



Report On Performance Of Swap Agreements As Of June 30 And September 30, 2008

**Variable Rate Unlimited Tax School Building Bonds, Series 2005-A &
Variable Rate Unlimited Tax School Building Bonds, Series 2006-B**

Tuesday, October 7, 2008





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Performance Of Swap Agreements – Summary



Performance Of 2005 Swap Agreements – Summary

- Denton Independent School District’s (the “District”) outstanding 2005 Swap Agreements have continued to provide a lower interest cost in comparison to traditional fixed rate bonds, as summarized within the table below.

Performance Of Outstanding 2005 Swap Agreements – February 17, 2005 Through September 30, 2008				
Description	Total Performance Last Report February 17, 2005 – March 31, 2008	Previous Quarter April 1, 2008 – June 30, 2008	Current Quarter July 1, 2008 – September 30, 2008	Total Performance February 17, 2005 – September 30, 2008 (See “Tab 2”)
Notional Amount Of Outstanding Swap Agreement	\$46,500,000	\$46,500,000	\$46,500,000	\$46,500,000
Total Anticipated Fixed Pay Swap Rate	3.67% – 4.02%	3.67% – 4.02%	3.67% – 4.02%	3.67% – 4.02%
Actual Fixed Pay Swap Rate	3.42%	3.42%	3.42%	3.42%
Actual Liquidity & Remarketing Costs	0.16%	0.16%	0.16%	0.16%
Historical Basis Cost/(Benefit)	0.16%	0.21%	0.74% ^(A)	0.20%
Total Actual Fixed Pay Swap Rate	3.74%	3.79%	4.32%	3.78%
Traditional Fixed Rate Bonds	4.45%	4.45%	4.45%	4.45%
Debt Service Benefit Achieved By The District	\$1,039,364	\$72,933	\$11,407	\$1,123,704
Market Value Of 2005 Swap Agreements	(\$2,797,720)	---	---	(\$2,190,978)
Final Maturity Of 2005 Swap Agreements	2035	2035	2035	2035

^(A)Primarily due to underlying variable rate bonds incurring a higher interest rate since September 18, 2008 due to the state of the financial markets.



Performance Of 2006 Swap Agreement – Summary

- The District’s outstanding 2006 Swap Agreement has also continued to provide a lower interest cost in comparison to traditional fixed rate bonds, as summarized within the table below.

Performance Of Outstanding 2006 Swap Agreement – July 27, 2006 Through June 30, 2008				
Description	Total Performance Last Report July 27, 2006 – March 31, 2008	Previous Quarter April 1, 2008 – June 30, 2008	Current Quarter July 1, 2008 – September 30, 2008	Total Performance July 27, 2006 – September 30, 2008 (See “Tab 3”)
Notional Amount Of Outstanding Swap Agreement	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000
Total Anticipated Fixed Pay Swap Rate	3.49% – 4.34%	3.49% – 4.34%	3.49% – 4.34%	3.49% – 4.34%
Actual Fixed Pay Swap Rate	4.08%	4.08%	4.08%	4.08%
Actual Liquidity & Remarketing Costs	0.16%	0.16%	0.16%	0.16%
Historical Basis Cost/(Benefit)	0.24%	(0.91%)	(0.39%)	0.07%
Total Actual Fixed Pay Swap Rate	4.48%	3.33%	3.85%	4.31%
Traditional Fixed Rate Bonds	4.94%	4.94%	4.94%	4.94%
Debt Service Benefit Achieved By The District	\$236,995	\$86,936	\$79,675	\$403,606
Market Value Of 2006 Swap Agreement	(\$3,007,324)	---	---	(\$3,438,413)
Final Maturity Of 2006 Swap Agreement	2035	2035	2035	2035

Collectively, the 2005 and 2006 Swap Agreements have provided a \$1,527,310 debt service savings to the District.



- ❑ The District's swap counterparties are as follows:
 - ✓ **UBS AG ("UBS")**
 - ❖ \$23,250,000 – 2005 Swap Agreement
 - ✓ **Bear Stearns Financial Products Inc. ("BSFP")** – A subsidiary of JPMorgan that is rated "Aaa" and "AAA" by Moody's Investor Service ("Moody's") and Standard & Poor's Ratings Service ("S&P"), respectively.
 - ❖ \$23,250,000 – 2005 Swap Agreement
 - ❖ \$30,000,000 – 2006 Swap Agreement
 - ❖ **\$53,250,000 – Total**
- ❑ On May 30, 2008, the sale of Bear Stearns & Co. to JPMorgan became final.
 - ✓ **JPMorgan has initially chosen to operate BSFP as a stand-alone subsidiary.** The District is unaffected as BSFP remains the swap counterparty to the District. It is important to note, BSFP's ratings remain at "Aaa" and "AAA" by Moody's and S&P.
- ❑ On July 4, 2008, the credit rating of UBS, a swap counterparty for a 2005 Swap Agreement was downgraded by Moody's from "Aa1" to "Aa2." Standard & Poor's Ratings Services and Fitch Ratings continue to assign rating of "AA-" and "AA-", respectively. UBS continues to meet all the swap counterparty parameters outlined within the District's Swap Management Plan.

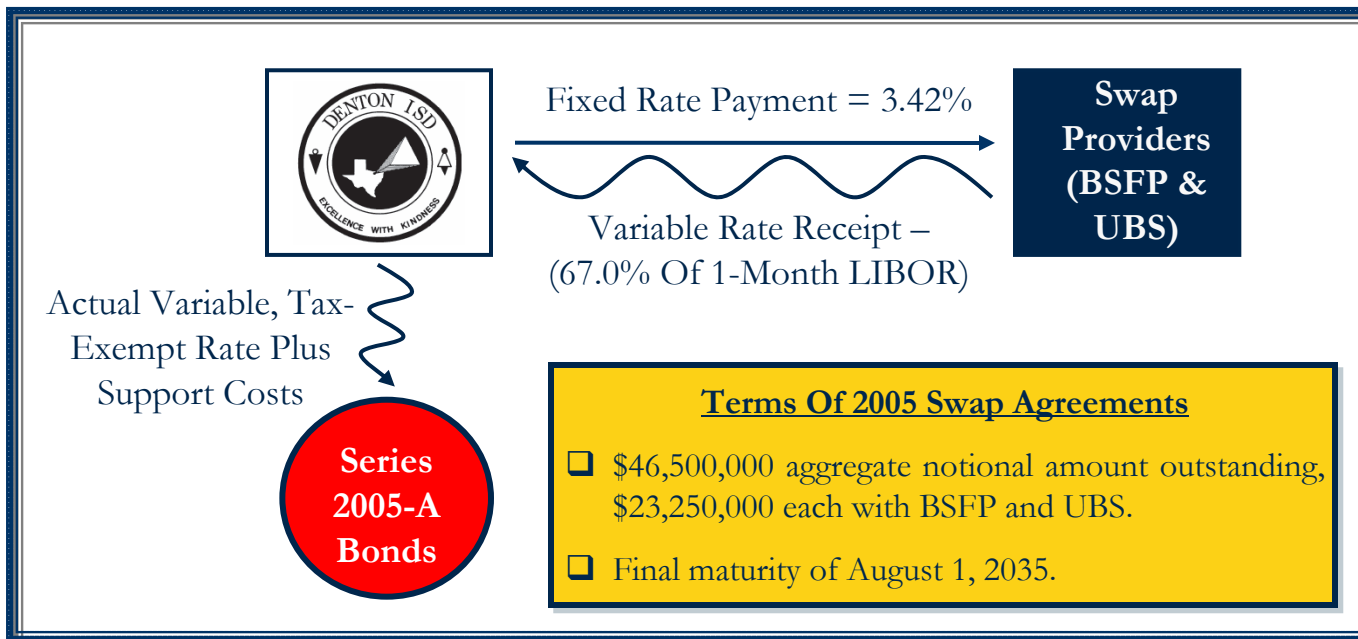


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2005 Swap Agreements

Overview Of 2005 Swap Agreements

- ❑ In order to reduce the District’s interest cost in comparison to the interest cost on traditional fixed rate bonds, on January 27, 2005, the District entered into swap agreements (the “2005 Swap Agreements”) to “synthetically fix” the variable rate of interest on its Variable Rate Unlimited Tax School Building Bonds, Series 2005-A (the “Series 2005-A Bonds”).
- ❑ The 2005 Swap Agreements were structured as a fixed pay, 67.0% of 1-Month LIBOR interest rate swap with a notional amount of \$46,500,000 and a final maturity of August 1, 2035.
- ❑ The District selected Bear Stearns Financial Products Inc. (“BSFP”) and UBS AG (“UBS”) to serve as the swap counterparties. The graph below summarizes the financing structure utilized.





Original Financing Plan – Comparison Of Fixed Pay Swap And Traditional Fixed Rate Bonds

- ❑ The following table presents the District’s anticipated Fixed Pay Swap Rate, estimated debt service differential and the interest rate on traditional fixed rate bonds at the time the 2005 Swap Agreements were executed.

Anticipated Fixed Pay Swap Rate And Estimated Debt Service Differential		
Description	Fixed Pay Swap Without Reserve	Fixed Pay Swap With Reserve
Actual Fixed Pay Swap Rate (Including Costs Of Issuance)	3.42%	3.42%
Estimated Liquidity & Remarketing Costs	0.25%	0.25%
Basis Cost Reserve	0.00%	0.35%
Total Anticipated Fixed Pay Swap Rate	3.67%	4.02%
Traditional Fixed Rate Bonds	4.45%	4.45%
Estimated Debt Service Benefit Through 2035 (Maturity)	\$8,268,689	\$4,690,347

- ❑ As shown, the District anticipated a Fixed Pay Swap Rate ranging from 3.67% to 4.02% over the life of the 2005 Swap Agreements, depending upon the actual level of basis cost incurred. In comparison, the District would have realized an interest rate of approximately 4.45% by issuing traditional fixed rate bonds. Please note, such rates and the estimated debt service differential are based upon certain assumptions relating to the District’s Series 2005-A Bonds, LIBOR rates and liquidity/remarketing costs which may change in the future.



Review Of The District's Basis Risk

- ❑ “Basis risk” is the risk that the variable rate payment the District is obligated to make on the Series 2005-A Bonds may exceed the variable rate payment (i.e. 67.0% of 1-Month LIBOR) received by the District pursuant to the 2005 Swap Agreements.
- ❑ To address the potential basis risk, at the time the 2005 Swap Agreements were originally executed the District was required to establish a 0.35% basis risk reserve. To the extent this reserve is not needed, such funds will be used to pay debt service on the Series 2005-A Bonds.
- ❑ The following table summarizes the District's basis cost on the 2005 Swap Agreements from inception through September 30, 2008.

Summary Of District's Basis Cost – February 17, 2005 – September 30, 2008				
Period	Interest Due On The Series 2005-A Bonds	Interest Received From Swap Providers	Basis Cost/(Benefit) In Dollars	Average Basis Cost/(Benefit) Percentage
February 17 – March 31, 2005	\$ 113,689.32	\$ 100,842.94	\$ 12,846.38	0.23%
April 1 – June 30, 2005	308,900.14	239,213.29	69,686.85	0.60%
July 1 – September 30, 2005	286,873.14	280,829.06	6,044.08	0.05%
October 1 – December 31, 2005	342,787.82	325,285.59	17,502.23	0.15%
January 1 – March 31, 2006	358,929.02	352,168.62	6,760.40	0.06%
April 1 – June 30, 2006	415,595.35	392,668.24	22,927.11	0.20%
July 1 – September 30, 2006	421,761.35	419,966.44	1,794.91	0.02%
October 1 – December 31, 2006	425,137.40	418,597.99	6,539.41	0.06%
January 1 – March 31, 2007	415,518.89	408,762.03	6,756.86	0.06%
April 1 – June 30, 2007	441,915.59	413,226.26	28,689.33	0.25%
July 1 – September 30, 2007	438,080.98	426,192.19	11,888.79	0.10%
October 1 – December 31, 2007	404,295.21	386,507.87	17,787.34	0.15%
January 1 – March 31, 2008	286,190.99	261,927.20	24,263.79	0.21%
April 1 – June 30, 2008	225,105.74	200,956.52	24,149.22	0.21%
July 1 – September 30, 2008	288,414.34	201,546.80	86,867.54^(A)	0.74%
TOTALS	\$5,173,195.28	\$4,828,691.04	\$344,504.24	0.20%

(A) Primarily due to underlying variable rate bonds incurring a higher interest rate since September 18, 2008 due to the state of the financial markets.



Review Of Actual Fixed Pay Swap Rate To Date

- ❑ The table below compares the District’s anticipated Fixed Pay Swap Rate at the time the 2005 Swap Agreements were completed with the actual results achieved since inception through September 30, 2008.

Comparison Of Anticipated And Actual Fixed Pay Swap Rates – February 17, 2005 – September 30, 2008			
Description	Anticipated Fixed Pay Swap Rate Without Reserve	Anticipated Fixed Pay Swap Rate With Reserve	Actual Fixed Pay Swap Rate
Actual Fixed Pay Swap Rate (Including Costs Of Issuance)	3.42%	3.42%	3.42%
Liquidity & Remarketing Costs	0.25%	0.25%	0.16%
Basis Cost	0.00%	0.35%	0.20%
Total Fixed Pay Swap Rate	3.67%	4.02%	3.78%
Traditional Fixed Rate Bonds	4.45%	4.45%	4.45%

- ❑ Based upon the District’s actual Fixed Pay Swap Rate of 3.78% and a traditional fixed rate bond cost of 4.45%, the District has realized a debt service savings of \$1,123,704 from inception of the 2005 Swap Agreements through September 30, 2008.
- ❑ To date, the 2005 Swap Agreements have provided a lower interest rate than traditional fixed rate bonds.



Market Value Of The 2005 Swap Agreements

- ❑ The 2005 Swap Agreements are considered assets of the District and as such, retain a market value.
- ❑ It is important to note that future fluctuations in interest rates will affect the market value of the 2005 Swap Agreements, causing the District to have an unrealized gain or loss, much like an investment. However, the District's financing plan for the Series 2005-A Bonds was formulated on the premise that the 2005 Swap Agreements would not be terminated prior to final maturity.
- ❑ The market value of the 2005 Swap Agreements as of September 30, 2008 was (\$2,190,978). In other words, if the District had terminated the 2005 Swap Agreements on September 30, 2008, the District would have made a payment of \$2,190,978 to the swap counterparties.

Counterparty Ratings

- ❑ BSFP is currently rated "Aaa" by Moody's Investors Service and "AAA" by Standard & Poor's Ratings Services, while UBS is rated "Aa2," "AA-" and "AA-" by Moody's Investors Service, Standard & Poor's Ratings Services and Fitch Ratings, respectively.
- ❑ It is important to note that UBS was downgraded by Moody's Investors Service from "Aa1" to "Aa2" on July 4, 2008. Even with such downgrade, UBS continues to meet all the swap counterparty parameters outlined within the District's Swap Management Plan.

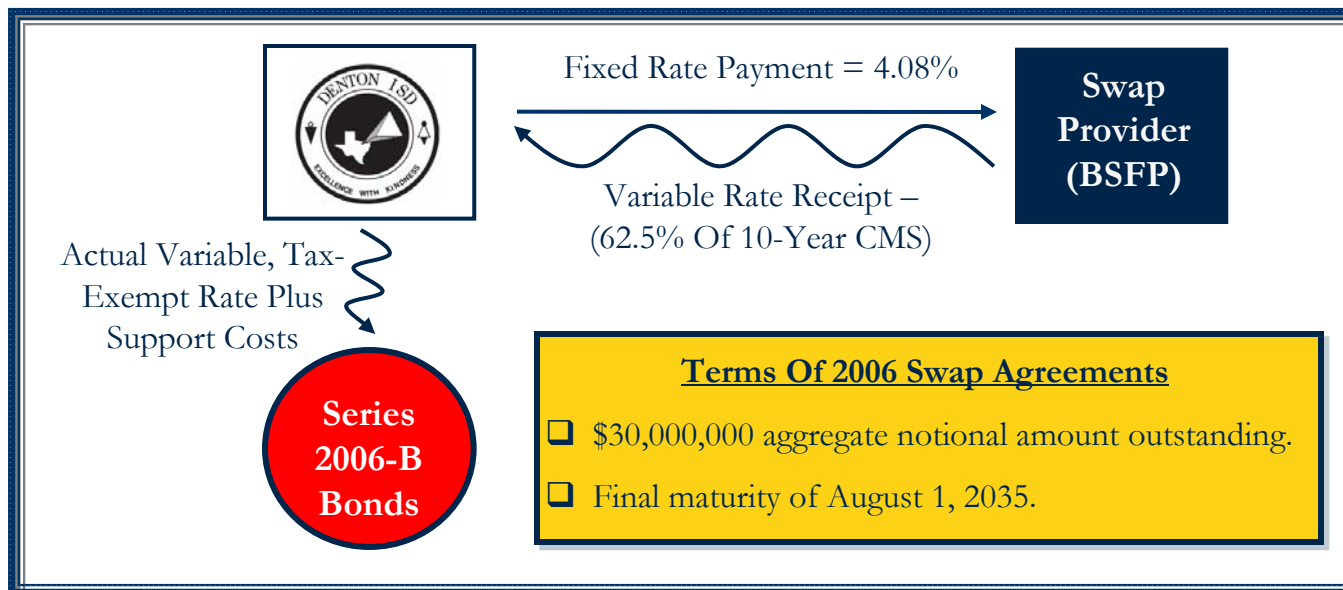


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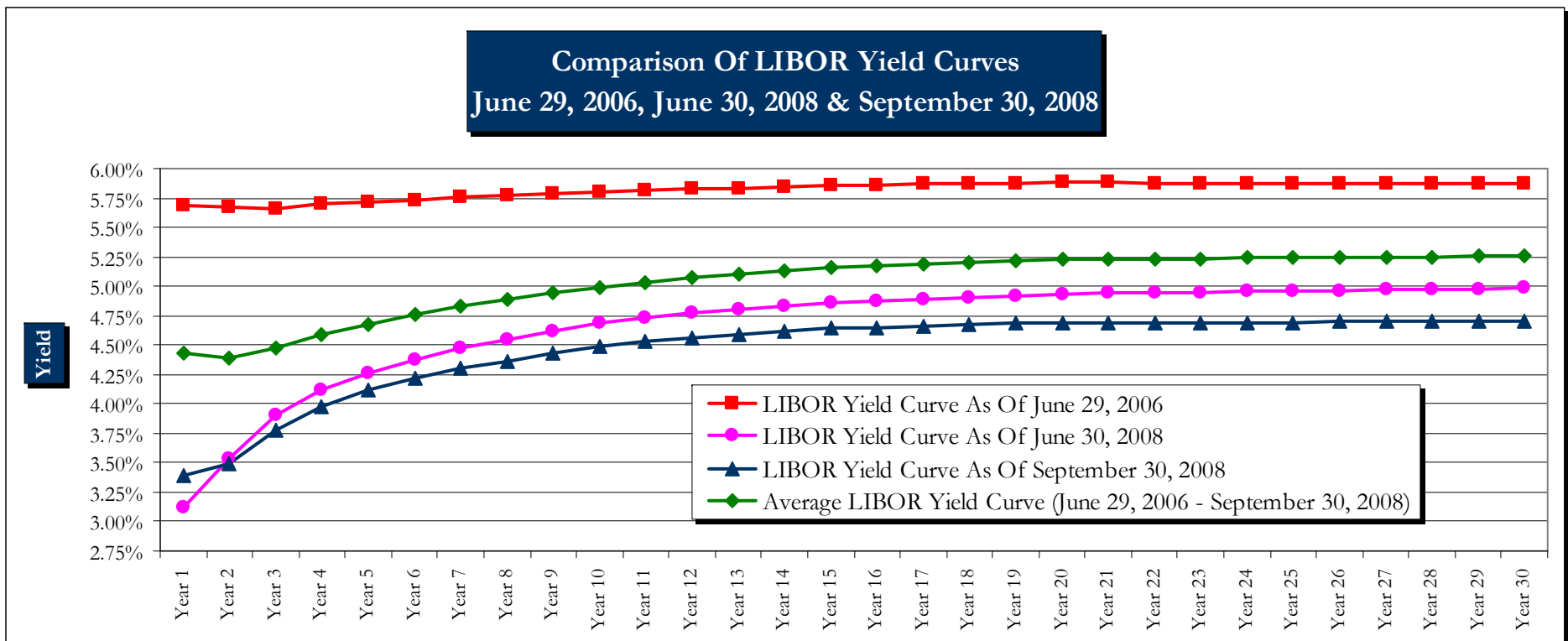
2006 Swap Agreement

Overview Of 2006 Swap Agreement

- ❑ Much like the District’s 2005 Swap Agreements, on June 29, 2006, the District entered into a swap agreement (the “2006 Swap Agreement”) to “synthetically fix” the variable rate of interest on its Variable Rate Unlimited Tax School Building Bonds, Series 2006-B (the “Series 2006-B Bonds”) in order to reduce its interest cost in comparison to the interest cost on traditional fixed rate bonds.
- ❑ The 2006 Swap Agreement was structured as a fixed pay, 62.5% of 10-Year Constant Maturity Swap (“CMS” is a reported market fixed rate of interest at which 10-year interest rate swaps are entered into in exchange for receiving 1-month LIBOR) with a notional amount of \$30,000,000 and a final maturity of August 1, 2035.
- ❑ The District selected Bear Stearns Financial Products Inc. (“BSFP”) to serve as the swap counterparty. The graph below summarizes the financing structure utilized.

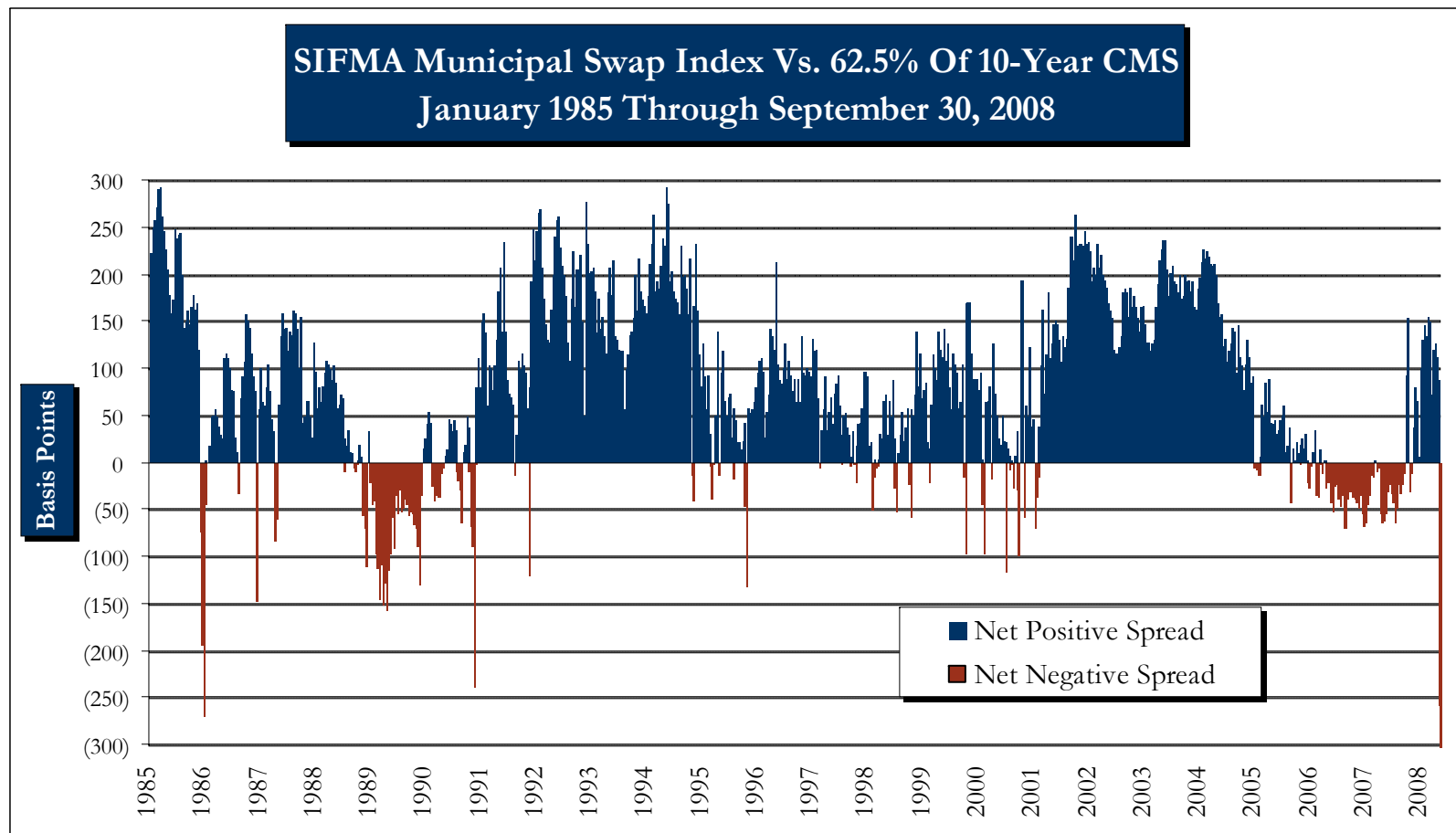


- ❑ Due to the relatively flat LIBOR yield curve (i.e. difference between a 1-year and 10-year rate) that existed at the time the 2006 Swap Agreement was implemented (see graph below), the 2006 Swap Agreement was structured to allow the District to receive a variable payment based upon a longer term index (i.e. 10-Year CMS).
- ❑ By receiving a variable rate payment based on a longer term index, the District should benefit as the yield curve steepens.
- ❑ During the time period of June 29, 2006 (i.e. the date the 2006 Swap Agreement was priced) and September 30, 2008, the LIBOR yield curve has remained relatively flat as shown by the average LIBOR yield curve. However, the LIBOR yield curve has steepened as demonstrated by the slope of the LIBOR yield curve as of June 30 and September 30, 2008.





- The following graph demonstrates the historical relationship between the Securities Industry and Financial Markets Association's ("SIFMA") Municipal Swap Index, a weekly index comprised of tax-exempt variable rate bonds, and 62.5% of 10-Year CMS. As shown below during the time period of June 29, 2006 (the date the 2006 Swap Agreement was priced) and September 30, 2008, the relationship between SIFMA and 62.5% of 10-Year CMS has been predominantly negative. However, the relationship has been positive during six of the last eight months.





Original Financing Plan – Comparison Of Fixed Pay Swap And Traditional Fixed Rate Bonds

- The following table presents the District’s anticipated Fixed Pay Swap Rate, estimated debt service differential and the interest rate on traditional fixed rate bonds at the time the 2006 Swap Agreement was executed.

Anticipated Fixed Pay Swap Rate And Estimated Debt Service Differential		
Description	With Historical Basis Benefit	Without Historical Basis Benefit
Fixed Pay Swap Rate (Including Costs of Issuance)	4.08%	4.08%
Estimated Liquidity & Remarketing Expenses	0.26%	0.26%
Historical Basis Cost/(Benefit)	(0.85%)^(A)	0.00%
Total Anticipated Fixed Pay Swap Rate	3.49%	4.34%
Traditional Fixed Rate Bonds	4.94%	4.94%
Estimated Debt Service Benefit Through 2035 (Maturity)	\$11,376,715	\$4,747,664

^(A) At the time the 2006 Swap Agreement was priced, 0.85% had been the average basis benefit for a 62.5% of 10-Year CMS since 1985.

- As shown, the District anticipated a Fixed Pay Swap Rate ranging from 3.49% to 4.34% over the life of the 2006 Swap Agreement. In comparison, the District would have realized an interest rate of approximately 4.94% by issuing traditional fixed rate bonds. Please note, such rates and the estimated debt service differential are based upon certain assumptions relating to the District’s Series 2006-B Bonds, LIBOR rates and liquidity/remarketing costs which may change in the future.



Review Of The District's Basis Risk

- ❑ “Basis risk” is the risk that the variable rate payment the District is obligated to make on the Series 2006-B Bonds may exceed the variable rate payment (i.e. 62.5% of 10-Year CMS) received by the District pursuant to the 2006 Swap Agreement.
- ❑ To address the potential basis risk, at the time the 2006 Swap Agreement was originally executed the District was required to establish a 0.70% basis risk reserve. To the extent this reserve is not needed, such funds will be used to pay debt service on the Series 2006-B Bonds.
- ❑ The following table summarizes the District's basis cost on the 2006 Swap Agreement from inception through September 30, 2008.

Summary Of District's Basis Cost – July 27, 2006 – September 30, 2008				
Period	Interest Due On The Series 2006-B Bonds	Interest Received From Swap Provider	Basis Cost/(Benefit) In Dollars	Average Basis Cost/(Benefit) Percentage
July 27 – September 30, 2006	\$ 192,682.20	\$ 182,532.69	\$ 10,149.51	0.19%
October 1 – December 31, 2006	272,753.41	240,048.25	32,705.16	0.43%
January 1 – March 31, 2007	267,928.78	242,945.75	24,983.03	0.34%
April 1 – June 30, 2007	283,602.74	251,004.00	32,598.74	0.44%
July 1 – September 30, 2007	280,808.21	253,046.75	27,761.46	0.37%
October 1 – December 31, 2007	260,482.18	232,591.00	27,891.18	0.37%
January 1 – March 31, 2008	189,008.20	201,574.00	(12,565.80)	(0.17%)
April 1 – June 30, 2008	142,672.14	210,682.25	(68,010.11)	(0.91%)
July 1 – September 30, 2008	182,934.41	212,271.25	(29,336.84)	(0.39%)
TOTALS	\$2,072,872.27	\$2,026,695.94	\$ 46,176.33	0.07%



Review Of Actual Fixed Pay Swap Rate To Date

- ❑ The table below compares the District’s anticipated Fixed Pay Swap Rate at the time the 2006 Swap Agreement was completed with the actual results achieved since inception through September 30, 2008.

Comparison Of Anticipated And Actual Fixed Pay Swap Rates July 27, 2006 – September 30, 2008			
Description	Anticipated Fixed Pay Swap Rate – With Historical Basis Benefit	Anticipated Fixed Pay Swap Rate – Without Historical Basis Benefit	Actual Fixed Pay Swap Rate
Fixed Pay Swap Rate (Including Costs of Issuance)	4.08%	4.08%	4.08%
Estimated Liquidity & Remarketing Expenses	0.26%	0.26%	0.16%
Historical Basis Cost/(Benefit)	(0.85%)^(A)	0.00%	0.07%
Total Fixed Pay Swap Rate	3.49%	4.34%	4.31%
Traditional Fixed Rate Bonds	4.94%	4.94%	4.94%

(A) At inception, 0.85% had been the average basis benefit for a 62.5% of 10-Year CMS since 1985.

- ❑ Based upon the District’s actual Fixed Pay Swap Rate of 4.31% and a traditional fixed rate bond cost of 4.94%, the District has realized a debt service savings of \$403,606 from inception of the 2006 Swap Agreement through September 30, 2008.
- ❑ To date, the 2006 Swap Agreement has provided a lower interest rate than traditional fixed rate bonds.



Market Value Of The 2006 Swap Agreement

- ❑ Just like the 2005 Swap Agreements, the 2006 Swap Agreement is considered an asset of the District and as such, retains a market value.
- ❑ It is important to note that future fluctuations in interest rates and the steepness of the yield curve will affect the market value of the 2006 Swap Agreement, causing the District to have an unrealized gain or loss. However, the District's financing plan for the Series 2006-B Bonds was formulated on the premise that the 2006 Swap Agreement would not be terminated prior to final maturity.
- ❑ As of September 30, 2008, the market value of the 2006 Swap Agreement was (\$3,438,413). In other words, if the District had terminated the 2006 Swap Agreement on September 30, 2008, the District would have made a payment of \$3,438,413 to the swap counterparty.

Counterparty Ratings

- ❑ The credit ratings of the swap counterparty remain unchanged as BSFP is rated "Aaa" by Moody's Investors Service and "AAA" by Standard & Poor's Ratings Services.