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August 20, 2009

Dr. Ray Braswell
Superintendent of Schools
Denton Independent School District
1307 North Locust
Denton, Texas 76201

Ms. Debbie Monschke
Executive Director of Administrative Services
Denton Independent School District
1307 North Locust
Denton, Texas 76201

Re: Overview of Texas School District Bonds – An Investment Alternative

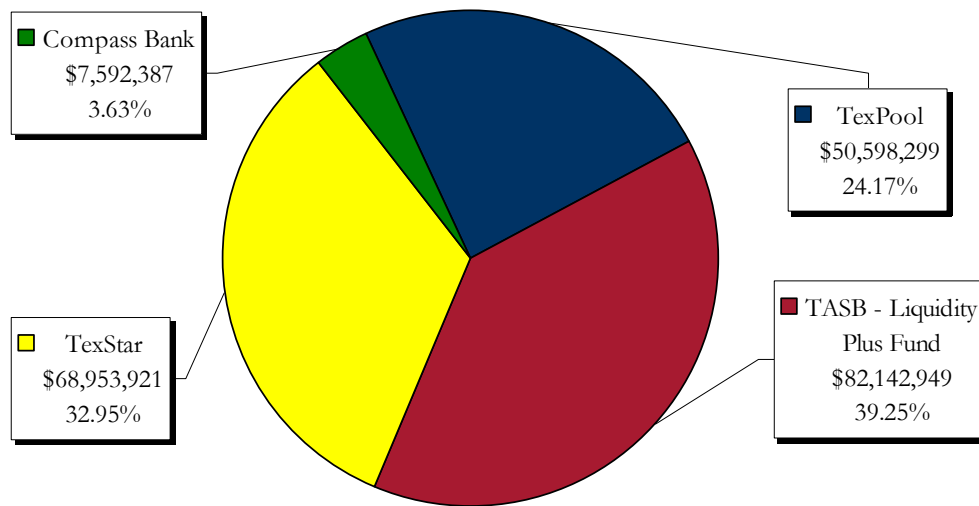
Dear Dr. Braswell and Ms. Monschke:

The following information provides general information on the potential investment of a portion of Denton Independent School District's (the "District") idle funds in short-term Texas school district bonds to increase the District's investment income available for operating costs (i.e. teacher salaries, supplies, etc.) and other expenditures. It is important to note, the investment pools traditionally utilized by Texas school districts have historically had a higher investment rate than Texas school district bonds, but due to the global credit crisis, the interest rates on United States Treasury obligations are currently lower than municipal bonds.

District's Investment Portfolio – As of July 31, 2009

Like the majority of Texas school districts, the District has traditionally utilized investment pools to invest its idle funds. The investment pools have provided an investment rate that has correlated with the United States Treasury market, which are the primary investments of the pools, and allowed the District to invest in a secure "AAA" rated investment. The following chart summarizes the District's investment portfolio as of July 31, 2009.

District's Investment Portfolio - As of July 31, 2009

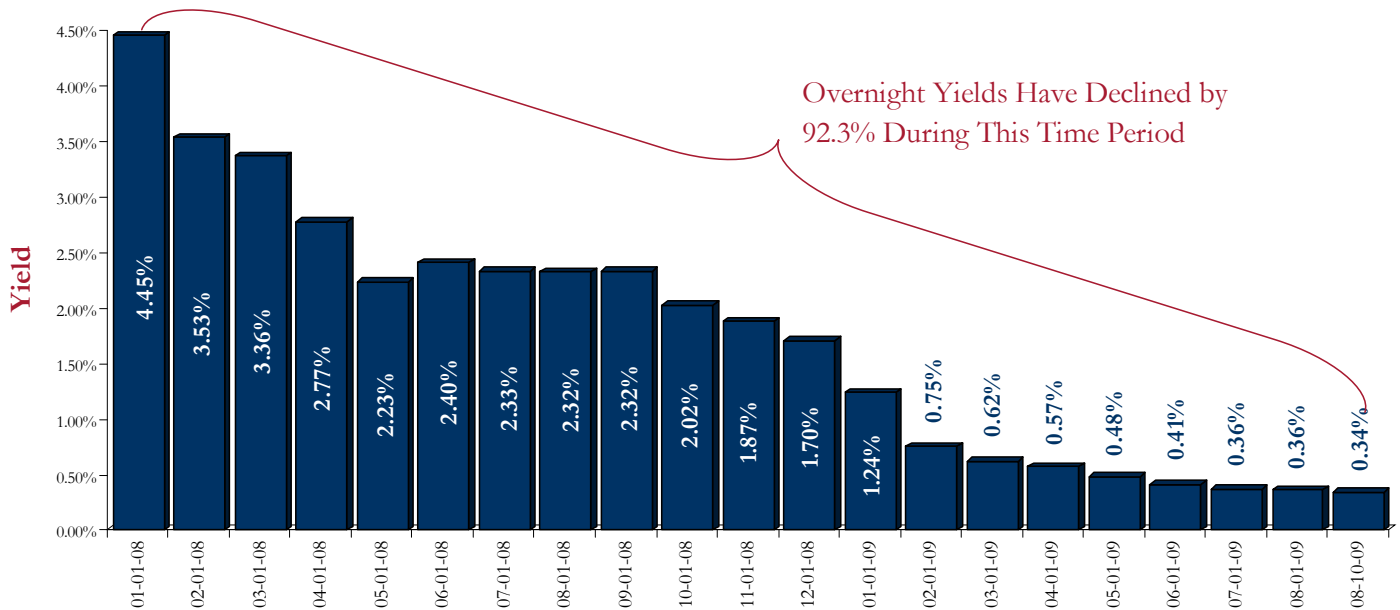


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Historical Investment Rates – TexPool

Over the last 18 months, Texas school districts have witnessed their investment returns dwindle as the Federal Government has attempted to address the global credit crisis and declining economy. For example, the yield on TexPool, the most common investment pool utilized by Texas school districts, was 4.45% on January 1, 2008 and on August 10, 2009 the TexPool yield was 0.34%. As demonstrated in the graph below, this represents a 92.3% decline in the investment rates available to Texas school districts.

TexPool - History of Selected Overnight Yields - January 1, 2008 Through August 10, 2009



Legality and Security

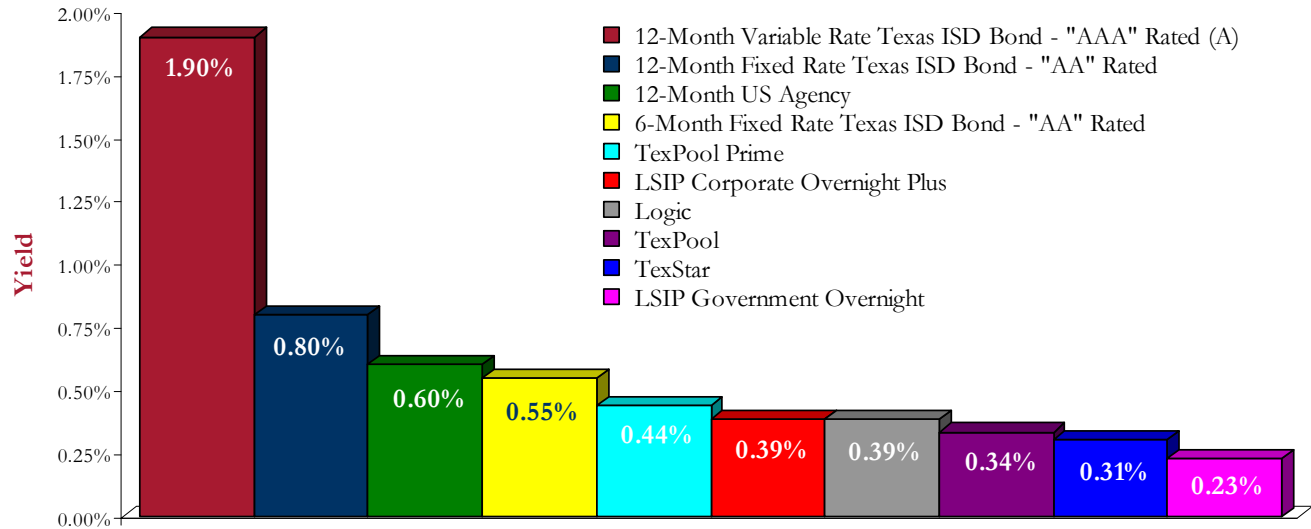
Pursuant to Chapter 2256 of the Texas Government Code, better known as the Texas Public Funds Investment Act, and the District's "Legal" and "Local" Investment Policy, the District may invest in "obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent." In other words, the District may purchase bonds issued by other Texas school districts and various municipal issuers for investment purposes, as long as such bonds are rated "A" or higher.

Generally speaking, Texas school district bonds are secured by a continuing direct annual ad valorem tax levied on all taxable property located within the particular school district and in certain circumstances, the repayment may also be indirectly secured by funds received from the State's Instructional Facilities Allotment and/or Existing Debt Allotment Programs. The available investment return of a Texas school district bond will depend upon numerous factors, including the applicable rating and prevailing market conditions. Traditionally, a bond rated "AAA" due to the Permanent School Fund ("PSF") guarantee will have a lower investment rate than a bond that is rated in either the "AA" or "A" categories due to perceived risk associated with each bond.

Current Investment Rates – As of August 10, 2009

The following graph illustrates current market rates for various investment alternatives available to the District pursuant to the Texas Public Funds Investment Act. As demonstrated within the following graph, interest rates on certain selected Texas school district bonds currently provide a higher investment return in comparison to the investment pools and direct U.S. Treasury and Agency securities.

Current Investment Rates - As of August 10, 2009



(A) Please note, the availability of 12-month Texas school district variable rate bonds is limited and may not be currently available.

Potential Investment Income

Based upon current investment rates, the following table compares the potential investment income associated with a 12-month “AAA” rated variable rate Texas school district bond, a 12-month “AA” rated Texas school district bond and TexPool.

Comparison of Current Potential Investment Income			
Investment Amount	12-Month Variable Rate Texas School District Bond – “AAA” Rated ^(A)	12-Month Fixed Rate Texas School District Bond – “AA” Rated	TexPool
\$ 5,000,000	\$ 95,000	\$ 40,000	\$ 17,000
10,000,000	190,000	80,000	34,000
25,000,000	475,000	200,000	85,000
(A) Please note, the availability of 12-month Texas school district variable rate bonds is limited and may not be currently available.			

Potential Risk of a Variable Rate Bond Investment – Holding For a Longer Time Period Than Expected

As we have seen over the last 18-months, the financial markets have been in turmoil and many financial institutions historically involved in the variable rate market have either exited the market or incurred financial difficulties that reduced their usefulness in the market. Although the District has not been financially harmed, the District has experienced this first hand with Lehman Brothers on its Variable Rate Unlimited Tax School Building Bonds, Series 2005-A and WestLB on its Variable Rate Unlimited Tax School Building Bonds, Series 1996B and 2000.

As such, the primary reason a 12-month Texas school district variable rate bond currently has a significantly higher interest rate than a fixed rate bond is due to the perceived risk of an investor having to hold the bond for longer than the anticipated 12-month time period. This would occur if the variable rate bond cannot be “remarketed” to a new investor at the end of the 12-month time period and the financial institution responsible for purchasing the bond in this scenario is no longer financially solvent. Should this occur to a variable rate bond the District has purchased for investment purposes, the District would be required to hold the bond until a new financial institution can be secured to purchase such bond or the bond is refinanced by the issuing school district.

Considerations

Although not all-inclusive, prior to investing in a 6-12 month Texas school district bond, the following should be considered:

- The process for purchasing a Texas school district bond is subject to the same guidelines used for the purchase of other District investments and may only be purchased from a “broker-dealer” approved by the District’s Board of Trustees;
- Only funds that will not be required until maturity of a Texas school district bond should be considered for investment purposes, as the District is subject to “market risk” if a Texas school district bond is sold prior to maturity;
- The purchase of a Texas school district bond does have the potential for “default”, although according to Moody’s Investors Service, Inc. there has not been a Texas school district default during the period of 1970 to 2006 and there has only been one default of a municipal issuer rated “A” or higher during this time period; and
- As with any fixed rate investment, a Texas school district bond is not guaranteed to provide a higher investment return over the selected investment period as the rates of other investment alternatives may increase during this time.

Next Steps

Should the District desire to move forward with the implementation of this investment alternative, the District would need to complete the following steps:

- The Board of Trustees provides guidance on the following parameters for which an investment in a Texas school district bond is authorized: 1.) required rate above TexPool, 2.) minimum rating, 3.) maximum term and 4.) percentage of the District’s Investment Portfolio allocated to Texas school district bonds;
- Pursuant to the District’s “Legal” Investment Policy and a request for proposals from broker-dealers, the Board of Trustees approves the qualified broker-dealers eligible to sell investments to the District; and

- As opportunities are presented by the qualified broker-dealers, the District begins purchasing Texas school district bonds within the established parameters.

Closing

This material is not intended to identify every potential risk associated with an investment in Texas school district bonds and this should not be construed as a recommendation of BOSC, Inc. to purchase Texas school district bonds for investment purposes. In addition, prior to making any such investment the District should conduct its own “due diligence” of the risks associated with a Texas school district bond and discuss such risks with the particular broker-dealer selling such bond to the District.

We hope this information is helpful as you continue to manage the District’s financial position. Should any questions arise or additional information is needed, please do not hesitate to contact me. Hope all is well and we look forward to visiting with you on Tuesday, August 25, 2009.

Sincerely,

A handwritten signature in black ink, appearing to read 'W. Gumbert', with a stylized flourish at the end.

William J. Gumbert
Managing Director