meeting following the change. See "Valuation of the PSF and Guaranteed Bonds," below.

Since July 1991, when the SBOE amended the Guarantee Program Rules to broaden the range of bonds that are eligible for guarantee under the Guarantee Program to encompass most Texas school district bonds, the principal amount of bonds guaranteed under the Guarantee Program has increased sharply. In addition, in recent years a number of factors have caused an increase in the amount of bonds issued by school districts in the State. See the table "Permanent School Fund Guaranteed Bonds" below. The SBOE has approved and modified the Guarantee Program Rules in recent years, most recently in May 2010. Generally, the Guarantee Program Rules limit guarantees to certain types of notes and bonds, including, with respect to refunding bonds, a requirement that the bonds produce debt service savings, and that bonds issued for capital facilities must have been voted as unlimited tax debt of the issuing district. The Guarantee Program regulations include certain accreditation criteria for districts applying for a guarantee of their bonds, and limit guarantees to districts that have less than the amount of annual debt service per average daily attendance that represents the 90th percentile of annual debt service per average daily attendance for all districts, but such limitation will not apply to school districts that have enrollment growth of at least 25% over the previous five school years. Effective September 1, 2009, the Act provides that the SBOE may annually establish a percentage of the cost value of the Fund to be reserved from use in guaranteeing bonds. The capacity of the Guarantee Program in excess of any reserved portion is referred to herein as the "Capacity Reserve." The Guarantee Program Rules provide for a minimum Capacity Reserve of no less than 5%, and provide that the amount of the Capacity Reserve may be increased by a majority vote of the SBOE. The Commissioner is authorized to change the Capacity Reserve, which decision must be ratified or rejected by the SBOE at its next meeting following any change made by the Commissioner. The Guarantee Program Rules are codified in the Texas Administrative Code at 19 TAC sections 33.65 et seq., and are available on the TEA web site at http://ritter.tea.state.tx.us/rules/tac/chapter033/index.html. The current Capacity Reserve is noted in the monthly updates with respect to the capacity of the Guarantee Program on the TEA web site at http://www.tea.state.tx.us/index4.aspx?id=3413&menu_id=2147483695, which are also filed with the MSRB.

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

The Act requires that the Commissioner prepare, and the SBOE approve, an annual report on the status of the Guarantee Program (the Annual Report). The State Auditor audits the financial statements of the PSF, which are separate from other State financial statements.

Ratings of Bonds Guaranteed Under the Guarantee Program

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

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

Fiscal Year Ended 8/31	Book Value[1]	Market Value[1]
2008	22,926,299,922	29,336,248,611
2009	23,117,052,793	25,443,104,623
2010	23,653,185,489	27,066,200,259
2011	24,701,156,685	29,643,439,794
2012	25,161,994,845[2]	31,284,851,266[2]

(1) SLB managed assets are included in the market value and book value of the Fund. In determining the market value of the PSF from time to time during a fiscal year, the TEA uses current, unaudited values for TEA managed investment portfolios and cash held by the SLB. Market values of land and mineral interests, and investments in externally managed real estate funds managed by the SLB are based upon information reported to the PSF by the SLB. Beginning in fiscal year 2009, the SLB reported that information to the PSF on a quarterly basis. The valuation of such assets at any point in time is dependent upon a variety of factors, including economic conditions in the State and nation in general, and the values of these assets, and, in particular, the valuation of mineral holdings administered by the SLB, can be volatile and subject to material changes from period to period. At August 31, 2012, land, external real estate investments, mineral assets and cash managed by the SLB had book values of approximately $341.10 million, $1.65 billion, $13.40 million and $1.38 billion, respectively, and market values of approximately $673.92 million, $1.55 billion, $2.18 billion and $1.34 billion, respectively.

(2) At August 31, 2013, the PSF had a book value of $25,554,154,067 and a market value of $32,844,524,985 (in each case, based on unaudited data).

Permanent School Fund Guaranteed Bonds

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

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

(2) As of August 31, 2012, the TEA expected that the principal and interest to be paid by school districts over the remaining life of the bonds guaranteed by the Guarantee Program is $90,343,555,115, of which $36,709,099,974 represents interest to be paid. At August 31, 2013, there were $55,225,666,156 of bonds guaranteed under the Guarantee Program and the capacity of the Guarantee Program was $76,662,462,201 based on the three times cost value multiplier approved by the SBOE on May 21, 2010. Such capacity figures include the Reserve Capacity.

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2012

The following discussion is derived from the Annual Report for the year ended August 31, 2012, including the Message of the Executive Administrator of the Fund and the Management's Discussion and Analysis contained therein. Reference is made to the Annual Report, when filed, for the complete Message and MD&A. Investment assets managed by the fifteen member SBOE are referred to throughout this MD&A as the PSF(SBOE) assets. As of August 31, 2012, the Fund's land, mineral rights and certain real assets are managed by the three-member SLB and these assets are referred to throughout as the PSF(SLB) assets. The 2012 Asset Allocation Policy includes an allocation for real estate investments, and as such investments are made, and become a part of the PSF investment portfolio, those investments will be managed by the SBOE and not the SLB.

At the end of fiscal 2012, the total Fund balance was $28.8 billion. Fund balance increased $1.86 billion from the prior year primarily attributable to the increase in the fair value of the PSF(SBOE) equities and alternative investments, the (PSF(SLB) real assets investments and the recovering markets. During the year, the SBOE continued implementing its revised long term strategic asset allocation to diversify and strengthen the PSF(SBOE) investment assets of the Fund. The revised allocation is projected to increase returns over the long run while reducing risk and return volatility of the portfolio. The one year, three year, five year and ten year annualized total returns for the PSF(SBOE) assets were 9.45%, 10.17%, 2.80% and 7.30% respectively (total return takes into consideration the change in the market value of the Fund during the year as well as the interest and dividend income generated by the Fund's investments). In addition, the SLB continued its shift into externally managed real asset investment funds and the one year, three year, and five year annualized total returns for the PSF(SLB) real assets, including cash, are 12.20%, 6.08%, and 1.25% respectively.

The market value of the Fund's assets is directly impacted by the performance of the various financial markets in which the assets are invested. The most important factors affecting investment performance are the asset allocation decisions made by the SBOE and SLB. The current SBOE long term asset allocation policy allows for diversification of the PSF(SBOE) portfolio into alternative asset classes whose returns are not as correlated to traditional asset classes. The implementation of the long term asset allocation will occur over several fiscal years and is expected to provide incremental total return at reduced risk. As of August 31, 2012, the PSF(SBOE) portion of the Fund had diversified into emerging market large cap international equities, absolute

return funds, real estate, private equity, risk parity and real return Treasury Inflation Protected Securities. Other asset classes such as real return commodities, emerging market debt and emerging international equities securities will be strategically added commensurate with the economic environment and the goals and objectives of the SBOE. As of August 31, 2012, the SBOE had approved and the PSF(SBOE) made capital commitments to externally managed real estate funds in the amount of $926.4 million and capital commitments to two private equity limited partnerships in the total amount of $1.3 billion. Unfunded commitments at August 31, 2012, were $344.4 million in real estate and $878.99 billion in private equity.

The PSF(SLB) portfolio is generally characterized by three broad categories: (1) discretionary real assets investments, (2) sovereign and other lands, and (3) mineral interests. Discretionary real assets investments consist of externally managed real estate, infrastructure, and energy/minerals investment funds; internally managed direct real estate investments, and cash. Sovereign and other lands consist primarily of the lands set aside to the PSF when it was created. Mineral interests consist of all of the minerals that are associated with PSF lands. The investment focus of PSF(SLB) discretionary real assets investments has shifted from internally managed direct real estate investments to externally managed real assets investment funds. The PSF(SLB) makes investments in certain limited partnerships that legally commit it to possible future capital contributions. At August 31, 2012, the remaining commitments totaled approximately $761 million.

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

For fiscal year 2012, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled $2.95 billion, a decrease of $782.1 million from fiscal year 2011 earnings of $3.73 billion. This decrease reflects the performance of the securities markets in which the Fund was invested in fiscal year 2012 In fiscal year 2012, revenues earned by the Fund included lease payments, bonuses and royalty income received from oil, gas and mineral leases; lease payments from commercial real estate; surface lease and easement revenues; revenues from the resale of natural and liquid gas supplies; dividends, interest, and securities lending revenues; the net change in the fair value of the investment portfolio; and, other miscellaneous fees and income.

Expenditures are paid from the Fund before distributions are made under the total return formula. Such expenditures include the costs incurred by the SLB to manage the land endowment, as well as operational costs of the Fund, including external management fees paid from appropriated funds. Total operating expenditures, net of security lending rebates and fees, decreased 6.6% for the fiscal year ending August 31, 2012. This decrease is primarily attributable to the decrease in the costs of gas supplies purchased for resale under the State Energy Marketing Program.

The Fund supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. For fiscal years 2011 and 2012, this distribution to the ASF totaled $1.093 billion and $1.021 billion, respectively.

At the end of the 2012 fiscal year, PSF assets guaranteed $53.634 billion in bonds issued by 800 local school districts. Since its inception in 1983, the Fund has guaranteed 4,587 school district bond issues totaling $103.4 billion in principal amount. During the 2012 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program increased by 98, or 3.9%. The dollar amount of guaranteed school bond issues outstanding increased by $980.6 million or 1.9%. The guarantee capacity of the Fund increased by $1.125 billion, or 1.5%, during fiscal year 2012 due to the investment performance of the Fund.

2011 Constitutional Amendment

During the Regular Session of the 82nd Legislature, which concluded May 30, 2011, a joint resolution ("HJR 109") was enacted proposing amendments to various sections of the Texas Constitution that pertain to the PSF. In accordance with HJR 109, a referendum was held in the State on November 8, 2011. At that referendum, voters of State approved non-substantive changes to the Texas Constitution to clarify references to the Fund, and, in addition, approved an amendment that effects an increase to the base amount used in calculating the Distribution Rate from the Fund to the ASF. The amendments approved at the referendum include an increase to the base used to calculate the Distribution Rate by adding to the calculation base certain discretionary real assets and cash in the Fund that is managed by entities other than the SBOE (at present, by the SLB). The value of those assets were already included in the value of the Fund for purposes of the Guarantee Program, but prior to the amendment had not been included in the calculation base for purposes of making transfers from the Fund to the ASF. While the amendment provides for an increase in the base for the calculation of approximately $2 billion, no new resources were provided for deposit to the Fund. As described under "The Total Return Constitutional Amendment" the SBOE is prevented from approving a Distribution Rate or making a pay out from the Fund if the amount distributed would exceed 6% of the average of the market value of the Fund, excluding real property in the Fund, but including discretionary real asset investments on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium or if such pay out would exceed the Ten Year Total Return. The new calculation base is required to be used to determine all payments to the ASF from the Fund beginning with the 2012-13 biennium. As described under "The Total Return Constitutional Amendment" the

SBOE approved a Distribution Rate of 4.2% in January 2011 based on a commitment of the SLB to transfer $500 million to the PSF during the biennium. In November 2012, the SBOE established a 3.3% Distribution Rate for the 2014-15 biennium.

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

The impact of the increase in the base against which the Distribution Rate is applied will be an increase in the distributions from the PSF to the ASF, provided that there are no reductions in the percentage established biennially by the SBOE to be the Distribution Rate. For the 2012-13 biennium, the Distribution Rate has been set by the SBOE at 4.2%. Given the increase in the calculation base effected by the November 8, 2011 constitutional amendment, the effect on transfers made by the SBOE in 2012-13 will be an increase in the total return distribution by an estimated $73.7 million in each year of the biennium. Going forward, it may be necessary for the SBOE to reduce the Distribution Rate in order to preserve the corpus of the Fund in accordance with its management objective of preserving intergenerational equity, and the Distribution Rate for the 2014-15 biennium has been reduced to 3.3%, as described above. If the SBOE were to maintain a Distribution Rate in future years at the level set for 2012-13, prior to the enactment of the 2011 constitutional amendment, as the value of the real assets investments increase annually, distributions to the ASF would increase in the out years. The increased amounts distributed from the Fund will be a loss to either the investment corpus of the PSF managed by SBOE or, should the SLB increase its transfers to the SBOE to cover this share of the distribution, to the assets managed by the SLB. In addition, the changes made by the amendment will reduce the compounding interest in the Fund that would be derived from these assets remaining in the corpus of the Fund. Other factors that may affect the corpus of the Fund that are associated with this change include the decisions that are made by the SLB or others that are or may in the future be authorized to make transfers of funds from the PSF to the ASF. While the SBOE has oversight of the Guarantee Program, it will not have the decision making power with respect to all transfers to the ASF, as it has had in the past, which could adversely affect the ability of the SBOE to optimally manage its portion of the PSF assets.

Charter School Guarantee Program

During the First Called Session of the 82nd Texas Legislature, which ended June 29, 2011, Senate Bill 1 ("SB 1") was enacted. Among other provisions, SB 1 authorizes the use of the PSF to guarantee revenue bonds issued by certain open-enrollment charter schools that are designated as "charter districts" by the Commissioner. The program authorized by SB 1, as subsequently amended, is referred to herein as the "Charter School Guarantee Program." The Proposed Regulations would also permit the PSF to guarantee bonds issued by charter districts and permit issuers to rely on this provision for such bonds sold on or after September 16, 2013, and before the final regulations become effective. The Charter School Guarantee Program will become effective when regulations are established by the State Board of Education for the administration of the program. As a result, the date of implementation and the ultimate structure of the Charter School Guarantee Program are presently unknown, although the program is expected to be implemented in the first quarter of calendar year 2014.

In general, the Charter School Guarantee Program has been authorized through the enactment of amendments to the Act. As amended, the Act provides that a qualified charter district may make application to the Commissioner under the Act for a guarantee of its bonds, including refunding and refinanced bonds, by the PSF. The capacity of the Charter School Guarantee Program is limited to the total amount that equals the result of the percentage that is equal to the ratio of the number of students enrolled in open-enrollment charter schools in the State compared to the total number of students enrolled in all public schools in the State multiplied by the combined capacities of the Guarantee Program and Charter School Guarantee Program. As of March 1, 2012 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools to the total State scholastic census was approximately 3.09%. For the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." During the Regular Session of the 83rd Texas Legislature, which ended May 27, 2013, the Charter School Guarantee Program was amended to provide that the Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter School Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under that program.

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

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

The Act provides that immediately following receipt of notice that a charter district will be or is unable to pay maturing or matured principal or interest on a guaranteed bond, the Commissioner is required to instruct the transfer from the charter district bond guarantee reserve fund to the district's paying agent an amount necessary to pay the maturing or matured principal or

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

Other Events and Disclosures

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

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

As of August 31, 2012, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property, and other litigation arising in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

The SBOE is a named defendant in litigation described in the Official Statement pertaining to the Bonds that has been filed in State District Court that has challenged the constitutionality of the Texas public school finance system, and which, among other relief requested, seeks an injunction to prohibit the State and its officials from distributing any funds under the current finance system until a constitutional system is created. The TEA does not anticipate that the security for payment of the Bonds, including the PSF guarantee of school district bonds, would be adversely affected by such litigation.

PSF Continuing Disclosure Undertaking

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

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

Annual Reports

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

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

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

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

Material Event Notices

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

Availability of Information

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

Limitations and Amendments

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

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

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

On April 9, 2001, four property wealthy districts filed suit in the 250th District Court of Travis County, Texas (the "District Court") against the Texas Education Agency, the Texas State Board of Education, the Texas Commissioner of Education (the "Commissioner") and the Texas Comptroller of Public Accounts in a case styled *West Orange-Cove Consolidated Independent School District, et al. v. Neeley, et al*. The plaintiffs alleged that the $1.50 maximum maintenance and operations ("M&O") tax rate had become in effect a state property tax, in violation of Article VIII, Section 1-e of the Texas Constitution, because it precluded them and other school districts from having meaningful discretion to tax at a lower rate. Forty school districts intervened alleging that the Texas public school finance system (the "Finance System") was inefficient, inadequate, and unsuitable, in violation of Article VII, Section 1 of the Texas Constitution, because the State of Texas (the "State") did not provide adequate funding. As described below, this case has twice reached the Texas Supreme Court (the "Supreme Court"), which rendered decisions in the case on May 29, 2003 ("West Orange-Cove I") and November 22, 2005 ("West Orange-Cove II"). After the remand by the Supreme Court back to the District Court in West Orange-Cove I, 285 other school districts were added as plaintiffs or intervenors. The plaintiffs joined the intervenors in their Article VII, Section 1 claims that the Finance System was inadequate and unsuitable, but not in their claims that the Finance System was inefficient.

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

The intervening school district groups contended that funding for school operations and facilities was inefficient in violation of Article VII, Section 1 of the Texas Constitution, because children in property-poor districts did not have substantially equal access to education revenue. All of the plaintiff and intervenor school districts asserted that the Finance System could not

achieve "[a] general diffusion of knowledge" as required by Article VII, Section 1 of the Texas Constitution, because the Finance System was underfunded. The State, represented by the Texas Attorney General, made a number of arguments opposing the positions of the school districts, as well as asserting that school districts did not have standing to challenge the State in these matters.

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

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

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

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

Funding Changes in Response to West Orange-Cove II

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

Possible Effects of Litigation and Changes in Law on District Bonds

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

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

Although, as a matter of law, the Bonds, upon issuance and delivery, will be entitled to the protections afforded previously existing contractual obligations under the Contract Clauses, the District can make no representations or predictions concerning

the effect of future legislation or litigation, or how such legislation or future court orders may affect the District's financial condition, revenues or operations. While the disposition of any possible future litigation or the enactment of future legislation to address school funding in Texas could substantially adversely affect the financial condition, revenues or operations of the District, as noted herein, the District does not anticipate that the security for payment of the Bonds, specifically, the District's obligation to levy an unlimited debt service tax and the Permanent School Fund guarantee of the Bonds would be adversely affected by any such litigation or legislation. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM."

Current Litigation Related to the Texas Public School Finance System

As described below, during 2011 and 2012, several lawsuits were filed in District Courts of Travis County, Texas, which alleged that the Finance System, as modified by legislation enacted by the Legislature since the decision in West Orange Cove II, and in particular, as modified by Senate Bill 1 in 2011 (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - 2011 Legislation"), has resulted in a funding system that violates principles established in West Orange Cove I and West Orange Cove II, and prior decisions of the Supreme Court relating to the constitutionality of the Finance System, and several provisions of the Texas Constitution. In general, each suit presented the legal perspectives and arguments of the different coalitions of school districts represented, but as a general matter, each group challenged the adequacy of funding provided by the Legislature for the Finance System, and the plaintiffs in each suit sought to have an injunction issued to the State and its officials to prevent the distribution of any funds under the current Finance System until a constitutional system is created and sought a declaration that changes in funding for the Finance System since the enactment of HB 1 have effectively converted the local M&O tax into a State property tax in violation of the Texas Constitution. The defendants in the suits include State officials and the State Board of Education (the "State Defendants"). The first suit was filed on October 10, 2011, styled *The Texas Taxpayer & Student Fairness Coalition, et al. vs. Robert Scott, Commissioner of Education et al*. A second suit was filed on December 9, 2011, styled *Calhoun County Independent School District, et al. v Robert Scott, Commissioner of Education, et al*. A third suit was filed on December 13, 2011, styled *Edgewood Independent School District, et al. v. Robert Scott, Commissioner of Education, et al*. A fourth suit was filed on December 23, 2011, styled *Fort Bend Independent School District, et al. v. Robert Scott, Commissioner of Education, et al*. (the "Fort Bend Suit"). The State Defendants filed an answer with respect to the each of the first four suits filed, denying the plaintiff's allegations, and all of such suits were assigned to the 250th District Court of Travis County. On February 24, 2012 a plea of intervention to the Fort Bend Suit was filed by seven parents and a group named "Texans for Real Efficiency and Equity in Education." The intervenors asserted that the Finance System is qualitatively inefficient, and that the Finance System is unconstitutional, in part based on arguments made by other plaintiffs. A fifth suit was filed on June 26, 2012 by individuals and the Texas Charter School Association, styled *Flores, et al. v. Robert Scott, Commissioner of Education, et al*. (the "Charter School Suit"). The petition for the Charter School Suit agreed with the arguments of the school districts in the first four suits filed that the Finance System is unconstitutional and also sought to have an injunction issued against the State Defendants in the same manner as the first four suits. The Charter School Suit added additional grounds that relate to the circumstances of charter schools as a basis for holding the Finance System unconstitutional, including that charter schools receive no funding for facilities and that the statutory cap on charter schools is unconstitutionally arbitrary. The State Defendants also filed a general denial in the Charter School Suit.

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

In his preliminary ruling, the presiding judge of the District Court (the "Presiding Judge") did not grant nor address the injunctive relief sought by any of the plaintiffs, and the Court declined the requests of Texans for Real Efficiency and Equity in Education for a declaration that the Finance System is unconstitutional on the basis of their arguments that included that greater competition, including more charter schools and less regulation, could result in a more efficient public school finance system. In response to arguments on behalf of the State's charter schools, the District Court also held in its preliminary ruling that it is within the discretion of the Legislature, and not unconstitutional, to fund charter schools differently from other public schools.

In announcing his preliminary February 4, 2013 ruling, the Presiding Judge indicated that he would issue an omnibus order in the case within four to six weeks. However, no such order has been issued by the District Court. On June 19, 2013, a hearing was held by the District Court at which the Presiding Judge directed the parties to the suits to provide supplemental evidence to the District Court pertaining to new funding provided by the Legislature for the Finance System during the 83rd Regular Session of the Texas Legislature, which concluded on May 27, 2013. At the June 19, 2013 hearing, the Presiding Judge informed all parties to the suits that he will set a new trial date of January 6, 2014 to consider such evidence. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2013 Legislative Session" herein.

The District can make no representations or predictions concerning the effect this litigation or the current ruling by the District Court, and any appeals, may have on the District's financial condition, revenues or operations. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS – Possible Effects of Litigation and Changes in Law on District Bonds."

2013 Legislative Session

The 83rd Texas Legislature concluded its regular session on May 27, 2013. During the session, the Legislature adopted a biennial budget that "restored" $3.2 billion of the $4 billion that was cut from basic state aid for the Finance System during the 2011 legislative session and some $100 million of the $1.3 billion cut from grant programs during the 2011 Legislative Session. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2011 Legislative Session." The revenues that were added back to the Finance System do not take into account growing student enrollments in the State. The Legislature did not materially change the Finance System during the session. The District has not made a comprehensive analysis of the effects of the funding changes within the biennial State budget for the period commencing September 1, 2013.

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview

The following description of the Finance System is a summary of the Reform Legislation and the changes made by the State Legislature to the Reform Legislation since its enactment, including modifications made during the regular through third called sessions of the 79th Texas Legislature (collectively, the "2006 Legislative Session"), the regular session of the 81st Texas Legislature (the "2009 Legislative Session"), the regular and first called sessions of the 82nd Texas Legislature (collectively, the "2011 Legislative Session") and the regular session of the 83rd Texas Legislature (the "2013 Legislative Session"). For a more complete description of school finance and fiscal management in the State, reference is made to Vernon's Texas Codes Annotated, Education Code, Chapters 41 through 46, as amended.

Funding for school districts in the State is provided primarily from State and local sources. State funding for all school districts is provided through a set of funding formulas comprising the "Foundation School Program," as well as two facilities financing programs. Generally, the Finance System is designed to promote wealth equalization among school districts by balancing State and local sources of funds available to school districts. In particular, because districts with relatively high levels of property wealth per student can raise more local funding, such districts receive less State aid, and in some cases, are required to disburse local funds to equalize their overall funding relative to other school districts. Conversely, because districts with relatively low levels of property wealth per student have limited access to local funding, the Finance System is designed to provide more State funding to such districts. Thus, as a school district's property wealth per student increases, State funding to the school district is reduced. As a school district's property wealth per student declines, the Finance System is designed to increase its State funding. A similar equalization system exists for facilities funding wherein districts with the same tax rate for debt service raise the same amount of combined State and local funding. Facilities funding for debt incurred in prior years is expected to continue in future years; however, State funding for new school facilities was not appropriated by the 83rd Texas Legislature for the 2014–15 State biennium.

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

The Reform Legislation, which generally became effective at the beginning of the 2006–07 fiscal year of each school district in the State, made substantive changes to the Finance System, which are summarized below. While each school district's funding entitlement was calculated based on the same formulas that were used prior to the 2006–07 fiscal year, the Reform Legislation made changes to local district funding by reducing each districts' 2005 M&O tax rate by one-third over two years through the introduction of the "State Compression Percentage," with M&O tax levies declining by approximately 11% in fiscal year 2006–07 and approximately another 22% in fiscal year 2007–08. (Prior to the Reform Legislation, the maximum M&O tax rate for most school districts was $1.50 per $100 of taxable assessed valuation. Because most school districts levied an M&O rate of $1.50 in 2005, the application of the Reform Legislation compression formula reduced the majority of school districts' M&O tax rates to $1.00). Subject to local referenda, a district may increase its local M&O tax levy up to $0.17 above the district's compressed tax rate. Based on the current State Compression Percentage, the maximum possible M&O tax rate is $1.17 per $100 of taxable value for most school districts (see "TAX RATE LIMITATIONS" herein).

Local Funding for School Districts

The primary source of local funding for school districts is collections from ad valorem taxes levied against the taxable property located in each school district. As noted above, prior to the Reform Legislation, the maximum M&O tax rate for most school districts was generally limited to $1.50 per $100 of taxable value, and the majority of school districts were levying an M&O tax rate of $1.50 per $100 of taxable value at the time the Reform Legislation was enacted. The Reform Legislation required each school district to "compress" its tax rate by an amount equal to the "State Compression Percentage." For fiscal years 2007–08 through 2014–15, the State Compression Percentage has been set at 66.67%, effectively setting the maximum compressed M&O tax rate for most school districts at $1.00 per $100 of taxable value. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. School districts are permitted, however, to generate additional local funds by raising their M&O tax rate by $0.04 above the compressed tax rate without voter approval (for most districts, up to $1.04 per $100 of taxable value). In addition, if the voters approve the tax rate increase, districts may, in general, increase their M&O tax rate by an additional two or more cents and receive State equalization funds for such taxing effort up to a maximum M&O tax rate of $1.17 per $100 of taxable value (see "AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate" herein). Elections authorizing the levy of M&O taxes held in certain school districts under older laws, however, may subject M&O tax rates in such districts to other limitations (See "TAX RATE LIMITATIONS" herein).

State Funding for School Districts

State funding for school districts is provided through the Foundation School Program, which provides each school district with a minimum level of funding (a "Basic Allotment") for each student in average daily attendance ("ADA"). The Basic Allotment is calculated for each school district using various weights and adjustments based on the number of students in average daily attendance and also varies depending on each district's compressed tax rate. This Basic Allotment formula determines most of the allotments making up a district's Tier One entitlement. This basic level of funding is referred to as "Tier One" of the Foundation School Program. The basic level of funding is then "enriched" with additional funds known as "Tier Two" of the Foundation School Program. Tier Two provides a guaranteed level of funding for each cent of local tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates above $1.00 per $100 of taxable value). The Finance System also provides an Existing Debt Allotment ("EDA") to subsidize debt service on eligible outstanding school district bonds and an Instructional Facilities Allotment ("IFA") to subsidize debt service on newly issued bonds. IFA primarily addresses the debt service needs of property-poor school districts. A New Instructional Facilities Allotment ("NIFA") also is available to help pay operational expenses associated with the opening of a new instructional facility; however, NIFA awards were not funded by the Legislature for either the 2012–13 or the 2014-15 State fiscal bienniums. The 2013 Legislative Session did appropriate funds in the amount of $1,268,000 for the 2014-15 State fiscal biennium for continued EDA and IFA support. .

Tier One and Tier Two allotments represent the State's share of the cost of M&O expenses of school districts, with local M&O taxes representing the district's local share. EDA and IFA allotments supplement a school district's local I&S taxes levied for debt service on eligible bonds issued to construct, acquire and improve facilities. Tier One and Tier Two allotments and existing EDA and IFA allotments are generally required to be funded each year by the Legislature. Since future-year IFA awards were not funded by the Legislature for the 2014–15 fiscal biennium, and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service on new bonds issued by districts to construct, acquire and improve facilities must be funded solely from local I&S taxes. For the 2014-15 State biennium, prior awards for IFA debt support will continue to be made but the Legislature set aside no funds for new IFA awards. State funding allotments may be adjusted in certain circumstances to account for shortages in State appropriations or to allocate available funds in accordance with wealth equalization goals.

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

As described above, the cost of the basic program is based on an allotment per student known as the "Basic Allotment". For fiscal year 2013-14, the Basic Allotment is $4,950 and for fiscal year 2014-15, the Basic Allotment is $5,040 for each student in average daily attendance. The Basic Allotment is then adjusted for all districts by several different weights to account for inherent differences between school districts. These weights consist of (i) a cost adjustment factor intended to address varying economic conditions that affect teacher hiring known as the "cost of education index", (ii) district-size adjustments for small and mid-size districts and (iii) an adjustment for the sparsity of the district's student population. The cost of education index and district-size adjustments applied to the Basic Allotment, create what is referred to as the "Adjusted Allotment". The Adjusted Allotment is used to compute a "regular program allotment," as well as various other allotments associated with educating students with other specified educational needs

Tier Two supplements the basic funding of Tier One and provides two levels of enrichment with different guaranteed yields depending on the district's local tax effort. The first six cents of tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates ranging from $1.01 to $1.06 per $100 of taxable value) will, for most districts, generate a guaranteed yield of $59.97 and $61.86 per penny of tax effort per weighted student in average daily attendance ("WADA") for the fiscal year

2013-14 and fiscal year 2014-15, respectively. The second level of Tier Two is generated by tax effort that exceeds the district's compressed tax rate plus six cents (for most districts eligible for this level of funding, M&O tax rates ranging from $1.07 to $1.17 per $100 of taxable value) and has a guaranteed yield per cent per WADA of $31.95 for fiscal years 2013-14 and 2014-15. Property-wealthy school districts that have an M&O tax rate that exceeds the district's compressed tax rate plus six cent are subject to recapture above this tax rate level at the equivalent wealth per student of $319,500 (see "Wealth Transfer Provisions" below).

In addition to the operations funding components of the Foundation School Program discussed above, the Foundation School Program provides a facilities funding component consisting of the Instructional Facilities Allotment (IFA) program and the Existing Debt Allotment (EDA) program. These programs assist school districts in funding facilities by, generally, equalizing a district's I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the "IFA Guaranteed Yield") in State and local funds for each cent of tax effort to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The guaranteed yield per cent of local tax effort per student in ADA has been $35 since this program first began. To receive an IFA award, a school district must apply to the Commissioner in accordance with rules adopted by the Commissioner before issuing the bonds to be paid with IFA state assistance. The total amount of debt service assistance over a biennium for which a district may be awarded is limited to the lesser of (1) the actual debt service payments made by the district in the biennium in which the bonds are issued; or (2) the greater of (a) $100,000 or (b) $250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. For the 2014–15 State biennium, however, no funds are appropriated for new IFA awards, although all current obligations are funded through the biennium.

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

Prior to the 2012–13 biennium, a district could also qualify for a NIFA allotment, which provided assistance to districts for operational expenses associated with opening new instructional facilities. As previously mentioned, this program was not funded for either the 2012–13 or 2014-15 State fiscal bienniums.

2006 Legislation

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

2009 Legislation

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

2011 Legislation

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

The RPAF was the primary mechanism for formula reductions in the 2011–12 fiscal year. However, the 2011 Legislation also created the hold harmless reduction percentage to school district entitlement through the application of ASATR. Because it only applies to ASATR, its impact is generally felt only by school districts for which the formula funding system does not provide the district with its Target Revenue. In the 2012–13 fiscal year, the RPAF of 0.98 is combined with a percentage reduction in each school district's hold harmless Target Revenue per WADA to 92.35% of its formula amount. For the 2013–14 and 2014-15 fiscal years, the percentage reduction of each district's hold harmless formula amount is 92.63%. With regard to this adjustment, the ASATR relief that funds the Target Revenue system is phased out between the 2013–14 and 2017–18 fiscal years.

2013 Legislative Session

No significant modifications were made to the underlying school finance structure during the 2013 Legislative Session. However, several of the revenue reduction formulas, notably the RPAF, were eliminated. As stated above, the 2011 Legislation created the RPAF as the primary mechanism for formula reductions in the 2012–13 State biennium. For the 2013–14 and 2014-15 fiscal years, the State Legislature set the RPAF to 1.00 which restores the regular program allotment funding at 100% of which each district is entitled. The RPAF expires at the end of fiscal year 2014-15. The 2013 Legislature also continued the reduction in each district's ASATR payment but changed the reduction from 92.35% to 92.63% of what the district would have received in hold harmless ASATR funding for the 2013-14 and 2014-15 school years. The 2013 Legislation also increased the Basic Allotment for the 2013-14 fiscal year to $4,950 and for the 2014-15 fiscal year to $5,040. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS – 2013 Legislative Session."

Wealth Transfer Provisions

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

The equalized wealth levels that subject Chapter 41 districts to wealth equalization measures for fiscal year 2013–14 are set at (i) $495,000 per student in WADA with respect to that portion of a district's M&O tax effort that does not exceed its compressed tax rate (for most districts, the first $1.00 per $100 of taxable value) and (ii) $319,500 per WADA with respect to that portion of a district's M&O tax effort that is beyond its compressed rate plus $.06 (for most districts, M&O taxes levied above $1.06 per $100 in taxable value). For the 2014-15 fiscal year, the first equalized wealth level increases from $495,000 to $504,000, however the second equalized wealth level remains at $319,500. M&O taxes levied above $1.00 but below $1.07 per $100 of taxable value are not subject to the wealth equalization provisions of Chapter 41. Chapter 41 districts with a wealth per student above the lower equalized wealth level but below the higher equalized wealth level must equalize their wealth only with respect to the

portion of their M&O tax rate, if any, in excess of $1.06 per $100 of taxable value. Chapter 41 districts may be entitled to receive ASATR from the State in excess of their recapture liability, and such districts may use their ASATR funds to offset their recapture liability.

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

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

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

The District's wealth per student for the current school year is greater that than the equalized wealth value. Accordingly, the District has been required to exercise one of the permitted wealth equalization options and has elected to purchase attendance credits from the State. (See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Wealth Transfer Provisions").

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

AD VALOREM TAX PROCEDURES

Property Tax Code and County-Wide Appraisal District

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

Property Subject to Taxation by the District

Except for certain exemptions provided by State law, all real and certain tangible personal property with a tax situs in the District is subject to taxation by the District. Principal categories of exempt property (including certain exemptions which are subject to local option by the Board of Trustees of the District) include property owned by the State or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain improvements to real property and certain tangible personal property located in designated reinvestment zones on which the District has agreed to abate ad valorem taxes; certain household goods, family supplies and personal effects; farm products owned by the producers; certain real property and tangible personal property owned by a non-profit community business organization or a charitable organization; and designated historic sites. Other principal categories of exempt property include tangible personal property not held or used for production of income; solar and windpowered energy devices; most individually owned automobiles; $10,000 exemption to residential homesteads of disabled persons or persons ages 65 or over; an exemption from $5,000 to a maximum of $12,000 for real or personal property of disabled veterans or the surviving spouses (so long as the surviving spouse remains unmarried) or children (under 18 years of age) of a deceased veteran who died while on active duty in the armed forces, with veterans who are 100% disabled (being a disabled veteran who receives from the United States Department of Veterans Affairs or its successor

100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability) entitled to an exemption from taxation of the total appraised value of the veteran's residential homestead; further, the surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries; $15,000 in market value for all residential homesteads; and certain classes of intangible property. In addition, except for increases attributable to certain improvements, the District is prohibited by State law from increasing the total ad valorem tax of the residence homestead of persons 65 years of age or older above the amount of tax imposed in the year such residence qualified for an exemption based on age of the owner. The freeze on ad valorem taxes on the homesteads of persons 65 years of age or older is also transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as (i) the taxpayer died in a year in which he qualified for the exemption, (ii) the surviving spouse was at least 55 years of age when the taxpayer died and (iii) the property was the residence homestead of the surviving spouse when the taxpayer died and the property remains the residence homestead of the surviving spouse. The freeze on taxes paid on residence homesteads of persons 65 years of age and older was extended to include the resident homesteads of "disabled" persons, including the right to transfer the freeze to a different residence homestead. A "disabled" person is one who is "under a disability for purposes of payment of disability insurance benefits under the Federal Old Age, Survivors and Disability Insurance." Pursuant to a constitutional amendment approved by the voters on May 12, 2007, legislation was enacted to reduce the school property tax limitation imposed by the freeze on taxes paid on residence homesteads of persons 65 years of age or over or of disabled persons to correspond to reductions in local school district tax rates from the 2005 tax year to the 2006 tax year and from the 2006 tax year to the 2007 tax year (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – General"). The school property tax limitation provided by the constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years. Owners of agricultural and open space land, under certain circumstances, may request valuation of such land on the basis of productive capacity rather than market value.

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

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by 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 of the Tax Code 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. See "Appendix A – Financial Information Regarding the District" for a schedule of exemptions allowed by the District.

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 "AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate").

Valuation of Property for Taxation

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

State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the 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 Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. Landowners wishing to avail themselves of the agricultural use designation must apply for the designation, and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes for previous years based on the new value, including three years for agricultural use and five years for agricultural open-space land and timberland prior to the loss of the designation.

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

Residential Homestead Exemption

Under Section 1-b, Article VIII of the Texas Constitution and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than $3,000 of 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. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than $3,000 of the market value.

As earlier described, the surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

In addition to any other exemptions provided by the Property Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of $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.

District and Taxpayer Remedies

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

Public Hearing and Rollback Tax Rate

In setting its annual tax rate, the governing body of a school district generally cannot adopt a tax rate exceeding the district's "rollback tax rate" without approval by a majority of the voters voting at an election approving the higher rate. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures and (2) a rate for debt service. The rollback tax rate for a school district is the lesser of (A) the sum of (1) the product of the district's "State Compression Percentage" for that year multiplied by $1.50, (2) the rate of $0.04, (3) any rate increase above the rollback tax rate in prior years that were approved by voters, and (4) the district's current debt rate, or (B) the sum of (1) the district's effective maintenance and operations tax rate, (2) the product of the district's State Compression Percentage for that year multiplied by $0.06; and (3) the district's current debt rate (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Local Funding for School Districts" for a description of the "State Compression Percentage"). If for the preceding tax year a district adopted an M&O tax rate that was less than its effective M&O tax rate for that preceding tax year, the district's rollback tax for the current year is calculated as if the district had adopted an M&O tax rate for the preceding tax year equal to its effective M&O tax rate for that preceding tax year.

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

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

Levy and Collection of Taxes

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

District's Rights in the Event of Tax Delinquencies

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

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

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

Collection of Taxes - Penalty and Interest Charges

The Board of Trustees has approved a resolution initiating an additional 20% penalty to defray attorney costs in the collection of delinquent taxes over and above the penalty automatically assessed under the Tax Code. Charges for penalties and interest on the unpaid balance of delinquent taxes are as follows:

Month	Cumulative Penalty	Cumulative Interest[(b)]	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	32[(a)]	6	38

[(a)] Includes additional penalty of 20% assessed after July 1 in order to defray attorney collection expenses.
[(b)] Taxes delinquent after July 1 incur an additional interest penalty of 20% of the sum of the delinquent taxes plus the penalties and interest to defray attorney collection fees.

Property within the District is assessed as of January 1 of each year (except business inventories which may be assessed as of September 1 and mineral values which are assessed on the basis of a twelve month average) taxes become due October 1 of the same year and become delinquent on February 1 of the following year. Split payments are not permitted. Discounts are not permitted.

EMPLOYEES' BENEFIT PLANS

The District's employees participate in a retirement plan (the "Plan") with the State of Texas. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. For the year ended August 31, 2012, the State contributed $246,066 to TRS on behalf of the District; other contributions into the plan made from private grants and from the District for salaries above the statutory minimum were $38,922. In addition to the TRS retirement plan, the District provides health care coverage for its employees.

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

TAX RATE LIMITATIONS

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next succeeding paragraph. The maximum voted M&O tax rate for the District is $1.50 per $100 of assessed valuation as approved by the voters at an election held on June 14, 1958 pursuant to Article 2784e-1, Texas Revised Civil Statues Annotated, as amended ("Article 2784e-1"). Article 2784e-1 limits the District's annual M&O tax rate based upon a comparison between the District's outstanding bonded indebtedness and the District's taxable assessed value per $100 of assessed valuation. Article 2784e-1 provides for a reduction of $0.10 for each one percent (1%) or major fraction thereof increase in bonded indebtedness beyond seven percent (7%) of assessed valuation of property in the District. This limitation is capped when the District's bonded indebtedness is ten percent (10%) (or greater) of the District's assessed valuation which would result in an annual M&O tax rate not to exceed $1.20. Lastly, the Texas Attorney General in reviewing the District's transcript of proceedings will allow the District to reduce the amount of its outstanding bonded indebtedness by the amount of funds (on a percentage basis) that the District receives in State assistance for the repayment of this bonded indebtedness (For example, if the District anticipates that it will pay 75% of its bonded indebtedness from State assistance, for the purposes of Article 2784e-1, the Texas Attorney General will assume that only 25% of the District's bonded indebtedness is outstanding and payable from local ad valorem taxes). The bonded indebtedness of the District after the issuance of the Bonds will be approximately 2.00% of the District's current taxable assessed valuation of property. See "Appendix A - Table 1 - Valuation, Exemptions, and Tax Supported Debt" herein.

The maximum tax rate per $100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) $1.50, or such lower rate as described in the preceding paragraph, and (B) the sum of (1) the rate of $0.17, and (2) the product of the

"State Compression Percentage" multiplied by $1.50. The State Compression Percentage has been set, and will remain, at 66.67% for fiscal years 2007–08 through 2012–13. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For a more detailed description of the State Compression Percentage, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Local Funding for School Districts". Furthermore, a school district cannot annually increase its tax rate in excess of the district's "rollback tax rate" without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate. See "AD VALOREM TAX PROCEDURES - Public Hearing and Rollback Tax Rate."

A school district is authorized to levy maintenance and operation taxes subject to approval of a proposition submitted to district voters under Section 45.003(d) of the Texas Education Code, as amended. Subject to limited exceptions, the maximum tax rate that may be approved by voters for maintenance and operations is $1.50 per $100 of assessed valuation. The maximum voted maintenance tax rate for the District is $1.50 per $100 of assessed valuation as approved by the voters at an election held on March 13, 1999 pursuant to the provisions of Chapter 45, Texas Education Code. Lastly, the Texas Attorney General in reviewing the District's transcript of proceedings will allow the District to reduce the amount of its outstanding bonded indebtedness by the amount of funds (on a percentage basis) that the District receives in State assistance for the repayment of this bonded indebtedness (for example, if the District anticipates that it will pay 25% of its bonded indebtedness from State assistance, for the purposes of Article 2784e-1, the Texas Attorney General will assume that only 75% of the District's bonded indebtedness is outstanding and payable from local ad valorem taxes). The bonded indebtedness of the District after the issuance of the Bonds will be approximately 7.33% of the District's 2012 tax year taxable assessed valuation of property (see "Table 1 – Selected Financial Information" in Appendix A).

The maximum M&O tax rate per $100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) $1.50, or such lower rate as described in the preceding paragraph, and (B) the sum of (1) the rate of $0.17, and (2) the product of the "State Compression Percentage" multiplied by $1.50. The State Compression Percentage has been set, and will remain, at 66.67% for fiscal years 2007–08 through 2012–13. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For a more detailed description of the State Compression Percentage, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Local Funding for School Districts". Furthermore, a school district cannot annually increase its tax rate in excess of the district's "rollback tax rate" without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate (see "AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate").

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

Section 45.0031, Texas Education Code, as amended ("Section 45.0031"), requires a district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than 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, collectively, "exempt bonds"), 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 EDA and IFA allotments to the district, which effectively reduces the district's local share of debt service, and may also take into account Tier One funds allotted to the district. The District is required to deposit any State allotments provided solely for payment of debt service into the District's interest and sinking fund upon receipt of such amounts. In addition, the District must, prior to levying an interest and sinking fund tax rate that exceeds $0.50 per $100 of assessed valuation, credit to the interest and sinking fund other State assistance, including Tier One funds that may be used for either operating purposes or for payment of debt service, in an amount equal to the amount needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. 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 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 (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the $0.50 threshold tax rate test when applied to subsequent bond issues. The Bonds are issued for school building purposes pursuant to Chapter 45, Texas Education Code as new debt and are subject to the 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 State assistance other than EDA or IFA allotment funding or projected property values to satisfy this threshold test.

INVESTMENTS

The District invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the Board. Both state law and the District's investment policies are subject to change. See Table 12 in APPENDIX A for a description of the District's investments as of August 31, 2012.

Legal Investments

Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits or, (ii) where (a) the funds are invested by the District through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (iii) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District; (iv) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (v) the District appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit issued for the account of the District; (8) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District=s name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share; and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

A political subdivision such as the District may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAm or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its

public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution.

The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Investment Policies

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

Under Texas law, 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 the 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) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the District, (3) require the registered principal of firms seeking to sell securities to the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy, (5) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (6) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements and (8) provide specific investment training for the Treasurer, the chief financial officer (if not the Treasurer) and the investment officer.

TAX MATTERS

Tax Exemption

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

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

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

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

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

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

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

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

Proposed Tax Legislation

Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or state income taxation, or otherwise prevent the beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. For example, future legislation to resolve certain federal budgetary issues may significantly reduce the benefit of, or otherwise affect, the exclusion of gross income for federal income tax purposes of interest on all state and local obligations, including the Bonds. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and its impact on their individual situations, as to which Bond Counsel express no opinion.

TAX TREATMENT OF ORIGINAL ISSUE PREMIUM BONDS

The Bonds are offered at an initial offering price which exceeds the stated redemption price payable at the maturity of such Bonds. If a substantial amount of any maturity of the Bonds is sold to members of the public (which for this purpose excludes bond houses, brokers and similar persons or entities acting in the capacity of wholesalers or underwriters) at such initial offering price, each of the Bonds of such maturity ("Premium Bond") will be considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis for federal income tax purposes of a Premium Bond in the hands of an initial purchaser who purchases such Bond in the initial offering must be reduced each year and upon the sale or other taxable disposition of the Bond by the amount of amortizable bond premium. This reduction in basis will increase the amount of any gain (or decrease the amount of any loss) recognized for federal income tax purposes upon the sale or other taxable disposition of

a Premium Bond by the initial purchaser. Generally, no corresponding deduction is allowed for federal income tax purposes, for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond which is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined under special tax accounting rules which use a constant yield throughout the term of the Premium Bond based on the initial purchaser's original basis in such Bond.

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

QUALIFIED TAX-EXEMPT OBLIGATIONS

Section 265(a) of the Code provides, in general, that interest expense incurred to acquire or carry tax-exempt obligations is not deductible from the gross income of the holder. For certain holders that are "financial institutions" within the meaning of such section, complete disallowance of such expense would apply to taxable years beginning after December 31, 1986, with respect to tax-exempt obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this rule for interest expense incurred by financial institutions to carry tax-exempt obligations (other than certain private activity bonds) which are designated by an issuer as "qualified tax-exempt obligations." An issuer may only designate an issue as an issue of "qualified tax-exempt obligations" where less than $10 million of tax-exempt obligations are issued by the issuer during the calendar year 2013.

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

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

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board ("MSRB"). This information will be available free of charge from the MSRB via Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for a description of the continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State of Texas, as the case may be, and to provide timely notice of specified material events related to the guarantee to certain information vendors.

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB annually in an electronic format as prescribed by the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included this Official Statement under Tables numbered one through five and seven through twelve, and in APPENDIX B. The District will update and provide this information within six months after the end of each fiscal year.

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

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

Material Event Notices

The District will also provide timely notices of certain events to the MSRB (not in excess of ten (10) days after the occurrence of the event). The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest

payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. (Neither the Bonds nor the Order make any provision for debt service reserves, redemption provisions, liquidity enhancement, or credit enhancement, except for the Permanent School Fund Guarantee). 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".

All documents provided to the MSRB shall be accompanied by identifying information, as prescribed by the MSRB.

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.

This continuing disclosure agreement may be amended by the District from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds 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 of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determines 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 provision 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 opening 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. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision 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.

Compliance with Prior Undertakings

The District entered its first continuing disclosure agreement in 2012 and has complied in all material respects with such previous continuing disclosure agreement made pursuant to the Rule.

OTHER INFORMATION

Ratings

The District has received conditional approval for payment of the Bonds to be guaranteed by the Permanent School Fund of the State of Texas and Moody's Investors Services, Inc., rates all bond issues (such as the Bonds) guaranteed by the Permanent School Fund of the State of Texas "Aaa". See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein. In addition, Moody's has assigned its underlying unenhanced rating of "A1" to the Bonds. An explanation of the significance of such ratings may be obtained from Moody's. The ratings reflect only the views of Moody's, and the District makes no representation as to the appropriateness of such ratings.

The above ratings are not recommendations to buy, sell, or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of either or both ratings may have an adverse effect on the market price of the Bonds.

No Litigation Certificate

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 or operations of the District. At the time of the initial delivery of the Bonds, the District will provide the Underwriters with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Bonds or that affects the payment and security of the Bonds or in any other manner questioning the issuance, sale, or delivery of said Bonds.

Legal Investments and Eligibility to Secure Public Funds in Texas

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Bonds (1) are negotiable instruments, (2) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (3) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency before such Bonds are eligible investments for sinking funds and other public funds. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital and savings and loan associations.

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

Registration and Qualification of Bonds for Sale

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

Legal Matters

The District will furnish a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinions of the Attorney General of the State of Texas 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 legal opinions of Andrews Kurth LLP, Bond Counsel, with respect to the Bonds being issued in compliance with the provisions of applicable law and the interest on the Bonds being excludable from gross income for purposes of federal income tax. The form of Bond Counsel's opinion is attached hereto as APPENDIX C – Form of Bond Counsel's Opinion.

Bond Counsel was engaged by, and only represents, the District. Except as noted below, Bond Counsel 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 appearing under captions or subcaptions, "THE BONDS" (except under the subcaptions "Sources and Uses of Funds", "Permanent School Fund Guarantee", and "Book-Entry Only System"), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" (except under the subcaption "Possible Effects of Wealth Transfer Provisions on the District's Financial Condition"), "TAX RATE LIMITATIONS", "TAX MATTERS", "TAX TREATMENT OF ORIGINAL ISSUE PREMIUM BONDS", "QUALIFIED TAX EXEMPT OBLIGATIONS", "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance With Prior Undertakings"), "OTHER INFORMATION – Legal Investments and Eligibility To Secure Public Funds in Texas", "OTHER INFORMATION – Registration and Qualification of Bonds For Sale", and "OTHER INFORMATION – Legal Matters" (except for the last two sentences of the second paragraph thereof) and such firm is of the opinion that the information relating to the Bonds and legal matters 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 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. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry Only System. Certain legal matters will be passed upon for the Underwriters

by their counsel, Fulbright & Jaworski LLP, Houston, Texas, a member of Norton Rose Fulbright. The legal fee of such firm is contingent upon the sale and delivery of the Bonds.

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

Financial Advisor

In its role as Financial Advisor, Government Capital Securities Corporation has relied on the District for certain information concerning the District and the Bonds. The fee of the Financial Advisor for services with respect to the Bonds is contingent upon the issuance and sale of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

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.

Forward Looking Statements

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

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

Use of Audited Financial Statements

Smith & Rives, PC, CPA, the District's independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Smith & Rives, PC, CPA, also has not performed any procedures relating to this Official Statement.

Underwriting

Oppenheimer & Co., Inc., Hutchinson Shockey Erley & Co. and Duncan-Williams, Inc. (the "Underwriters") have agreed to purchase the Bonds from the District for $9,666,964.20 (being the principal amount of the Bonds, plus a net premium of $367,016.70, less an Underwriters' discount of $65,052.50).

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

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with its responsibility to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

Miscellaneous

The financial data and other information contained herein have been obtained from the District's records, audited financial statements, and other sources that are believed to be reliable. There is no guarantee that any of the assumptions or estimates

contained herein will be realized. All of the summaries of the statutes, documents, and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

Concluding Statement

The information set forth herein has been obtained from the District's records, audited financial statements, and other sources which are considered to be reliable. There is no guarantee that any of assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents, and the Order contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and the Order. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects. The Order authorizing the issuance of the Bonds will also approve the form and content of this Official Statement and any addenda, supplement, or amendment thereto and authorize its further use in the re-offering of the Bonds by the Underwriters. This Official Statement has been approved by the Board of Trustees of the District for distribution in accordance with the provisions of the United States Securities and Exchange Commission's rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

ATTEST:

/s/ Eddie Brewer
President, Board of Trustees
Wink-Loving Independent School District

/s/ Grace Harrison
Secretary, Board of Trustees
Wink-Loving Independent School District

APPENDIX A

FINANCIAL INFORMATION REGARDING THE DISTRICT

The Tax Code as it Applies to the District

The District grants a state mandated homestead exemption of $15,000 to all qualified residents. If the property owner qualifies for an over 65 or disabled person's exemption the school district grants a state mandated exemption of an additional $10,000. A person eligible for both the over 65 and disabled person's exemption may receive only one.

The District grants a state mandated $15,000 general homestead exemption.

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 the District collects its own taxes.

The District does tax "goods in transit" without exemption.

Table 1 - Valuation, Exemptions, and Tax Supported Debt

District Direct Debt

2013 Taxable Assessed Valuation [1] (100% of Estimated Market Value)	$ 1,162,865,330
Outstanding Debt (July 1, 2013)	13,830,000
Plus: The Bonds	9,365,000
Total Direct Debt	$23,195,000
As a % of 2013 Taxable Assessed Valuation	2.00%

[1] Provided by the District and Loving County Appraisal District and Winkler County Appraisal District.

Table 2 - Taxable Assessed Valuations by Category

	Tax Year 2012	Tax Year 2011	Tax Year 2010	Tax Year 2009	Tax Year 2008
Real Property	$ 42,673,510	$ 41,888,338	$ 40,410,955	$ 41,451,564	$ 40,695,920
Personal Property	1,167,230,678	1,270,970,140	1,225,192,273	1,394,332,742	1,260,637,651
Gross Value	$ 1,209,904,188	$ 1,312,858,478	$ 1,265,603,228	$ 1,435,784,306	$ 1,301,333,571
Less Exemptions	47,038,858	42,009,661	40,903,269	47,081,354	47,373,836
Net Taxable Value	$ 1,162,865,330	$ 1,270,848,817	$ 1,224,699,959	$ 1,388,702,952	$ 1,253,959,735

Table 3 - Valuation and Tax Supported Debt History

Fiscal Year Ended 8/31	Estimated Population[1]	Taxable Assessed Valuation[2]	Taxable Assessed Valuation Per Capita	Tax Supported Debt Outstanding	Ratio of Tax Supported Debt to Assessed Valuation	Tax Supported Debt Per Capita
2009	995	$1,253,959,735	$1,260,261	$0	0.00%	$0
2010	1,083	1,388,702,952	1,282,274	0	0.00%	0
2011	1,067	1,224,699,959	1,147,798	0	0.00%	0
2012	1,093	1,270,848,817	1,162,716	16,560,000	1.30%	15,151
2013	1,093	1,162,865,330	1,063,921	23,195,000[3]	2.00%	21,221

[1] Source: Municipal Advisory Council of Texas

[2] As reported by Loving County Appraisal District and Winkler County Appraisal District. Such values are subject to change during ensuing year. A large portion of the District's assessed valuation consists of oil and natural gas mineral interests. Because drilling activity is dependent upon the prices of volatile commodities, the District's tax base may grow or constrict in any particular year as a result of fluctuations in mineral values. In addition, the majority of such oil, gas and mineral assessed values are not subject to exemptions, and therefore constitute an even larger portion of the District's taxable assessed values than the percentages shown in the table above. As a result, the District's taxable assessed valuation and, therefore, the tax rates required to pay debt service on the District's bonds, may be subject to volatility in future years.

[3] Includes the Bonds.

Table 4 - Tax Rate, Levy, and Collection History

Fiscal Year Ended 8/31	Tax Year	Taxable Assessed Valuation[1]	Tax Rate	Tax Levy[2]	Percent Collected	
					Current	Total
2009	2008	1,253,959,735	1.0400	13,633,781	98.39%	99.71%
2010	2009	1,388,702,952	1.0400	14,213,015	98.95%	99.62%
2011	2010	1,224,699,959	1.0400	12,826,672	98.95%	98.95%
2012	2011	1,270,848,817	1.0400	13,089,279	98.78%	N/A
2013	2012	1,162,865,330	1.3200	15,349,822[3]	(In process of collection)	

[1] Net of exemptions. Assessed valuations do not include adjustments in supplemental rolls made after the end of each fiscal year.

[2] Excludes penalties and interest.

[3] Projected Tax Levy, provided by the District.

Table 5 - Ten Largest Taxpayers

Taxpayers	Type of Property	2013 Net Taxable Assessed Valuations	% of Total 2013 Assessed Valuation
1. Whiting Oil & Gas Corporation	Oil & Gas	$110,798,189	9.53%
2. Shell Western E & P	Oil & Gas	69,790,810	6.00%
3. Anadarko Petroleum Corporation	Oil & Gas	46,159,570	3.97%
4. Sheridan Production Co	Oil & Gas	38,888,620	3.34%
5. Apache Corporation	Oil & Gas	33,804,316	2.91%
6. Chaparral Energy LLC	Oil & Gas	23,858,200	2.05%
7. Atlantic Operating Inc	Oil & Gas	20,845,550	1.79%
8. Cimarex Energy Co of Colorado	Oil & Gas	20,435,450	1.76%
9. Nabors Lux Finance	Oil & Gas	20,350,000	1.75%
10. Trinidad Drilling LP	Oil & Gas	19,010,270	1.63%
Total		$403,975,940	34.73%

Table 6 - 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 debt ("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 Tax Debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the District.

Taxing Jurisdiction	As Of	Total Debt[(a)]	Estimated % Overlapping	Overlapping Debt
Loving County	10/31/2012	$0	97.89%	$0
Winkler County	12/31/2011	9,711,672	38.06%	3,696,262
Estimated (Net) Overlapping Debt				3,696,262
Wink-Loving ISD[(b)]				23,195,000[(b)]
Total Direct & Estimated Overlapping Debt				$26,891,262
As a % of Certified 2013 Taxable Assessed Valuation				2.31%

[(a)] Gross Debt
[(b)] Includes the Bonds.

Table 7 - Tax Supported Debt Service Requirements

Fiscal Year Ended 8/31	Prior Debt Service	Plus: The Bonds Principal	The Bonds Interest	Total Debt Service
2014	$3,298,050	-	$223,492	$3,521,542
2015	1,784,000	$515,000	256,925	2,555,925
2016	1,786,025	525,000	243,900	2,554,925
2017	1,786,700	540,000	230,625	2,557,325
2018	1,788,100	550,000	219,725	2,557,825
2019	1,784,700	565,000	207,163	2,556,863
2020	1,788,700	575,000	192,913	2,556,613
2021	1,785,000	595,000	176,800	2,556,800
2022	-	2,425,000	131,500	2,556,500
2023	-	2,500,000	57,625	2,557,625
2024	-	575,000	10,063	585,063
Totals	$15,801,275	$9,365,000	$1,950,731	$27,117,006

Average Annual Debt Service Requirements $2,465,182
Maximum Annual Debt Service Requirement $3,521,542

Table 8 - Authorized But Unissued Unlimited Tax Bonds

After the issuance of the Bonds, the District will have approximately $5,500,000 of authorized but unissued unlimited tax bonds. The District does not anticipate issuing additional debt this fiscal year.

Table 9 - Other Obligations

Other than the District's outstanding unlimited tax bonds, the District has no outstanding obligations, including obligations supported by maintenance and operations taxes.

Table 10 – Schedule of General Fund Revenues and Expenditure History

For Fiscal Year Ended August 31st

	2012	2011	2010	2009	2008
REVENUES:					
Total Local and Intermediate Sources	$ 13,120,562	$ 14,699,066	$ 13,564,010	$ 16,391,063	$ 12,696,370
State Program Revenues	4,529,352	5,280,568	2,939,288	4,440,571	3,094,966
Federal Program Revenues	-	-	-	-	-
Total Revenues	$ 17,649,914	$ 19,979,634	$ 16,503,298	$ 20,831,634	$ 15,791,336
EXPENDITURES:					
Current:					
Instruction	$ 3,527,439	$ 3,453,284	$ 3,550,112	$ 3,362,511	$ 3,372,567
Instructional Resources & Media Services	72,537	60,912	68,328	128,579	162,169
Curriculum & Instructional Staff Development	21,183	30,123	30,086	46,882	42,273
Instructional Leadership	-	-	-	-	-
School Leadership	236,415	309,132	308,938	290,880	260,204
Guidance, Counseling & Evaluation Services	95,683	96,609	94,757	90,479	88,723
Health Services	63,056	63,694	61,538	54,843	51,588
Student (Pupil) Transportation	116,540	188,390	128,914	128,372	196,375
Food Services	-	-	-	-	-
Extracurricular Activities	679,265	756,851	796,138	607,760	536,003
General Administration	562,999	536,084	531,570	626,758	532,540
Facilities Maintenance and Operations	1,257,784	1,147,836	1,362,273	1,181,706	1,352,476
Community Services	-	1,000	3,242	8,267	18,031
Debt Service:					
Principal on Long Term Debt	8,095	14,592	13,245	12,035	8,387
Interest on Long Term Debt	4,359	2,491	3,839	6,159	9,922
Capital Outlay:					
Facilities Acquisition and Construction	2,492	52,286	2,142,809	2,313,691	352,162
Intergovernmental:					
Contracted Instructional Services Between Schools	11,451,057	10,199,770	11,433,190	9,336,400	8,350,464
Payments to Fiscal Agent/Member Districts of SSA	106,228	102,019	76,404	82,391	83,873
Other Governmental Charges	319,806	196,186	265,684	158,637	109,693
Total Expenditures	$ 18,524,938	$ 17,211,259	$ 20,871,067	$ 18,436,350	$ 15,527,450
Excess (Deficiency) of Revenues Over (Under) Expenditures	(875,024)	2,768,375	(4,367,769)	2,395,284	263,886
OTHER FINANCING SOURCES (USES)					
Sale of Real or Personal Property	-	-	-	-	-
Capital Leases	27,018	-	-	14,470	52,999
Transfers In	-	-	-	-	-
Transfers Out (Use)	(270,525)	(270,192)	(274,278)	(488,119)	(507,945)
Total Other Financing Sources and (Uses)	(243,507)	(270,192)	(274,278)	(473,649)	(454,946)
Net Change in Fund Balances	(1,118,531)	2,498,183	(4,642,047)	1,921,635	(191,060)
Fund Balance – September 1 (Beginning)	3,314,350	816,167	5,458,214	3,532,947	3,722,822
Increase (Decrease) in Fund Balance	(7,519)	-	-	3,632	1,185
Fund Balance – August 31 (Ending)	**$ 2,188,300**	**$ 3,314,350**	**$ 816,167**	**$ 5,458,214**	**$ 3,532,947**

Source: The District's audited financial statements.

Table 11 - General Operating Fund Comparative Balance Sheet [(a)]

	Fiscal Years Ended August 31st				
	2012	**2011**	**2010**	**2009**	**2008**
ASSETS					
Cash & Cash Equivalents	$ 973,980	$ 2,740,028	$ 855,235	$ 5,715,156	$ 3,921,923
Property Taxes - Delinquent	357,036	458,496	581,811	416,867	511,545
Allowance for Uncollectible Taxes (Credit)	(303,481)	(389,722)	(494,539)	(354,337)	(434,814)
Receivables from Other Governments	1,419,710	873,399	746,896	-	-
Accrued Interest	264	312	306	-	-
Due from Other Funds	59,697	10,140	2,814	2,024	316
Inventories	-	-	-	-	-
Total Assets	$ 2,507,206	$ 3,692,653	$ 1,692,523	$ 5,779,710	$ 3,998,970
LIABILITIES AND FUND BALANCES					
Liabilities:					
Short Term Debt Payable - Current	$ -	$ -	$ 84	$ -	$ -
Accounts Payable	1,071	-	-	-	-
Accrued Wages Payable	264,280	309,529	288,273	258,966	215,556
Due to Other Governments	-	-	-	-	173,735
Due to Other Funds	-	-	500,727	-	
Deferred Revenues	53,555	68,774	87,272	62,530	76,732
Total Liabilities	$ 318,906	$ 378,303	$ 876,356	$ 321,496	$ 466,023
Fund Balances:					
Nonspendable Fund Balance:					
Inventories	-	-	-	-	-
Committed Fund Balance:					
Construction	200,000	200,000	200,000	200,000	200,000
Capital Expenditures for Equipment	100,000	100,000	100,000	100,000	100,000
Other Committed Fund Balance	500,000	500,000	500,000	500,000	500,000
Undesignated/Unassigned Fund Balance	1,388,300	2,514,350	16,167	4,658,214	2,732,947
Total Fund Balances	$ 2,188,300	$ 3,314,350	$ 816,167	$ 5,458,214	3,532,947
Total Liabilities and Fund Balances	$ 2,507,206	$ 3,692,653	$ 1,692,523	$ 5,779,710	$ 3,998,970

[(a)] Source: District's audited financial reports. See "Appendix B – EXCERPTS FROM THE WINK-LOVING INDEPENDENT SCHOOL DISTRICT ANNUAL FINANCIAL REPORT".

Table 12 - Current Investments

As of July 1, 2013, the District's investable funds amounted to $16,888,873. The following summary itemizes the District's investment portfolio by type of security:

	Percent	Book Value	Market Value
Southwest Bank[(1)]	2.40%	$ 405,131	$ 405,131
TexPool[(1)]	97.60%	16,483,742	16,483,742
Total	100.00%	$16,888,873	$16,888,873

[(1)] The investment pools in which the District invests were created for Texas governmental entities. Such investment pools operate as money-market equivalents.

APPENDIX B

EXCERPTS FROM THE ANNUAL FINANCIAL REPORT

WINK-LOVING
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL AND
COMPLIANCE REPORT

FOR THE YEAR ENDED
AUGUST 31, 2012

WINK-LOVING INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED AUGUST 31, 2012

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CERTIFICATE OF BOARD

Wink-Loving Independent School District	Winkler	248-902
Name of School District	County	Co.-Dist. Number

We, the undersigned, certify that the attached annual financial and compliance report of the above-named school district were reviewed and (check one) _____approved _____disapproved for the year ended August 31, 2012 at a meeting of the Board of Trustees of such school district on the 11TH day of February, 2013.

Signature of Board Secretary	Signature of Board President

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

S & R

SMITH & RIVES, PC
Certified Public Accountants

Terry R. Smith, C.P.A.
Rocky L. Rives, C.P.A.

Members of:
American Institute of Certified Public Accountants
Division of CPA Firms Private Companies Practice Section
Texas Society of Certified Public Accountants

UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER SUPPLEMENTARY INFORMATION

Independent Auditor's Report

Board of Trustees
Wink-Loving Independent School District
P.O. Box 637
Wink-Loving, Texas 79789

Members of the Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wink-Loving Independent School District (the District) as of and for the year ended August 31, 2012, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's administrators. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Wink-Loving Independent School District as of August 31, 2012, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

300 S. Main, P.O. Box 640, Monahans, Texas 79756 Phone: (432) 943-7516 Fax: (432) 943-3054

In accordance with *Government Auditing Stondards,* we have also issued our report dated January 18, 2013, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the Internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Stondards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Wink-Loving Independent School District's basic financial statements.

Although the combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements, they have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as Exhibits J-1 through J-3. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Smith & Rives, PC

Smith & Rives, PC
Monahans, Texas
January 18, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Wink-Loving Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2012. Please read it in conjunction with our Independent Auditor's Report on page 1 and the District's Basic Financial Statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

The District's net assets decreased by $1,674,836 as a result of this year's operations. Our District does not have any business-type activities; so all changes are attributable to our governmental activities. (See Exhibit B-1)

During the year, the District had expenditures that were $4,243,085 more than the $17,977,282 generated in tax and other revenues for governmental programs (before special items). This compares to last year when expenditures were less than revenues by $2,499,449. (See Exhibit C-3)

Total cost of all of the District's programs increased by 7.66%. The increase is due primarily to higher instruction costs, and increases for purchase of attendance credits. (See Exhibit B-1)

The General Fund ended the year with a fund balance of $2,188,300. (See Exhibit C-3)

The resources available for appropriation were $773,419 more than budgeted for the General Fund. The primary reason for this is due to the District receiving more State funding than expected. (See Exhibit C-5)

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (on pages 9 and 10). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 11) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the District.

The notes to the financial statements (starting on page 18) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for non-major funds contain even more information about the District's individual funds. These are not required by TEA. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Assets and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 3. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Assets (page 9) includes all the District's assets and liabilities at the end of the year while the Statement of Activities (page 10) includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting, which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as tuition received from students from outside the District and grants provided by the U.S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net assets and changes in them. The District's net assets (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider non-financial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Assets and the Statement of Activities we present only the following activity:

> Governmental Activities - Most of the District's basic services are reported here, including the instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 11 and provide detailed information about the most significant funds - not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under ESEA Title I, Part A from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's governmental funds us an accounting approach as follows:

> Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities and alumni scholarship programs. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 16 and 17. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets of the District's governmental activities decreased from $13,607,832 to $11,925,477. Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - were $1,780,677 at August 31, 2012. Governmental net assets were impacted by the following three factors. First, the District's revenues reflected a substantial decrease in the combination of property tax collections and state revenues when compared to the prior year. Related to that, the District sent TEA and other school districts $11,451,057 for attendance credits. Second, the District acquired capital assets in the amount of $2,836,189. Third, the District recorded depreciation of $680,327, which is a non-cash expense.

Table I
Wink-Loving Independent School District

NET ASSETS

	Governmental Activities	
	2012	2011
Current and other assets	16,840,407	3,700,717
Capital assets	10,748,583	10,235,853
Total assets	12,737,728	13,936,570
Long-term liabilities	17,387,307	3,118
Other liabilities	265,351	325,619
Total liabilities	17,652,658	328,737
Net Assets:		
Invested in capital assets, net of related debt	10,135,267	10,216,645
Restricted	9,533	8,064
Unrestricted	1,780,677	3,383,123
Total Net Assets	11,925,477	13,607,832

Table II
Wink-Loving Independent School District

CHANGES IN NET ASSETS

	Governmental Activities	
	2012	2011
Revenues:		
Program Revenues:		
Charges for Services	83,155	220,294
Operating Grants and Contributions	546,124	542,043
General Revenues:		
Maintenance and Operations Taxes	12,913,724	14,276,906
Grants & Contributions not restricted	4,295,856	5,048,635
Investment Earnings	74,371	8,415
Miscellaneous	112,615	185,622
Total Revenue	18,025,845	20,281,915
Expenses:		
Instruction, Curriculum, & Media Services	4,099,265	3,975,111
Instructional and School Leadership	394,865	398,971
Student Support Services	301,143	304,684
Child Nutrition	411,719	418,381
Co-curricular Activities	740,658	810,991
General Administration	612,844	584,540
Plant, Maintenance, Security, & Data Processing	1,258,737	1,304,957
Community Services	0	1,000
Debt Services	4,359	2,198
Contracted Instructional Services Between Schools	11,451,057	10,199,770
Payments to Fiscal Agent/Member Districts of SSA	106,228	102,019
Other Intergovernmental Charges	319,806	196,186
Total Expenses	19,700,681	18,299,101
Increase in Net Assets before Transfers and Special Items	(1,674,836)	1,982,814
Transfers	0	0
Prior Period Adjustments	(7,519)	0
Net Assets - September 1	13,607,832	11,625,018
Net Assets - August 31	11,925,477	13,607,832

The District's governmental fund type revenues decreased by 12.92% (from $20.30 million to $17.98 million) (Exhibit C-3). The cost of all governmental activities this year was $19.70 million compared to $18.20 million last year (Exhibit B-1). However, as shown in the Statement of Activities on page 10, some of the costs were paid by those who directly benefited from the programs ($83,155) or by other governments and organizations that subsidized certain programs with grants and contributions ($546,124) or by State equalization funding ($4,295,856).

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 11) reported a combined fund balance of $2,188,300, which is less than last year's total of $3,314,350.

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments fall into three categories. The first category includes amendments to increase amounts budgeted for the purchase of attendance credits. The second category includes amendments to increase amounts of salaries and related expenditures to cover the level of staffing necessary for the school year. The third category involved amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012, the District had $23,322,752 invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. This amount represents an increase of about $2,783,190, or 13.55%, compared to last year. The increase is attributable to construction/renovations and purchases of equipment.

Major additions placed in service and assets retired in the current year include:

Swimming Pool Pump	$	21,802
Construction In Progress		2,746,347
Copiers		27,018
Air Conditioners		16,424
Gym Boiler		24,598
Total Additions	**$**	**2,836,189**

Debt

At August 31, 2012, the outstanding debts included capital leases in the amount of $31,578. The debt also included the issuance of Unlimited School Tax Bonds of $16,560,000. Debt service payments will begin on the bonds in the subsequent year. More detailed information about the District's long-term liabilities is presented in the Notes to the Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the 2012-2013 fiscal year budget and tax rates. Among the factors considered is the economy, the District's population growth during the past few years, employment issues, property values, decisions before the Texas Legislature concerning state funding, and available grants from various foundations.

These indicators were taken into account when adopting the General Fund 2012-2013 budget. Amounts available for appropriation in the General Fund budget are $16,900,000, an increase of 1.54% over the original 2011-2012 budget of $16,643,000. The District will use its revenues to finance programs we currently offer. Conversely, budgeted expenditures are expected to increase about 3.48% as compared to the original 2011-2012 budget. For normal district operations, the District has added no major new programs or initiatives to the 2012-2013 budget.

The District also set a debt service tax rate that will generate revenues budgeted at $3,702,000. These revenues will be used to service the debt as scheduled in Note F of the Notes to the Financial Statements as presented on page 26.

If these estimates are realized, the District's budgetary General Fund balance is expected to increase modestly or remain unchanged by the close of the 2012-2013 fiscal year. More importantly, however, this will have been accomplished in spite of un-funded mandates.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Wink-Loving Independent School District, Post Office Box 637, Wink, Texas, 79789.

BASIC FINANCIAL STATEMENTS

WINK-LOVING INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2012

Data Control Codes		Primary Government Governmental Activities
	ASSETS	
1110	Cash and Cash Equivalents	$ 15,356,201
1220	Property Taxes Receivable (Delinquent)	357,036
1230	Allowance for Uncollectible Taxes	(303,481)
1240	Due from Other Governments	1,427,160
1250	Accrued Interest	264
1300	Inventories	3,227
1420	Capitalized Bond and Other Debt Issuance Costs	355,729
	Capital Assets:	
1510	Land	67,708
1520	Buildings, Net	8,887,210
1530	Furniture and Equipment, Net	658,268
1550	Leased Property Under Capital Leases, Net	24,957
1580	Construction in Progress	2,743,856
1000	Total Assets	29,578,135
	LIABILITIES	
2110	Accounts Payable	1,071
2160	Accrued Wages Payable	264,280
	Noncurrent Liabilities	
2501	Due Within One Year	2,738,862
2502	Due in More Than One Year	14,648,445
2000	Total Liabilities	17,652,658
	NET ASSETS	
3200	Invested in Capital Assets, Net of Related Debt	10,135,267
3820	Restricted for Federal and State Programs	3,227
3870	Restricted for Campus Activities	6,306
3900	Unrestricted Net Assets	1,780,677
3000	Total Net Assets	$ 11,925,477

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

EXHIBIT B-1

WINK-LOVING INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes		1	Program Revenues 3	4	Net (Expense) Revenue and Changes in Net Assets 6
		Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:					
	GOVERNMENTAL ACTIVITIES:				
11	Instruction	$ 3,997,885	$ -	$ 265,937	$ (3,731,948)
12	Instructional Resources and Media Services	79,801	-	2,865	(76,936)
13	Curriculum and Staff Development	21,579	-	-	(21,579)
21	Instructional Leadership	39,485	-	-	(39,485)
23	School Leadership	355,380	-	92,907	(262,473)
31	Guidance, Counseling and Evaluation Services	107,415	-	3,837	(103,578)
33	Health Services	70,594	-	2,823	(67,771)
34	Student (Pupil) Transportation	123,134	-	2,996	(120,138)
35	Food Services	411,719	32,127	115,645	(263,947)
36	Extracurricular Activities	740,658	25,516	16,780	(698,362)
41	General Administration	612,844	2,622	18,163	(592,059)
51	Facilities Maintenance and Operations	1,258,737	22,890	24,171	(1,211,676)
72	Debt Service - Interest on Long Term Debt	4,359	-	-	(4,359)
91	Contracted Instructional Services Between Schools	11,451,057	-	-	(11,451,057)
93	Payments related to Shared Services Arrangements	106,228	-	-	(106,228)
99	Other Intergovernmental Charges	319,806	-	-	(319,806)
[TP]	TOTAL PRIMARY GOVERNMENT:	$ 19,700,681	$ 83,155	$ 546,124	(19,071,402)

Data Control Codes		
	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	12,913,724
GC	Grants and Contributions not Restricted	4,295,856
IE	Investment Earnings	74,371
MI	Miscellaneous Local and Intermediate Revenue	112,615
TR	Total General Revenues	17,396,566
CN	Change in Net Assets	(1,674,836)
NB	Net Assets--Beginning	13,607,832
PA	Prior Period Adjustment	(7,519)
NE	Net Assets--Ending	$ 11,925,477

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

EXHIBIT C-1

WINK-LOVING INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2012

Data Control Codes		10 General Fund	60 Capital Projects	Other Funds	Total Governmental Funds
	ASSETS				
1110	Cash and Cash Equivalents	$ 973,980	$ 14,375,915	$ 6,306	$ 15,356,201
1220	Property Taxes - Delinquent	357,036	-	-	357,036
1230	Allowance for Uncollectible Taxes (Credit)	(303,481)	-	-	(303,481)
1240	Receivables from Other Governments	1,419,710	-	7,450	1,427,160
1250	Accrued Interest	264	-	-	264
1260	Due from Other Funds	59,697	-	-	59,697
1300	Inventories	-	-	3,227	3,227
1000	Total Assets	$ 2,507,206	$ 14,375,915	$ 16,983	$ 16,900,104
	LIABILITIES AND FUND BALANCES				
	Liabilities:				
2110	Accounts Payable	$ 1,071	$ -	$ -	$ 1,071
2160	Accrued Wages Payable	264,280	-	-	264,280
2170	Due to Other Funds	-	52,247	7,450	59,697
2300	Deferred Revenues	53,555	-	-	53,555
2000	Total Liabilities	318,906	52,247	7,450	378,603
	Fund Balances:				
	Nonspendable Fund Balance:				
3410	Inventories	-	-	3,227	3,227
	Committed Fund Balance:				
3510	Construction	200,000	-	-	200,000
3530	Capital Expenditures for Equipment	100,000	-	-	100,000
3545	Other Committed Fund Balance	500,000	-	-	500,000
3600	Unassigned Fund Balance	1,388,300	14,323,668	6,306	15,718,274
3000	Total Fund Balances	2,188,300	14,323,668	9,533	16,521,501
4000	Total Liabilities and Fund Balances	$ 2,507,206	$ 14,375,915	$ 16,983	$ 16,900,104

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

WINK-LOVING INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
AUGUST 31, 2012

	Total Fund Balances - Governmental Funds	$	16,521,501
1	Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was $20,539,562 and the accumulated depreciation was $10,303,709. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net assets.		10,216,644
2	Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements,but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2012 capital outlays and debt principal payments is to increase net assets. This also includes bond proceeds and related costs which reduce net assets.		(14,185,896)
3	The 2012 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(680,327)
4	Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.		53,555
19	**Net Assets of Governmental Activities**	$	11,925,477

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

EXHIBIT C-3

WINK-LOVING INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes		10 General Fund	60 Capital Projects	Other Funds	Total Governmental Funds
	REVENUES:				
5700	Total Local and Intermediate Sources	$ 13,120,562	$ 579	$ 46,286	$ 13,167,427
5800	State Program Revenues	4,529,352	-	50,482	4,579,834
5900	Federal Program Revenues	-	-	230,021	230,021
5020	Total Revenues	17,649,914	579	326,789	17,977,282
	EXPENDITURES:				
	Current:				
0011	Instruction	3,527,439	-	78,169	3,605,608
0012	Instructional Resources and Media Services	72,537	-	-	72,537
0013	Curriculum and Instructional Staff Development	21,183	-	-	21,183
0021	Instructional Leadership	-	-	35,273	35,273
0023	School Leadership	236,415	-	83,543	319,958
0031	Guidance, Counseling and Evaluation Services	95,683	-	-	95,683
0033	Health Services	63,056	-	-	63,056
0034	Student (Pupil) Transportation	116,540	-	-	116,540
0035	Food Services	-	-	384,368	384,368
0036	Extracurricular Activities	679,265	-	14,492	693,757
0041	General Administration	562,999	-	-	562,999
0051	Facilities Maintenance and Operations	1,257,784	-	-	1,257,784
	Debt Service:				
0071	Principal on Long Term Debt	8,095	355,729	-	363,824
0072	Interest on Long Term Debt	4,359	-	-	4,359
	Capital Outlay:				
0081	Facilities Acquisition and Construction	2,492	2,743,855	-	2,746,347
	Intergovernmental:				
0091	Contracted Instructional Services Between Schools	11,451,057	-	-	11,451,057
0093	Payments to Fiscal Agent/Member Districts of SSA	106,228	-	-	106,228
0099	Other Intergovernmental Charges	319,806	-	-	319,806
6030	Total Expenditures	18,524,938	3,099,584	595,845	22,220,367
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(875,024)	(3,099,005)	(269,056)	(4,243,085)
	OTHER FINANCING SOURCES (USES):				
7911	Capital Related Debt Issued (Regular Bonds)	-	16,560,000	-	16,560,000
7913	Capital Leases	27,018	-	-	27,018
7915	Transfers In	-	-	270,525	270,525
7916	Premium or Discount on Issuance of Bonds	-	795,729	-	795,729
7917	Prepaid Interest	-	66,944	-	66,944
8911	Transfers Out (Use)	(270,525)	-	-	(270,525)
7080	Total Other Financing Sources (Uses)	(243,507)	17,422,673	270,525	17,449,691
1200	Net Change in Fund Balances	(1,118,531)	14,323,668	1,469	13,206,606
0100	Fund Balance - September 1 (Beginning)	3,314,350	-	8,064	3,322,414
1300	Increase (Decrease) in Fund Balance	(7,519)	-	-	(7,519)
3000	Fund Balance - August 31 (Ending)	$ 2,188,300	$ 14,323,668	$ 9,533	$ 16,521,501

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

WINK-LOVING INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2012

Total Net Change in Fund Balances - Governmental Funds	$	13,206,606
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2012 capital outlays and debt principal payments is to increase (decrease) net assets. This also includes proceeds from bond sales and related costs which reduce net assets.		(14,185,896)
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.		(680,327)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.		(15,219)
Change in Net Assets of Governmental Activities	$	(1,674,836)

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

EXHIBIT C-5

WINK-LOVING INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	REVENUES:				
5700	Total Local and Intermediate Sources	$ 12,700,000	$ 13,346,016	$ 13,120,562	$ (225,454)
5800	State Program Revenues	3,941,000	3,528,479	4,529,352	1,000,873
5900	Federal Program Revenues	2,000	2,000	-	(2,000)
5020	Total Revenues	16,643,000	16,876,495	17,649,914	773,419
	EXPENDITURES:				
	Current:				
0011	Instruction	3,624,050	3,776,545	3,527,439	249,106
0012	Instructional Resources and Media Services	166,200	169,065	72,537	96,528
0013	Curriculum and Instructional Staff Development	60,500	60,500	21,183	39,317
0023	School Leadership	326,400	335,764	236,415	99,349
0031	Guidance, Counseling and Evaluation Services	108,120	111,957	95,683	16,274
0033	Health Services	66,130	68,953	63,056	5,897
0034	Student (Pupil) Transportation	233,500	231,496	116,540	114,956
0036	Extracurricular Activities	756,650	778,430	679,265	99,165
0041	General Administration	574,800	592,963	562,999	29,964
0051	Facilities Maintenance and Operations	1,442,650	1,466,821	1,257,784	209,037
0061	Community Services	10,000	10,000	-	10,000
	Debt Service:				
0071	Principal on Long Term Debt	22,000	22,000	8,095	13,905
0072	Interest on Long Term Debt	16,000	16,000	4,359	11,641
	Capital Outlay:				
0081	Facilities Acquisition and Construction	130,000	71,217	2,492	68,725
	Intergovernmental:				
0091	Contracted Instructional Services Between Schools	8,400,000	11,829,419	11,451,057	378,362
0093	Payments to Fiscal Agent/Member Districts of SSA	120,000	120,000	106,228	13,772
0099	Other Intergovernmental Charges	275,000	333,783	319,806	13,977
6030	Total Expenditures	16,332,000	19,994,913	18,524,938	1,469,975
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	311,000	(3,118,418)	(875,024)	2,243,394
	OTHER FINANCING SOURCES (USES):				
7913	Capital Leases	-	-	27,018	27,018
8911	Transfers Out (Use)	-	(3,717,770)	(270,525)	3,447,245
7080	Total Other Financing Sources (Uses)	-	(3,717,770)	(243,507)	3,474,263
1200	Net Change in Fund Balances	311,000	(6,836,187)	(1,118,531)	5,717,656
0100	Fund Balance - September 1 (Beginning)	3,314,350	3,314,350	3,314,350	-
1300	Increase (Decrease) in Fund Balance	-	-	(7,519)	(7,519)
3000	Fund Balance - August 31 (Ending)	$ 3,625,350	$ (3,521,837)	$ 2,188,300	$ 5,710,137

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

EXHIBIT E-1

WINK-LOVING INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31,2012

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	$ -	$ 577,281
Other Receivables	170	-
Restricted Assets	52,042	-
Total Assets	52,212	$ 577,281
LIABILITIES		
Payroll Deductions and Withholdings Payable	-	$ 563,036
Due to Student Groups	-	14,245
Total Liabilities	-	$ 577,281
NET ASSETS		
Unrestricted Net Assets	52,212	
Total Net Assets	$ 52,212	

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

EXHIBIT E-2

WINK-LOVING INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY FUND NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2012

	Private Purpose Trust Funds
ADDITIONS:	
Local and Intermediate Sources	$ 1,125
Total Additions	1,125
DEDUCTIONS:	
Other Operating Costs	1,125
Total Deductions	1,125
Change in Net Assets	-
Total Net Assets - September 1 (Beginning)	52,212
Total Net Assets - August 31 (Ending)	$ 52,212

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Wink-Loving Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board 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 appropriate version of Texas Education Agency's ***Financial Accountability System Resource Guide*** (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

A. REPORTING ENTITY

The Board of Trustees is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the Wink-Loving Independent School District non-fiduciary activities with most of the inter-fund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants, and other inter-governmental revenues. The District has no *business-type activities* that rely, to a significant extent, on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include tuition paid by students not residing in the District, school lunch charges, etc. The "grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Inter-fund activities between governmental funds appear as due to/due from on the Governmental Fund Balance Sheet and as other resources and other uses on the Governmental Fund Statement of Revenues, expenditures, and Changes in Fund Balance. All inter-fund transactions between governmental funds are eliminated on the government-wide financial statements. Inter-fund activities between governmental funds and fiduciary funds remain as due to/due from on the Statement of Net Assets.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in fiduciary funds cannot be used for District operations, they are not included in the government-wide financial statements. The District considers some governmental funds major and reports their financial condition and results of operations in a separate column.

The District has no proprietary funds.

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

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

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities, and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for un-matured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District considers all revenues available if they are collectible within 60 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.

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

The District applies all GASB pronouncements as well as the Financial Accounting Standards board ("FASB") pronouncements issued on or before November 30, 1989, unless these announcements conflict or contradict GASB pronouncements.

D. FUND ACCOUNTING

The District reports the following major governmental fund:

> **General Fund** - The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund. This is a budgeted fund, and any fund balances are considered resources available for current operations. However, fund balances may be reserved or appropriated by the Board to implement its responsibilities.

Additionally, the District reports the following fund types:

Special Revenue Funds - The District accounts for resources restricted to, or designated for, specific purposes by a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a special revenue fund, and sometimes, unused balances must be returned to the grantor at the close of specified project periods.

Fiduciary Funds:

Private Purpose Trust Funds - These funds are used to account for donations that have stipulations that the principal may not be expended, and that only the income may be used for a specific purpose. The District's private purpose trust funds are the Wink High School Memorial Scholarship and the Joe Wolf Memorial Scholarship.

Agency Funds - The District accounts for resources held for others in a custodial capacity in agency funds. The District's agency funds consist of the student group activity funds, insurance claims funds, and a tax escrow fund.

E. OTHER ACCOUNTING POLICIES

1. Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments for the District are reported at fair value.

The funds of the District must be deposited and invested under the terms of a depository contract, the contents of which are set out in the **Depository Contract Law**. The depository bank may either place approved pledged securities for safekeeping and trust with the District's agent bank or file a corporate surety bond in the amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of FDIC Insurance.

2. Inventories and Prepaid Items

The District reports inventories of supplies on the balance sheet at cost or average cost, and they include (if applicable) consumable maintenance, instructional, office, athletic, and transportation items. Supplies are recorded as expenditures when they are consumed. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.

3. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

4. Fund Equity

Beginning with fiscal year 2011, the District implemented GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions". This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making auhtority, to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by a governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose, positive amounts are reported only in the general fund.

The Board of Trustees establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. Assigned fund balance is delegated by the Trustees to the superintendent or his designee.

When restricted and other fund balance resources are available for use, it is the District's policy to use restricted resources first, followed by committed, assigned and unassigned amounts, respectively.

5. Compensated Absences

The District does not accrue unused sick leave or unpaid vacation in its financial statements. The District maintains a policy that those employees eligible for paid vacation may not carryover any unused vacation at the end of the fiscal year. Vacations are to be taken within the same year they are earned, and any unused days at the end of the year are forfeited. Therefore, no liability has been accrued in the accompanying financial statements.

Employees of the District are entitled to sick leave based on category/class of employment. Sick leave is allowed to be accumulated but does not vest. Therefore, a liability for unused sick leave has not been recorded in the accompanying financial statements.

6. Use of Restricted or Unrestricted Assets

When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

7. Capital Assets

Capital assets, which include land, buildings, furniture, and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than $S,000 and an estimated useful life of two years or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

Assets	Years
Buildings	50
Building Improvements	15
Buses	10
Vans	7
Other Vehicles	5
Office Equipment	10
Commercial Ovens	8
Computer Equipment	3 to 5

8. Data Control Codes

Data control codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. TEA requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a statewide database for policy development and funding plans.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund, the Food Service Fund (which is included in the General Fund), and the Debt Service Fund. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The General Fund budget report appears in Exhibit C-5 and the Food Service Fund budget report appears in Exhibit J-3.

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

1. Prior to August 20, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.

2. A meeting of the Board of Trustees is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.

3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the fund and function level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.

4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year-end.

5. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. There were no end-of-year outstanding encumbrances that were provided for in the subsequent year's budget.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

At August 31, 2012, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was $132,625 for governmental funds and $635,629 for fiduciary funds, and the bank balance was $1,547,405. The District's cash deposits at August 31, 2012, and at its highest cash balance during the year were entirely covered by a combination of FDIC insurance, letter of credit, or pledged collateral.

Concerning the coverage of combined balances on the date of highest deposit, the following is disclosed:

Bank	Highest Deposit	FMV Securities Pledged	FDIC Insurance	Month
SouthWest Bank	$ 18,196,498	$ 0	$ 18,196,498	August 2012

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits – State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent bank. The District had no custodial credit risk during the year.

Foreign Currency Risk – The District has no investments or deposits of a foreign currency.
District Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires the District 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, (S) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (S) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) investment pools, (9)guaranteed investment contracts, and (10) common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

The District's temporary investments consist of balance held by TexPool. The District has no long-term investments.

The State Comptroller of Public Accounts oversees TexPool, while Lehman Brothers and Federated Investors manage the daily operations of the pool under a contract with the Comptroller. TexPool is managed conservatively to provide a safe, efficient, and liquid investment alternative to Texas governments. The pools seek to maintain a $1.00 value per share as required by the Texas Public Funds Investment Act. TexPool investments consist exclusively of U.S. Government securities, repurchase agreements collateralized by U.S. Government Securities, and AAA-rated no-load money market mutual funds. TexPool is rated AAAm by Standard & Poor's, the highest rating a local government investment pool can achieve. The weighted average maturities of the pool cannot exceed 60 days, with the maximum maturity of any investment limited to 13 months. TexPool, like its participants, is governed by the Texas Public Funds Investment Act and is in full compliance with the Act.

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 located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to 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 school fiscal year.

C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General Fund are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. INTER-FUND RECEIVABLES AND PAYABLES

Inter-fund balances at August 31, 2012 consisted of the following individual fund balances:

	Due From	Due To	Purpose
General Fund:			
Special Revenue Fund	$ 7,450	$ 0	Short-Term Loan
Capital Projects Fund	$ 52,247	$ 0	Short-Term Loan
Total General Fund	$ 59,697	$ 0	
Special Revenue Funds:			
General Fund	$ 0	$ 7,450	Short-Term Loan
Total Special Revenue Funds	$ 0	$ 7,450	
Capital Projects Fund:			
General Fund	$ 0	$ 52,247	Short-Term Loan
Total Capital Projects Fund	$ 0	$ 52,247	
GRAND TOTAL	$ 59,697	$ 59,697	

E. CAPITAL ASSET ACTIVITY

Capital asset activity for the District for the year ended August 31, 2012, was as follows:

	Beginning Balance	Additions/ Adjustments	Retirements/ Adjustments	Ending Balance
Land	$ 65,216	$ 2,492	$ 0	$ 67,708
Buildings & Improvements	17,479,791	0	0	17,479,791
Furniture & Equipment	2,927,086	62,824	0	2,989,910
Construction in Progress	0	2,743,856	0	2,743,856
Capital Leases	67,469	27,017	(52,999)	41,487
Totals - Historical Cost	$ 20,539,562	$ 2,836,189	$ (52,999)	$ 23,322,752
Less Accumulated Depreciation:				
Buildings & Improvements	$ (8,104,025)	$ (488,556)	$ 0	$ (8,592,581)
Furniture & Equipment	(2,148,602)	(183,040)	0	(2,331,642)
Capital Leases	(51,082)	(8,731)	43,283	(16,530)
Total Accumulated Depreciation	$ (10,303,709)	$ (680,327)	$ 43,283	$ (10,940,753)
Capital Assets, Net	$ 10,235,853	$ 2,155,862	$ (9,716)	$ 12,381,999

Depreciation Expense was charged to governmental functions as follows:

Instruction	$ 419,295
Instructional Resources & Media Services	7,264
Curriculum & Instructional Staff Development	396
Instructional Leadership	4,212
School Leadership	35,422
Guidance, Counseling, & Evaluation Services	11,732
Health Services	7,538
Student (Pupil) Transportation	6,594
Food Services	27,351
Cocurricular/Extracurricular Activities	46,901
General Administration	49,845
Plant Maintenance and Operations	63,777
Total Depreciation	$ 680,327

F. BONDS PAYABLE

On July 1, 2012, the District issued, and on August 16, 2012, sold Unlimited Tax School Building Bonds, Series 2012, totaling $16,560,000 (Par value of bonds, $16,560,000, plus premium of $795,729). The bonds consist of serial bonds, issued on a tax-exempt basis, to construct and equip school buildings and purchase vehicles for the District, and to pay the costs of issuance ($355,729). Amortization of premium and accretion of issuance cost will begin in the next fiscal year.

Interest on the bonds accrues from July 1, 2012, and is payable February 15, 2013, and each February 15 and August 15 thereafter until maturity or prior redemption. The bonds constitute direct and voted obligations of the District, payable as to principal an interest from a continuing direct ad valorem tax levied by the District, without legal limit as to rate or amount, on all taxable property within the District. Additionally, the payment of bonds is guaranteed by the Texas Permanent School Fund.

Current requirements for principal and interest are accounted for in the Debt Service Fund. A summary of changes in bonded indebtedness for the year ended August 31, 2012, is as follows:

Description	Interest Rate Payable	Original Issue	Balance Outstanding Sept 1, 2011	Current Year Issue	Retired	Balance Outstanding August 31, 2012
Unlimited Tax School Building Bonds Series 2012	2% - 4%	$ 16,560,000	$ 0	$ 16,560,000	$ 0	$ 16,560,000
	Totals	$ 16,560,000	$ 0	$ 16,560,000	$ 0	$ 16,560,000

Debt service requirements related to general obligations are as follows:

Year Ending August 31,	Principal	Interest	Total Requirements
2013	$ 2,730,000	$ 573,706	$ 3,303,706
2014	2,860,000	438,050	3,298,050
2015	1,410,000	374,000	1,784,000
2016	1,455,000	331,025	1,786,025
2017	1,500,000	286,700	1,786,700
2018	1,555,000	233,100	1,788,100
2019	1,615,000	169,700	1,784,700
2020	1,685,000	103,700	1,788,700
2021	1,750,000	35,000	1,785,000
Totals	$ 16,560,000	$ 2,544,981	$ 19,104,981

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2012.

The District has been approved to issue bonds up to a total of $32 million that includes the bonds issued in the current year. The District has the option to issue the remaining amount of bonds in a subsequent year, all of which would be guaranteed by the Texas Permanent School Fund.

G. COMMITMENTS UNDER LEASE

The District traded in two copiers and purchased two more on a lease-purchase arrangement during the year. The lease period is for multiple years, with a stated interest rate of 12% over sixty months. The previously purchased copier is at an interest rate of 3.809% amortized over sixty months. Authority for such purchases comes from Texas Education Code Section 20.49. These assets will be owned by the District at the end of the lease period or can be purchased at a bargain purchase option. A summary of changes in commitments under lease for the year ended August 31, 2012, is as follows:

Assets Leased	Payable Amount Outstanding September 1, 2011	Additions	Retirements/ Payments	Payable Amount Outstanding August 31, 2012
Copiers	$ 19,209	-	16,091	$ 3,118
Copiers	-	33,156	4,696	28,460
Totals	$ 19,209	33,156	20,787	$ 31,578

The principal balance to be paid in 2012-2013 is $8,862 and interest payments of $3,171.
The principal balance to be paid in 2013-2014 is $6,472 and interest payments of $2,378.
The principal balance to be paid in 2014-2015 is $7,294 and interest payments of $1,557.
The principal balance to be paid in 2015-2016 is $8,219 and interest payments of $631.
The principal balance to be paid in 2016-2017 is $731 and interest payments of $8.

H. DEFINED BENEFIT PENSION PLAN

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

Funding Policy. State law provides for fiscal years 2010, 2011 and 2012, a state contribution rate of 6.0% (changed to 6.58% effective January 1, 2010) and a member contribution rate of 6.4%. In certain instances the reporting district is required to make all or a portion of the State's 6.58% contribution. Contribution requirements are not actuarially determined but are established each biennium pursuant to the following state funding policy: (1) The State Constitution requires the legislature to establish a member contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year. (2) A State statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the period already exceeds 31 years, the period would be increased by such action.

State contributions to TRS made on behalf of the District's employees for the years ended August 31, 2010, 2011, and 2012 were $238,302, $242,080, and $246,066 respectively. The District paid additional state contributions for the year ended August 31, 2012 in the amount of $38,922 on the portion of the employee's salaries that exceeded the statutory minimum.

Employer contributions from federal and private grants are paid from the grant itself and are not direct obligations of the District. For the year ended August 31, 2012, contributions from federal and private grants and for salaries above the statutory minimum were $2,512.

Total District payroll for the year ended August 31, 2012 was $4,376,929, while payroll covered by the System was $4,066,671.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare, Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2010, 2011, and 2012, the subsidy payments received by TRS-Care on behalf of the District were $10,219, $9,163 and $12,939 respectively.

I. HEALTH CARE COVERAGE

During the year ended August 31, 2012, employees of the District were covered by a health insurance plan with Partner Care (the "Plan"). The District paid premiums of $435 per month per employee to the plan for a total contribution of $410,793, and employees at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to a third party administrator acting on behalf of the licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement. The contract between the District and the third party administrator is renewable September 1, 2012, and terms of coverage and premium costs are included in the contractual provisions.

The District also administers a "Cafeteria Plan" in which employees of the District may participate. The plan is administered under the rules promulgated by Section 12S of the Internal Revenue Code. Employees, at their option, may contribute to the plan to cover certain medical expenses through payroll withholding. Amounts contributed by employees are non-refundable and are not included in employee taxable wages and salaries. The District collects premiums monthly from employees and pays the premiums to the insurer.

MAINTENANCE OF EFFORT:

Total District Premiums paid for health care in FYE August 31, 2012	$	410,793
Less: Non-medical expenditures included in the premiums		0
Total 2011-2012 Maintenance of Effort	$	410,793

J. DEFERRED REVENUE

The Resource Guide provides that Texas school districts record net tax levies initially as deferred revenue and convert those deferrals to realized revenue when the taxes are collected. A district may convert all delinquent tax collections expected to be made in the first 60 days of the next fiscal year from deferred revenue to realized revenue of the current year. The District had deferred revenues at August 31, 2012, shown as follows:

	General Fund	Other Funds	Total
Net Unrealized Property Taxes	$ 53,555	$ 0	$ 53,555
Less: Amounts to be collected within 60 days of year-end	0	0	0
Other Deferred Revenue	0	0	0
Total	$ 53,555	$ 0	$ 53,555

K. INVENTORIES

Inventories at August 31, 2012, consisted of the following:

Food Service	$ 3,227

L. DUE FROM STATE AGENCIES

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the Per Capita Program. Amounts due from federal and state governments as of August 31, 2012 are summarized below:

Fund	State Entitlements	State Grants	Federal Grants	Total
State Foundation (General Fund)	$ 1,041,348	$ 0	$ 0	$ 1,041,348
Recapture Overpayment - Foundation	378,362	0	0	378,362
National Breakfast & Lunch Program	0	0	7,450	7,450
Total	$ 1,419,710	$ 0	$ 7,450	$ 1,427,160

M. REVENUE FROM LOCAL SOURCES

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

	General & Cap Proj Fund	Special Revenue Funds	Scholarship Trust Funds	Total
Property Taxes	$ 12,948,687	$ 0	$ 0	$ 12,948,687
Penalties, Interest, and Other Tax-related Income	128,082	0	0	128,082
Investment Income	7,427	0	1,125	8,552
Food Sales	0	32,127	0	32,127
Co-Curricular Student Activities	9,907	14,159	0	24,066
Other	27,038	0	0	27,038
Total	$ 13,121,141	$ 46,286	$ 1,125	$ 13,168,552

N. LITIGATION AND CONTINGENT LIABILITIES

The District is not currently named as a defendant (primary or secondary) in any pending litigation; thus, no action could give rise to a contingent liability. However, because of its participation in numerous state and federal grant programs, and because those programs are subject to audit and adjustment by the grantor agency, the District remains contingently liable for any refunds that might result from non-compliance with the rules and regulations governing those grants. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

O. SUBSEQUENT EVENTS

No event has occurred subsequent to the fiscal year end that would require disclosure in the financial statements.

P. EXPENDITURES IN EXCESS OF BUDGET

In the current year, the District did not expend more than budgeted for any function.

Q. PRIOR PERIOD ADJUSTMENTS

For the year ended August 31, 2011 an amount was accrued for the Education Jobs Fund in the amount of $7,519. That amount was never received and the program has closed. An adjustment was made to fund balance since it applied to a prior year.

R. JOINT VENTURE

The District participates in a cooperative program for Special Education with Kermit Independent School District. Although 20.98 percent of the activity of the cooperative is attributable to Wink-Loving Independent School District's participation, the District does not account for any revenues or expenditures in this program and does not disclose them in these financial statements. Kermit Independent School District is the fiscal agent manager and is responsible for all financial activities of the cooperative. The table blow represents the program costs, at 100%, related to Wink-Loving Independent School District's participation:

Expenses:			
	6100	Payroll Costs	$ 488,342
	6200	Contracted Services	47,292
	6300	Supplies	6,310
	6400	Other Operating	3,435
	6600	Capital Outlay	0
		Total	$ 545,379

S. TAX SHELTERED ACCOUNT PLAN UNDER SEC. 403(b)

Beginning with fiscal year 2011, the District adopted a 403(b) Tax Sheltered Account Plan (the "Plan") for its eligible employees. Those who chose to participate make elective deferrals (either pre-tax or Roth) to the Plan up to the allowed limit as defined by Internal Revenue Code Sec. 402(g) and the Plan does allow for Catch-Up contributions for participants at least 50 years old. The District matches the participant's contributions up to 6% of the gross wages of the employee. The Plan was developed by Security Benefit under their program called 403(b) Plan Solutions and Bay Bridge Administrators receives and invests the participant contributions at the direction of the participant.

COMBINING STATEMENTS

WINK-LOVING INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2012

Data Control Codes		211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	287 Eucation Jobs Fund
	ASSETS				
1110	Cash and Cash Equivalents	$ -	$ -	$ -	$ -
1240	Receivables from Other Governments	-	7,450	-	-
1300	Inventories	-	3,227	-	-
1000	Total Assets	$ -	$ 10,677	$ -	$ -
	LIABILITIES AND FUND BALANCES				
	Liabilities:				
2170	Due to Other Funds	$ -	$ 7,450	$ -	$ -
2000	Total Liabilities	-	7,450	-	-
	Fund Balances:				
	Nonspendable Fund Balance:				
3410	Inventories	-	3,227	-	-
3600	Unassigned Fund Balance	-	-	-	-
3000	Total Fund Balances	-	3,227	-	-
4000	Total Liabilities and Fund Balances	$ -	$ 10,677	$ -	$ -

288 Small Rural School Ach Program	410 State Textbook Fund	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds	599 Debt Service Fund	Total Nonmajor Governmental Funds
$ -	$ -	$ 6,306	$ 6,306	$ -	$ 6,306
-	-	-	7,450	-	7,450
-	-	-	3,227	-	3,227
$ -	$ -	$ 6,306	$ 16,983	$ -	$ 16,983
$ -	$ -	$ -	$ 7,450	$ -	$ 7,450
-	-	-	7,450	-	7,450
-	-	-	3,227	-	3,227
-	-	6,306	6,306	-	6,306
-	-	6,306	9,533	-	9,533
$ -	$ -	$ 6,306	$ 16,983	$ -	$ 16,983

WINK-LOVING INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes		211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	287 Eucation Jobs Fund
	REVENUES:				
5700	Total Local and Intermediate Sources	$ -	$ 32,127	$ -	$ -
5800	State Program Revenues	-	10,588	-	3,031
5900	Federal Program Revenues	35,273	72,930	10,639	80,512
5020	Total Revenues	35,273	115,645	10,639	83,543
	EXPENDITURES:				
	Current:				
0011	Instruction	-	-	10,639	-
0021	Instructional Leadership	35,273	-	-	-
0023	School Leadership	-	-	-	83,543
0035	Food Services	-	384,368	-	-
0036	Extracurricular Activities	-	-	-	-
6030	Total Expenditures	35,273	384,368	10,639	83,543
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(268,723)	-	-
	OTHER FINANCING SOURCES (USES):				
7915	Transfers In	-	270,525	-	-
7080	Total Other Financing Sources (Uses)	-	270,525	-	-
1200	Net Change in Fund Balance	-	1,802	-	-
0100	Fund Balance - September 1 (Beginning)	-	1,425	-	-
3000	Fund Balance - August 31 (Ending)	$ -	$ 3,227	$ -	$ -

288 Small Rural School Ach Program	410 State Textbook Fund	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds	599 Debt Service Fund	Total Nonmajor Governmental Funds
$ -	$ -	$ 14,159	$ 46,286	$ -	$ 46,286
-	36,863	-	50,482	-	50,482
30,667	-	-	230,021	-	230,021
30,667	36,863	14,159	326,789	-	326,789
30,667	36,863	-	78,169	-	78,169
-	-	-	35,273	-	35,273
-	-	-	83,543	-	83,543
-	-	-	384,368	-	384,368
-	-	14,492	14,492	-	14,492
30,667	36,863	14,492	595,845	-	595,845
-	-	(333)	(269,056)	-	(269,056)
-	-	-	270,525	-	270,525
-	-	-	270,525	-	270,525
-	-	(333)	1,469	-	1,469
-	-	6,639	8,064	-	8,064
$ -	$ -	$ 6,306	$ 9,533	$ -	$ 9,533

WINK-LOVING INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF NET ASSETS
PRIVATE PURPOSE TRUST FUNDS
AUGUST 31, 2012

	816 Joe Wolf Scholarship Fund	817 High School Memorial Fund	Total Private Purpose Trust Funds
ASSETS			
Current Assets:			
Other Receivables	$ 148	$ 22	$ 170
Total Current Assets	148	22	170
Noncurrent Assets:			
Restricted Assets	44,606	7,436	52,042
Total Noncurrent Assets	44,606	7,436	52,042
Total Assets	44,754	7,458	52,212
NET ASSETS			
Unrestricted Net Assets	44,754	7,458	52,212
Total Net Assets	$ 44,754	$ 7,458	$ 52,212

WINK-LOVING INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PRIVATE PURPOSE TRUST FUNDS
FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes		816 Joe Wolf Scholarship Fund	817 High School Memorial Fund	Total Private Purpose Trust Funds
	ADDITIONS:			
	Local and Intermediate Sources	$ 432	$ 693	$ 1,125
	Total Additions	432	693	1,125
	DEDUCTIONS:			
	Other Operating Costs	500	625	1,125
	Total Deductions	500	625	1,125
	Change in Net Assets	(68)	68	-
	Total Net Assets - September 1 (Beginning)	44,821	7,391	52,212
	Total Net Assets - August 31 (Ending)	$ 44,753	$ 7,459	$ 52,212

T.E.A. REQUIRED SCHEDULES

WINK-LOVING INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2011

Last 10 Years Ended August 31		(1) Tax Rates Maintenance	(2) Tax Rates Debt Service	(3) Assessed/Appraised Value for School Tax Purposes
2003	and prior years	Various	Various	$ Various
2004		1.500000	0.000000	388,628,154
2005		1.500000	0.000000	515,475,416
2006		1.500000	0.000000	797,170,790
2007		1.370000	0.000000	1,105,722,127
2008		1.040000	0.000000	1,190,890,661
2009		1.040000	0.000000	1,548,255,786
2010		1.040000	0.000000	1,334,267,364
2011		1.040000	0.000000	1,394,595,630
2012	(School year under audit)	1.040000	0.000000	1,258,584,519
1000	TOTALS			

(10) Beginning Balance 9/1/2011	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2012
$ 94,081	$ -	$ 1,764	$ -	$ (2,654)	$ 89,663
13,030	-	7,865	-	(98)	5,067
8,699	-	702	-	(90)	7,907
46,052	-	1,205	-	(90)	44,757
27,906	-	1,799	-	(84)	26,023
34,018	-	7,950	-	30	26,098
40,506	-	13,133	-	3,749	31,122
44,694	-	12,587	-	665	32,772
149,510	-	107,501	-	(150)	41,859
-	13,089,279	12,774,437	-	(263,074)	51,768
$ 458,496	$ 13,089,279	$ 12,928,943	$ -	$ (261,796)	$ 357,036

EXHIBIT J-2

WINK-LOVING INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2013-2014
GENERAL AND SPECIAL REVENUE FUNDS
AUGUST 31, 2012

FUNCTION 41 AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION, 99 - APPRAISAL DISTRICT COST

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collections	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (other) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS	$ -	$ 64,544	$ 185,911	$ 112,090	$ -	$ -	$ 362,545
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	29,932	-	-	29,932
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	13,688	-	-	-	-	-	13,688
6212	Audit Services	-	-	-	28,955	-	-	28,955
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	333,783	-	-	-	-	333,783
621X	Other Professional Services	7,304	-	7,500	-	-	-	14,804
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	3,580	-	-	-	3,580
6240	Contr. Maint. and Repair	-	-	-	-	7,659	-	7,659
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	-	-	-	-	-
6290	Miscellaneous Contr.	-	-	14,785	-	-	-	14,785
6320	Textbooks and Reading	-	-	-	-	-	-	-
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	-	3,690	4,213	2,790	-	-	10,693
6410	Travel, Subsistence, Stipends	5,275	1,740	5,155	2,062	-	-	14,232
6420	Ins. and Bonding Costs	350	-	-	-	-	-	350
6430	Election Costs	3,054	-	-	-	-	-	3,054
6490	Miscellaneous Operating	-	-	43,171	1,574	-	-	44,745
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	$ 29,671	$ 403,757	$ 264,315	$ 177,403	$ 7,659	$ -	$ 882,805

Total expenditures/expenses for General and Special Revenue Funds:			(9)	$ 19,120,782
LESS: Deductions of Unallowable Costs				
FISCAL YEAR				
Total Capital Outlay (6600)	(10)	$ 87,349		
Total Debt & Lease(6500)	(11)	12,454		
Plant Maintenance (Function 51, 6100-6400)	(12)	1,199,944		
Food (Function 35, 6341 and 6499)	(13)	136,666		
Stipends (6413)	(14)	-		
Column 4 (above) - Total Indirect Cost		177,403		
SubTotal:				1,613,816
Net Allowed Direct Cost				$ 17,506,967
CUMULATIVE				
Total Cost of Buildings before Depreciation (1520)			(15)	$ 17,917,868
Historical Cost of Building over 50 years old			(16)	$ 3,408,104
Amount of Federal Money in Building Cost (Net of #16)			(17)	$ 24,999
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)			(18)	$ 2,593,320
Historical Cost of Furniture & Equipment over 16 years old			(19)	$ 385,029
Amount of Federal Money in Furniture & Equipment (Net of #19)			(20)	$ -

(8) NOTE A: No Function 53 expenditures are included in this report on administrative costs.
$319,806 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

EXHIBIT J-3

WINK-LOVING INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
	REVENUES:				
5700	Total Local and Intermediate Sources	$ 40,000	$ 40,000	$ 32,127	$ (7,873)
5800	State Program Revenues	2,000	11,540	10,588	(952)
5900	Federal Program Revenues	65,000	65,000	72,930	7,930
5020	Total Revenues	107,000	116,540	115,645	(895)
	EXPENDITURES:				
0035	Food Services	418,000	427,540	384,368	43,172
6030	Total Expenditures	418,000	427,540	384,368	43,172
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(311,000)	(311,000)	(268,723)	42,277
	OTHER FINANCING SOURCES (USES):				
7915	Transfers In	-	276,770	270,525	(6,245)
7080	Total Other Financing Sources (Uses)	-	276,770	270,525	(6,245)
1200	Net Change in Fund Balances	(311,000)	(34,231)	1,802	36,033
0100	Fund Balance - September I (Beginning)	1,425	1,425	1,425	-
3000	Fund Balance - August 31 (Ending)	$ (309,575)	$ (32,806)	$ 3,227	$ 36,033

FEDERAL AWARDS SECTION

S & R

SMITH & RIVES, PC
Certified Public Accountants

Terry R. Smith, C.P.A.
Rocky L. Rives, C.P.A.

Members of:
American Institute of Certified Public Accountants
Division of CPA Firms Private Companies Practice Section
Texas Society of Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

Board of Trustees
Wink-Loving Independent School District
P O Box 637
Wink, Texas 79789

Members of the Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wink-Loving Independent School District (the District) as of and for the year ended August 31, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 18, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal* control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect, or correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

300 S. Main, P.O. Box 640, Monahans, Texas 79756 Phone: (432) 943-7516 Fax: (432) 943-3054

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to management of the District in a separate letter dated January 18, 2013.

This report is intended solely for the information and use of management, administrators, others within the District, the Texas Education Agency, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Smith & Rives, PC

Smith & Rives, PC
Monahans, Texas
January 18, 2013

WINK-LOVING INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2012

I. Summary of the Auditor's Results

a. The type of report issued on the financial statements of the Wink-Loving Independent School District was an unqualified opinion.
b. No significant deficiencies in internal control were disclosed by the audit of the financial statements.
c. The audit disclosed no instances of noncompliance that could be material to the financial statements of Wink-Loving Independent School District.
d. The audit disclosed no:
    1. Known questioned costs greater than $10,000 for a Federal program, which is not audited as a major program.
    2. Known fraud affecting a Federal award, unless such fraud is otherwise reported as an audit finding in the schedule of findings and questioned costs for Federal awards.
    3. Instances where audit follow-up procedures disclosed that the summary schedule of prior audit findings prepared by the auditee materially misrepresents the status of any prior audit finding.
e. The dollar threshold to distinguish between Type A and Type B programs was $300,000.
f. There were no major programs for the year ended August 31, 2012.
g. The District did not qualify as a low-risk auditee.

II. Findings Relating to the Financial Statements Which Are Required to be Reported in Accordance with *Generally Accepted Auditing Standards*.

No Findings.

III. Findings and Questioned Costs for Federal Awards Including Audit Findings as Described in I.d Above

No Findings.

WINK-LOVING INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2012

(Prepared by the District's Administration)

Reference Number: 2011-01

While some progress is being made to completely reconcile cash on a monthly basis, further progress is needed. The needed progress will, at a minimum, address payroll accruals, transfers, monthly bank fees, and the comparison of the bank details to the detailed general ledger and supporting cash receipts and cash disbursement journals. It will also need to address those instances where the general fund is providing cash for the activity of a special revenue fund while awaiting reimbursement from a paying agency. Any differences identified in the process will generate corrections to journals or a general journal entry to adjust book balances to agree with reconciled cash balances.

WINK-LOVING INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2012

(Prepared by the District's Administration)

For the following corrective action plan, the contact persons are John Benham, Superintendent, and Holly Bryan, Business Manager.

There are no findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards.*

ANDREWS ATTORNEYS KURTH LLP

FORM OF BOND COUNSEL'S OPINION

600 Travis, Suite 4200
Houston, Texas 77002
713.220.4200 Phone
713.220.4285 Fax
andrewskurth.com

October 8, 2013

WE HAVE ACTED as Bond Counsel for the Wink-Loving Independent School District (the "District") in connection with an issue of bonds (the "Bonds") described as follows:

> WINK-LOVING INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2013, dated September 15, 2013, in the aggregate principal amount of $9,365,000 maturing on August 31 in the years 2015 through 2024, inclusive. The Bonds are issuable in fully registered form only, in denominations of $5,000 or integral multiples thereof, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the order (the "Order") adopted by the Board of Trustees of the District (the "Board") authorizing their issuance.

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

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

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

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

creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with law; and

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

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

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

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

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to

our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.