OFFICIAL STATEMENT DATED DECEMBER 8, 2009

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

The Bonds will be designated as "Qualified Tax-Exempt Obligations" for financial institutions. See "QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS."

NEW ISSUE – Book-Entry-Only

RATINGS: Standard & Poor's Ratings Services.........."AA"
See "SALE AND DISTRIBUTION OF THE BONDS – Ratings" herein

$4,780,000

CLEAR CREEK INDEPENDENT SCHOOL DISTRICT

(A political subdivision of the State of Texas located within Galveston and Harris Counties, Texas)

UNLIMITED TAX REFUNDING BONDS, SERIES 2010

Dated Date: January 1, 2010 **Due: February 15, as shown on inside cover**

The $4,780,000 Clear Creek Independent School District Unlimited Tax Refunding Bonds, Series 2010 (the "Bonds") are being issued pursuant to the Constitution and general laws of the State of Texas, (the "State") particularly Chapter 1207, Texas Government Code, as amended, and an order adopted by the Board of Trustees of the Clear Creek Independent School District (the "District") authorizing the issuance of the Bonds (the "Bond Order"). The Bonds, when issued, will constitute valid and binding obligations of the District and will be payable as to principal and interest from the proceeds of a continuing, direct annual ad valorem property tax levied, without legal limitation as to maximum rate or amount, against all taxable property located within the District.

Interest on the Bonds will accrue from January 1, 2010 and is payable on February 15 and August 15 of each year, commencing February 15, 2010, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued as fully registered obligations in the denominations of $5,000 of principal amount or any integral multiple thereof for any one stated maturity. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in authorized denominations thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. The principal and maturity amounts of the Bonds and interest on the Bonds will be payable by the registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS – Book-Entry-Only System" herein. The initial paying agent/registrar (the "Paying Agent/Registrar") is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE BONDS – Paying Agent/Registrar").

The Bonds scheduled to mature on or after February 15, 2020, are subject to redemption, in whole or in part, prior to their scheduled maturities, at the option of the District, on February 15, 2019, or any date thereafter, at par plus accrued interest to the date fixed for redemption. See "THE BONDS – Optional Redemption."

See Inside Cover Page for Maturity and Pricing Schedule

Proceeds from the sale of the Bonds will be used to (i) refund certain of the District's outstanding bonds as more specifically described in APPENDIX D – Schedule of Refunded Bonds herein (the "Refunded Bonds"); and (ii) pay the costs incurred in the issuance of the Bonds. (See "THE BONDS – Sources and Uses of Funds" and "-Purpose of the Bonds").

The Bonds are offered when, as and if issued by the District and accepted by the Underwriter listed below (the "Underwriter"), subject to the approval of the Attorney General of Texas and the approval of certain legal matters by Andrews Kurth LLP, Houston, Texas, Bond Counsel. See "LEGAL MATTERS". Certain legal matters will be passed upon for the Underwriter by Vinson & Elkins L.L.P., Houston, Texas, Underwriter's Counsel. Delivery of the Bonds is expected to be on or about January 6, 2010 in Houston, Texas.

WELLS FARGO SECURITIES

CLEAR CREEK INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX REFUNDING BONDS, SERIES 2010

PRINCIPAL AMOUNTS, MATURITIES, INTEREST RATES, INITIAL REOFFERING YIELDS, AND CUSIP NUMBERS

Maturity (February 15)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Nos. **184540** (c)	Maturity (February 15)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Nos. **184540** (c)
2013	$225,000	2.500%	1.280%	V66	2018	$635,000	3.000%	3.000%	W32
2014	245,000	2.500	1.780	V74	2019	655,000	3.500	3.200	W40
2015	230,000	2.500	2.030	V82	2020(b)	680,000	4.000	3.450	W57
2016	325,000	3.000	2.450	V90	2021(b)	710,000	4.000	3.620	W65
2017	340,000	3.000	2.750	W24	2022(b)	735,000	4.000	3.720	W73

(a) The initial yields and prices are established by, and are the sole responsibility of the Underwriter and may subsequently be changed from time to time at the sole discretion of the Underwriter.

(b) The Bonds scheduled to mature on or after February 15, 2020 are subject to redemption, in whole or in part, prior to their scheduled maturities, at the option of the District, on February 15, 2019, or any date thereafter, at par plus accrued interest to the date fixed for redemption.

(c) CUSIP numbers have been assigned to the Bonds by Standard and Poor's CUSIP Service Bureau, a Division of the McGraw-Hill Companies, Inc., and are included solely for the convenience of the purchasers of the Bonds. Neither the District, the Financial Advisor, nor the Underwriter is responsible for the selection or correctness of the CUSIP numbers set forth herein. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services.

USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman or other person has been authorized to give any information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Underwriter.

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

The information set forth or included in this Official Statement has been provided by the District and from other sources believed by the District to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall create any implication that there has been no change in the financial condition or operations of the District described herein since the date hereof. This Official Statement contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and opinions or that they will be realized.

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

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS DOCUMENT. ANY PRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Neither the District, the Financial Advisor, the Underwriter nor Bond Counsel make any representation or warranty with respect to the information contained in this Official Statement regarding DTC or its Book-Entry-Only System.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF.

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

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$4,780,000
CLEAR CREEK INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX REFUNDING BONDS,
SERIES 2010

INTRODUCTORY STATEMENT

All of the summaries of the statutes, resolutions, orders, contracts, audits and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the District upon request to its Bond Counsel, Andrews Kurth LLP, 600 Travis, Suite 4200, Houston, Texas 77002.

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion, or as to the likelihood that they will be realized. However, the District has agreed to keep this Official Statement current by amendment or sticker to reflect material changes in the affairs of the District and to the extent that information actually comes to its attention, the other matters described in this Official Statement until delivery of the Bonds to the Underwriter and thereafter only as specified in "GENERAL CONSIDERATIONS – Updating of Official Statement" and "CONTINUING DISCLOSURE OF INFORMATION."

SALE AND DISTRIBUTION OF THE BONDS

Underwriting

Wells Fargo Securities (the "Underwriter") has agreed, subject to certain conditions, to purchase the Bonds from the District, bearing the interest rates on the inside cover page of this Official Statement, at a cash price of $4,859,886.85 (being the principal amount of the Bonds, plus an original issue premium of $116,931.85 and less an Underwriter's discount of $37,045.00), plus accrued interest on the Bonds to the date of delivery. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased.

Prices and Marketability

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Underwriter or an authorized representative of the Underwriter on or before the date of delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity have been sold to the public. For this purpose, the term "public" will not include any person who is a bond house, broker or similar person acting in the capacity of underwriter or wholesaler. The District has no control over trading of the Bonds after a bona fide offering of the Bonds is made by the Underwriter at the yields specified on the inside cover page hereof. Information concerning reoffering yields or prices is the responsibility of the Underwriter.

The prices and other terms respecting the offering and sale of the Bonds may be changed from time to time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering price, including sales to dealers who may sell the Bonds into investment accounts. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Securities Laws

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. 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 jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or 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 jurisdictions.

Ratings

Standard & Poor's Ratings Services ("S&P") has assigned a rating of "AA" to the Bonds. An explanation of the significance of such rating may be obtained from S&P. The rating reflects only the view of S&P, and the District makes no representation as to the appropriateness of such rating.

The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating may be subject to revision or withdrawal at any time by the rating agency. Any downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

OFFICIAL STATEMENT SUMMARY

The following material is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement.

- General -

The District	Clear Creek Independent School District (the "District") is a political subdivision of the State of Texas located within Galveston and Harris Counties, Texas. See "THE DISTRICT."
The Bonds	The District's $4,780,000 Unlimited Tax Refunding Bonds, Series 2010 (the "Bonds"), are dated January 1, 2010, and mature in various principal amounts due February 15, 2013 through February 15, 2022. See "THE BONDS – Description of the Bonds."
Payment of Interest	Interest on the Bonds will accrue from January 1, 2010 and will be payable February 15 and August 15 of each year until maturity or prior redemption, commencing February 15, 2010. See "THE BONDS - Description of the Bonds."
Other Characteristics	The Bonds will be issued in fully registered form in principal denominations of $5,000 or any integral multiple thereof. The Bonds maturing on or after February 15, 2020 are subject to optional redemption on February 15, 2019 or any date thereafter as more fully described herein. See "THE BONDS - Optional Redemption."
Source of Payment	Principal of and interest on the Bonds are payable from the proceeds of a continuing, direct annual ad valorem tax levied, without legal limit as to maximum rate or amount, against all taxable property located within the District. See "THE BONDS - Source of Payment."
Paying Agent/Registrar	The initial Paying Agent/Registrar for the Bonds is The Bank of New York Mellon Trust Company, N.A, Dallas, Texas.
Book-Entry-Only System	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 of principal or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. (See "THE BONDS – Book-Entry-Only System").
Payment Record	The District has never defaulted on the timely payment of principal of and interest on its bonds.
Use of Proceeds	Proceeds from the sale of the Bonds will be used to (i) refund certain of the District's outstanding bonds as more specifically described in APPENDIX D – Schedule of Refunded Bonds herein (the "Refunded Bonds"); and (ii) pay the costs incurred in the issuance of the Bonds. (See "THE BONDS – Sources and Uses of Funds" and "-Purpose of the Bonds").
Qualified Tax-Exempt Obligations	The District has designated the Bonds as qualified tax-exempt obligations. See "QUALIFIED TAX-EXEMPT OBLIGATIONS."
Ratings	S&P ... "AA"
Population	2009 Estimate – 240,000
Enrollment	October 2, 2009 – 37,518
Area	Approximately 120 square miles.

SELECTED FINANCIAL INFORMATION

(Unaudited)

2009 Certified Taxable Assessed Valuation (100% of market value as of January 1, 2009) See "TAX DATA."		$14,772,552,876 (a)
Direct Debt:	Outstanding Bonds (as of November 1, 2009)	$ 675,264,022 (b)
	The Bonds	4,780,000
	Total Direct Debt	$ 680,044,022
Estimated Overlapping Debt		$ 735,816,993
Total Direct and Estimated Overlapping Debt		$ 1,415,861,015
Interest and Sinking Fund Balance (as of September 30, 2009)		$ 10,093,450

	% of 2009 Certified Taxable Assessed Valuation	Per Capita (240,000)	Per Student (37,518)
Debt Ratios:			
Direct Debt	4.60%	$2,834	$18,126
Direct and Estimated Overlapping Debt	9.58%	$5,899	$37,738

Debt Service Requirements: (c)	
Average (Fiscal Years 2010-2033)	$ 46,799,222
Maximum (2022)	$ 51,370,350
Tax Collections:	
Arithmetic Average, Tax Years (2004-2008) - Current Year	98.79 %
- Current and Prior Years	99.60 %

(a) Certified by the Galveston Central Appraisal District (the "GCAD"). See "TAX DATA."

(b) Excludes the Refunded Bonds.

(c) The District currently has adjustable rate bonds outstanding. The interest rates on such adjustable rate bonds may adjust periodically. Accordingly, the projected debt service payable on the District's debt is estimated and remains subject to change.

$4,780,000

CLEAR CREEK INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX REFUNDING BONDS, SERIES 2010

INTRODUCTION

This Official Statement provides certain information with respect to the issuance by the Clear Creek Independent School District (the "District") of its Unlimited Tax Refunding Bonds, Series 2010 (the "Bonds") identified on the inside cover page hereof. The Bonds are issued pursuant to the Texas Constitution and general laws of the State of Texas, including particularly Chapter 1207, Texas Government Code, as amended, and an order authorizing issuance of the Bonds (the "Bond Order") adopted by the Board of Trustees of the District (the "Board").

There follows in this Official Statement descriptions of the Bonds, the plan of financing, and certain 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 from the District upon request. Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Order, except as otherwise indicated herein.

THE BONDS

Description of the Bonds

The Bonds are dated January 1, 2010 and will bear interest at the stated rates indicated on the inside cover page hereof. Interest on the Bonds will accrue from January 1, 2010 and will be payable February 15 and August 15 of each year until maturity or redemption, commencing February 15, 2010. Interest accruing on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months. The paying agent and transfer agent (the "Paying Agent/Registrar") for the Bonds is initially The Bank of New York Mellon Trust Company, N.A., Dallas, 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. Principal of the Bonds at maturity or amounts due upon a prior redemption date, and semiannual 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.

Optional Redemption

The District reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2020, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2019, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

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 Underwriter 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 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 Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written 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.

Source of Payment

The Bonds are payable from the proceeds of a continuing, direct annual ad valorem tax levied, without legal limit as to maximum rate or amount, against all taxable property located within the District. In the Bond Order, the District covenants to levy a tax sufficient to pay the principal of and interest on the Bonds, with full allowance being made for delinquencies and costs of collection. Collected taxes will be placed in the District's Debt Service Fund and used to pay principal of and interest on the Bonds. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for a discussion of recent developments in State law affecting the financing of school districts in Texas.

Authorization of the Bonds

The Bonds are issued pursuant to the Bond Order and the applicable provisions of the Constitution and laws of the State of Texas, including particularly Chapter 1207, Texas Government Code, as amended and a Bond Order adopted by the Board of Trustees of the District authorizing the issuance of the Bonds.

Refunded Bonds

A description and identification of the refunded bonds (the "Refunded Bonds") appears in "APPENDIX D - Schedule of Refunded Bonds" attached hereto. The Refunded Bonds and the interest due thereon are to be paid from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (as the "Escrow Agent") pursuant to an Escrow Agreement (the "Escrow Agreement") between the District and the Escrow Agent.

The Bond Order provides that, from the proceeds of the sale of the Bonds to the Underwriter, the District will deposit with the Escrow Agent an amount, together with other lawfully available funds, which, when added to the investment earnings thereon, will be sufficient to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in an escrow account (the "Escrow Fund") and used to purchase noncallable direct obligations of the United States of America (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds.

Grant Thornton LLP, Certified Public Accountants, will verify at the time of delivery of the Bonds to the Underwriter that the Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds on their scheduled redemption date. Such maturing principal of and interest on the Federal Securities will not be available to pay the debt service on the Bonds. See "VERIFICATION OF ACCURACY OF MATHEMATICAL COMPUTATIONS".

By the deposit of the Federal Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of Chapter 1207, Texas Government Code, as amended, and the orders authorizing the issuance of the Refunded Bonds. It is the opinion of Bond Counsel that, as a result of such defeasance and in reliance upon the report of Grant Thornton LLP, the Refunded Bonds are deemed fully paid and no longer outstanding except for the purpose of receiving payments from the Federal Securities and cash held for such purpose by the Escrow Agent. Upon defeasance of the Refunded Bonds, the payment of such Refunded Bonds will no longer be guaranteed by the Permanent School Fund Guarantee Program of the State of Texas.

The District has covenanted in the Escrow Agreement to make timely deposits with the Escrow Agent from lawfully available funds of any additional amounts required to pay the principal of and interest on the Refunded Bonds, if for any reason the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

Purpose of the Bonds

Proceeds from the sale of the Bonds will be used to (i) refund the Refunded Bonds and (ii) pay issuance costs associated with the Bonds.

Sources and Uses of Funds

Proceeds from the sale of the Bonds will be applied as follows:

SOURCES OF FUNDS:	
Par Amount of Bonds	$4,780,000.00
Net Premium	116,931.85
Issuer Contribution	166,500.00
Accrued Interest	2,283.68
Total	$5,065,715.53
USES OF FUNDS:	
Deposit to Escrow Fund	$4,951,841.37
Accrued Interest Deposit to Debt Service Fund	2,283.68
Total Underwriter's Discount	37,045.00
Costs of Issuance	74,545.48
Total	$5,065,715.53

Future Borrowing

The District has no authorized but unissued bonds. Depending on the rate of development within the District, changes in assessed valuation, and the amounts, interest rates, maturities and authorization of additional bonds by the electorate and the subsequent issuance of such future bonds, increases in the District's annual ad valorem tax rate may be required to provide for the payment of the principal of and interest on the District's outstanding bonds, the Bonds, and any such future bonds.

Registered Owners' Remedies and Effects of Bankruptcy

The Bond Order does not provide for the appointment of a trustee to represent the interests of the Bond holders upon any failure of the District to perform in accordance with the terms of the Bond 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 Bond Order. Furthermore, the Bond 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 Bond 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 Bond 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 Bond holders 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 Bond 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.

Legal Investments in Texas

Under the Texas Public Securities Procedures Act, Chapter 1201, (Texas Government Code), 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 any 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.

TRANSFER, REGISTRATION AND EXCHANGE

Paying Agent/Registrar

The Bank of New York Mellon Trust Company, N.A., Dallas, Texas has been named to serve as initial Paying Agent/Registrar for the Bonds. In the Bond 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 prices 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, redemption payments 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, payment of principal, redemption payments and interest on the Bonds will be made as described in "THE BONDS – Book-Entry-Only System" above.

Registration if Book-Entry-Only System Should be Discontinued

In the event the Book-Entry-Only System is discontinued, printed certificates will be delivered to the owners of the Bonds and thereafter the Bonds may be transferred, registered and assigned on the registration books only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar, and such registration and transfer 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 and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment must be acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bond being transferred or exchanged at the designated office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. 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 (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in a form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in authorized denominations and for a like kind and aggregate principal as the Bond or 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 the ownership and transferability of the Bonds.

Record Date for Interest Payment

The record date ("Record Date") for the interest payable on any interest payment date for the Bonds means the close of business on the last business day of the month next preceding such interest payment date. In the event of a nonpayment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "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 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.

Limitation on Transfer of Bonds

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

Replacement Bonds

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

INVESTMENT AUTHORITY AND INVESTMENT OBJECTIVES OF THE DISTRICT

Available District funds are invested as authorized by Texas law and in accordance with investment policies approved by the Board. Both state law and the District's investment policies are subject to change. Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third and final party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less, (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (11) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (12) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share, and (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

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

Investment Objectives

Current Texas law requires the District to invest its available funds under written policies that have as their stated investment objectives: preservation of principal and ease of liquidity. The investment policies should also delineate diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in investments that protect principal, are consistent with the operating requirements of the District, and yield the highest possible rate of return. Under Texas law, District investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." No person may invest District funds without express written authority from the Board of Trustees.

At least quarterly the investment officers of the District will submit an investment report detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any addition and changes to market value, and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law.

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 relatives with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Trustees; (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) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (5) provide specific investment training for the Treasurer, Chief Financial Officer, or other investment officer; (6) 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; (7) 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; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation and advisory board requirements.

Current Investments

The District's policy requires investments to be made in accordance with applicable state law. The policy allows for the purpose of the types of investments previously noted as allowable under Texas statute, except that obligations of states, agencies, counties, cities and other political subdivisions of any state and banker's acceptance are excluded. Generally, the District invests in obligations of the United States or its agencies and instrumentalities.

The District's investment balances on October 31, 2009 were as follows:

	Face Amount	Book Value	Market Value
Government Securities	$ 53,000,000	$ 53,064,262	$ 53,207,570
TexPool	31,207,833	31,207,833	31,207,833
Lone Star Investment Pool	40,127,948	40,127,948	40,127,948
MBIA Investment Pool	53,227,346	53,227,346	53,227,346
Texas Term Daily	9,034,390	9,034,390	9,034,390
Commercial Paper	10,000,000	9,988,173	9,996,450
Money Market	545	545	545
Total Portfolio	$196,598,062	$196,650,497	$196,802,082

DISTRICT DEBT

General

The following tables and calculations relate to the Bonds and to all other outstanding debt of the District. The District and various other political subdivisions of government which overlap all or a portion of the District are empowered to incur debt to be paid from revenues raised or to be raised by taxation against all or a portion of property within the District.

Bonded Indebtedness

2009 Certified Taxable Assessed Valuation (100% of market value as of January 1, 2009) See "TAX DATA."		$14,772,552,876	(a)
Direct Debt:	Outstanding Bonds (as of November 1, 2009)	$ 675,264,022	(b)
	The Bonds	4,780,000	
	Total Direct Debt	$ 680,044,022	
Interest and Sinking Fund Balance (as of September 30, 2009)		$ 10,093,450	

(a) Certified by the Galveston Central Appraisal District. See "TAX DATA."
(b) Excludes the Refunded Bonds.

DEBT SERVICE SCHEDULE

The following table sets forth the debt service requirements of the District's outstanding obligations and the Bonds.

Ending 8-31	Current Total Debt Service (a)	Less: Bonds to be Refunded	The Bonds Principal	The Bonds Interest	Total Debt Service Requirements (a)
2010	$ 49,417,309	$ 268,515		$ 102,309	$ 49,251,103
2011	51,122,474	498,228		164,425	50,788,671
2012	51,136,061	501,303		164,425	50,799,184
2013	51,086,155	390,165	$ 225,000	161,613	51,082,603
2014	51,086,018	405,415	245,000	155,738	51,081,340
2015	51,370,386	380,365	230,000	149,800	51,369,821
2016	51,369,036	467,765	325,000	142,050	51,368,321
2017	51,369,376	476,843	340,000	132,075	51,364,609
2018	51,367,934	752,925	635,000	117,450	51,367,459
2019	51,372,307	754,615	655,000	96,463	51,369,154
2020	51,369,901	753,433	680,000	71,400	51,367,869
2021	51,371,595	754,958	710,000	43,600	51,370,238
2022	51,370,725	750,075	735,000	14,700	51,370,350
2023	47,556,200				47,556,200
2024	47,554,450				47,554,450
2025	47,556,006				47,556,006
2026	47,554,775				47,554,775
2027	47,533,469				47,533,469
2028	47,493,144				47,493,144
2029	47,451,519				47,451,519
2030	31,632,663				31,632,663
2031	31,635,000				31,635,000
2032	31,631,875				31,631,875
2033	31,631,500				31,631,500
Total	$1,124,039,877	$7,154,605	$4,780,000	$1,516,048	$1,123,181,323

Average Annual Requirements (2010-2033).. $46,799,222 (a)
Maximum Annual Requirement (2022)... $51,370,350 (a)

(a) The District currently has adjustable rate bonds outstanding. The interest rates on such adjustable rate bonds may adjust periodically. Accordingly, the projected debt service payable on the District's debt is estimated and remains subject to change.

Estimated Overlapping Debt

The following table indicates the indebtedness, defined as outstanding bonds payable from ad valorem taxes, of governmental entities overlapping the District and the estimated percentages and amounts of such indebtedness attributable to property within the District. The information is based upon data secured from individual jurisdictions and/or the Texas Municipal Reports published by the Municipal Advisory Council of Texas. Such figures do not indicate the tax burden levied by the applicable taxing jurisdictions for operation and maintenance or for other purposes.

The District has not independently verified the accuracy or completeness of such information and no person is entitled to rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the dates stated in this table and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined.

Taxing Jurisdiction	Debt as of November 1, 2009	Overlapping Percent	Overlapping Amount
Baybrook MUD 1	$ 21,720,000	100.00%	$ 21,720,000
Brazoria Co. MUD 18	31,680,000	48.68	15,421,824
Clear Brook City MUD	62,750,000	48.55	30,465,125
Clear Lake City Water Authority	68,760,000	79.45	54,629,820
Clear Lake City Water Authority – 75	1,515,000	100.00	1,515,000
Friendswood, City of	16,310,000	20.86	3,402,266
Galveston County	364,318,422	23.14	84,303,283
Galveston Co. MUD 2	4,370,000	100.00	4,370,000
Galveston Co. MUD 3	5,585,000	100.00	5,585,000
Galveston Co. MUD 6	19,590,000	100.00	19,590,000
Galveston Co. MUD 13	7,470,000	100.00	7,470,000
Galveston Co. MUD 39	19,825,000	100.00	19,825,000
Galveston Co. MUD 43	22,535,000	100.00	22,535,000
Galveston Co. MUD 46	4,100,000	100.00	4,100,000
Galveston County WC&ID 12	15,710,000	100.00	15,710,000
Harris County	2,215,831,629	3.78	83,758,436
Harris County Department of Education	8,320,000	3.78	314,496
Harris County Flood Control District	105,482,945	3.78	3,987,255
Harris County MUD 55	17,610,000	100.00	17,610,000
Harris County MUD 373	5,090,000	100.00	5,090,000
Harris County Road ID 1	2,000,000	100.00	2,000,000
Harris County WC&ID 156	4,395,000	100.00	4,395,000
Houston, City of	3,268,815,265	3.36	109,832,193
Kemah, City of	130,000	100.00	130,000
League City, City of	95,825,000	88.20	84,517,650
Nassau Bay, City of	2,837,077	100.00	2,837,077
Pasadena, City of	146,100,000	11.01	16,085,610
Port of Houston Authority	547,415,000	3.78	20,692,287
Seabrook, City of	18,285,000	100.00	18,285,000
South Shore Harbour MUD 2	4,530,000	100.00	4,530,000
South Shore Harbour MUD 3	1,575,000	100.00	1,575,000
South Shore Harbour MUD 6	5,710,000	100.00	5,710,000
South Shore Harbour MUD 7	21,440,000	100.00	21,440,000
Tara Glenn MUD	3,460,000	100.00	3,460,000
Texas City, City of	36,065,000	0.11	39,672
Webster, City of	18,885,000	100.00	18,885,000
TOTAL ESTIMATED OVERLAPPING DEBT			$ 735,816,993
The District			680,044,022(a)
TOTAL DIRECT & ESTIMATED OVERLAPPING DEBT			$1,415,861,015

(a) Includes the Bonds. Excludes the Refunded Bonds.

Debt Ratios

	Direct Debt (a)	Direct and Estimated Overlapping Debt (a)
Per 2009 Certified Taxable Assessed Valuation ($14,772,552,876)	4.60%	9.58%
Per Capita (240,000)	$ 2,834	$ 5,899
Per Student (37,518)	$18,126	$37,738

(a) Includes the Bonds. Excludes the Refunded Bonds.

Short-Term Debt

The District does not have any outstanding warrants, notes or obligations payable from its limited maintenance and operations tax.

TAX DATA

Property Tax Code and County-Wide Appraisal District

The Texas Property 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 taxable units within the county. The Galveston Central Appraisal District (the "Appraisal District") is responsible for appraising property within the District, generally, as of January 1 of each year. The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board (the "Appraisal Review Board"), which is appointed by the Appraisal District. Such appraisal rolls, as approved by the Appraisal Review Board, are used by the District in establishing its tax roll and tax rate.

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real and certain tangible personal property with a tax situs in the District is subject to taxation by the District. Principal categories of exempt property (including certain exemptions which are subject to local option by the Board of Trustees of the District) include property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain improvements to real property and certain tangible personal property located in designated reinvestment zones on which the District has agreed to abate ad valorem taxes; so-called "freeport property" including property detained in the District for up to 175 days for purpose of assembly or other processing; certain household goods, family supplies and personal effects; farm products owned by the producers; certain real and tangible personal property owned by a nonprofit community business organization or a charitable organization, and designated historic sites. Other principal categories of exempt property include tangible personal property not held or used for production of income; solar and windpowered energy devices; most individually owned automobiles; $10,000 exemption to residential homesteads of disabled persons or persons ages 65 or over; an exemption from $5,000 to a maximum of $12,000 for real or personal property of disabled veterans or the surviving spouses or children of a deceased veteran who died while on active duty in the armed forces; effective January 1, 2010, a complete exemption for the residential homestead of disabled veterans judged to be 100% disabled by the United States Department of Veterans Affairs; $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 the property is the homestead of the surviving spouse and the spouse is at least 55 years of age at the time of the death of the individual's spouse. Effective January 1, 2004, 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." A constitutional amendment has been passed by the State Legislature to reduce the frozen amount of taxes for taxpayers 65 years of age or older and the disabled, so that the frozen tax amount will be proportionate to the reduction in local ad valorem taxes under the Reform Legislation (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - General").

Article VIII, section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by a provision of the Tax Code, which is effective for tax years 2008 and thereafter, as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. The Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax year. A taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property. 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. See “APPENDIX A – GENERAL INFORMATION REGARDING THE DISTRICT” and “THE PROPERTY TAX CODE AS APPLIED TO 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. Effective September 1, 2001, school districts may not enter into tax abatement agreements under the general statute that permits cities and counties to initiate tax abatement agreements. In addition, credit will not be given by the Commissioner of Education in determining a district’s property value wealth per student for (1) the appraised value, in excess of the “frozen” value, of property that is located in a TIF created after May 31, 1999 (except in certain limited circumstances where the municipality creating the tax increment financing zone gave notice prior to May 31, 1999 to all other taxing units that levy ad valorem taxes in the TIF of its intention to create the TIF and the TIF was created and had its final project and financing plan approved by the municipality prior to August 31, 1999), or (2) for the loss of value of abated property under any abatement agreement entered into after May 31, 1993. Notwithstanding the foregoing, in 2001 the Legislature enacted legislation known as the Texas Economic Development Act, which provides incentives for school districts to grant limitations on appraised property values and provide ad valorem tax credits to certain corporations and limited liability companies to encourage economic development within the district. Generally, during the last eight years of the ten-year term of a tax limitation agreement, the school district may only levy and collect ad valorem taxes for maintenance and operation purposes on the agreed-to limited appraised property value. The taxpayer is entitled to a tax credit from the school district for the amount of taxes imposed during the first two years of the tax limitation agreement on the appraised value of the property above the agreed-to limited value. Additional State funding is provided to a school district for each year of such tax limitation in the amount of the tax credit provided to the taxpayer. During the first two years of a tax limitation agreement, the school district may not adopt a tax rate that exceeds the district’s rollback tax rate (see “TAX DATA – 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, 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 further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property or (2) 110% of the appraised value of the residence homestead for the preceding tax year.

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 chooses to formally include such values on its appraisal roll.

Residential Homestead Exemption

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

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the District, may appeal 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. For the 2007-08 fiscal year and thereafter, the rollback tax rate for a school district is the lesser of (A) the sum of (1) the product of the District's "state compression percentage" for that year multiplied by $1.50, (2) the rate of $0.04, (3) any rate increase above the rollback tax rate in prior years that were approved by voters, and (4) the District's current debt rate, or (B) the sum of (1) the District's effective maintenance and operations tax rate, (2) the product of the District's state compression percentage for that year multiplied by $0.06; and (3) the District's current debt rate (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – General" for a description of the "state compression percentage"). Effective June 19, 2009, if for the preceding tax year a district adopted a maintenance and operations tax rate that was less than its effective maintenance and operations tax rate for that preceding tax year, the District's rollback tax rate for the current year is calculated as if the District had adopted a maintenance and operations tax rate for the preceding tax year equal to its effective maintenance and operations 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.

By each September 1 or as soon thereafter as practicable, the Board of Trustees adopts a tax rate per $100 taxable value for the current 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. Furthermore, Section 26.05 of the Property Tax Code that provides 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. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

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 upon real property, which lien is discharged upon payment. On January 1 of each year, such tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The District's tax lien is on a parity with the tax liens of other such taxing units. A tax lien on real property 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.

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

The Appraisal District has the responsibility for appraising property in the District as well as other taxing units within its boundaries. The District's boundaries overlap Harris County and Galveston County. House Bill 1010 requires taxing units to use the approval district for the county that the property is located. The District uses two county appraisal districts. Each appraisal district is governed by a board of directors appointed by voters of the governing bodies of various political subdivisions located in Harris County and Galveston County. The District operates its own tax collection office.

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

The District grants a state mandated $10,000 residence homestead exemption for persons 65 years of age or older or the disabled.

The District grants a state mandated residence homestead exemption for disabled veterans.

Such State mandated homestead exemption amounted to $803,642,693 of the 2009 tax roll.

The District also grants an additional $18,330 local option exemption for persons over 65 years of age or disabled persons and additional homestead exemptions of up to 5% of market value of a residential homestead for all taxpayers. Each exemption amounted to $172,740,863 and $429,888,502, respectively for the 2009 tax year.

The District does not tax non-business personal property.

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 exempt "freeport property" from taxation.

The District does not exempt "goods-in-transit" from taxation.

The District is currently a participant in one Tax Increment Reinvestment Zone.

The District is not currently a participant in any tax abatement agreements.

The Board of Trustees has approved a resolution initiating an additional 15% penalty to defray attorney costs in the collection of delinquent taxes over and above the penalty automatically assessed under the Property Tax Code.

Historical Analysis of Tax Collections

- Collection Ratios -

Tax Year	Certified Taxable Valuation (a)	Tax Rate Per $100 of Assessed Valuation	Adjusted Levy	% of Collections Current Year	% of Collections Current & Prior Years	Fiscal Year Ending 8-31
1997	$ 6,815,407,737	$1.59000	$109,032,063	97.57%	98.92%	1998
1998	7,083,021,388	1.64152	117,193,090	97.54	99.08	1999
1999	7,674,827,022	1.59856	123,740,400	97.26	98.70	2000
2000	8,267,869,812	1.70084	141,866,567	96.93	98.67	2001
2001	8,973,961,391	1.72500	154,733,580	98.94	99.81	2002
2002	9,593,862,525	1.74000	166,172,151	99.12	99.63	2003
2003	10,344,295,202	1.73000	178,802,287	98.95	99.85	2004
2004	11,094,051,388	1.74500	189,763,561	98.90	99.63	2005
2005	11,844,360,525	1.77500	206,595,266	98.72	98.91	2006
2006	12,901,540,051	1.63000	206,481,606	98.83	99.75	2007
2007	13,708,380,601	1.32000	177,335,421	98.91	100.18	2008
2008	14,190,176,709	1.36000	205,586,990	98.58	99.52	2009

(a) Certain taxable values which appear in this table may not equal the values shown elsewhere in this document due to subsequent correction and adjustments to the tax roll and loss due to exemptions granted to property owners age 65 and over.

- Tax Rate Distribution -

	2009	2008	2007	2006	2005
Maintenance	$1.040	$1.040	$1.000	$1.330	$1.500
Debt Service	0.320	0.320	0.320	0.300	0.275
	$1.360	$1.360	$1.320	$1.630	$1.775

- Analysis of Delinquent Taxes -

The following is an analysis, by tax year, of taxes delinquent as of August 31, 2009.

Tax Year	Uncollected as of August 31, 2009	Tax Levy	Percentage of Tax Levy
2008	$3,013,695	$205,586,990	1.47%
2007	690,651	177,335,421	0.39
2006	182,166	206,481,606	0.09
2005	803,911	206,595,266	0.39
2004	278,093	189,763,561	0.15
2003	249,122	178,802,287	0.14
2002	186,655	166,172,151	0.11
2001	211,524	154,733,580	0.14
2000	146,158	141,866,567	0.10
1999 and Prior	578,957	(a)	(a)
Total	$6,340,932		

(a) Various levies and percentages.

- Delinquent Tax Collection -

The District contracts with the tax attorneys of the firm of Perdue, Brandon, Fielder, Collins & Mott, LLP, Houston, Texas, to file suit, if necessary, to collect delinquent taxes due the District. The fee due such attorneys for acting as Delinquent Tax Attorney is paid from the additional penalty of up to 20% imposed by the District on all taxes unpaid by July 1.

Analysis of Tax Base

- Tax Base Distribution -

	2009 Tax Roll (a)		2008 Tax Roll (a)		2007 Tax Roll (a)	
Type of Property	Amount	%	Amount	%	Amount	%
Residential	$11,480,934,224	64.62%	$11,770,606,424	73.41%	$10,863,540,479	70.75%
Platted Lots/Tracts	266,112,571	1.50	261,155,105	1.63	207,283,702	1.35
Acreage	275,941,479	1.55	156,641,572	0.98	76,493,118	0.50
Farm and Ranch Improvements	8,363,800	0.05	6,953,552	0.04	9,212,609	0.06
Commercial, Industrial Business	4,444,260,618	25.01	3,475,348,644	21.68	3,826,491,155	24.92
Oil, Gas & Other Mineral Reserves	38,461,473	0.22	60,450,520	0.38	49,834,506	0.32
Utilities	204,402,063	1.15	157,143,844	0.98	227,533,973	1.48
Inventory	114,895,888	0.65	138,926,245	0.87	87,958,981	0.57
Other	933,838,807	5.25	6,170,042	0.04	5,999,791	0.04
Total Appraised Value (b)	$17,767,210,923	100.00%	$16,033,395,948	100.00%	$15,354,348,314	100.00%
Exempt Property	(2,994,658,047)		(1,843,219,239)		(1,645,967,713)	
Total Market Value	$14,772,552,876		$14,190,176,709		$13,708,380,601	

(a) Source: Galveston Central Appraisal District and Harris County Appraisal District.
(b) Values may differ from those shown in the District's financial statements and elsewhere in this Official Statement due to subsequent adjustments.

- Ten Principal Taxpayers -

Taxpayer	Type of Property	2009 Tax Roll	2008 Tax Roll	2007 Tax Roll
Coral Energy Resources	Industrial	$134,462,457	$ 377,127,336	$ 354,572,920
Baybrook Mall LP	Commercial, Real Property	133,746,678	142,877,726	123,495,810
Clear Lake Regional Hospital	Commercial	86,901,417	83,785,248	(a)
American Acryl LP	Industrial	64,512,066	78,360,500	86,512,940
Ineos Nova	Industrial	62,364,877	69,155,777	104,633,400
Total Petrochemicals USA Inc.	Industrial	61,149,600	(a)	92,094,880
LBC Houston LP	Industrial	58,515,508	50,609,303	(a)
Tejas Gas Pipeline LLC	Industrial	56,046,722	62,917,696	(a)
CenterPoint Energy	Utility	50,719,323	(a)	80,023,280
American National Insurance	Commercial, Real Property	44,915,590	45,121,622	45,133,861
Inland American Webster	Industrial	(a)	63,600,000	(a)
Lyondell Chemical	Industrial	(a)	51,891,279	50,487,210
Kinder Morgan Tejas Pipeline	Industrial	(a)	(a)	80,763,970
Celanese	Industrial	(a)	(a)	43,285,280
Total Ten Principal Taxpayers		$753,334,238	$1,025,446,487	$1,061,003,551
Percentage Ten Principal Taxpayers Comprise Of their Respective Tax Rolls		5.10%	7.23%	7.74%

(a) Not a principal taxpayer in such tax year.

- Tax Adequacy -

Average Annual Debt Service Requirements (2010-2033)	$46,799,222
Tax Rate of $0.324 on the 2009 Certified Taxable Valuation @ 98% collection produces	$46,905,810
Maximum Debt Service Requirement (2022)	$51,370,350
Tax Rate of $0.355 on the 2009 Certified Taxable Valuation @ 98% collection produces	$51,393,711

Estimated Overlapping Taxes

Under Texas law, if ad valorem taxes levied by a taxing authority become delinquent, a lien is created upon the property which has been taxed, which lien is on a parity with any tax lien on such property in favor of the District. In addition to ad valorem taxes required to retire the previously mentioned direct and estimated overlapping debt, certain taxing jurisdictions are also authorized by Texas law to assess, levy, and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

FINANCIAL OPERATIONS IN THE DISTRICT

General Fund Revenues and Expenditures

In addition to receipts from the collection of ad valorem taxes, some school districts in Texas receive state funds, based upon an allocation which considers, among other things, each district's assessed valuation. Funds received from state sources are administered by the Texas Education Agency ("TEA").

The following is a recapitulation of the major sources of the District's General Fund and various per student calculations for the fiscal years ended August 31, 2005 through 2009. For comprehensive details, reference is made to the District's audited financial statements in APPENDIX B.

	Fiscal Year Ended August 31,				
	2009(a)	2008	2007	2006	2005
REVENUES					
Local Funds	$161,855,505	$141,570,079	$176,707,325	$181,178,625	$177,839,502
State Funds	110,737,428	110,325,440	62,306,964	40,829,688	37,950,997
Federal Funds	784,353	716,713	659,594	1,172,496	618,151
Total Revenues	$273,377,286	$252,612,232	$239,673,883	$223,180,809	$216,408,650
EXPENDITURES					
Instruction – Related Services	$164,739,114	$155,237,070	$134,763,336	$126,179,157	$118,319,918
Instructional Resources & Media Services	4,262,136	4,191,118	4,088,473	3,781,518	3,225,430
Curriculum and Instructional Development	3,238,866	2,636,825	2,174,954	1,994,800	898,858
Instructional Leadership	2,687,714	2,385,427	1,858,408	1,550,058	2,305,001
School Leadership	16,056,600	14,639,571	13,090,400	12,173,912	11,047,036
Guidance, Counseling & Evaluation Services	8,202,176	7,959,760	7,049,981	6,375,034	5,991,604
Social Work Service	265,756	220,792	145,298	313,685	315,032
Health Services	2,391,727	2,345,528	2,098,363	1,981,702	1,807,040
Student Transportation	9,230,902	8,858,450	8,347,774	7,674,470	7,245,316
Food Services	277,415	300,005	279,005	316,680	908,232
Extra Curricular Activities	5,522,417	5,074,508	4,582,026	4,281,564	3,994,532
General Administration	6,053,278	7,226,043	7,048,551	6,531,246	6,262,404
Plant Maintenance & Operation	21,631,310	27,926,154	27,291,523	23,086,740	21,414,213
Security & Monitoring	2,507,661	2,158,894	1,800,443	1,782,456	1,429,206
Data Processing Services	4,655,216	3,813,707	3,984,284	3,939,337	3,873,218
Community Service	88,241	130,395	133,960	152,139	119,685
Debt Service		0	0	757,987	380,592
Facilities Acquisition & Construction		0	0	0	8,599,179
Intergovernmental Charges	12,989,153	4,015,252	1,607,377	1,247,212	784,698
Total Expenditures	$264,799,682	$249,119,499	$220,344,156	$204,119,697	$198,921,194
OTHER RESOURCES & USES:					
Other Resources	$ 15,269	$ 11,303	$ 5,409	$ 34,354	$ 32,972
Other (Uses)	(8,093,718)	(3,101,162)	(17,116,355)	(16,820,187)	(14,269,730)
Total Other Resources & (Uses)	($ 8,078,449)	($ 3,089,859)	($ 17,110,946)	$ 16,785,833)	($ 14,236,758)
Excess (Deficiency) of Revenues & Other Resources Over Expenditures & Other Uses	$ 499,155	$ 402,874	$ 2,218,781	$ 2,275,279	$ 3,250,698
Beginning Fund Balance – (September 1)	$ 53,894,820	$ 53,491,946	$ 51,273,165	$ 48,997,886	$ 45,747,187
Ending Fund Balance – (August 31)	$ 54,393,975	$ 53,894,820	$ 53,491,946	$ 51,273,165	$ 48,997,886

Source: District's Audited Financial Statements.
(a) Unaudited.

Debt Service Fund Revenues and Expenditures

The following reflects the revenues and expenditures and fund balances within the debt service fund of the District for fiscal years 2005-2009.

	Fiscal Year Ended August 31,				
	2009(a)	2008	2007	2006	2005
REVENUES					
Local Funds	$48,647,093	$43,786,430	$38,793,335	$32,739,188	$27,177,956
State Funds	(9,297)	0	0	807,756	853,729
Total Revenues	$48,637,796	$43,786,430	$38,793,335	$33,546,944	$28,031,685
Expenditures (b)	$45,593,480	$40,409,897	$38,578,792	$36,157,778	$30,105,712
Excess (Deficiency) of Revenues Over Expenditures	3,044,316	3,376,533	214,543	(2,610,834)	(2,074,027)
Other Increase (Decrease)	0	(256,145)	0	0	0
Fund Balance					
Beginning Balance September 1	$ 7,346,226	$ 4,225,838	$ 4,011,295	$ 6,622,129	$ 8,696,155
Excess (Deficiency) of Revenues over Expenditures and Other Sources (Uses)	3,044,316	3,120,388	214,543	(2,610,834)	(2,074,027)
Ending Balance August 31	$10,390,542	$ 7,346,226	$ 4,225,838	$ 4,011,295	$ 6,622,128

(a) Unaudited.
(b) Includes principal, interest, and fiscal agent fees.

Source: District's Audited Financial Statements.

Accounting Policies

Accounting practices for Texas public school districts are regulated and prescribed through an accounting manual provided by the TEA. The TEA requires an annual audit of school district financial statements by independent accountants. The auditor's report is submitted annually to the TEA for review. The annual budgets of school districts are also submitted to the TEA for review and approval. The TEA will not approve a budget showing a deficit. Moreover, the TEA reviews the past year's budget to determine performance in meeting stated goals.

Retirement Fund

Retirement funds for employees of Texas school districts, and any employee in public education in Texas, are administered by the Teacher Retirement System of Texas (the "System"). For the 2009-2010 school year, the individual employees contribute 6.40% of their salary to the System, and the State of Texas contributes an amount equal to 6.58% of the employee's current salary. See "APPENDIX B – Financial Statements of the District," and the notes to such financial statements for additional information.

Certain part-time employees are not covered under the System. For these part-time employees, the District has established a Defined Benefit Retirement plan which is administered by the District.

Financial Statements

The District's annual financial statements are prepared in accordance with guidelines prepared by the TEA. A copy of the District's financial statements for the fiscal year ended August 31, 2008, as prepared by Null-Lairson P.C. is attached hereto in APPENDIX B. The financial statements for the fiscal year ended August 31, 2009 are not yet available. Copies of such statements for preceding years are available, for a fee, upon request.

THE DISTRICT

Board of Trustees

Policy making and supervisory functions are the responsibility of and are vested in a seven-member Board of Trustees. Members of the Board of Trustees serve three year staggered terms with elections being held in May of each year. The Board of Trustees delegates administrative responsibilities to the Superintendent of Schools. Various supporting services are provided by independent consultants and advisors.

- Board of Trustees -

Trustee	Office	Completed Years of Service	Term Expires May	Occupation
Stuart J. Stromeyer	President	3	2012	Executive Vice President
Dee Scott	Vice President	3	2012	Business Owner
Ken Baliker	Secretary	2	2011	Engineer
Robert Allan Davee	Trustee	8	2010	Attorney
Ann Hammond	Trustee	2	2010	Consultant
Charles Pond	Trustee	>1	2012	Consultant
Winifred Weber	Trustee	1	2011	Attorney

- Administration -

		Years of Service	
Name	Position	Total	District
Dr. Greg Smith	Superintendent	28	2
Dr. Steven Ebell	Deputy Superintendent of Curriculum and Instruction	17	1
Ron McPherson	Associate Superintendent for Operations	17	6
Paul McLarty	Chief Financial Officer	9	6
Dr. Chad Stevens	Chief Technology Officer	13	12
Dr. Tina Farrell	Assistant Superintendent – Curriculum & Instruction	28	28
Alex Torrez	Assistant Superintendent – Secondary Education	22	4
Holly Hughes	Assistant Superintendent – Elementary Education	18	16
Dr. David O’Neill	Assistant Superintendent for Human Resources	30	5
Sheila Haddock	Director of Policy & Legal Services	3	3
Elaina Polsen	Director of Public Information	3	3

- Consultants -

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

Auditors (Public Accountants and Auditors) .... Null-Lairson P.C.
Texas City, Texas

Financial Advisor .... RBC Capital Markets Corporation
Houston, Texas

Description of the District

The District was formed in 1948 by consolidating four school districts - Kemah, League City, Seabrook and Webster - and is accredited by the TEA and the Southern Association of Colleges and Schools. The District contains an area of approximately 120 square miles and is located midway between Houston, Texas and Galveston, Texas. Interstate Highway 45 bisects the District which is readily accessible to the Houston Metropolitan Area. Historical and projected enrollment data is provided below:

School Year	Enrollment
1996-97	27,552
1997-98	28,200
1998-99	28,205
1999-00	28,846
2000-01	29,875
2001-02	30,994
2002-03	31,839
2003-04	32,706
2004-05	33,479
2005-06	35,143
2006-07	35,378
2007-08	36,153
2008-09	37,045
2009-10(a)	37,518
2010-11(b)	38,071
2011-12(b)	38,462
2012-13(b)	38,919

(a) As of October 2, 2009.
(b) Projected by the District.

The physical plant of the District consists of 26 elementary schools, 9 intermediate schools, an educational alternative high school campus, an early college high school campus, and 4 comprehensive high schools, all air conditioned and equipped with the latest teaching aids and equipment.

A total of 3,029 teachers, supervisors, and administrators make up the professional staff of the District. All members of the professional staff hold bachelor's degrees as a minimum requirement with 830 holding master's degrees and 25 who have earned doctorates. Each year the District has a significant number of high school seniors qualified as National Merit Scholarship semi-finalists.

The regular instructional program is enhanced by co-curricular activities at all levels including field trips and interscholastic competition of all kinds. At the elementary levels, special music and physical education teachers are part of each school staff. Certified librarians and nurses are on duty in all schools. At the secondary levels, vocational education and college preparation courses are offered. For the atypical student, a full range of programs and services are provided for the handicapped, ages three through twenty-one, as well as the gifted and talented students of the District. The total school program is supported by 109 guidance counselors and diagnosticians. Psychiatric and psychological services are available through contract.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Recent Litigation Relating to the Texas Public School Finance System

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

On November 30, 2004, the final judgment of the District Court was released in connection with its reconsideration of the issues remanded to it by the Supreme Court in West Orange-Cove I. In that case, the District Court rendered judgment for the plaintiffs on all of their claims and for the intervenors on all but one of their claims, finding that (1) the Finance System was unconstitutional in that the Finance System violated article VIII, section 1-e of the Texas Constitution because the statutory limit of $1.50 per $100.00 of taxable assessed valuation on property taxes levied by school districts for operation and maintenance 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 third and final holding, the 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 Texas state treasury to be used to collect new tax revenues that are dedicated under certain conditions for appropriation by the Legislature to reduce M&O Tax rates, broadened the State business franchise tax, modified the procedures for assessing the State motor vehicle sales and use tax and increased the State tax on tobacco products (HB 1 and other described legislation are collectively referred to 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 Obligations

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

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 funding structures. Among other possibilities, the 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 tax would be adversely affected by any such litigation or legislation. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM."

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

General

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

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

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

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

State Funding for Local School Districts

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

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

Tier One allotments are intended to provide all districts a basic program of education rated academically acceptable and meeting other applicable legal standards. If needed, the State will subsidize local tax receipts at a tax rate of the state compression percentage multiplied by the lesser of (a) $1.50 or (b) the district's 2005 M&O Tax to ensure that the cost to a district of the basic program is met. Tier Two allotments are intended to guarantee each school district that is not subject to the wealth transfer provisions described below an opportunity to supplement that program at a level of its own choice, however Tier Two allotments may not be used for the payment of debt service or capital outlay.

The cost of the basic program is based on an allotment per student known as the 'Tier One Basic Allotment.' The Tier One Basic Allotment is adjusted for all districts by a cost-of-living factor known as the 'cost of education index.' In addition, a district-size adjustment further adjusts the Tier One Basic Allotment for districts that (i) have not more than 1,600 students in average daily attendance (with alternative formulas established for such districts that contain at least 300 square miles and those districts that contain less than 300 square miles) or (ii) offer a kindergarten through grade 12 program and have less than 5,000 students in average daily attendance. For fiscal year 2007-08, the Tier One Basic Allotment was $3,135 based upon a guaranteed yield of $36.45 for each cent of tax effort, and for fiscal year 2008-09, the Tier One Basic Allotment was $3,218 based upon a guaranteed yield of $37.42 for each cent of tax effort. For the 2009-10 through 2012-13 school years, the basic allotment is set at the greater of $4,765 or 1.65% of the statewide average property value per student in WADA and, thereafter, at the lesser of $4,765 or that amount multiplied by the quotient of the district's compressed tax rate divided by the State maximum compressed tax rate of $1.00. This increase was due to changes in law effected by the Legislature during the 2009 Regular Legislative Session, which combined certain funding allotments that previously were separate components of Tier Two funding into the Tier One Basic Allotment. An additional change made during the 2009 Regular Legislative Session limits, beginning with 2010-11 school year, the annual increases in a district's M&O Tax revenue per WADA for purposes of State funding to not more than $350, excluding Tier Two funds. For the 2009-10 school year, the revenue increases are limited to the funds that a district would have received under the school finance formulas as they existed on January 1, 2009, plus an additional $350 per WADA, excluding Tier Two funds.

Tier Two currently provides two levels of enrichment with different guaranteed yields depending on the district's tax effort. For fiscal year 2009-10, the first six cents of tax effort that exceeds the compressed tax rate will generate a guaranteed yield equivalent to (a) that of the Austin Independent School District or (b) the amount of tax revenue per WADA received on that tax effort in the previous year, whichever is greater. The second level of Tier Two is generated by tax effort that exceeds the compressed tax rate plus six cents and has a guaranteed yield per penny of local tax effort of $31.95. Before 2009-10, Tier Two consisted of a district's M&O Tax levy above $0.86. For fiscal year 2008-09, State funding to equalize local M&O Tax levies above $0.86, up to a district's compressed rate, was funded at a guaranteed yield of $37.42 per student in WADA for each cent of tax effort; any amount above a district's compressed rate up to $0.04 was funded at a guaranteed yield of $50.98 per WADA for each cent of tax effort; and any tax effort associated with a tax approved by voters at a rollback election was funded at a guaranteed yield of $31.95 per WADA for each cent of tax effort above a district's compressed rate plus $0.04. State funds appropriated to provide districts the guaranteed amount of Tier-Two funding may only be used for maintenance and operating purposes and not to fund facilities, debt service or other purposes. See 'CURRENT PUBLIC SCHOOL FINANCE SYSTEM - General' for a discussion of the state compression percentage.

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

State financial assistance is provided for certain existing debt issued by school districts (referred to herein as EDA) to produce a guaranteed yield (the 'EDA Yield'), which for the 2009-11 State Biennium is $35.00 (subject to adjustment as described below) in State and local revenue per student for each cent of debt service tax levy; however, for bonds that became eligible for EDA funding after August 31, 2001, and prior to August 31, 2005, EDA assistance for such eligible bonds may be less than $35 in revenue per student for each cent of debt service tax, as a result of certain administrative delegations to the Commissioner under State law. Effective September 1, 2003, the portion of the local debt service rate that has qualified for equalization funding by the State has been limited to the first 29 cents of debt service tax or a greater amount for any year provided by appropriation by the Legislature. In general, a district's bonds are eligible for EDA assistance if (i) the district made payments on the bonds during the final school year of the preceding State fiscal biennium or taxes levied to pay the principal of and interest on the bonds were included in the district's audited debt service collections for that school year and (ii) the district does not receive IFA State assistance for payment of the principal and interest on the bonds. Access to EDA funding will be determined by the debt service taxes collected in the final year of the preceding biennium. A district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the district receives IFA funding.

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

Local Revenue Sources - Property Tax Authority

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

Wealth Transfer Provisions

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

The wealth level that required wealth reduction measures for fiscal year 2006-07 was $319,500 per student in average daily attendance. For 2007-2008 that wealth level was increased to $364,500 per student in average daily attendance with respect to that portion of a district's M&O tax effort that does not exceed its compressed tax rate, and remained at $319,500 with respect to that portion of a district's local tax effort that was beyond its compressed rate plus $0.04. For 2008-2009 that wealth level was further increased to $374,200 per student in average daily attendance with respect to that portion of a district's M&O tax effort that does not exceed its compressed tax rate, and remains at $319,500 with respect to that portion of a district's local tax effort that is beyond its compressed rate plus $.06. For 2009-10 that wealth level has been increased to $476,500 per student in average daily attendance with respect to that portion of a district's M&O tax effort that does not exceed its compressed tax rate, and remains at $319,500 with respect to that portion of a district's local tax effort that is beyond its compressed rate plus $.06.

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

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

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

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

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

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

The District's wealth per student for the 2009-10 school year is less than the equalized wealth value. Accordingly, the District has not been required to exercise one of the permitted wealth equalization options. As a district with wealth per student less than the equalized wealth value, the District may benefit in the future by agreeing to accept taxable property or funding assistance from or agreeing to consolidate with a property-rich district to enable such district to reduce its wealth per student to the permitted level.

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

TAX RATE LIMITATIONS

A school district is authorized to levy maintenance and operation taxes ("M&O Tax") subject to approval of a proposition submitted to district voters. The maximum M&O Tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next succeeding paragraph. The maximum voted M&O Tax rate for the District is $1.50 per $100 of assessed valuation as approved by the voters at an election held on October 8, 1966, 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 4.60% of the District's current taxable assessed valuation of property. See "PRO-FORMA DEBT SERVICE SCHEDULE – Debt Ratios," "THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT – Historical Analysis of Tax Collection" and "THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT – Analysis of Tax Base" herein.

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

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

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

LEGAL MATTERS

The District will furnish the Underwriter a transcript of certain certified proceedings held incident to the authorization and issuance of the Bonds, including certified copies of the unqualified approving opinions of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds, which the Attorney General will have examined, are valid and binding obligations of the District under the Constitution and laws of the State of Texas. The District also will furnish the legal opinions of Andrews Kurth LLP, ("Bond Counsel,") the proposed form of which is attached as "APPENDIX C" to this Official Statement.

Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions "THE BONDS" (except for the subsections captioned "- Book-Entry-Only System," "- Use of Proceeds," "- Sources and Uses of Funds" and "- Future Borrowing"), "TRANSFER, REGISTRATION AND EXCHANGE," "LEGAL MATTERS" (except for the third paragraph thereof), "TAX EXEMPTION," "TAX TREATMENT OF ORIGINAL ISSUE DISCOUNT AND PREMIUM BONDS," "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" (except under the subsection "- Possible Effects of Wealth Transfer Provisions on the District's Financial Condition"), "TAX RATE LIMITATIONS" and "CONTINUING DISCLOSURE OF INFORMATION (except for the subsection captioned "Compliance With Prior Undertakings") to determine whether such information fairly summarizes the procedures and documents referred to therein. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds.

Certain legal matters will be passed upon for the Underwriter by Vinson & Elkins L.L.P., Houston, Texas, Underwriter's Counsel.

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 that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

TAX EXEMPTION

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

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

In rendering its opinions, Bond Counsel has assumed continuing compliance by the District with certain covenants of the Bond Order authorizing the issuance of the Bonds 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 Bond Order, or if its representations relating to the Bonds that are contained in the Bond Order should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

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

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

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

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

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

TAX TREATMENT OF ORIGINAL ISSUE DISCOUNT AND PREMIUM BONDS

Discount Bonds

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

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

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

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

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

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

Premium Bonds

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

QUALIFIED TAX-EXEMPT OBLIGATIONS

Section 265(a) of the Code provides, in general, that interest expenses incurred to acquire or carry tax-exempt obligations are not deductible from the gross income of the holder. For certain holders that are "financial institutions" within the meaning of such section, complete disallowance of such expense would apply to taxable years beginning after December 31, 1986, with respect to tax-exempt obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this rule for interest expense incurred by financial institutions to carry tax-exempt obligations (other than certain private activity bonds) which are designated by an issuer as "qualified tax-exempt obligations." An issuer may only designate an issue as an issue of "qualified tax-exempt obligations" where less than $30 million of tax-exempt obligations are issued by the issuer during the calendar years 2009 and 2010.

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.

Section 265(b) of the Code provides an exception to the disallowance provision described above for an amount of tax-exempt obligations issued after December 31, 2008 and before January 1, 2011, in a total amount not exceeding two percent (2%) of the adjusted basis of all of the assets of the financial institution.

GENERAL CONSIDERATIONS

Sources and Compilation of Information

The information contained in this Official Statement has been obtained primarily from the District and from other sources believed to be reliable. No representation is made as to the accuracy or completeness of the information derived from sources other than the District. The summaries of the statues, orders, and other related documents are included herein subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further 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 included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third and final parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the District. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

No Litigation Certificate

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

No Material Adverse Change

The obligations of the Underwriter to take up and pay for the Bonds, and the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the condition (financial or otherwise) of the District subsequent to the date of sale from that set forth or contemplated in the Preliminary Official Statement, as it may have been supplemented or amended through the date of sale.

Updating of Official Statement

The District will keep the Official Statement current by amendment or sticker to reflect material changes in the affairs of the District and, to the extent that information comes to its attention, in the other matters described in the Official Statement, until the delivery of the Bonds.

VERIFICATION OF ACCURACY OF MATHEMATICAL COMPUTATIONS

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

FINANCIAL ADVISOR

RBC Capital Markets Corporation is employed as Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor’s fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. 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.

CONTINUING DISCLOSURE OF INFORMATION

In the Bond 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 MSRB. This information will be available free of charge from the Municipal Securities Rule Making Board ("MSRB") via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

Annual Reports

The District will provide this 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 in this Official Statement in APPENDIX B and under the headings "OFFICIAL STATEMENT SUMMARY," "INVESTMENT AUTHORITY AND INVESTMENT OBJECTIVES OF THE DISTRICT – Current Investments," "DISTRICT DEBT," "TAX DATA - Property Subject to Taxation by the District," "THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT - Historical Analysis of Tax Collections," and "- Analysis of Tax Base," "FINANCIAL OPERATIONS IN THE DISTRICT" and "THE DISTRICT - Description of the District." 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 the Rule. The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide audited financial statements to such persons when and if the audit report becomes available. Any 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 make available updated information by the end of February in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Material Event Notices

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

Limitations and Amendments

The District has agreed to update information and to provide notices of material events only as described as 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 Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the District to comply with its agreement. Nothing in this paragraph is intended or shall act to disclaim, waive or limit the District's duties under federal or state securities laws.

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

Compliance with Prior Undertakings

The District has complied in all material respects with its prior continuing disclosure agreements, including agreements to provide material event notices, in accordance with the SEC, in connection with the offering of its securities issued prior to the issuance of the Bonds.

CONCLUDING STATEMENT

To the extent that any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated to be such, they are made as such and not as representations of fact or certainty and no representation is made that any of these statements have been or will be realized. Information in this Official Statement has been derived by the District from official and other sources and is believed by the District to be accurate and reliable. Information other than that obtained from official records of the District has not been independently confirmed or verified by the District and its accuracy is not guaranteed.

This Official Statement was duly authorized and approved by the Board, as of the date specified on the first page hereof.

/s/ Stuart J. Stromeyer
President, Board of Trustees
Clear Creek Independent School District

ATTEST:

/s/ Ken Baliker
Secretary, Board of Trustees
Clear Creek Independent School District

APPENDIX A

GENERAL INFORMATION REGARDING THE DISTRICT

Economic and Demographic Characteristics

The following information has been derived from various sources, including the Texas Municipal Reports published by the Municipal Advisory Council of Texas, U.S. Census data, area Chamber of Commerce and District officials. While such sources are believed to be reliable, no representation is made as to the accuracy thereof.

Industrial Economic Base

The economy of the District and its surrounding area is diversified, with oil and gas as the base of industrial activity. The abundance of key natural resources along the Texas Gulf Coast has created the country's greatest concentration of petrochemical complexes within the overall coastal area. Though District industries are largely petrochemical in nature, they are not exclusively so. Originally a rice farming and ranching area, the lakes and waterways of the District offer not only boating and fishing sports and revenues from recreational tourist facilities, but also represent a hub of industrial development lining the nearby Houston Ship Channel.

The Johnson Space Center of the National Aeronautics and Space Administration ("NASA"), which is currently responsible for NASA's space shuttle and space station projects, is an important part of the Clear Lake area economy, both as an employer of more than 3,000 civil service employees and approximately 13,500 local contractors. In addition, Space Center Houston, a visitor complex and educational facility, has approximately 800,000 visitors annually. The rate and extent of continued development within the Clear Lake Area could be influenced by the degree of continued federal funding of Johnson Space Center projects.

A major employment base in the general area has been the Bayport Industrial Development ("Bayport"), a planned industrial development of approximately 10,750 acres by Exxon Land Development with approximately 62 industrial plants in operation. Bayport is located in southeast Harris County approximately 23 miles from the central business district of the City of Houston. It includes a 40-foot deep water port and channel facility connected to the Houston Ship Channel, barge dock facilities, a pipeline network and railroad service lines.

The Baybrook Mall serves the southeast metropolitan Houston Area and Galveston County. The mall contains 1.1 million leasable square feet and is anchored by four major department stores.

Presently serving the Clear Lake area are three general hospitals, Clear Lake Regional Medical Center in the City of Webster with 482 beds; Memorial Hermann Southeast Hospital in the City of Houston with 256 beds; and St. John's Hospital in the City of Nassau Bay with 135 beds.

The following communities are located entirely within the District:

Incorporated	1980 Population (a)	1990 Population (b)	2000 Population (c)
Clear Lake Area (City of Houston)..........	22,000(d)	60,000(d)	64,000(d)
League City..	16,578	30,159	45,444
Seabrook	4,670	6,685	9,443
Webster..	2,405	4,678	9,083
Nassau Bay	4,526	4,320	4,170
El Lago	3,129	3,269	3,705
Taylor Lake Village.................................	3,669	3,394	3,694
Kemah..	1,304	1,094	2,330
Clear Lake Shores....................................	755	1,096	1,205

(a) 1980 U.S. Bureau of Census figures.
(b) 1990 U.S. Bureau of Census figures.
(c) 2000 U.S. Bureau of Census figures.
(d) Clear Lake Chamber of Commerce.

Small portions of the City of Friendswood and City of Pasadena are also located within the District.

- Educational Facilities -

Also serving the area is the University of Houston-Clear Lake, constructed on a 524-acre site in the District, with enrollment of approximately 8,000 students. As an upper-level institution, University of Houston-Clear Lake works closely with the nine community college districts along the upper Gulf Coast of Texas. Classes start at the junior level of college scholastics. The San Jacinto Junior College District operates a South Campus on 13735 Beamer Road with a current enrollment of approximately 7,200 students. The San Jacinto College Clear Creek Extension Center is located at Clear Creek High School in League City. Students living in the Clear Creek Independent School District pay in-district fees for classes taken at the extension center. Classes are offered Tuesday through Thursday evenings. The College of the Mainland in Texas City, Texas is a junior college, which also offers mandatory continuing education classes for realtors and travel agents in the Clear Lake area at a local hotel and travel agency. Currently, there are approximately 3,940 full time students enrolled.

- Harris County Economic Base -

A significant portion of the District is located in Harris County (the "County"), the most populous county in the State of Texas, with a 2000 estimated population of 3,400,578, an increase of approximately 20.66% since 1990. The County's economy is based on industry, mineral production, shipping and agriculture.

Harris County is a highly industrialized county with manufacturing plants producing petroleum refining, chemicals, food, fabricated metal products, non-electric machinery, primary metals, scientific instruments, paper and allied products and printing and publishing. Harris County is also a corporate management center, a center of energy, space and medical research centers and a center of international business. Harris County contains the nation's largest concentration of petrochemical plants and the largest U.S. wheat exporting port which is among the top U.S. ports in the value of foreign trade and total tonnage.

- Galveston County Economic Base -

Galveston County is located on the Gulf Coast and is traversed by Interstate Highway 45, State Highways 3, 6 and 146 and four Farm-to-Market Roads. Port activities dominate the economy but also included are insurance and finance centers, petrochemical plants, varied manufacturing, tourism, medical educational center, oceanographic research center, ship building, and commercial fishing. Galveston County had a 1990 United States Census population of 217,339 which grew to 250,158 in 2000, an increase of 15.10% since 1990.

ECONOMIC AND GROWTH INDICATORS

- U.S. Census of Population -

	Galveston County		City of Houston		Harris County	
	Number	% Change	Number	% Change	Number	% Change
1930	64,401	+21.17%	292,352	+111.43%	359,328	+92.50%
1940	81,173	+26.04	384,514	+31.52	528,961	+47.20
1950	113,066	+39.29	596,163	+55.04	806,701	+52.50
1960	140,364	+24.14	938,219	+57.38	1,243,158	+52.10
1970	169,812	+20.98	1,232,802	+31.40	1,741,912	+40.10
1980	195,940	+15.39	1,594,086	+29.31	2,409,544	+38.33
1990	217,339	+10.92	1,637,859	+02.75	2,818,199	+16.96
2000	250,158	+15.10	1,953,631	+19.28	3,400,578	+20.66

APPENDIX B

ANNUAL FINANCIAL REPORT

CLEAR CREEK INDEPENDENT SCHOOL DISTRICT

FOR THE YEAR ENDED AUGUST 31, 2008

Comprehensive
Annual Financial Report

For the Fiscal Year Ended
August 31, 2008

CLEAR CREEK INDEPENDENT SCHOOL DISTRICT

2425 East Main Street, League City, Texas 77573

Prepared By The Department of Budget and Finance:

Paul McLarty, RSBA, RTSBA
Chief Financial Officer

Jeff Kohlenberg, CPA, RTSBA
Director - Finance Department

Introductory Section

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Clear Creek Independent School District
Principal Officials and Advisors

Board of Trustees

Administration

Dr. Greg Smith - Superintendent of Schools

Paul McLarty - Chief Financial Officer

Consultants and Advisors

Null-Lairson, PC
Texas City, Texas - Independent Auditors

Andrews Kurth
Houston, Texas - Bond Counsel

RBC Capital Markets, Inc.
Houston, Texas - Financial Advisor

CERTIFICATE OF THE BOARD

Clear Creek Independent School District	Harris & Galveston	084-910
Name of School District	County	Co. - Dist. No.

We, the undersigned, certify that the annual financial reports for the above named school district were reviewed and approved for the year ended August 31, 2008, at a meeting of the Board of Trustees of such school district on the 26th day of January, 2009.

Signature of Board Secretary
Ken Baliker

Signature of Board President
Stuart J. Stromeyer

Committed to Excellence in Education

Greg Smith, Ph.D.
Superintendent of Schools

2425 East Main Street
League City, Texas 77573-2799

(281) 284-0000
FAX (281) 284-0005
Email: grsmith@ccisdnet

To the Board of Trustees and Taxpayers of the Clear Creek Independent School District:

The Texas Education Code requires that all school districts file a complete set of financial statements with the Texas Education Agency (TEA) within 150 days of the close of each fiscal year. The financial statements must be presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report of the Clear Creek Independent School District (the "District") for the fiscal year ended August 31, 2008.

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

The District's financial statements have been audited by Null-Lairson, P.C., CPAs, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ended August 31, 2008 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and, evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion and that the District's financial statements for the period ended August 31, 2008, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the District was part of a broader, federally-mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are included in the Federal Awards section of the Comprehensive Annual Financial Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditors.

Profile of the District

The Clear Creek Independent School District is the 29th largest of the 1,032 school districts in Texas, encompasses 103 square miles and is located 20 miles south of Houston along Interstate 45/Gulf Freeway. The District was created in 1948 when schools in League City, Seabrook, Webster and Kemah consolidated to form the Clear Creek Independent School District. At the time the schools were unified, there were fewer than 1,000 students in four schools. The district now employs over 4,650 persons, 2,600 of which are teachers. We are proud that more than 36 percent of the faculty members have a master's degree. The District now serves over 37,100 students and operates twenty-four elementary schools, eight intermediate schools, four comprehensive high schools, and two alternative secondary campuses. The school district's boundaries are not the same as municipal boundaries; therefore, the District provides instructional services to children who live in the communities of League City, Seabrook, Webster, Kemah, El Lago, Nassau Bay, Clear Lake Shores and Taylor Lake Village, along with portions of Bacliff, Friendswood, Houston and Pasadena. The District encompasses parts of Galveston and Harris counties.

With NASA/Johnson Space Center, the University of Houston-Clear Lake, San Jacinto Community College, College of the Mainland, the fishing and recreation areas of Galveston Bay, chemical and energy resource industries and the numerous high-tech and engineering companies that form the Clear Creek community, our district recognizes that strong and dynamic partnerships are vital to academic achievement, as well as character education. Our partnerships and academic offerings are unparalleled to any school system in the state or nation. Clear Creek ISD prides itself as being one of the premier school systems in Texas.

The purpose and responsibility of the District is to provide a thorough and efficient educational system for the children, pre-kindergarten through grade 12, enrolled in public schools within its boundaries, whereby each child has access to programs and services that are appropriate to his or her educational needs. In addition to its regular educational program, the District offers comprehensive programs in the areas of career and technical education, special education, bilingual education, compensatory education and gifted and talented education.

The District is fully accredited by the Texas Education Agency (TEA). Our students and staff continue to excel in many arenas. In fact, Clear Creek ISD has the distinction of being the only large school district (a district with more than 25,000 students) in the State of Texas to have achieved a "Recognized" rating from the TEA for eleven of the last twelve years. Currently, Clear Creek ISD is home to a record number of "Exemplary" rated schools. Those designations are issued by the TEA and are based on how students perform on TAKS, State-Developed Alternative Assessment scores, high school completion rates, and annual dropout rates. The District received a "Recognized" rating from the TEA in 2007 - 2008. Overall, eighteen campuses earned the "Exemplary" status (the highest rating in Texas), fourteen campuses earned a "Recognized" status and no campuses were rated "Low Performing". This is an indication of the rigorous standards established under the Texas Assessment of Knowledge and Skills (TAKS). Student SAT scores are routinely well above local, state and national averages. Approximately 80 percent of graduating seniors plan to attend college or technical schools. Our student body reflects the cultural diversity of Texas with over 60 home languages spoken. Of the approximately 37,100 students enrolled, 61.1% are Anglo, 19.5% are Hispanic, 10.2% are Asian and 8.9% are African-American.

The heart of a school district is its people and the Clear Creek Independent School District takes great pride in its highly qualified Board of Trustees, administration, faculty and staff, all of whom are dedicated to providing the best possible education environment for all students. Parent and community interest and support strengthen the school program.

The District is not included in any other governmental "reporting entity" since the Board of Trustees is elected by the public and has decision-making authority. Residents of the District elect a seven-member Board of Trustees, who serve overlapping three-year terms. There are no component units included in the reporting entity.

Economic Condition and Outlook

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

Local Economy

The District currently enjoys a favorable economic environment and local indicators point to continued stability. The economy of the District and its surrounding area is diversified, with oil and gas as the base industrial activity. The abundance of key natural resources along the Texas Gulf Coast has created the country's greatest concentration of petrochemical complexes within the overall coastal area. Though District industries are largely petrochemical in nature, they are not exclusively so. Originally a rice farming and ranching area, the lakes and waterways of the District offer not only boating and fishing sports and revenues from recreational tourist facilities, but also represent a hub of industrial development lining the nearby Houston Ship Channel.

The Johnson Space Center of the National Aeronautics and Space Administration ("NASA"), which is currently responsible for NASA's space shuttle and space station projects, is an important part of the Clear Lake area economy, both as an employer of almost 2,900 civil service employees and more than 13,350 local contractors. In addition, Space Center Houston, a visitor complex and educational facility, has approximately 800,000 visitors annually. The rate and extent of continued development within the Clear Lake Area will be influenced by the degree of continued federal funding of Johnson Space Center projects.

A major employment base in the area has been the Bayport Industrial Development ("Bayport"), a planned industrial development of approximately 10,750 acres with approximately 62 industrial plants in operation. Bayport is located in southeast Harris County approximately 23 miles from the central business district of the City of Houston. It includes a 40-foot deep water port and channel facility connected to the Houston Ship Channel, barge dock facilities, a pipeline network and railroad service.

Presently serving the Clear Lake area are three general hospitals, one major mall, one university and two junior colleges.

A significant portion of the District is located in Harris County, the most populous county in the State of Texas, with a 2000 estimated population of 3,400,578, an increase of approximately 20.66% since 1990. The county's economy is based on industry, mineral production, shipping and agriculture.

According to the Texas Almanac, Harris County is a highly industrialized county with manufacturing plants producing petroleum refining, chemical, food, fabricated metal products, non-electric machinery, primary metals, scientific instruments, paper and allied products and printing and publishing. Harris County is also a corporate management center, a center of energy, space and medical research centers and a center of international business. Harris County contains the nation's largest concentration of petrochemical plants and the largest U.S. wheat exporting port which is among the top U. S. ports in value of foreign trade and total tonnage.

The remaining portion of the District is located in Galveston County which is located on the Gulf Coast. Port activities dominate the economy but also included are insurance and finance centers, petrochemical plants, varied manufacturing, tourism, medical educational center, oceanographic research center, ship building, and commercial fishing. Galveston County had a 1990 United States Census population of 217,399 which grew to 250,158 in 2000, an increase of 15.10%. According to the Texas Almanac, League City is the largest city with a population of 67,500 and Galveston, the county seat, is the second largest city with a population of 56,940.

Growth

The District continues to experience significant residential growth and development. With enrollment increasing at a rate of more than 2.5% per year, Clear Creek ISD is one of the fastest growing school districts in the Houston metropolitan area. Many families are moving to our area for the excellent schools. Demographic projections currently indicate that Clear Creek ISD enrollment is expected to increase approximately 8,000 students over the next eleven years to 45,000 students.

Clear Creek ISD is meeting the challenge of a fast growth school district by proactively analyzing facility needs and placing bond issues for taxpayer approval. Bonds were approved in 2000, resulting in three new elementary schools and two intermediate schools. This bond issue also included many capital upgrades, classroom additions as well as land sites for future schools.

District taxpayers approved a $264 million bond program in February 2004 to accommodate growth and facility needs over a three year period. This bond provided renovations at almost every campus, classroom additions, campus capital improvements, two new elementary schools, one new high school, and the complete rebuild of Clear Creek High School, a 50 year-old facility.

In May 2007, District taxpayers approved a $183 million bond program to accommodate growth and facility needs over a three year period. This bond is providing funds to build two elementary schools, one intermediate school and one high school campus. In addition, the District plans on returning the two existing Ninth Grade Centers to intermediate campuses. Explosive growth forced the District to renovate these campuses from intermediate to high school campuses several years back. This bond is also providing classroom additions and renovations, roof and HVAC replacements, school buses for growth and replacement, and security enhancements.

Financial Information

Accounting Systems

The Board of Trustees maintains a system of accounting controls designed to assist the administration in meeting its responsibility for accurately reporting the financial condition of the District. The system is designed to provide reasonable assurance that assets are safeguarded against loss, theft, or misuse so activities can be recorded and transacted by the administration for the preparation of the District's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the District's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement.

The cost of operating the District's schools and the revenues to cover these costs are accounted for through the General Fund. Special programs funded by state or federal government grants designed to accomplish a particular objective are accounted for in Special Revenue Funds. Food service operations are accounted for in an Enterprise Fund.

The District accounts for school construction financed by bond sales through the Capital Projects Fund. A specific portion of the tax rate is dedicated to payment of bond principal and interest. These transactions are recorded in the Debt Service Fund.

The District has established Internal Service Funds to account for the transactions of its self-insured workers' compensation, health insurance, short-term disability insurance, and property insurance plans. With the exception of the property insurance, income is derived primarily from charges to governmental funds based on employee salaries.

Included in the CAFR as Agency Funds are financial schedules of student activity funds. Accounting for these funds is managed centrally by the Finance Department, using the same uniform accounting procedures and guidelines as the General Fund.

The District's accounting records are maintained on a modified accrual basis for governmental fund types and a full accrual basis for the proprietary fund types as prescribed by Texas Education Agency Financial Accountability System Resource Guide (FASRG). Additionally, the District has prepared the Government-wide Financial Statements on the full accrual basis as required by Governmental Accounting Standards Board Statement No. 34.

Financial data is submitted by the District to the Texas Education Agency through the Public Education Information Management System (PEIMS). The data is then analyzed, reviewed and presented to the State Board of Education.

Budgetary Process

State law requires that every local education agency in Texas prepare and file an annual budget of anticipated revenues and expenditures with the Texas Education Agency. The annual budget serves as the foundation for the District's financial planning and control. The process is instructionally driven and begins in November with a series of meetings to develop broad-based budget goals. The Chief Financial Officer facilitates a number of planning meetings with key District decision makers to develop a list of budget priorities for Board consideration. The Board receives budget priorities from the Superintendent's Cabinet, the District Educational Improvement Council (DEIC), the CFO Advisory Council (an advisory group of campus leaders throughout the District), and the Citizens Financial Advisory Committee (an advisory group of local business leaders). Each group develops budget priorities for Board consideration.

The final step in the District's budget goal-setting process is a planning meeting with the Board of Trustees in December. The Board reviews input from all sources and adopts the budget goals, assumptions and priorities that will drive budget development.

Budget preparation begins with training sessions for campus leaders and program managers in February. The District uses site-based budgeting to enhance the ability of campus leaders to serve as effective instructional leaders. Site-based budgeting places the campus leader at the center of the budget preparation process. The site-based budget reflects the prioritized needs of the campus and coordinates with the Campus Improvement Plan and the District's Strategic Plan.

All budget managers are required to submit requests for appropriations based on the priorities established by the Board of Trustees. After the completed campus and program budget packages have been returned to the Finance Department, a District Budget Committee reviews each department's budget requests with the responsible campus leader, program manager or department director. The review focuses on instructional impact and includes the allocation of existing funds as well as any additional funding requests. At these meetings, department/campus leaders are able to provide District staff with key information that is needed to make budget decisions. The Superintendent's Cabinet, comprised of District administrators, receives the draft budget and prioritizes budget requests and potential budget reductions based on the goals established by the Board.

Throughout the entire budget process, the Board of Trustees receives budget updates that include revisions to the long range financial forecast, the preliminary budget, the compensation and salary plan, and the capital projects/capital improvement plan. If funds are available, the compensation and salary plan for teachers is adopted at the March Board meeting. Adopting the plan this early in the budget process provides Clear Creek ISD with a competitive advantage in recruiting new teachers and retaining existing staff. Since Clear Creek is a growing district, staff also asks the Board to approve a number of additional teaching positions at this time to accommodate student growth. The compensation and salary plan for support staff is generally adopted in July.

The proposed budget must be adopted prior to the September 1st fiscal year start date. The Board President must call a Board meeting for the purpose of discussing and adopting the budget and tax rate. A public notice of this meeting is required to be published at least 10 days, but not more than 30 days, prior to the public meeting.

The District maintains budgetary controls throughout its financial systems. The objective of the budgetary controls is to ensure compliance with legal provisions embodied in the official budget adopted by the Board. The Board adopts an official budget for the general fund, debt service fund and the child nutrition fund. Budgetary control is maintained at the organizational level by the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. Outstanding encumbrances at the end of the fiscal year are a reserve of fund balance and are treated as expenditures in the subsequent year upon receipt of the goods and services.

Fund Balance

Recognizing fund balance as key in maintaining a strong financial position, the Board policy regarding fund balance stipulates a goal of maintaining an adequate fund balance. The level of adequacy for the general fund unreserved fund balance is defined as 17% of the current budget, while the debt service fund is defined as 10% to 15% of the current year debt service requirements.

Financial Planning

There are several departmental plans which fold into the district's overall comprehensive plan. The district maintains a three-year Technology Plan, a three-year Compensation Plan, a Long Range Facility Master Plan, a Long Range Maintenance Plan (Clear Plan 2020) and a Long Range Academic Build Out Plan (Clear Way 2020). Resources for the accomplishment of these goals will be identified in each department's action plan and will be used in the development of multi-year forecasts. Estimated taxable values are a major factor in forecasting, as the District currently generates more than 57% of general fund revenue from local taxes. Other major factors used in developing these forecasts include number of students enrolled and in average daily attendance, salaries, insurance and cost of inflationary items such as utilities and fuel. Ultimately, these forecasts are prepared and reviewed several times a year and shared with the Board, staff, community and other stakeholders.

Cash Management Policies and Practices

It is the practice of the District to pursue an active cash management program which stresses safety of principal and interest while generating favorable rates of return. This program is maintained in such a fashion so as to provide a sufficient level of liquidity to support anticipated expenditures without subjecting the District to material, unfavorable fluctuations of market and interest rate risk. The District's investment policy minimizes risk while maintaining a competitive yield on its portfolio.

Cash temporarily idle during the year was invested in money markets, obligations of the U.S. Treasury, commercial paper, and in the TexPool, Lone Star and MBIA investment pools. District deposits were entirely covered by Federal Deposit Insurance Corporation (FDIC) insurance, pledged collateral or corporate surety bonds for the fiscal year ended August 31, 2008.

Furthermore, the District expedites the receipt of revenues via electronic transfer and the utilization of lockbox accounts and defers expenditures, when appropriate, to maintain maximum use of funds. The total amount of investment income earned by the District for the fiscal year ended August 31, 2008 was $8.7 million.

Risk Management

The District strives to maintain employee benefits programs designed to enhance the quality of life for its employees. To achieve this, the District offers fully funded insurance programs that provide medical, dental, vision and disability coverage along with other insured programs at competitive rates. The District also maintains adequate protection for property and casualty risk exposures through insured coverage and fully funded worker's compensation coverage with a strict emphasis on cost control of claims. The District's Risk Management Department strives to ensure the safety and health of students and employees through its accident prevention program, safety education program and safety inspections.

Awards and Acknowledgments

Financial Reporting Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its CAFR for the fiscal year ended August 31, 2007. This was the second consecutive year that the District has received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. The report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current Comprehensive Annual Financial Report continues to meet the requirements of the Certificate of Achievement program and are submitting it to the GFOA to determine its eligibility for certification.

The District was also awarded the Certificate of Excellence in Financial Reporting by the Association of School Business Officials International (ASBO) for its Comprehensive Annual Financial Report for the fiscal year ended August 31, 2007. This was the second consecutive year that the District has received this prestigious award. We believe the Comprehensive Annual Financial Report for the year ended August 31, 2008 continues to conform to the standards for which this award was granted.

Additionally, the GFOA awarded a Distinguished Budget Presentation Award for the fiscal year beginning September 1, 2007. This award has been received for three consecutive years. In order to receive this award, the government published an easily readable and efficiently organized budget. This report satisfied both GAAP and applicable legal requirements.

In addition, the District was awarded the Meritorious Budget Award by the Association of School Business Officials International (ASBO) for the fiscal year beginning September 1, 2007. This was the first time the District was awarded the ASBO budget certification.

Both the Distinguished Budget Presentation Award and the Meritorious Budget Award are valid for a period of one year. We believe that our current budget continues to meet both programs' requirements and have been submitted to the GFOA and ASBO to determine its eligibility for additional certificates.

The TEA has awarded the District a rating of "Superior Achievement" for the year ended August 31, 2007. This is the sixth year of the State's new financial accountability rating system for school districts (School FIRST) and Clear Creek ISD has maintained the "Superior Achievement" rating for all six years. The rating is based upon an analysis of staff and student data reported for the 2006-07 school year and budgetary and actual financial data for the fiscal year ended August 31, 2007.

Acknowledgements

We appreciate the support of the Board, the residents of the District, and the business community, all who work cooperatively to ensure the best education for its students and the prudent development of the District. This cooperation is indicative of the strong support for the attainment of excellence in the District's educational programs.

Also, we would like to express an appreciation to all employees of the District's schools for their interest and support in planning and conducting the financial affairs of the District in a responsible and progressive manner.

Finally, a special thanks to the Finance Department for its diligence and dedicated service in helping prepare this report on a timely basis.

Respectfully submitted,

Greg Smith, Ph. D.
Superintendent

Paul McLarty, RSBO, RTSBA
Chief Financial Officer

Jeff Kohlenberg, CPA, RTSBA
Director of Finance

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Clear Creek Independent School District, Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 2007

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

President

Executive Director

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ASSOCIATION OF SCHOOL BUSINESS OFFICIALS INTERNATIONAL

This Certificate of Excellence in Financial Reporting

is presented to

Clear Creek Independent School District

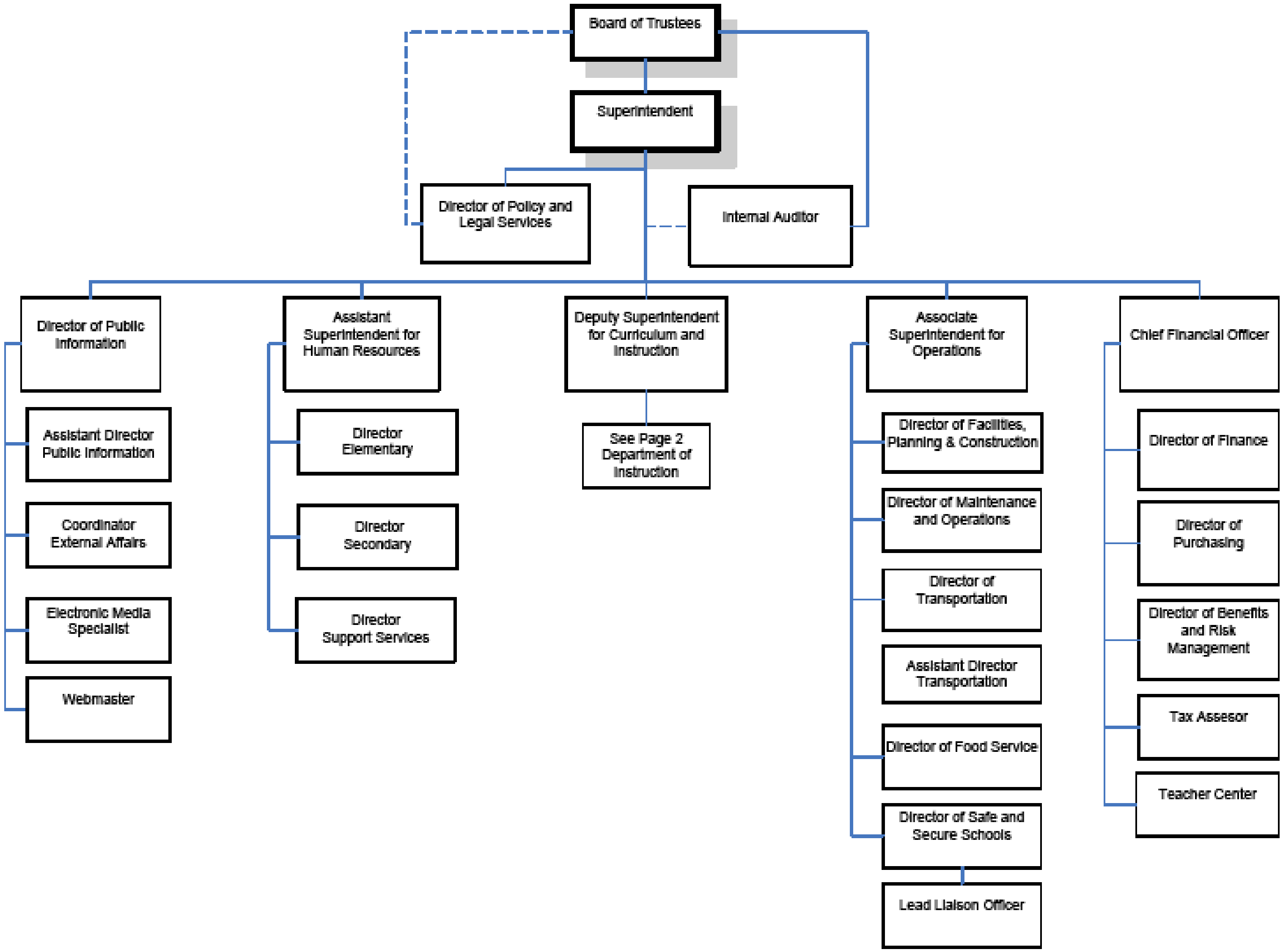
For its Comprehensive Annual Financial Report (CAFR)
For the Fiscal Year Ended August 31, 2007
upon recommendation of the Association's Panel of Review
which has judged that the Report substantially conforms
to principles and standards of ASBO's Certificate of Excellence Program

Jerome E. Brendel
President

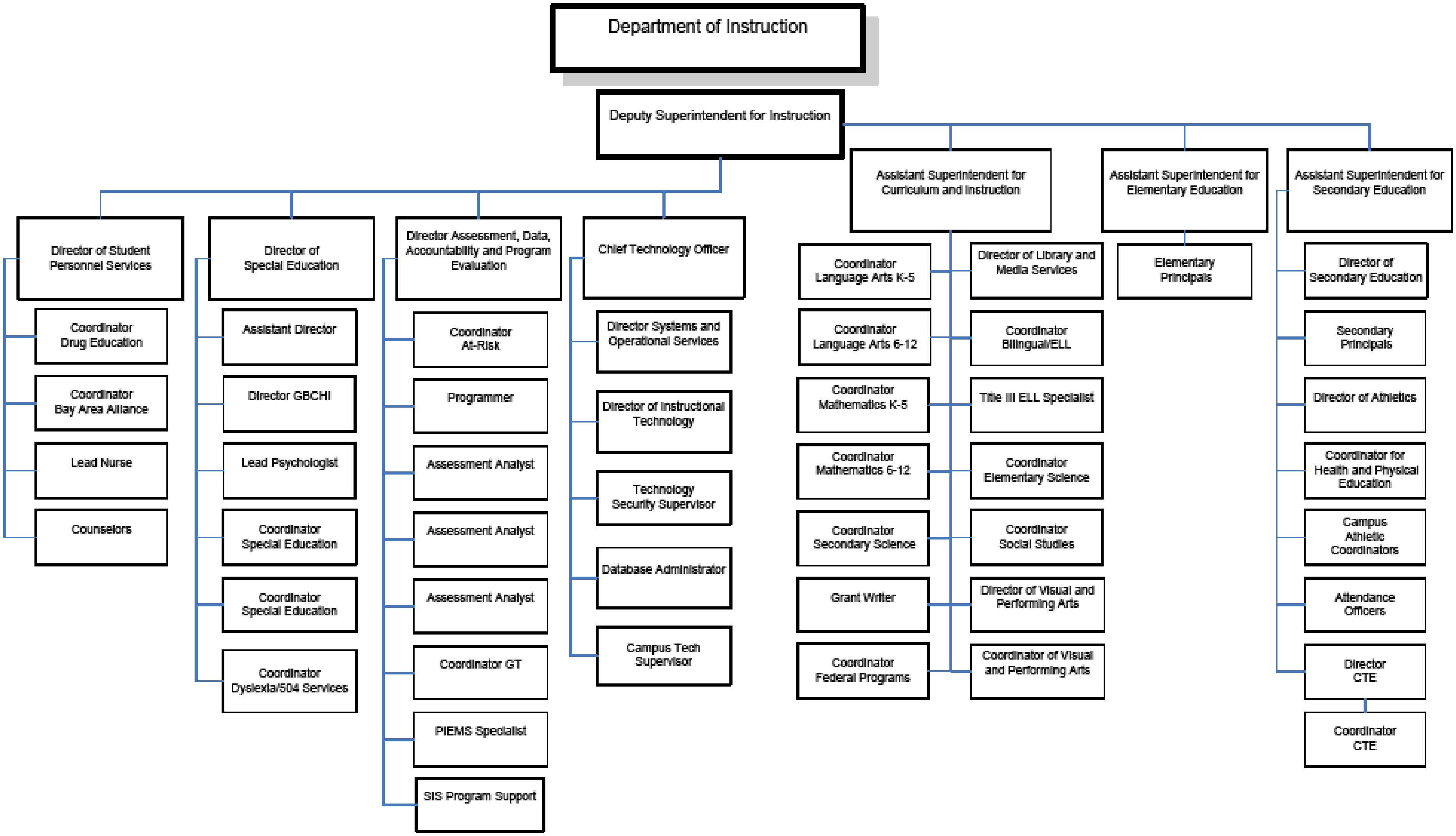
John D. Musso
Executive Director

JSSCO

Clear Creek Independent School District Organization 2007-2008



Clear Creek Independent School District Organization 2007-2008



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Financial Section

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Null-Lairson, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Trustees
Clear Creek Independent School District
2425 East Main Street
League City, Texas 77573

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Clear Creek Independent School District (the "District") as of and for the year ended August 31, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of August 31, 2008, and the respective changes in financial position, and, where applicable, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2009 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in for assessing the results of our audit.

2000 Loop 197 North | Suite 200 | Texas City, TX 77590 | (P) 409-948-4406 | (F) 409-948-0364
www.null-lairson.com

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining non-major fund statements, budget comparisons and the compliance schedules listed in the table of contents under Other Supplementary Information are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the District. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is also not a required part of the basic financial statements of the District. The schedule of expenditures of federal awards, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The introductory and statistical sections listed in the foregoing table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the District. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Null-Lairson, PC

Null-Lairson, PC
Texas City, Texas
January 22, 2009

Management's Discussion and Analysis

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As management of the Clear Creek Independent School District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages v to x of this report.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the fiscal year by $129,586,362 (net assets). Of this amount, $58,918,932 was invested in capital assets net of related debt, $6,147,430 was restricted for debt service, $1,793,511 was restricted for food service, $750,000 was restricted for special education, $2,500,000 was restricted for disaster recovery and $56,773,108 was unrestricted.

- The District's net assets decreased by $9,358,366 as a result of this year's operations.

- The District's governmental funds reported combined ending fund balances of $184,613,959 as of August 31, 2008. Of this amount, $6,499,506 is designated for other purposes including $3,249,506 for long-term compensated absences, $750,000 for special education expenditures and $2,500,000 for disaster recovery. Fund balance of $131,252,858 is also reserved for 1) inventory in the amount of $1,086,029, 2) debt service in the amount of $7,346,226, 3) prepaid expenditures in the amount of $2,052,803, 4) encumbrances in the amount of $84,884,785, 5) construction in the amount of $35,517,406 and 6) other purposes in the amount of $365,609. The remaining amount in fund balance of $46,861,595 is available for spending at the government's discretion (unreserved, undesignated fund balance).

- The General Fund ended the year with an unreserved, undesignated fund balance of $44,191,172, an increase of $429,637 as compared to the prior fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves, including schedules required by the state oversight agency, the Texas Education Agency (TEA).

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the Statement of Net Assets and the Statement of Activities (on pages 19 to 21), which are prepared using accounting principles that are similar to commercial enterprises. These statements provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters.

The Statement of Net Assets includes all the District's assets and liabilities at the end of the year, with the difference between the two reported as *net assets*. This difference is similar to the total owner's equity presented by a commercial enterprise. All of the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years. Although the purpose of the District is not to accumulate net assets, in general, as the amount increases, it may indicate that the financial position of the District is improving over time. To fully assess the overall health of the District, however, other factors should be considered 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.

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

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

The District's business-type activities include the District's self-sustaining programs including Child Nutrition (National School Breakfast and Lunch) and Athletic Concessions. Business-type activities are intended to recover all or a significant portion of their costs through user fees and charges. The District does not have any component units for which it is financially accountable.

Fund Financial Statements

Fund financial statements (starting on page 22) 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 resources remaining for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to employees, students and community members, and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the district.

Laws and contracts require the District to establish some funds, such as grants received from the U.S. Department of Education. The District's administration establishes many other funds to help control and manage money for particular purposes (such as campus activities).

All of the District's funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. The focus of governmental funds is narrower than that of the government-wide financial statements, therefore it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains 56 governmental funds. Information is presented separately in fund financial statements for the general, debt service and capital projects funds, all of which are considered to be major funds. Data from the other governmental funds is combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements elsewhere in this report. The District adopts an annual appropriated budget for its general fund, debt service fund, and the child nutrition fund (An enterprise fund). A budgetary comparison schedule has been provided to demonstrate compliance with these budgets.

Proprietary funds - Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. There are two proprietary fund types. Enterprise funds are used to report the same function presented as business-type activities in the government-wide financial statements. The District has two business-type activities (enterprise funds), which consist of Child Nutrition (National School Breakfast and Lunch) and Athletic Concessions. The second type of proprietary fund is the internal service fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the various functions. The District has four internal service funds, which consist of the Employee Health Insurance fund, the Workers' Compensation Insurance fund, the Disability Insurance fund and the Property Insurance fund. The basic proprietary fund financial statements can be found on pages 29 to 31 of this report.

Fiduciary funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in a separate Statements of Fiduciary Assets and Liabilities on page 32. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the Financial Statements

The notes to the financial statements (starting on page 33) provide narrative explanations or additional data needed for full disclosure in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The District has presented the general fund budget to actual comparisons in the supplementary information found on pages 70 to 71 of this report. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining statements can be found on pages 78 to 101 and 104 to 111of this report.

Government-Wide Financial Analysis

The government-wide financial statements for the District's overall financial position and operations for the fiscal years August 31, 2008 and August 31, 2007 are summarized as follows, based on the information included in the government-wide financial statements.

The District's total assets exceeded total liabilities by $129,586,362 as of August 31, 2008, a decrease of $9,358,366 over August 31, 2007. The District's total unrestricted net assets, which are the total net assets of the District reduced by restricted net assets of $13,894,322 and net assets invested in capital assets of $58,918,932, totaled $56,773,108 on August 31, 2008.

Table I - Net Assets Summary

	Governmental Activities		Business-Type Activites		Totals	
	2008	2007	2008	2007	2008	2007
Current and other assets	$ 232,180,516	$ 215,285,379	$ 3,643,394	$ 2,306,384	$ 235,823,910	$ 217,591,763
Capital and non current assets	580,940,603	532,515,982	1,000,922	1,070,736	581,941,525	533,586,718
Total Assets	813,121,119	747,801,361	4,644,316	3,377,120	817,765,435	751,178,481
Current liabilities	37,157,926	29,301,208	544,367	443,899	37,702,293	29,745,107
Long term liabilities	650,476,780	582,488,644			650,476,780	582,488,644
Total Liabilities	687,634,706	611,789,852	544,367	443,899	688,179,073	612,233,751
Net Assets						
Invested in capital assets net of related debt	57,918,010	71,589,986	1,000,922	1,070,736	58,918,932	72,660,722
Restricted	12,100,811	9,361,244	1,793,511	1,711,904	13,894,322	11,073,148
Unrestricted	55,467,592	55,060,279	1,305,516	150,581	56,773,108	55,210,860
Total Net Assets	$ 125,486,413	$ 136,011,509	$ 4,099,949	$ 2,933,221	$ 129,586,362	$ 138,944,730

Investment in capital assets (e.g. land, buildings, furniture and equipment) less any related debt used to acquire those assets that is still outstanding is $58,918,932 as of August 31, 2008. Although the District's investment in its capital assets is reported net of related debt (net of any unspent bond proceeds), it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net assets (approximately 11 percent) represents resources that are subject to external restrictions on how they may be used, primarily funds to be used for the extinguishment of debt. The remaining balance of unrestricted net assets is $56,773,108, which represents amounts available for the District to meet on-going obligations.

As shown in Table II, the net assets of the District's governmental activities decreased $9,358,366 for the year ended August 31, 2008. The total cost of all governmental activities this year was $332,829,863, an increase of $43,948,534 over the previous year, resulting from growth in enrollment and staffing, as well as inflationary factors. The amended budget included inflationary increases such as a 3.5% increase in salaries, a 30% increase for utilities and a 56% increase for fuel. The amount that the District's taxpayers paid for governmental activities through property taxes was $178,981,504 or 56 percent. State funding of $100,415,037 and federal and state grants and contributions of $26,578,931 accounted for 39 percent of the resources used to cover expenses, with the remainder of $16,329,297 from user charges, interest and other income.

Table II - Change in Net Assets

	Governmental Activities		Business-Type Activites		Totals	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Revenues						
Program Revenues:						
Charges for services	$ 6,403,785	$ 5,699,172	$ 8,798,470	$ 7,399,642	$ 15,202,255	$ 13,098,814
Operating grants	26,578,931	22,515,267	3,542,340	3,110,564	30,121,271	25,625,831
General Revenues:						
Property taxes	178,981,504	210,879,647			178,981,504	210,879,647
State Aid - Formula Grants	100,415,037	54,161,494			100,415,037	54,161,494
Grants and contributions not restricted	130,370	113,352			130,370	113,352
Interest earnings	8,559,284	11,373,275	140,137	152,950	8,699,421	11,526,225
Other	1,235,858	345,633			1,235,858	345,633
Total Revenues	322,304,769	305,087,840	12,480,947	10,663,156	334,785,716	315,750,996
Expenses						
Instruction	187,005,283	158,776,037			187,005,283	158,776,037
Instructional resources and media services	4,786,735	4,496,393			4,786,735	4,496,393
Curriculum and staff development	5,748,866	4,223,454			5,748,866	4,223,454
Instructional leadership	2,999,697	2,560,644			2,999,697	2,560,644
School leadership	16,600,181	14,543,396			16,600,181	14,543,396
Guidance, counseling, and evaluation services	10,643,162	9,235,319			10,643,162	9,235,319
Social work services	525,220	363,705			525,220	363,705
Health services	2,818,871	2,354,294			2,818,871	2,354,294
Student transportation	10,267,937	8,281,296			10,267,937	8,281,296
Food service	372,793	367,913			372,793	367,913
Extracurricular activities	8,990,389	8,275,702			8,990,389	8,275,702
General administration	9,143,299	7,977,884			9,143,299	7,977,884
Plant, maintenance and operations	31,929,711	31,436,161			31,929,711	31,436,161
Security and monitoring services	2,408,461	2,210,648			2,408,461	2,210,648
Data processing services	4,160,802	4,193,126			4,160,802	4,193,126
Community services	774,094	474,027			774,094	474,027
Interest on long-term debt	29,190,482	27,101,812			29,190,482	27,101,812
Debt issuance costs and fees	5,247	20,559			5,247	20,559
Facilities acquisition and construction	443,381	381,582			443,381	381,582
Payments related to shared services arrangements	2,809,460	502,515			2,809,460	502,515
Payments to Juvenile Justice Alternative Education Programs	98,641	102,381			98,641	102,381
Payments to Tax Increment Fund	1,107,151	1,002,481			1,107,151	1,002,481
National School Breakfast and Lunch			11,199,566	9,997,102	11,199,566	9,997,102
Athletic Concessions			114,653	89,901	114,653	89,901
Total Expenses	332,829,863	288,881,329	11,314,219	10,087,003	344,144,082	298,968,332
Excess (deficiency) before special items and transfers	(10,525,094)	16,206,511	1,166,728	576,153	(9,358,366)	16,782,664
Increase (Decrease) in Net Assets	(10,525,094)	16,206,511	1,166,728	576,153	(9,358,366)	16,782,664
Net Assets - Beginning	136,011,507	119,804,996	2,933,221	2,357,068	138,944,728	122,162,064
Net Assets - Ending	$ 125,486,413	$ 136,011,507	$ 4,099,949	$ 2,933,221	$ 129,586,362	$138,944,728

The District decreased the combined property tax rate from $1.630 to $1.320 per $100 of assessed value, and the assessed values increased approximately 6.1 percent to a total assessed valuation of $13.43 billion. This resulted in a tax levy of approximately $177.3 million in 2008, a decrease of $29 million over the 2007 fiscal year.

Total expenses above include depreciation of $28,156,574. Capital outlay of $68,045,212 is not included in the above total expenses. In the government-wide financial statements, capital outlay is shown as an increase in the capital assets reported on the Statement of Net Assets and depreciation expense is reported in the Statement of Activities in order to spread the recognition of the cost of capital assets over their useful lives.

Net assets of the District's business-type activities increased $1,166,728 for the year ended August 31, 2008.

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, August 31, 2008, the District's governmental funds reported:

- Combined ending fund balances of $184,613,959, an increase of $18,769,671 over the year ended August 31, 2007. This increase resulted primarily from the expenditure of funds in the capital projects fund netted with proceeds from the issuance of long-term debt.

- Approximately 25% of ending fund balance ($46,861,595) constitutes unreserved, undesignated fund balance. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been reserved or designated as follows:

  (1) Reserved for inventory - $1,086,029
  (2) Reserved for debt service - $7,346,226
  (3) Reserved for prepaid expenditures - $2,052,803
  (4) Reserved for purchase orders of the prior period - $84,884,785
  (5) Reserved for construction - $35,517,406
  (6) Reserved for other purposes including Indirect Costs and Music Enrichment - $365,609
  (6) Designated for long-term compensated absences - $3,249,506
  (7) Designated for Special Education expenditures - $750,000
  (8) Designated for disaster recovery - $2,500,000

The general fund is the primary operating fund of the District. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was $44,191,172 while the total fund balance was $53,894,820. During the current fiscal year, the fund balance of the general fund increased by $402,874. Key factors related to this change are as follows:

- Tax revenues decreased $28.6 million over the previous fiscal year resulting from an 19.0% decrease in the property tax rate.

- State funding increased $46.3 million due to an increase in enrollment and changes in the state funding formula as a result of recent legislation.

- The majority of the District's expenditures are for personnel costs. Personnel costs increased during the current fiscal year due to a 3.5% across the board salary increase for teachers and all other employees; and, for additional staff hired as a result of population growth.

The debt service fund has a total fund balance of $7,346,226, all of which is reserved for the payment of debt. The net increase in the fund balance during the period in the debt service fund was $3,120,388.

The capital projects fund is used to account for financial resources to be used for the construction and renovation of District facilities. The fund balance of the District's capital projects fund was $120,336,881 on August 31, 2008, $84,819,475 of which is reserved for encumbrances. The capital projects fund began the year with $105,660,238 in fund balance as a result of unspent bond proceeds in previous years. The District had expenditures in the capital projects fund of $72,960,213 in the current year. The remaining capital projects fund balance of $35,517,406 is reserved for future construction projects.

General Fund Budgetary Highlights

Over the course of the year, District administration recommended, and the Board of Trustees approved, several revisions to budgeted revenue and appropriations. Revisions to the revenue budget are necessary due to changes in estimates for local and state revenue based on updated information concerning student attendance and tax collections. Revisions to appropriations are necessary due to staffing adjustments based on actual enrollment, changes in spending needs over the course of the year and other unexpected occurrences.

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

- The revenue budget was decreased by $1.0 million due to lower than expected investment earnings resulting from decreasing interest rates and increased by approximately $3.9 million due to:

    $3.2 million from higher than expected state funding.

    $0.4 million from higher than expected delinquent tax collections.

    $0.3 million from higher than expected facility rental collections.

- The expenditure budget was increased by approximately $3.2 million due to:

    $2.3 million for increased utility and fuel costs.

    $0.9 million for increased instructional supplies and security costs.

Capital Asset and Debt Administration

Capital Assets

At the end of fiscal year 2008, the District had $573.5 million (net of accumulated depreciation of $220.3 million) invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance.

Table III - Capital Asset Summary

	Governmental Activities		Business-Type Activites		Totals	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Land	$ 60,242,392	$ 58,183,426	$	$	$ 60,242,392	$ 58,183,426
Land imporvements	22,600,455	20,062,939			22,600,455	20,062,939
Buildings and improvements	562,665,744	549,810,014	126,535	126,535	562,792,279	549,936,549
Furniture and equipment	86,957,535	80,777,511	1,127,589	1,094,882	88,085,124	81,872,393
Construction in progress	60,068,183	16,564,482			60,068,183	16,564,482
Total	792,534,309	725,398,372	1,254,124	1,221,417	793,788,433	726,619,789
Accumulated depreciation	(220,058,093)	(192,882,390)	(253,202)	(150,681)	(220,311,295)	(193,033,071)
Net capital assets	$ 572,476,216	$ 532,515,982	$ 1,000,922	$ 1,070,736	$ 573,477,138	$533,586,718

Additional information on the District's capital assets can be found in Note 8 on pages 52 and 53 of this report.

Significant capital asset activity during the year included the following:

- Land purchased for future use at more than $2.0 million.
- Continued construction of the District's Education Village of more than $23.9 million.
- Continued construction of Ralph Parr Elementary of more than $7.1 million.
- Continued construction of the district's Central Support Facility of more than $7.6 million.
- Improvements at Clear Creek High School of approximately $1.6 million.
- Improvements at Clear Springs High School of approximately $4.1 million.
- Improvements at Clear Lake Intermediate of more than $1.0 million.
- Continued construction of classroom additions at Landolt Elementary for more than $1.3 million.
- Technology purchases of more than $4.0 million.
- Exterior lighting at various campuses estimated at $1.8 million
- District roofing projects of approximately $2.2 million.
- Bus purchases of approximately $1.7 million.

Debt

Debt-management policies seek to provide the most favorable climate for District debt projects while upholding the highest rating possible for debt instruments. Management policies include the following points:

- All debt service obligations will be met when due.
- Long-term financing will be restricted to capital projects and purchases of related equipment.
- Long-term bonds will not be issued to finance current operations.
- The District will cooperate and communicate with bond-rating agencies and work toward obtaining the most favorable municipal bond rating possible.
- Outstanding obligations will be reviewed frequently to ensure the most favorable funding structure for the District.
- All necessary information and material regarding the District's financial status will be provided to the appropriate parties.

The ratio of net general bonded debt to assessed valuation is a useful indicator of the District's debt position. This data is presented in the schedule "Ratios of Net General Obligation Bonded Debt Outstanding" in the statistical section and reflects a decrease in the ratio of net bonded debt to assessed value of 3.68%, as compared to 3.49% last year.

At year-end, the District had $647,112,254 in bonds outstanding including accreted interest on capital appreciation bonds, deferred loss on refunding bonds, and premiums on bonds at issuance.

The District continues to enjoy excellent underlying bond ratings. The "AAA" long-term rating on the District's bonds reflects the Texas Permanent School fund guarantee. The underlying rating on the District's bonds is Aa3 from Moody's, AA from Standard and Poor's, and AA from Fitch Ratings.

At August 31, 2008 the District had $66,925,000 in remaining un-issued authorized bonds.

More detailed information about the District's long-term liabilities is presented in Note 9 to the financial statements.

Table IV - District's Outstanding Debt

	Governmental Activities	
	2008	**2007**
General obligation bonds	$ 626,425,000	$ 563,085,000
Less deferred amounts:		
For issuance premiums/discounts	22,321,856	21,159,418
Gain or (loss) on refunding bonds	(15,653,953)	(18,002,227)
Accreted interest on premium compound interest bonds	14,019,351	12,954,127
	$ 647,112,254	$ 579,196,318

Economic Factors and Next Year's Budgets and Rates

Economic factors can have a significant impact on the District's finances. The average unemployment rate for Harris and Galveston counties is 4.6% and 5.5%, respectively, while the state and national averages are 4.8% and 5.8%, respectively. Increases in the unemployment rate could result in a reduction in the District's tax collections. Inflationary trends in the region tend to be somewhat lower than the national consumer price index (CPI). In general, this positive factor helps the District keep costs low. However, two specific trends have required significant increases in school district expenditures. First, the teacher shortage in this area has mandated significant salary and benefit increases as districts attempt to attract and retain qualified personnel. Second, inflation and other external factors have resulted in budget increases for property insurance, electricity and fuel.

Subsequent to year end, Hurricane Ike impacted the upper Texas Gulf Coast causing significant damage to District facilities. Damages are estimated to be approximately $17.8 million, with an estimated $9.4 million to be paid from insurance proceeds and an estimated $6.4 million to be paid from Federal Emergency Management Agency (FEMA) grants, resulting in an estimated cost to the District of approximately $2.0 million which will be funded using the District's Capital Improvement Plan. The vast majority of District facilities are back in operation as of the date of these financial statements.

The District's elected and appointed officials considered many factors when setting the 2008-09 fiscal year general fund budget and tax rate. The adopted budget is based on the following significant assumptions:

- The District's enrollment was projected to increase by 2.3% or approximately 800 students at the time the budget was adopted.

- General fund expenditures are budgeted to increase by approximately $20.9 million from the 2007-08 original budget. Major factors that resulted in this increase include:

    - Salary increases of 3.5% for all staff for a total increase of $6.4 million.
    - Benefit increases of $2.0 million.
    - New positions needed to accommodate student growth, new campuses and new programs of $7.4 million.
    - New initiatives and programs of $2.6 million
    - Energy, fuel and other operational increases of $2.5 million.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Financial Officer, Clear Creek Independent School District, 2425 East Main Street, League City, Texas, 77573.

Basic Financial Statements

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CLEAR CREEK INDEPENDENT SCHOOL DISTRICT *Exhibit A-1*

STATEMENT OF NET ASSETS

August 31, 2008

Data Control Codes		Governmental Activities	Business-type Activities	Total
	Assets			
1110	Cash and cash equivalents	$ 109,640,751	$ 3,361,795	$ 113,002,546
1120	Investments - Current	84,030,701		84,030,701
1225	Property taxes receivables, net	6,944,057		6,944,057
1240	Due from other governments	23,177,655	61,773	23,239,428
1250	Accrued interest	643,057		643,057
1260	Internal balances			
1290	Other receivables, net	145,088	1,434	146,522
1300	Inventories	1,086,029	218,392	1,304,421
1410	Deferred expenses	2,092,803		2,092,803
1420	Capital bond and other debt issuance costs	4,420,375		4,420,375
	Capital assets not subject to depreciation:			
1510	Land	60,242,392		60,242,392
1580	Construction in progress	60,068,183		60,068,183
	Capital assets net of depreciation:			
1520	Buildings and improvements, net	412,053,956	107,120	412,161,076
1530	Furniture and equipment, net	40,111,685	893,802	41,005,487
1910	Long-term investments	8,464,387		8,464,387
1000	**Total Assets**	813,121,119	4,644,316	817,765,435
	Liabilities			
2110	Accounts payable	18,724,084	373,946	19,098,030
2140	Interest payable	2,524,020		2,524,020
2150	Payroll deductions and withholdings	35,889		35,889
2160	Accrued wages payable	11,028,881	170,421	11,199,302
2180	Due to other governments	2,342		2,342
2190	Due to student groups	118,055		118,055
2200	Accrued expenses	3,638,523		3,638,523
2300	Unearned revenue	1,086,132		1,086,132
	Noncurrent Liabilities:			
2501	Due within one year	16,021,160		16,021,160
2502	Due in more than one year	634,455,620		634,455,620
2000	**Total Liabilities**	687,634,706	544,367	688,179,073
	Net Assets			
3200	Invested in capital assets, net of related debt	57,918,010	1,000,922	58,918,932
	Restricted for:			
3820	Federal and state programs	677,054		677,054
3840	Food service		1,793,511	1,793,511
3850	Debt service	6,147,430		6,147,430
3870	Campus activity	2,026,327		2,026,327
3890	Other Purposes	3,250,000		3,250,000
3900	Unrestricted	55,467,592	1,305,516	56,773,108
	Total net assets	$ 125,486,413	$ 4,099,949	$ 129,586,362

See Notes to Financial Statements

CLEAR CREEK INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2008

Data Control Codes	Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions
	Governmental activities:			
11	Instruction	$ 187,005,283	$ 1,644,473	$ 15,204,782
12	Instructional resources and media services	4,786,735	473	215,672
13	Curriculum and staff development	5,748,866	21,458	2,574,539
21	Instructional leadership	2,999,697	161,607	273,721
23	School leadership	16,600,181		869,892
31	Guidance, counseling, and evaluation services	10,643,162	117,948	1,913,026
32	Social work services	525,220		33,853
33	Health services	2,818,871	73,458	659,843
34	Student transportation	10,267,937		2,715,050
35	Food service	372,793		
36	Extracurricular activities	8,990,389	3,770,335	402,437
41	General administration	9,143,299		252,453
51	Plant, maintenance and operations	31,929,711	607,878	654,768
52	Security and monitoring services	2,408,461		32,077
53	Data processing services	4,160,802		155,431
61	Community services	774,094	6,155	621,387
72	Interest on long-term debt	29,190,482		
73	Debt issuance costs and fees	5,247		
81	Facilities acquisition and construction	443,381		
93	Payments related to shared services arrangements	2,809,460		
95	Payments to Juvenile Justice Alternative Education	98,641		
97	Payments to Tax Increment Fund	1,107,151		
TG	**Total governmental activities**	332,829,863	6,403,785	26,578,931
	Business-type activities			
35	National School Breakfast and Lunch	11,199,566	8,705,582	3,542,340
02	Athletic Concessions	114,653	92,888	
TB	**Total business-type activities**	11,314,219	8,798,470	3,542,340
TP	**Total primary government**	$ 344,144,082	$ 15,202,255	$ 30,121,271

Data Control Codes	
	General revenues
	Taxes:
MT	Property taxes, levied for general purposes
DT	Property taxes, levied for debt service
SF	State-aid formula grants not restricted
GC	Grants and contributions not restricted
IE	Investment earnings
MI	Miscellaneous
TR	**Total general revenues, special items, and transfers**
CN	Change in net assets
NB	**Net assets - beginning**
NE	**Net assets - ending**

See Notes to Financial Statements

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
$ (170,156,028)	$	$ (170,156,028)
(4,570,590)		(4,570,590)
(3,152,869)		(3,152,869)
(2,564,369)		(2,564,369)
(15,730,289)		(15,730,289)
(8,612,188)		(8,612,188)
(491,367)		(491,367)
(2,085,570)		(2,085,570)
(7,552,887)		(7,552,887)
(372,793)		(372,793)
(4,817,617)		(4,817,617)
(8,890,846)		(8,890,846)
(30,667,065)		(30,667,065)
(2,376,384)		(2,376,384)
(4,005,371)		(4,005,371)
(146,552)		(146,552)
(29,190,482)		(29,190,482)
(5,247)		(5,247)
(443,381)		(443,381)
(2,809,460)		(2,809,460)
(98,641)		(98,641)
(1,107,151)		(1,107,151)
(299,847,147)		(299,847,147)
	1,048,356	1,048,356
	(21,765)	(21,765)
	1,026,591	1,026,591
(299,847,147)	1,026,591	(298,820,556)
135,653,800		135,653,800
43,327,704		43,327,704
100,415,037		100,415,037
130,370		130,370
8,559,284	140,137	8,699,421
1,235,858		1,235,858
289,322,053	140,137	289,462,190
(10,525,094)	1,166,728	(9,358,366)
136,011,507	2,933,221	138,944,728
$ 125,486,413	$ 4,099,949	$ 129,586,362

CLEAR CREEK INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
August 31, 2008

Data Control Codes		General Fund	Debt Service Fund	Capital Projects Fund
	Assets			
1110	Cash and cash equivalents	$ 23,542,828	$ 8,197,039	$ 68,125,196
1120	Investments - Current	20,041,417		56,437,323
	Receivables:			
1220	Property taxes - delinquent	6,768,930	1,400,550	
1230	Allowance for uncollectible taxes (credit)	(1,015,340)	(210,083)	
1240	Receivables from other governments	22,180,724		
1250	Accrued interest	289,549		335,133
1260	Due from other funds		99,807	2,000,000
1290	Other receivables			
1300	Inventories, at cost	1,086,029		
1410	Prepaid items	2,052,803		
1900	Long-term investments			8,464,387
1000	**Total Assets**	$ 74,946,940	$ 9,487,313	$ 135,362,039
	Liabilities and Fund Balance			
	Liabilities:			
2110	Accounts payable	$ 2,453,231	$	$ 15,025,158
2140	Interest payable		238,622	
2150	Payroll deduction and withholdings payable	35,889		
2160	Accrued wages payable	10,824,783		
2170	Due to other funds	2,099,807		
2180	Payable to other governments	1,892		
2190	Due to student and employee groups	118,055		
2200	Accrued expenses	115,020		
2300	Deferred revenues	5,403,443	1,902,465	
2000	**Total Liabilities**	21,052,120	2,141,087	15,025,158
	Fund Balance:			
	Reserved for:			
3410	Investments in inventories	1,086,029		
3420	Retirement of funded indebtedness		7,346,226	
3430	Prepaid items	2,052,803		
3440	Encumbrances	65,310		84,819,475
3470	Construction			35,517,406
3490	Other purposes			
	Unreserved, Designated for:			
3590	Other purposes	6,499,506		
	Unreserved, Undesignated Reported in:			
3600	General fund	44,191,172		
3610	Special revenue funds			
3000	**Total fund balances**	53,894,820	7,346,226	120,336,881
4000	**Total Liabilities and Fund Balances**	$ 74,946,940	$ 9,487,313	$ 135,362,039

See Notes to Financial Statements.

Exhibit C-1

Other Governmental Funds	Total Governmental Funds
$ 3,025,034	$ 102,890,097
	76,478,740
	8,169,480
	(1,225,423)
996,931	23,177,655
	624,682
566,351	2,666,158
45,088	45,088
	1,086,029
	2,052,803
	8,464,387
$ 4,633,404	$ 224,429,696
$ 556,207	$ 18,034,596
	238,622
	35,889
204,098	11,028,881
566,351	2,666,158
450	2,342
	118,055
	115,020
270,266	7,576,174
1,597,372	39,815,737
	1,086,029
	7,346,226
	2,052,803
	84,884,785
	35,517,406
365,609	365,609
	6,499,506
	44,191,172
2,670,423	2,670,423
3,036,032	184,613,959
$ 4,633,404	$ 224,429,696

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CLEAR CREEK INDEPENDENT SCHOOL DISTRICT ***Exhibit C-2***

RECONCILIATION OF BALANCE SHEET FOR GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

August 31, 2008

Data Control Codes		
	Total fund balance, governmental funds (from C-1)	$ 184,613,959
	Amounts reported for governmental *activities* in the statement of net assets (A-1) are different because:	
1	Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets at historical cost, net of accumulated depreciation, where applicable.	572,476,216
2	Property taxes receivable have been levied and are due this year, but are not available soon enough to pay for the current period's expenditures, these property taxes (net of allowance for uncollectible accounts) are deferred in the fund financial statements.	6,490,042
3	Bond issuance costs are not financial resources and, therefore, are not reported as assets in governmental funds. These costs are to be amortized over the life of the bonds.	4,420,375
4	Arbitrage rebate liability due and payable on excess investment earnings on bonds issued, not recorded in the governmental fund statements	(246,555)
	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. Long-term liabilities at year end consist of:	
5	General obligation bonds	(626,425,000)
6	Premiums on issuance	(22,321,856)
7	Deferred loss on refunding	15,653,953
8	Accreted interest on premium compound interest bonds	(14,019,351)
9	Accrued compensated absences	(3,249,506)
10	Accrued interest payable	(2,285,398)
11	Addition of Internal Service Fund net assets.	10,379,534
	Total net assets - governmental activities	$ 125,486,413

See Notes to Financial Statements.

CLEAR CREEK INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS

For the Year Ended August 31, 2008

Data Control Codes		General Fund	Debt Service Fund	Capital Projects Fund
	Revenues			
5700	Local, intermediate, and out-of-state	$141,570,079	$ 43,786,430	$ 4,897,962
5800	State program revenues	110,325,440		
5900	Federal program revenues	716,713		
5020	**Total revenues**	252,612,232	43,786,430	4,897,962
	Expenditures			
	Current:			
0011	Instruction	155,237,070		2,838,610
0012	Instruction resources and media services	4,191,118		45,867
0013	Curriculum and instructional staff development	2,636,825		1,571
0021	Instructional leadership	2,385,427		
0023	School leadership	14,639,571		
0031	Guidance, counseling and evaluation services	7,959,760		27,850
0032	Social work services	220,792		
0033	Health services	2,345,528		
0034	Student transportation	8,858,450		1,719,748
0035	Food services	300,005		653,631
0036	Extracurricular activities	5,074,508		1,314
0041	General administration	7,226,043		861,789
0051	Plant maintenance and operations	27,926,154		2,652,769
0052	Security and monitoring services	2,158,894		336,520
0053	Data processing services	3,813,707		
0061	Community services	130,395		
	Debt service:			
0071	Principal on long-term debt		14,920,000	
0072	Interest on long-term debt		25,361,102	
0073	Bond issuance costs and fees		128,795	738,894
	Capital outlay:			
0081	Facilities acquisition and construction			63,081,650
	Intergovernmental:			
0093	Payments related to shared services arrangements	2,809,460		
0095	Payments to Juvenile Justice Alt. Ed. Prgm.	98,641		
0097	Payments to tax increment fund	1,107,151		
6030	**Total Expenditures**	249,119,499	40,409,897	72,960,213
1100	Excess (deficiency) of revenues over expenditures	3,492,733	3,376,533	(68,062,251)
	Other Financing Sources (Uses)			
7901	Refunding bonds issued		16,505,000	
7911	Capital-related debt issued (regular bonds)			78,925,000
7912	Sale of real or personal property	11,303		
7915	Transfers in			2,000,000
7916	Premium or discount on issuance of bonds		787,179	1,813,894
8911	Transfers out	(3,101,162)		
8949	Payment to Bond Refunding Escrow Agent		(17,548,324)	
7080	**Total other financing sources and uses**	(3,089,859)	(256,145)	82,738,894
1200	Net change in fund balances	402,874	3,120,388	14,676,643
0100	**Fund Balance - September 1 (Beginning)**	53,491,946	4,225,838	105,660,238
3000	**Fund Balance - August 31 (Ending)**	$ 53,894,820	$ 7,346,226	$ 120,336,881

See Notes to Financial Statements.

Other Governmental Funds	Total Governmental Funds
$ 5,156,133	$ 195,410,604
6,910,026	117,235,466
8,973,901	9,690,614
21,040,060	322,336,684
10,383,670	168,459,350
42,164	4,279,149
2,786,707	5,425,103
326,320	2,711,747
180,703	14,820,274
1,690,992	9,678,602
277,473	498,265
262,915	2,608,443
306,405	10,884,603
	953,636
3,479,425	8,555,247
197,706	8,285,538
8,223	30,587,146
2,614	2,498,028
	3,813,707
626,139	756,534
	14,920,000
	25,361,102
	867,689
	63,081,650
	2,809,460
	98,641
	1,107,151
20,571,456	383,061,065
468,604	(60,724,381)
	16,505,000
	78,925,000
	11,303
101,162	2,101,162
	2,601,073
	(3,101,162)
	(17,548,324)
101,162	79,494,052
569,766	18,769,671
2,466,266	165,844,288
$ 3,036,032	$ 184,613,959

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2008

Data Control Codes		
	Net change in fund balances - total governmental funds (from C-3)	$ 18,769,671
	Amounts reported for governmental activities in the statement of activities (B-1) are different because:	
	Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
1	Governmental funds capital outlays	68,045,212
2	Governmental activities depreciation expense	(28,034,364)
3	Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold.	(50,614)
4	Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(40,599)
5	Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	14,920,000
6	Proceeds from issuance of long-term debt is reported as an other financing source in the governmental funds. In the government-wide financial statements, proceeds are treated as an increase in long-term liabilities and amounts paid to refunding agents are treated as a decrease in long-term liabilities.	(80,482,749)
7	Bond issuance costs paid during the current year will be amortized over the life of the bonds.	862,442
	Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:	
8	Increase in interest payable not recognized in fund statements	(1,155,612)
9	Decrease in long-term portion of accrued compensated absences	(591,249)
10	Accreted interest on capital appreciation bonds and amortization of bond issuance costs	(1,065,039)
11	Amortization of deferred charges including bond issuance costs as well as premiums and discounts on issuance of bonds	(1,608,729)
12	Increase in the arbitrage rebate liability	(246,555)
13	Internal service funds are used by management to charge the costs of certain activities, such as insurance and printing, to individual funds. The net revenue (expense) of the internal service funds is reported as governmental activities.	153,091
	Change in net assets of governmental activities (see B-1)	$ (10,525,094)

See Notes to Financial Statements.

CLEAR CREEK INDEPENDENT SCHOOL DISTRICT *Exhibit D-1*

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
August 31, 2008

	Business-type Activities - Enterprise Funds	Governmental Activities - Internal Service Funds
Assets		
Current Assets:		
Cash and cash equivalents	$ 3,361,795	$ 6,750,654
Investments - Current		7,551,961
Receivables:		
Due from other governments	61,773	
Accrued interest receivable		18,375
Other receivables	1,434	100,000
Inventories, at cost	218,392	
Other current assets		40,000
Total current assets	3,643,394	14,460,990
Land, Buildings and Equipment:		
Building and improvements	126,535	
Furniture and equipment	1,127,589	
Accumulated depreciation - Buildings	(19,415)	
Accumulated depreciation - Furniture and Equipment	(233,787)	
Total non-current assets	1,000,922	
Total Assets	4,644,316	14,460,990
Liabilities		
Current Liabilities:		
Accounts payable	373,946	689,488
Accrued wages payable	170,421	
Accrued expenses		3,391,968
Total current liabilities	544,367	4,081,456
Total Liabilities	544,367	4,081,456
Net Assets		
Invested in capital assets	1,000,922	
Restricted for food service	2,782,640	
Unrestricted net assets	316,387	10,379,534
Total Net Assets	$ 4,099,949	$ 10,379,534

See Notes to Financial Statements

CLEAR CREEK INDEPENDENT SCHOOL DISTRICT

Exhibit D-2

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended August 31, 2008

	Business-type Activities - Enterprise Funds	Governmental Activities - Internal Service Funds
Operating Revenues		
Charges for Services	$ 8,798,470	$ 25,198,234
Total Operating Revenues	8,798,470	25,198,234
Operating Expenses		
Payroll costs	4,042,763	
Purchased and contracted services	1,140,906	1,575,525
Supplies and materials	5,833,079	4,109
Other operating costs	175,261	
Claims expense and other operating expenses		24,720,748
Depreciation	122,210	
Total Operating Expenses	11,314,219	26,300,382
Operating Income (Loss)	(2,515,749)	(1,102,148)
Non-Operating Revenues (Expenses)		
Investment earnings	140,137	255,239
National School Breakfast Program	680,699	
National School Lunch Program	2,349,526	
Donated Commodities	454,660	
Operating grants and contributions	57,455	
Total Nonoperating Revenues (Expenses)	3,682,477	255,239
Income (Loss) before Transfers	1,166,728	(846,909)
Transfers		
Transfers in		1,500,000
Transfers out		(500,000)
Change in Net Assets	1,166,728	153,091
Net Assets - September 1 (Beginning)	2,933,221	10,226,443
Net Assets - August 31 (Ending)	$ 4,099,949	$ 10,379,534

See Notes to Financial Statements

CLEAR CREEK INDEPENDENT SCHOOL DISTRICT *Exhibit D-3*

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For The Year Ended August 31, 2008

	Business-type Activities - Enterprise Funds	Governmental Activities - Internal Service Funds
Cash Flows from Operating Activities:		
Cash received from customers	$ 8,797,036	$ 7,999,227
Cash receipts from interfund services provided		17,863,298
Cash payments for insurance claims		(19,820,522)
Cash payments to suppliers for goods and services	(6,808,788)	(5,758,912)
Cash payments to employees	(4,164,989)	
Net Cash Provided by (Used for) Operating Activities	(2,176,741)	283,091
Cash Flows from Non-Capital Financing Activities:		
Advances from other funds		1,500,000
Advances to other funds		(500,000)
Federal and state assistance - Food service and related	3,082,001	
Net Cash Provided by Non-Capital Financing Activities	3,082,001	1,000,000
Cash Flows from Capital and Related Financing Activities:		
Acquisition of capital assets	(52,396)	
Net Cash (Used for) Capital and Related Financing Activities	(52,396)	
Cash Flows from Investing Activities:		
Purchase of investments		(7,551,961)
Interest on investments	140,137	236,864
Net Cash Provided by (Used for) Investing Activities	140,137	(7,315,097)
Net Increase in Cash and Cash Equivalents	993,001	(6,032,006)
Cash and Cash Equivalents at Beginning of Year	2,368,794	12,782,660
Cash and Cash Equivalents at End of Year	$ 3,361,795	$ 6,750,654
Reconciliaiton of Operating Income to Net Cash Provided by Operating Activities:		
Operating (Loss)	$ (2,515,749)	$ (1,102,148)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	122,210	
Donated commodities	454,660	
Change in Assets and Liabilities:		
(Increase) in Receivables	(7,113)	
Decrease in Interfund Receivables		664,291
(Increase) in Inventories	(218,392)	
Decrease in Deferred Expenses/Other Assets	42,319	229,089
Increase in Accounts Payable	87,900	75,359
Increase in Accrued Wages Payable	18,247	
(Decrease) in Interfund Payables	(160,823)	
Increase in Accrued Expenses		416,500
Net Cash Provided by (Used for) Operating Activities	$ (2,176,741)	$ 283,091
Supplemental information:		
Non-cash transaction - Donated commodities received	$ 454,660	$
Total non-cash transactions	$ 454,660	$

See Notes to Financial Statements

CLEAR CREEK INDEPENDENT SCHOOL DISTRICT ***Exhibit E-1***

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

For the Year Ended August 31, 2008

		Agency Fund
Assets		
Cash and cash equivalents	$	1,245,574
Total Assets		1,245,574
Liabilities		
Accounts payable		40,736
Due to other governments		783
Due to student groups		1,204,055
Total Liabilities	$	1,245,574

See Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

The Clear Creek Independent School District (the "District") is an independent public educational agency operating under applicable laws and regulations of the State of Texas. The District is autonomously governed by a seven-member Board of Trustees elected by the District's residents.

The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in *Statement on Auditing Standards No. 69*, as amended by Statement on Auditing Standards No.'s 91 and 93 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" or "FASRG") and the requirements of contracts and grants of agencies from which it receives funds.

The District's Financial Statements are in accordance with GASB Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" which provides additional guidance for the implementation of GASB No. 34, and GASB Statement No. 38 "Certain Financial Statement Disclosures" which changes the note disclosure requirements in the financial statements for governmental entities.

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

The GASB determined that fund accounting has and will continue to be essential in helping governments to achieve fiscal accountability and should, therefore, be retained. The GASB also determined that government-wide financial statements are needed to allow user's of financial reports to assess a government's operational accountability. The GASB 34 reporting model integrates fund-based financial reporting and government-wide financial reporting as complementary components of a single comprehensive financial reporting model.

The following is a summary of the most significant accounting policies.

A. Reporting Entity

The District is considered an independent entity for financial reporting purposes and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared, based on considerations regarding the potential for inclusion of other entities, organizations, or functions, as part of the District's financial reporting entity. Based on these considerations, the District's basic financial statements do not include any other entities. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Note 1 - Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the District's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the District is part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the District's financial reporting entity status is that of a primary government are: that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments.

Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The Board of Trustees (the "Board") is elected by the public and 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*. The District has also implemented GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The District receives support from various PTO, booster clubs and foundation organizations. None of these organizations meet the criteria specified by GASB 39 to be included in the District's financial statements. Therefore, there are no component units included within the reporting entity.

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 Clear Creek Independent School District operating activities and activities other than the District's fiduciary (Agency-type) activities. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues. The District *Business-type activitie*s 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 (ESEA). If a revenue is not a program revenue, it is a general revenue used to support all of the District's functions. Taxes are always general revenues.

Note 1 - Summary of Significant Accounting Policies (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

Interfund activities between governmental funds and between governmental funds and proprietary funds appear as "Due To/Due From" on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Assets and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Assets. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide Statement of Net Assets as internal balances and on the Statement of Activities as interfund transfers. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Activities.

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 the fiduciary funds cannot be used for District operations, they are not included in the government-wide statements. The District considers some governmental and enterprise funds to be major and reports their financial condition and results of operations in a separate column.

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

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 proprietary 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 revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements 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. It recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured 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 sixty days after year end.

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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 Proprietary Fund Types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Fund Accounting

The accounts of the District are organized on the basis of funds in accordance with the provisions of the Resource Guide. Each fund is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses. For financial statement presentation, the District's fund financial statements provides more detailed information about the District's most significant *funds*-not the District as a whole. The funds shown on the Fund Financial Statements are considered major funds because of the size and activity of the funds in relation to all of the funds in accordance with generally accepted financial reporting criteria.

Note 1 - Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

The District reports the following major Governmental Funds:

1. **General Fund**

   The General Fund is the government's primary operating fund. It is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, state funding under the Foundation School Program, interest earnings on fund investments, and federal source revenues for indirect costs reimbursed by the programs accounted for in the Special Revenue Fund. Expenditures include all costs associated with the daily operations of the District except for specific programs funded by the federal or state government, food service, debt service and capital projects.

2. **Debt Service Fund**

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

3. **Capital Projects Fund**

   The Capital Projects Fund is used to account for the expenditures of resources accumulated from sales of bonds and related interest earnings for the renovation, acquisition and construction of school facilities.

The District also reports the following governmental fund type under other governmental funds as nonmajor:

4. **Special Revenue Fund**

   The Special Revenue Fund is used to account for all financial resources restricted to, or designated for, specific purposes by a grantor. Specifically, this type of fund is used to account for federally financed programs (grants) where unused balances are returned to the grantor at the close of specified project periods and other revenue specific programs. Project accounting is employed to maintain integrity for the various sources of funds. Resources accounted for in these funds are awarded to the District for the purpose of accomplishing specific educational tasks as defined by grantors in contracts or other agreements. The Federal Award Section of the District's Annual Financial and Compliance Report identifies these individual grants.

Note 1 - Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

Additionally, the District reports the following proprietary funds:

5. **Enterprise Fund**

The District's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund. The District's non-major Enterprise Funds are:

a. National Breakfast and Lunch Program
b. Athletic Concessions

6. **Internal Service Funds**

Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an internal service fund. Internal service funds have been established to account for the District's health, workers' compensation, disability self-insurance plans and property insurance .

The District also reports the following fiduciary funds:

7. **Agency Funds**

The Agency Funds are used to account for activities of student groups. These funds have no equity; assets are equal to liabilities and do not include revenues and expenditures for general operations of the District. The agency fund accounts for resources held in a custodial capacity by the District, and consists of funds that are property of students and others and cannot be used by the District in operations.

E. Other Accounting Policies- Assets, Liabilities and Net Assets or Equity

1. **Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, money market accounts, balances in private-managed public funds investment pools ("TexPool", "Lone Star" and "MBIA"), and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the Statement of Cash Flows, the Proprietary Fund Types consider temporary investments, with maturity of three months or less when purchased, to be cash equivalents.

For cash management purposes, the District transfers balances to either a money market mutual or an externally pooled investment account. The cash is transferred back to the District as needed.

Note 1 - Summary of Significant Accounting Policies (Continued)

E. Other Accounting Policies- Assets, Liabilities and Net Assets or Equity (Continued)

2. Investments

Investments consist primarily of U.S. government agency securities and commercial paper. The District's investments are carried at fair value based on quoted market prices at year end, in accordance with U.S. generally accepted accounting principles. Investments having a maturity of three months or less are reported as cash and cash equivalents.

3. Short-Term Interfund Receivables/Payables

During the course of operations, transactions occur between individual funds for specified purposes. These receivables and payables are classified as "due from other funds" or "due to other funds" on the combined balance sheet.

4. Inventories

Inventories consisting of supplies and materials are stated at cost (average cost method) and they include consumable custodial, maintenance, transportation, instructional and office supplies. Inventories of governmental funds are recorded as expenditures when the supplies and materials are used or consumed (consumption method) rather than when purchased. Inventories of food commodities inventory are recorded at fair market value supplied by the Texas Department of Human Services on the date received. Commodity inventory items are recorded as expenditures when distributed to individual campuses and revenue is recognized for an equal amount.

5. Capital Assets

Capital Assets, which include land, buildings, furniture and equipment, are reported in the applicable governmental or business-type 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 $5,000 and an estimated useful life in excess of one years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Costs of the Facilities Acquisition and Construction function that relate to overall planning of District facilities, managing overall District assets and overall construction projects are treated as period costs and are not capitalized unless related to specific assets. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed.

Note 1 - Summary of Significant Accounting Policies (Continued)

E. Other Accounting Policies- Assets, Liabilities and Net Assets or Equity (Continued)

5. Capital Assets (Continued)

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

Assets	Years
Buildings and improvements	40
Land improvements	10 - 25
Computer equipment	5 - 10
Furniture and equipment	5 - 20
Vehicles	5 - 10

6. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Accretion of interest on the Capital Appreciation Bonds is recorded at the accreted value through the end of the fiscal year.

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

7. Transactions Between Funds

Transactions which constitute reimbursements to a fund for expenditures or expenses initially made from that fund, which are properly attributable to another fund, are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditures or expenses in the fund that is reimbursed.

Other legally authorized transfers are treated as transfers and are included in the results of operations of the governmental funds.

Note 1 - Summary of Significant Accounting Policies (Continued)

E. Other Accounting Policies- Assets, Liabilities and Net Assets or Equity (Continued)

8. Compensated Absences-Accumulated Vacation Pay and Sick Leave

The District maintains a policy allowing employees meeting established requirements to be compensated for unused sick leave at retirement. The estimated liability for accumulated sick leave is reported in the government-wide statement of net assets for the portion that is not currently payable from available financial resources at year end and which is accounted for as a designation of fund balance in the governmental funds-general fund. The current portion of compensated absences payable is reported in the governmental funds. Annual vacation time which is unused lapses at the end of each fiscal year. There are no other compensated absences allowed under the District's personnel policies.

9. Fund Balance

In the fund financial statements, the District records fund balance reserves to indicate that a portion of fund balance is legally restricted by outside parties for a specific future use or to indicate that a portion of the fund balance is not available for expenditures. The District designates portions of the unreserved fund balance to indicate the administration’s tentative plans for future use of financial resources.

10. Use of Estimates

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

11. Data Control Codes

The 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 submitted to them in order to insure accuracy in building a statewide database for policy development and funding plans.

Note 2 - Reconciliation of Government-Wide and Fund Financial Statements

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. Also, the property taxes receivable which is included as deferred in the fund financial statements are adjusted based on when the tax levy was made and adjusted for uncollectible amounts.

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net assets of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net assets. The debt payments on retirement of debt are recorded as expenditures for fund basis financial statements but are a reduction of debt in the government wide financial statements. The capital asset additions are expenditures in the fund basis financial statements but are capitalized in the government-wide financial statements. The fund-basis financial statements do not include depreciation expense. The depreciation expense is a deduction to reconcile to the Government-Wide Statement of Activities. New debt issues are treated as sources of revenue for fund-basis financial statements, but for the government-wide statements, those amounts are recorded as a liability. Property taxes are adjusted for the accrual basis and the deferred revenues are adjusted based on prior year levies and current year uncollectible amounts.

Note 3 - Stewardship, Compliance, and Accountability

A. Budgetary Data

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund, the National School Breakfast and Lunch program which is included in the Enterprise Funds. Budgets are prepared using the same method of accounting as for financial reporting. The District is required to present the adopted and final amended budgeted revenues and expenditures for the general fund. The General Fund Budget report appears in the required supplementary information section where the District compares the final amended budget to actual revenues and expenditures. Per TEA regulatory requirements, the Debt Service and Child Nutrition Funds are required to be reported with the annual original budget, amended budget and actual revenues and expenditures. These statements are included as other Supplementary Information of the School District's Annual Financial and Compliance Report in Exhibit H-1 and H-2.

Note 3 - Stewardship, Compliance, and Accountability (Continued)

A. Budgetary Data (Continued)

The Capital Projects Fund budget is prepared on a project-basis based on the proceeds available from bond issues and planned expenditures outlined in applicable bond ordinances. Capital Projects Fund equity, which represents unexpended appropriations, is reappropriated in the subsequent fiscal year's budget until available funds for acquisition and construction of facilities have been utilized. Each major construction contract is approved based on the existing availability of bond proceeds and/or approved but unissued bonds.

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

1. Prior to August 20, the District prepares a budget for the next succeeding fiscal year beginning September 1st. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board 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 function and fund level by approval of a majority of the members of the Board. During the year, 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.
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. During the fiscal year, the operating budget must be amended by the Board for changes to function appropriation amounts. All supplemental appropriations must be within limits of available revenues and fund equity.

B. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded in order to reserve that portion of the applicable appropriation, is used in all governmental funds. Encumbrances outstanding at year end are commitments that do not constitute expenditures or liabilities, but are reported as reservations of fund balances. Since under Texas law, appropriations lapse at the end of each fiscal year, outstanding encumbrances are appropriately provided for in the subsequent fiscal year's budget to provide for the liquidation of the prior commitments.

Note 4 - Deposits (Cash) and Investments

A. Deposits (Cash)

Deposits and investment transactions of the District are regulated by State statutes through provisions of Chapter 23, Subchapter E, Sections 23.71 through 23.8 (the School Depository Act) of the Texas Education Code and other Code sections referenced therein and through provisions of the Texas Revised Civil Statutes, Title 47, Articles 2529c, and 2548a regarding security for District funds in depository institutions.

In accordance with applicable statutes, the District has a depository contract with an area bank (depository) providing for interest to be earned on deposited funds and for banking charges the District incurs as a result of banking services received. All depository contracts have a term of two years, commencing with the start of every odd-numbered fiscal year. Depository contracts are awarded on the basis of competitive bids received from area banks and can be awarded to more than one bank if the bids received are relatively equal.

The District may place funds with the depository in interest and non-interest bearing accounts. Statutes and the depository contract require that all funds in the depository institution be fully secured by federal depository insurance or a combination of federal depository insurance and acceptable collateral securities and/or an acceptable surety bond. The collateral securities must be delivered to the District or placed with an independent trustee institution with safekeeping receipts delivered to the District. In accordance with State statutes pertaining to lawful collateralization of District deposits, safekeeping receipts are issued in the name of the depository with proper indication that the collateral securities are pledged by the depository to secure funds of the District.

Acceptable collateral securities include direct obligations of the United States of America (U.S.), bonds of any agency of the U.S. (except Farmers Home Administration Insured Notes), Bonds of the State of Texas or of any county, school district, city, or town of the State of Texas that have been rated A or better by Moody's Investors Service, Inc., as authorized by Chapter 2257 Collateral for Public Funds of the Government Code.

The District must approve all collateral securities prior to the security being pledged. The depository can change collateral securities pledged to secure District funds only upon obtaining the written approval of the District.

All demand and time deposits in the depository bank were entirely covered by federal depository insurance and by acceptable collateral securities held in the District's name by an agent of the District at year-end in accordance with provisions of the depository contract. Demand and time deposits at various banks held on behalf of different student groups were entirely covered by federal depository insurance at year-end.

At August 31, 2008, the carrying amount of the District’s cash on deposit was $4,110,057 and the bank balance was $7,015,288. The District deposits in Amegy Bank and Wells Fargo Bank were secured with $6,715,288 of pledged collateral and $300,000 of FDIC coverage.

In addition, cash equivalents of $1,245,574 include money market accounts of $1,840,955 and external investment pools of $91,088,593.

Note 4 - Deposits (Cash) and Investments (Continued)

B. Investments

The Board of Trustees of the District has adopted a written investment policy (the "Investment Policy") regarding the investment of its funds as defined in the Public Funds Investment Act of 1995 (Chapter 2256, Texas Government Code). The Public Funds Investment Act requires an annual audit of investment practices. Audit procedures in this area, conducted as part of the audit, disclosed that in the area of investment practices, management reports, and establishment of appropriate policies, the District was in substantial compliance with the requirements of the Act. Additionally, the investments and investment practices of the District are in compliance with the Trustees' investment policies.

The District's Investment Policy emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity, and addresses the quality and capability of investment personnel. The Investment Policy includes a list of authorized investment instruments.

The District is authorized to invest in the following investment instruments provided that they meet the guidelines of the Investment Policy:

1. Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009;
2. Certificates of deposit and share certificates as permitted by Government Code 2256.010;
3. Fully collateralized repurchase agreements permitted by Government Code 2256.011;
4. A securities lending program as permitted by Government Code 2256.0115;
5. Bankers' acceptances as permitted by Government Code 2256.012;
6. Commercial paper as permitted by Government Code 2256.013;
7. No-load money market mutual funds and no-load mutual funds as permitted by Government Code 2256.014;
8. A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015;
9. Public funds investment pools as permitted by Government Code 2256.016;

A summary of the District's cash and investments at August 31, 2008, are shown below.

	Cash on Deposit	Money Market Accounts	External Investment Pools	Federal Agency Securities	Commercial Paper	Total
Governmental Activities:						
General Fund	$ 272,779	$ 1,840,955	$ 5,466,153	$ 36,004,358	$	$ 43,584,245
Debt Service Fund	63,011		8,134,028			8,197,039
Capital Projects Fund	459,016		67,666,179	57,007,635	7,894,075	133,026,905
Nonmajor Governmental Funds	286,450		2,738,584			3,025,034
Nonmajor Internal Service Funds	2,532,915		4,217,740	4,599,162	2,952,799	14,302,616
Total Governmental Activities	3,614,171	1,840,955	88,222,684	97,611,155	10,846,874	202,135,839
Business-type Activities:						
Nonmajor Enterprise Funds	495,886		2,865,909			3,361,795
Total Business-type Activities	495,886		2,865,909			3,361,795
Fiduciary Funds:						
Agency Funds	657,189		588,385			1,245,574
Total Fiduciary Funds	657,189		588,385			1,245,574
Total	$ 4,767,246	$ 1,840,955	$ 91,676,978	$ 97,611,155	$ 10,846,874	$ 206,743,208

Note 4 - Deposits (Cash) and Investments (Continued)

B. Investments (Continued)

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

The District generally holds all U.S. government securities to maturity. The District did not purchase any derivative investment products during the current year nor participate in any reverse repurchase agreements or security lending agreements during the fiscal year 2008.

The District has a certain amount of its bank balances swept daily into an overnight money market mutual fund type investment account managed by the bank. These amounts are swept back into the bank account at the opening of business each day.

The following table includes the portfolio balance, credit rating, and percentage of the portfolio balance by investment type held by the District as of year end:

	Fair Value	Credit Quality Rating	Percentage of Investments
Investment Type:			
Local Government Investment Pools:			
Lone Star	$ 8,362,233	AAA	4.2%
MBIA	74,011,474	AAA	37.0%
Texas Term	1,012	AAA	0.001%
Texpool	9,302,259	AAAm	4.6%
Total Local Government Investment Pools	91,676,978		45.8%
Investment Securities:			
Federal National Mortgage Assoc.	50,293,018	AAA	25.1%
Federal Home Loan Mortgage Corp.	16,671,670	AAA	8.3%
Federal Home Loan Bank	26,047,305	AAA	13.0%
Federal Farm Credit Bank	4,599,162	AAA	2.3%
Commercial Paper	10,846,874	A-1/P-1	5.4%
Total Investment Securities	108,458,029		54.1%
	$ 200,135,007		100.0%

Note 4 - Deposits (Cash) and Investments (Continued)

B. Investments (Continued)

The following table includes the portfolio balance, percentage of investment by portfolio balance, and weighted average days to maturity by investment type.

	Fair Market Value	Percentage of Investments	Weighted Average Maturity (Days)
Governmental Activities:			
Investments:			
Local Government Investment Pools:			
Lone Star	$ 7,773,848	3.9%	39
MBIA	74,011,474	37.0%	32
Texas Term	1,012	0.001%	57
TexPool	6,436,270	3.2%	42
Total Local Government Investment Pools	88,222,604	44.1%	15
Investment Securities:			
Federal National Mortgage Assoc.	50,293,018	25.1%	157
Federal Home Loan Mortgage Corp.	16,671,670	8.3%	284
Federal Home Loan Bank	26,047,305	13.0%	215
Federal Farm Credit Bank	4,599,163	2.3%	337
Commercial Paper	10,846,873	5.4%	188
Total Investment Securities	108,458,029	54.2%	109
Total Governmental Activities	196,680,633	98.3%	124
Business-type Activities:			
Investments:			
Local Government Investment Pools:			
TexPool	2,865,989	1.4%	42
Total Investments	2,865,989	1.4%	1
Total Business-type Activities	2,865,989	1.4%	1
Fiduciary Funds			
Investments:			
Local Government Investment Pools:			
Lone Star	588,385	0.3%	35
Total Investments	588,385	0.3%	
Total Fiduciary Funds	588,385	0.3%	
Total	$ 200,135,007	100.0%	124

Note 4 - Deposits (Cash) and Investments (Continued)

B. Investments (Continued)

Local Government Investment Pools

As of August 31, 2008, the District's investments included the Texas Local Pool ("TexPool"), MBIA Government Class Investment Pool ("MBIA"), the Texas Association of School Boards Lone Star Investment Pool ("Lone Star"). The TexPool, MBIA and Lone Star investment pools' investments are not evidenced by securities that exist in physical or book entry form and, accordingly, do not have custodial risk.

Texpool is duly chartered and overseen by the State Comptroller's Office and administered by Federated Investors, Inc. The State Street Bank is the custodial bank. The portfolio consists of U.S. T-Bills, T-Notes, collateralized repurchase and reverse repurchase agreements, and no-load money market mutual funds regulated by the Securities and Exchange Commission. And rated AAA or equivalent by at least one nationally recognized rating service. Lone Star is duly chartered by the State of Texas Interlocal Cooperation Act, is administered by RBC Dain Rauscher, Inc., and managed by Standish Mellon and American Beacon Advisors. The Bank of New York is the custodial bank. Lone Star is restricted to invest in obligations of the United States or its agencies and instrumentalities; other obligations insured by the United States; fully collateralized repurchase agreements having a defined termination date, secured by obligations described previously; and SEC-registered no-load money market mutual funds, the assets of which consist exclusively of the obligations described above. MBIA is duly chartered by the State of Texas Interlocal Cooperation Act, is administered and managed by MBIA Municipal Investors Service Corporation. Wells Fargo Bank, N.A. is the custodial bank. The primary objectives of MBIA is to maintain safety of principal while providing participating government entities (Participants) with the highest possible rate of return for invested funds.

The value of District portions in TexPool and Lone Star are the same as the value of the shares. These external pooled funds operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The external pooled funds use amortized cost rather than market value to report net assets to compute share price. Accordingly, the fair value of the positions of the pooled funds is the same as the value of the external pool shares. The funds are structured similar to a money market mutual fund which allows shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of $1, although this cannot be fully guaranteed.

Investment Risk

The risk exposure for governmental and business-type activities, individual major funds, nonmajor funds in the aggregate and fiduciary fund types of the District are not significantly greater than the deposit and investment risk of the overall primary government. The District's Investment Policy segregates the portfolios into strategic categories including:

1. Operating Funds
2. Debt Service Fund
3. Capital Projects Fund
4. Other Funds

Note 4 - Deposits (Cash) and Investments (Continued)

B. Investments (Continued)

The District's Investment Policy seeks to control credit risk. Such risk is controlled by investing in compliance with the District's Investment Policy, qualifying the broker and financial institutions with whom the District will purchase investments, sufficient collateralization, portfolio diversification, and limiting maturity.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The District monitors interest rate risk utilizing weighted average maturity analysis. In accordance with the Investment Policy, the District reduces its exposure to declines in fair market values by limiting the weighted average maturity of its investment portfolio to no more than 180 days, with the exception of debt service and capital projects funds which are limited to no more than 18 months without specific board approval. All investments at year end complied with the Investment Policy in regard to maximum maturity dates and weighted average maturity limitations.

Adjustment to Investment's Fair Value

The District's portfolio value fluctuates in an inverse relationship to any change in interest rate. Accordingly, if interest rates have risen, the portfolio value will have declined. If interest rates have fallen, the portfolio value will have risen. Market values of U.S Treasury Notes, U.S. Government Agency Securities, and Commercial Paper, are based on quoted market values. The investments are reported by the District at fair value in accordance with Governmental Accounting Standards. The District had no gain or losses from the sales of securities because they were held to maturity. The amount of increase or decrease in the fair value of investments is included in investment income as follows:

	Governmental Activities	Business-type Activities	Total
Interest income	$ 8,559,284	$ 140,137	$ 8,699,421
Net decrease in investment values			
Total Investment Earnings	$ 8,559,284	$ 140,137	$ 8,699,421

Note 5 - Property Taxes

Property taxes are levied by October 1st 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 1st of the year following the year in which imposed. On January 1st of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Appraised values are established by the Central Appraisal District (CAD) of Galveston County, Texas. Taxes are levied by the District's Board of Trustees based on the appraised values received from Galveston Central Appraisal District. Billing and collection of tax levies are performed by the District.

Property tax rates, established in accordance with state law, are levied on real and personal property within the District's boundaries for use in financing general government and debt service expenditures.

Note 5 - Property Taxes (Continued)

Tax rates levied to finance general government and debt service expenditures for the fiscal year were $1.0000 and $0.3200, respectively, based on an assessed property valuation of approximately $13.4 billion resulting in an adjusted tax levy of approximately $177.3 million. Allowances for uncollectible taxes are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

Governmental funds net property taxes receivable at August 31, 2008, consisted of the following:

	General Fund	Debt Service Fund	Total
Delinquent taxes:			
Current year levy	$ 1,530,821	$ 489,863	$ 2,020,684
Prior year levy	5,238,109	910,687	6,148,796
Total delinquent taxes	6,768,930	1,400,550	8,169,480
Less allowance for uncollectible taxes	(1,015,340)	(210,083)	(1,225,423)
Net property taxes receivable	$ 5,753,590	$ 1,190,467	$ 6,944,057

Note 6 - Receivables Due From Other Governments

Receivables due from other governments at August 31, 2008, consisted of the following:

	General Fund	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Total
Due from other governments:				
Federal	$ 10,804	$ 401,222	$ 61,773	$ 473,799
State	22,169,920	551,325		22,721,245
Other governments (Local governments, universities and other)		44,384		44,384
Total due from other governments	$ 22,180,724	$ 996,931	$ 61,773	$ 23,239,428

Note 7 - Amounts Due To/From Other Funds

Amounts due to/from other funds at August 31, 2008, consisted of the following:

	Interfund Receivable	Interfund Payable	Net
Governmental Activities			
General Fund	$	$ 2,099,807	$ (2,099,807)
Debt Service Fund	99,807		99,807
Capital Projects Fund	2,000,000		2,000,000
Nonmajor Governmental Funds	566,351	566,351	
Total Governmental Activities	2,666,158	2,666,158	
Total	$ 2,666,158	$ 2,666,158	$

Interfund balances represent amounts paid for current operating expenditures or amounts collected in the general fund to be distributed to other funds. The amounts are to be settled between the funds the following month.

Transfer Out	Transfer In	Amount
General Fund	Capital Projects	$ 2,000,000
General Fund	Nonmajor Governmental Funds	101,162
General Fund	Nonmajor Internal Service Funds	1,000,000
Nonmajor Internal Service Funds	Nonmajor Internal Service Funds	500,000
		$ 3,601,162

Funds were transferred from the general fund to other funds as follows:

- Capital projects to reserve funds for likely District insurance deductibles resulting from Hurricane Ike.
- Nonmajor governmental funds to account for grant management costs.
- Nonmajor internal service funds for an additional contribution to increase net asset balances in the Health Insurance Fund.

Funds were transferred from nonmajor internal service funds to other funds as follows:

- Nonmajor internal service funds to increase net asset balances in the Health Insurance Fund.

Note 8 - Capital Assets

The District records assets based on historical costs and calculates depreciation on capital assets in accordance with GASB Statement 34. The District's capitalization policy is to capitalize assets costing over $5,000 and with a life expectancy of 1 year or more. Depreciation expense is allocated to functional categories based upon expenditures in the general fund.

Capital asset activity for the governmental activities of the District for the year ended August 31, 2008, are as follows:

	Balance August 31, 2007	Additions	(Retirements) and Transfers	Balance August 31, 2008
Governmental Activities:				
Capital assets, not being depreciated:				
Land	$ 58,183,426	$ 2,058,966	$	$ 60,242,392
Construction in progress	16,564,482	52,880,988	(9,377,287)	60,068,183
Total Capital assets, not being depreciated	74,747,908	54,939,954	(9,377,287)	120,310,575
Capital assets, being depreciated:				
Land improvements	20,062,939	202,652	2,334,864	22,600,455
Buildings and improvements	549,810,014	7,086,025	5,769,705	562,665,744
Furniture and equipment	80,777,511	5,816,581	363,443	86,957,535
Total Capital assets, being depreciated	650,650,464	13,105,258	8,468,012	672,223,734
Less accumulated depreciation for:				
Land improvements	(5,156,305)	(1,214,705)		(6,371,010)
Buildings and improvements	(149,833,582)	(17,412,038)	404,387	(166,841,233)
Furniture and Equipment	(37,892,503)	(9,407,621)	454,274	(46,845,850)
Total Acumulated depreciation	(192,882,390)	(28,034,364)	858,661	(220,058,093)
Governmental Capital Assets	$ 532,515,982	$ 40,010,848	$ (50,614)	$ 572,476,216
Business-type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	$ 126,535	$	$	$ 126,535
Furniture and equipment	1,094,882	52,396	(19,689)	1,127,589
Total Capital assets, being depreciated	1,221,417	52,396	(19,689)	1,254,124
Less accumulated depreciation for:				
Buildings and improvements	(1,493)	(17,922)		(19,415)
Furniture and Equipment	(149,188)	(104,288)	19,689	(233,787)
Total Acumulated depreciation	(150,681)	(122,210)	19,689	(253,202)
Business-type Capital Assets	$ 1,070,736	$ (69,814)	$	$ 1,000,922

Note 8 - Capital Assets (Continued)

Depreciation expense of the governmental activities was charged to the functions/programs as follows:

Function	Depreciation Expense
Governmental Activities:	
Instruction	$ 17,795,182
Instructional resources and media services	479,122
Curriculum and staff development	301,438
Instructional leadership	272,698
School leadership	1,673,573
Guidance, counseling and evaluation services	909,948
Social work services	25,241
Health services	268,137
Student transportation	1,012,685
Extracurricular activities	580,110
General administration	826,070
Plant maintenance and operations	3,192,475
Security and monitoring services	246,801
Data processing services	435,977
Community services	14,907
Total Governmental Activities	28,034,364
Business-type Activities:	
Food Services	122,210
Total Business-type Activities:	122,210
Total	$ 28,156,574

A summary of capital projects having construction in progress as of August 31, 2008, is scheduled as follows:

Project	Approved Construction Budget	Construction in Progress	Estimated Remaining Commitment
Construction and Improvements - District High Schools	$ 51,941,707	$ 14,218,916	$ 37,722,791
Construction and Improvements - District Intermediate	24,753,257	6,509,253	18,244,004
Construction and Improvements - District Elementary Schools	37,765,372	14,076,540	23,688,832
Construction and Improvements - Central Support Facility	10,558,601	9,686,248	872,353
District Technology Improvments	5,176,215	4,944,787	231,428
Various District-wide Projects	13,459,446	10,632,439	2,827,007
	$ 143,654,598	$ 60,068,183	$ 83,586,415

Note 9 - Long-Term Debt and Debt Service Requirements

The District issues general obligation bonds to provide funds for the renovation, acquisition and construction of major capital facilities. The general obligation bonds are direct obligations and pledge the full faith and credit of the District.

General long-term debt consists of bonds payable, related accretion on premium compound interest bonds, capital leases and compensated absences. Bonds are payable solely from future revenues of the Debt Service Fund which consists principally of property taxes collected by the District, and investment income. Certain outstanding bonds may be redeemed at their par value prior to their normal maturity dates in accordance with the terms of the related bonds indentures. The District has never defaulted on any bond principal or interest payment. Debt service requirements for accrued compensated absences are payable from the General Fund when due.

On May 20, 2008, the District issued Unlimited Tax Schoolhouse Bonds totaling $78,925,000 and Refunding Bonds totaling $16,505,000. The refunding resulted in an economic loss of $626,062 which will be amortized over the life of the new or refunded bonds, whichever is less.

A summary of general long-term debt transactions of the District for the fiscal year ended August 31, 2008, follows:

	Balance September 1, 2007	Additions	Retirements	Balance August 31, 2008	Due Within One Year
General obligation bonds	$ 563,085,000	$ 95,430,000	$ (32,090,000)	$ 626,425,000	$ 12,025,000
Less deferred amounts:					
For issuance premiums/discounts	21,159,418	2,601,073	(1,438,635)	22,321,856	
Gain or (loss) on refunding bonds	(18,002,227)	(626,062)	2,974,336	(15,653,953)	
Total Bonds and Notes Payable	566,242,191	97,405,011	(30,554,299)	633,092,903	12,025,000
Accreted interest on premium compound interest bonds	25,908,254		(11,888,903)	14,019,351	3,455,000
Compensated absences payable	3,292,326	382,718	(310,518)	3,364,526	541,160
Total Other Liabilities	$ 595,442,771	$ 97,787,729	$ (42,753,720)	$ 650,476,780	$ 16,021,160

Bonds Payable

Bonded debt, at August 31, 2008, is comprised of the following individual issues:

Issue	Original issuance amount	Interest Rate (%)	Maturity Date	Debt Outstanding
Unlimited Tax Refunding Bonds - Series 1991-A (CAB)	$ 13,379,556	6.40% to 7.00%	2011	$ 3,650,000
Unlimited Tax Refunding Bonds - Series 1998	59,239,418	4.25% to 5.125%	2016	14,595,000
Unlimited Tax Schoolhouse and Refunding Bonds - Series 2000 (CAB)	139,122,906	5.00% to 6.00%	2022	5,005,000
Unlimited Tax Schoolhouse and Refunding Bonds - Series 2002	104,118,437	2.00% to 5.00%	2022	84,020,000
Unlimited Tax Schoolhouse and Refunding Bonds - Series 2004-A (CAB)	203,370,097	2.00% to 5.00%	2026	199,955,000
Unlimited Tax Schoolhouse Adjustable Rate Bonds - Series 2004-B	51,000,000	Adjustable	2029	51,000,000
Unlimited Tax Schoolhouse Bonds - Series 2005	109,000,000	4.00% to 5.00%	2029	108,000,000
Unlimited Tax Schoolhouse Bonds - Series 2006	27,885,000	4.25% to 5.50%	2029	27,635,000
Unlimited Tax Schoolhouse Bonds - Series 2007	37,135,000	4.00% to 5.00%	2033	37,135,000
Unlimited Tax Schoolhouse and Refunding Bonds - Series 2008	95,430,000	4.00% to 5.00%	2033	95,430,000
		Total Bonds Payable		626,425,000
		Less Unamortized Refunding Loss		(15,653,953)
		Plus Unamortized Premiums on Issuance		22,321,856
		Net Bonds Payable		633,092,903
		Less Current Portion		(12,025,000)
		Long-term Portion of Bonds Payable		$ 621,067,903

Note 9 - Long-Term Debt and Debt Service Requirements (Continued)

The District is in compliance with all significant bond compliance requirements.

As of August 31, 2008, the District had $66,925,000 in authorized, unissued bonds.

Annual Debt Service Requirements

Annual requirements to amortize all bonded debt outstanding as of August 31, 2008, follow:

Year Ending August 31,	Principal	Interest	Totals
2009	$ 12,025,000	$ 33,781,313	$ 45,806,313
2010	10,450,000	34,961,799	45,411,799
2011	12,555,000	33,333,681	45,888,681
2012	18,835,000	28,189,718	47,024,718
2013	19,825,000	27,308,712	47,133,712
2014	21,520,000	25,692,887	47,212,887
2015	22,840,000	24,607,987	47,447,987
2016	23,980,000	23,478,550	47,458,550
2017	25,160,000	22,281,851	47,441,851
2018	26,425,000	21,002,410	47,427,410
2019	27,755,000	19,661,632	47,416,632
2020	29,140,000	18,261,526	47,401,526
2021	30,605,000	16,782,821	47,387,821
2022	32,080,000	15,289,049	47,369,049
2023	28,040,000	13,880,988	41,920,988
2024	29,385,000	12,498,138	41,883,138
2025	30,800,000	11,048,350	41,848,350
2026	32,235,000	9,557,324	41,792,324
2027	33,675,000	8,076,700	41,751,700
2028	35,120,000	6,579,924	41,699,924
2029	36,545,000	5,093,150	41,638,150
2030	20,300,000	3,864,000	24,164,000
2031	21,310,000	2,823,750	24,133,750
2032	22,360,000	1,732,000	24,092,000
2033	23,460,000	586,500	24,046,500
	626,425,000	$ 420,374,760	$ 1,046,799,760
	(12,025,000)	Less Current Portion	
	$ 614,400,000	**Long-term Portion of Bonds Payable**	

Interest requirements for variable rate debt are calculated using the interest rate effective at the end of the reporting year. The interest rate is reset periodically in accordance with rate reset provisions establishing a one to five year period with interest rates set according to the time period chosen by the Board of Trustees. The bonds carry a current rate ranging from 3.75% to 4.31%.

Note 9 - Long-Term Debt and Debt Service Requirements (Continued)

Accreted Interest on Premium Compound Interest Bonds

A portion of the bonds sold in the Series 1991-A, 2000 and 2004-A refunding bond issues were capital appreciation bonds commonly referred to as "premium compound interest bonds." The 1991-A obligations have a principal value of $3,650,000 and a maturity value of $13,950,000. The 2000 obligations have a principal value of $555,000 and a maturity value of $2,480,000. The 2004-A obligations have a principal value of $285,000 and a maturity value of $4,030,000. The District records the appreciation of bond principal annually for the accreted value of the bonds through maturity of the issue.

The accreted interest on these obligations will be paid upon maturity in the fiscal year ending August 31, 2009 through 2013. The accreted interest of $14,019,351 has been included in the long-term debt of the District. The bonds, maturity value, original bond amount, accreted interest and accreted value as of August 31, 2008, are as follows:

Capital Appreciation Bonds	Maturity	Maturity Value of Bonds	Original Bond Principal Amount	Accreted Interest on Bonds	Acreeted Value of Bonds at Year End
1991-A	2009-2011	$ 13,950,000	$ 3,650,000	$ 8,824,674	$ 12,474,674
2000	2009-2011	2,480,000	555,000	1,749,023	2,304,023
2004-A	2009-2013	4,030,000	285,000	3,445,654	3,730,654
		$ 20,460,000	$ 4,490,000	$ 14,019,351	$ 18,509,351

Commitments under Operating Leases

Commitments under operating (noncapitalized) lease agreements for facilities and equipment are classified as State of Texas Rental Contracts and are cancelable contingent upon budget funding approval. The District is therefore not obligated for any future minimum rental payments at August 31, 2008.

The imputed interest on the leases is not readily determinable.

Rental expenditures during the year ended August 31, 2008 amounted to $1,424,162 .

Note 10 - Refunding of General Long-Term Debt

In 1993, 1998, 2000, 2002, 2004 and 2008 the District defeased certain outstanding bonds by placing proceeds of new bonds in irrevocable escrow accounts to provide for all future debt service payments on the old bonds. Accordingly, the escrow accounts to provide for all future bonds are not included in the District’s financial statements. At August 31, 2008, $211,125,000 of previously refunded bonds outstanding are considered defeased.

Note 11 - Deferred Revenue

Deferred revenue at year end represents assets that are not available for use by the District to liquidate current year liabilities. A summary of deferred revenue by fund follows:

	General Fund	Debt Service Fund	Nonmajor Governmental and Proprietary Funds	Total
Net property taxes receivable	$ 5,403,443	$ 1,086,601	$	$ 6,490,044
Proceeds - Expenditure driven grants:				
State		815,864	53,658	869,522
Local			216,608	216,608
Deferred Revenue	$ 5,403,443	$ 1,902,465	$ 270,266	$ 7,576,174

	Unavailable	Unearned	Total
Deferred property taxes:			
General Fund	$ 5,403,443	$	$ 5,403,443
Debt Sevice Fund	1,086,601		1,086,601
Grant funds received prior to meeting eligibility requirements		1,086,132	1,086,132
Total	$ 6,490,044	$ 1,086,132	$ 7,576,176

Note 12 - Fund Equity

Designations of Fund Balance

In the fund financial statements, the District records fund balance reserves to indicate that a portion of fund balance is legally restricted by outside parties for a specific future use or to indicate that a portion of the fund balance is not available for expenditures. The District designates portions of the unreserved fund balance to indicate the administration's tentative plans for future use of financial resources. The designation is determined by management at the end of each fiscal year.

A summary of designated fund balance as of August 31, 2008, for all governmental fund types follows:

	General Fund
Designated fund balance:	
Sick leave benefits	$ 3,249,506
Special education	750,000
Disaster recovery	2,500,000
Total designated fund balance	$ 6,499,506

Note 13 - Revenues from Local, Intermediate and Out-of-State Sources

A summary of local revenues recorded in the governmental funds for the fiscal year ended August 31, 2008, follows:

	General Fund	Debt Service Fund	Capital Projects	Other Governmental Funds	Total
Property Taxes	$ 134,481,038	$ 42,883,984	$	$	$ 177,365,022
Penalties, interest and other tax related revenue	1,263,385	335,240			1,598,625
Investment Income	4,018,216	567,206	3,838,014	127,164	8,550,600
Co-curricular student activities	402,103			2,821,428	3,223,531
Donations	69,050		10,946	654,334	734,330
Facility rentals	593,186				593,186
SSA - Member Districts	39,850			1,427,105	1,466,955
Tuition and fees	469,629				469,629
Other	233,622		1,049,002	126,102	1,408,726
	$ 141,570,079	$ 43,786,430	$ 4,897,962	$ 5,156,133	$ 195,410,604

Note 14 - General Fund Federal Program Revenues

A summary of federal program revenues received in the General Fund for the fiscal year ended August 31, 2008, follows:

Program or Grant	CFDA #	Amount Recorded in General Fund
Indirect costs:		
ESEA, Title IV - Safe and Drug Free Schools	84.186A	$ 529
ESEA, Title I, Part A - Improving Basic Education	84.010A	27,997
Adult Education ABE	84.002A	2,618
IDEA B - Preschool	84.173A	5,429
ESEA, Title II, Part A - Training and Recruiting	84.367A	16,008
Public Charter School Grant	84.282A	3,700
ESEA, Title III, Part A - English Language Acquisition	84.365A	3,435
ESEA, Title V, Part A - Innovative Programs	84.298A	1,320
Teaching American History	84.215X	314
Clean Living Encouragement and Responsibility	84.184D	4,619
Drug Free Community Support	93.276	3,754
Smaller Learning Communities	84.215L	5,815
Foreign Language Assistance	84.293B	3,919
Total indirect costs		79,457
Direct costs:		
Medicaid (MAC)	93.778	46,606
Medicaid (SHARS)	93.000	368,704
ROTC	12.000	196,969
Impact Aid	84.041	24,977
Total direct costs		637,256
Total Indirect and Direct Costs		$ 716,713

Note 15 - Retirement Plan

Plan Description.

The Clear Creek Independent School District contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple-employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of the employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas state 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 a member contribution rate of 6.4% for fiscal years 2008, 2007 and 2006, and a state contribution rate of 6.58% for fiscal year 2008 and 6.0% for fiscal years 2007 and 2006. In certain instances, the reporting district is required to make all or a portion of the state's 6.58% contribution for fiscal year 2008 and 6.00% for fiscal years 2007 and 2006. Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of 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 amortization period already exceeds 31 years, the period would be increased by such action.

Contributions.

Staff members of the District are required to pay 6.4% of their eligible gross earnings to the TRS pension plan. The State of Texas contributes 6.58% (6.0% for fiscal years 2007 and 2006) of all employees' eligible gross earnings, except for those staff members subject to statutory minimum requirements and those staff members being paid from and participating in federally funded programs. State statutes establish these rates. The statutory minimum requirements are based on the State of Texas teacher schedule adjusted based on local tax rates. For staff members funded by federal programs, the federal programs are required to contribute 6.58% (6.00% for fiscal years 2007 and 2006).

Note 15 - Retirement Plan (Continued)

Contributions made by the State, District and staff members to TRS for the years ended August 31, 2008, 2007, and 2006, are as follows:

Fiscal Year	State TRS Contributions Made on Behalf of the District	District Required Contributions to TRS	Employee Contributions to TRS	District's Annual Covered Payroll
2006	$ 7,425,857	$ 2,771,506	$ 9,693,128	$ 151,456,909
2007	8,522,415	2,680,557	10,717,228	137,183,860
2008	10,007,977	3,222,091	11,835,571	184,931,690

For the current fiscal year and each of the past two years, the District's actual contributions were equal to 100 percent of the required contributions. The contributions made by the State on behalf of the District have been recorded in the governmental funds financial statements of the District as both state revenues and expenditures. These contributions are the legal responsibility of the State.

TRS - Care Health Insurance Benefits for Retirees

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

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and .65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at .55% for fiscal years 2008, 2007, and 2006. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than .25% or greater than .75% of the salary of each active employee of the public school. For staff members funded by federal programs, the federal programs are required to contribute 1.0%.

Note 15 - Retirement Plan (Continued)

Contributions made by the State, District, and staff members, for the years ended August 31, 2008, 2007, and 2006 are as follows:

Fiscal Year	State TRS Contributions Made on Behalf of the District	District Required Contributions to TRS	Employee Contributions to TRS
2006	$ 1,237,643	$ 866,289	$ 984,447
2007	1,420,900	965,517	1,088,455
2008	1,804,903	1,061,104	1,202,057

For the current fiscal year and each of the past two years, the District's actual contributions were equal to 100 percent of the required contributions. The contributions made by the State on behalf of the District have been recorded in the governmental funds financial statements of the District as both state revenues and expenditures. These contributions are the legal responsibility of the State.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries know as Medicare Part D. Under Medicare Part D, TRS-Care receives retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the years ended August 31, 2008, 2007, and 2006, the subsidy payments received by TRS-Care on-behalf of the District were $421,925, $355,115, and $233,260, respectively. These payments are recorded as equal revenues and expenditures in the governmental funds financial statements of the District.

TRS-Care consists of three tiers of coverage: TRS-Care 1, TRS-Care 2, and TRS-Care 3. Each tier has deductibles or premiums that are differentiated by the retiree's or surviving spouse's Medicare status: enrolled in Medicare Part A and eligible for Medicare Part B; not enrolled in Medicare Part A, but eligible to purchase Medicare Part B; and not eligible for Medicare. Dependents must be enrolled in the same coverage tier as the retiree or surviving spouse.

For all disability and service retirees, regardless of their retirement date, to be eligible for TRS-Care, a disability retiree or a service retiree must meet the applicable eligibility requirements specified below.

Disability Retirees - An individual is eligible to participate in the program when they become a disability retiree. Once enrolled in TRS-Care as a disability retiree, they may continue to participate as long as they are a disability retiree.

Coverage for a disability retiree with fewer than 10 years of service will end when disability retirement benefits end.

Note 15 - Retirement Plan (Continued)

Service Retirees - To be eligible to TRS-Care, an individual must have at least 10 years of service credit in the system. This service credit may include up to five years of military service credit, but it may not include any other special or equivalent credit purchased. Additionally, the service retiree must meet one of the following requirements:

- The sum of the retiree's age and years of service credit in the system equals or exceeds 80 at the time of retirement, regardless of whether the retiree had a reduction in the retirement annuity for early age (years of service credit can include all purchased service); or

- The retiree has 30 or more years of service credit in the retirement system at the time of retirement (years of service credit can include all purchased service).

On-Behalf Payments

The amounts recognized for state revenues and expenditures for on-behalf payments relating to fring benefits for the year ended August 31, 2008 was as follows:

Contributions to pension plan	$	10,007,977
Insurance contributions (TRS Care)		1,804,903
Medicare Part D		421,925
	$	12,234,805

Note 16 - Risk Management

The District is exposed to various risks related to torts: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District's risk management program encompasses various means of protecting the District against loss by obtaining property, casualty, and liability coverage through commercial insurance carriers. Settled claims have not exceeded insurance coverage in any of the previous three fiscal years. There has not been any significant reduction in insurance coverage from the previous year.

In addition, the District is a member of the Texas Association of School Board's Joint Account Self-insurance Fund ("TASB Fund"). The TASB Fund was created to formulate, develop and administer a program of modified self-funding for the property and/or liability coverage for its membership, provide claims administration, and develop a comprehensive loss control program. The District pays contributions to the TASB Fund for its general and educators' liability coverage. The District's agreement with the TASB Fund provides that the TASB Fund will be self-sustaining through member premiums and will provide, through commercial companies, reinsurance contracts.

Health Care Coverage

The District sponsors a modified risk management program for health insurance. The District contributes a minimum of $225.00 per month per employee that participates in the plan; employees, at their option, authorize payroll withholdings to pay contributions or premiums for dependents. Premiums are paid into the Health Insurance internal service fund by all other funds and are available to pay claims, claim reserves, and administrative costs of the program. These interfund premiums re reported as revenue in the internal service fund.

Note 16 - Risk Management (Continued)

***Health Care Coverage* (Continued)**

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities also include an estimated amount for claims that have been incurred but not reported ("IBNR"). The result of the process to estimate the claims liability is based upon the District's historical experience. An excess coverage insurance policy covers individual claims in excess of $350,000 with a maximum lifetime benefit of $2,000,000. There were no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverages for each of the past three fiscal years.

Changes in the balances of claims liabilities during the past two fiscal years are as follows:

Fiscal Year	Beginning of Year Accrual	Current Year Estimates	Claims Payments	End of Year Accrual
2007	$ 2,245,654	$ 17,658,790	$ (17,254,444)	$ 2,650,000
2008	2,650,000	18,939,525	(18,539,525)	3,050,000

Workers Compensation

During the year ended August 31, 2008, employees of the District were provided with workers' compensation benefits which were self-funded from accumulated assets, provided directly from the District, which is the plan sponsor. All claims were submitted, processed, and approved by a third party administrator acting as an agent of the District. The plan is documented by contractual agreement.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities also include an estimated amount for claims that have been incurred but not reported ("IBNR"). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of these factors. The estimate of claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from stop-loss or subrogation, are another component of the claims liability estimate. An excess coverage insurance policy covers individual claims in excess of $500,000 up to the statutory limits for any given claim. There were no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverages for each of the past three fiscal years.

Changes in the balances of claims liabilities during the past two fiscal years are as follows:

Fiscal Year	Beginning of Year Accrual	Current Year Estimates	Claims Payments	End of Year Accrual
2007	$ 815,468	$ 749,878	$ (749,878)	$ 815,468
2008	815,468	822,105	(822,105)	815,468

Note 17 - Compensated Absences

Sick Leave Policy

Upon retirement or death of certain employees, the District pays any accrued sick and vacation leave in a lump sum cash payment to such employee or the employee's estate. Individuals employed after October 1, 1985 are not eligible to receive the lump sum payments.

The District records these lump sum payments as expenditures in the General Fund. The District also records a liability in the General Fund based on employees that terminated prior to year end. This liability amounted to $115,020 as of August 31, 2008. Additionally, $426,140 in current compensated absences payable are recorded in the government-wide financial statements.

The District estimates the long-term portion of the sick leave liability and records this amount in the government-wide financials as a long-term liability. The long-term liability for compensated absences was $2,823,366 as of August 31, 2008. The management of the District has designated a portion of the fund balance in the General Fund to pay the accrued sick leave liability.

Changes in the sick leave liability for the year ended August 31, 2008 was as follows:

	Balance September 1, 2007	Additions	Deductions - Payments to Participants	Balance August 31, 2008
Compensated absences payable	$ 3,292,326	$ 382,718	$ (310,518)	$ 3,364,526

Vacation Leave

The District's employees earn vacation time that can be accumulated for a one year period. No liability has been recorded for accumulated vacation pay since the amount is not material to the financial statements.

Note 18 - Litigation, Commitments and Contingencies

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

The District received significant financial assistance from federal and state governmental agencies in the form of grants. The disbursements of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies and the TEA. Any disallowed claims resulting from such audits could become a liability of the General Fund. However, in the opinion of management, such disallowed claims, if any, will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at year end.

Note 19 - Shared Service Arrangements

The District participates in a Shared Service Arrangement (SSA) for the Juvenile Justice Alternative Education Program services with eight other school districts. Approximately 26.8% of the total SSA expenditures are attributable to the District. The District does not account for the revenues or expenditures for this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Dickinson Independent School District, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal contingencies that would give rise to a future additional benefit or burden to Clear Creek Independent School District. The fiscal agent manager is responsible for all financial activities of the SSA.

Presented below are the revenues and expenditures attributable to the Districts participation.

Revenues		
5700 Local revenue from member districts	$	99,902
	$	99,902
Expenditures		
6100 Payroll costs	$	94,369
6200 Contracted services		1,998
6300 Supplies and materials		2,997
6400 Miscellaneous operating costs		538
	$	99,902

The District participates in a Shared Service Arrangement (SSA) for the Galveston-Brazoria Co-op for the Hearing Impaired with ten other school districts. Approximately 32.1% of the total SSA expenditures are attributable to the District. The District is also the fiscal agent of the SSA which provides a system of direct and support services to eligible hearing impaired students of member districts. In addition to the District, other member districts include Alvin ISD, Dickinson ISD, Friendswood ISD, Galveston ISD, Hitchcock ISD, La Marque ISD, Pearland ISD, Santa Fe ISD and Texas City ISD. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent. According to guidance provided in the Texas Education Agency’s Financial Accountability and Resource Guide, the District has accounted for the fiscal agent’s activities of the SSA in Special Revenue Fund No. 458, SSA - Regional Day School Deaf (Local), and will be accounted for using Model 3 in the SSA section of the resource guide.

Presented below are the revenues and expenditures attributable to the Districts participation.

Revenues		
5700 Local revenue from member districts	$	395,740
	$	395,740
Expenditures		
6100 Payroll costs	$	286,373
6200 Contracted services		61,012
6300 Supplies and materials		24,034
6400 Miscellaneous operating costs		4,878
6600 Capital outlay		19,443
	$	395,740

Note 19 - Shared Service Arrangements (Continued)

The District is the fiscal agent for a Shared Services Arrangement ("SSA") which provides a system of direct and support services to eligible hearing impaired students of member districts. In addition to the District, other member districts include Alvin ISD, Dickinson ISD, Friendswood ISD, Galveston ISD, Hitchcock ISD, La Marque ISD, Pearland ISD, Santa Fe ISD and Texas City ISD. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent. According to guidance provided in the Texas Education Agency's Financial Accountability and Resource Guide, the District has accounted for the fiscal agent's activities of the SSA in the special revenue funds listed below, and will be accounted for using Model 3 in the SSA section of the resource guide.

Expenditures of the SSA are summarized below:

	SSA - IDEA B - Discretionary (Deaf)	SSA - IDEA B - Formula (Deaf)	SSA - IDEA B - Preschool (Deaf)	SSA - IDEA C - Early Intervention (Deaf)
Alvin Independent School District	$ 11,588	$ 7,719	$ 1,627	$ 357
Clear Creek Independent School District	22,264	14,832	3,128	684
Dickinson Independent School District	6,762	4,505	950	208
Friendswood Independent School District	2,433	1,621	342	75
Galveston Independent School District	4,866	3,242	684	150
Hitchcock Independent School District	1,837	1,224	258	56
La Marque Independent School District	1,830	1,219	257	56
Pearland Independent School District	11,005	7,331	1,546	338
Santa Fe Independent School District	3,649	2,431	513	112
Texas City Independent School District	3,051	2,033	429	94
	$ 69,285	$ 46,157	$ 9,734	$ 2,130

The District participates in a shared services arrangement for its Juvenile Justice Alternative Education Program. Although a portion of the activity of the shared services arrangement is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Harris County, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Clear Creek Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement.

Presented below are the revenues and expenditures attributable to the District's participation.

Revenues	
5700 Local revenue from member districts	$ 98,641
	$ 98,641
Expenditures	
6100 Payroll costs	$ 98,641
	$ 98,641

Note 19 - Shared Service Arrangements (Continued)

The District participates in a Shared Service Arrangement (SSA) for the Energy for Schools Program with more than seventy other school districts. Approximately 28% of the utility costs paid by the SSA are attributable to the District. The District does not account for the revenues or expenditures for this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Deer Park Independent School District, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal contingencies that would give rise to a future additional benefit or burden to Clear Creek Independent School District. The fiscal agent manager is responsible for all financial activities of the SSA.

Presented below are the revenues and expenditures attributable to the Districts participation.

Revenues		
5700 Local revenue from member districts	$	2,313,393
	$	2,313,393
Expenditures		
6100 Payroll costs	$	1,423
6200 Contracted services		2,311,970
	$	2,313,393

Note 20 - Arbitrage

In accordance with the provisions of Section 148(f) of the Internal Revenue Code of 1986, as amended, bonds must satisfy certain arbitrage rebate requirements. Positive arbitrage is the excess of (1) the amount earned on investments purchased with bond proceeds, or (2) the amount that such investments would have earned had such investments been invested at a rate equal to the yield on the bond issue. In order to comply with the arbitrage rebate requirements, positive arbitrage must be paid to the U.S. Treasury at the end of each five-year anniversary date of the bond issue. The District has estimated that its arbitrage liability as of August 31, 2008, was $246,555.

Note 21 - Other Post-Employment Benefits

The District does not provide post-employment healthcare benefits except those mandated by Consolidated Omnibus Budget Reconciliation Act (“COBRA”). The requirements established by COBRA are fully funded by employees who elect coverage under the act, and no direct costs are incurred by the District.

Note 22 - Related Organizations

The Clear Creek Education Foundation (“Foundation”), a non-profit entity which was organized in 1992 to provide funds for the advancement of teaching objectives, is a “related organization” of the District as defined by *Governmental Accounting Standards Board Statement No. 14*. The members of the Board of the Foundation serve without financial compensation.

Note 23 - Subsequent Event

Subsequent to year end, Hurricane Ike impacted the upper Texas Gulf Coast causing significant damage to District facilities. Damages are estimated to be approximately $17.8 million, with an estimated $9.4 million to be paid from insurance proceeds, and an estimated $6.4 million to be paid from Federal Emergency Management Agency grants, resulting in an estimated cost to the District of $2.0 million. The vast majority of district facilities are back in operation as of the date of these financial statements.

APPENDIX C

FORM OF LEGAL OPINION

ANDREWS KURTH LLP
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January 6, 2009

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

> CLEAR CREEK INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX REFUNDING BONDS, SERIES 2010, dated December 1, 2009, in the aggregate principal amount of $4,780,000, maturing on February 15 in the years 2013 through 2022, inclusive. The Bonds are issuable in fully registered form only, in denominations of $5,000 of principal amount or integral multiples thereof, and 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 and the bonds that are being refunded (the "Refunded Bonds") with the proceeds of the Bonds, as described in the Order. The transcript contains certified copies of certain proceedings of the District and The Bank of New York Mellon Trust Company, N.A. (the "Escrow Agent"); the report (the "Report") of Grant Thornton L.L.P., certified public accountants (the "Verification Agent"), which verifies the sufficiency of the deposits made with the Escrow Agent for the defeasance of the Refunded Bonds and the mathematical accuracy of certain computations of the yield on the Bonds and the obligations acquired with the proceeds of the Bonds; certain certifications and representations and other material facts within the knowledge and control of the District, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds and the firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds. We have also examined executed 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.

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

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the

State of Texas presently in effect; the Bonds constitute valid and legally binding obligations of the District enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with law;

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

(3) The escrow agreement between the District and the Escrow Agent (the "Escrow Agreement") has been duly executed and delivered and constitutes a binding and enforceable agreement in accordance with its terms; the establishment of the Escrow Fund pursuant to the Escrow Agreement and the deposit made therein constitute the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds; in reliance upon the accuracy of the calculations contained in the Report, the Refunded Bonds, having been discharged and paid, are no longer outstanding and the lien on and pledge of ad valorem taxes and other revenues as set forth in the order authorizing their issuance will be appropriately and legally defeased; the holders of the Refunded Bonds may obtain payment of the principal of, redemption premium, if any, and interest in the Refunded Bonds only out of the funds provided therefor now held in escrow for that purpose by the Escrow Agent pursuant to the terms of the Escrow Agreement; and therefore the Refunded Bonds are deemed to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefor in such Escrow Agreement.

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. We have further relied on the Report of the Verification Agent regarding the mathematical accuracy of certain computations. If the District fails to comply with the foregoing provisions of the Order, interest on the Bonds could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusions occurs.

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

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

7867/7866

APPENDIX D

SCHEDULE OF REFUNDED BONDS

Series	Original Maturity	Principal Amount	Call Date/Price	Remaining Outstanding
Unlimited Tax Schoolhouse and Refunding Bonds, Series 2000	2/15/2012	$135,000	2/15/2010 @ 100	-0-
	2/15/2013	150,000	2/15/2010 @ 100	-0-
	2/15/2014	175,000	2/15/2010 @ 100	-0-
	2/15/2015	160,000	2/15/2010 @ 100	-0-
	2/15/2016	260,000	2/15/2010 @ 100	-0-
	2/15/2017	285,000	2/15/2010 @ 100	-0-
	2/15/2018	585,000	2/15/2010 @ 100	-0-
	2/15/2019	620,000	2/15/2010 @ 100	-0-
	2/15/2020	655,000	2/15/2010 @ 100	-0-
	2/15/2021	695,000	2/15/2010 @ 100	-0-
	2/15/2022	730,000	2/15/2010 @ 100	-0-
Unlimited Tax Schoolhouse and Refunding Bonds, Series 2002	2/15/2011	235,000	Non-Callable	$ 3,930,000
	2/15/2012	115,000	Non-Callable	11,110,000