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PRELIMINARY OFFICIAL STATEMENT

Dated September 13, 2016

Ratings:

S&P: "AAA"

See ("OTHER INFORMATION - RATINGS" - herein)

PSF: Approved

See ("THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein)

NEW ISSUE - Book-Entry-Only

IN THE OPINION OF ORRICK, HERRINGTON & SUTCLIFFE LLP, BOND COUNSEL, BASED UPON AN ANALYSIS OF EXISTING LAWS, REGULATIONS, RULINGS AND COURT DECISIONS, AND ASSUMING, AMONG OTHER MATTERS, THE ACCURACY OF CERTAIN REPRESENTATIONS AND COMPLIANCE WITH CERTAIN COVENANTS, INTEREST ON THE BONDS IS EXCLUDED FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER SECTION 103 OF THE INTERNAL REVENUE CODE OF 1986. IN THE FURTHER OPINION OF BOND COUNSEL, INTEREST ON THE BONDS IS NOT A SPECIFIC PREFERENCE ITEM FOR PURPOSES OF THE FEDERAL INDIVIDUAL OR CORPORATE ALTERNATIVE MINIMUM TAXES, ALTHOUGH BOND COUNSEL OBSERVES THAT SUCH INTEREST IS INCLUDED IN ADJUSTED CURRENT EARNINGS WHEN CALCULATING CORPORATE ALTERNATIVE MINIMUM TAXABLE INCOME. BOND COUNSEL EXPRESSES NO OPINION REGARDING ANY OTHER TAX CONSEQUENCES RELATED TO THE OWNERSHIP OR DISPOSITION OF, OR THE AMOUNT, ACCRUAL OR RECEIPT OF INTEREST ON, THE BONDS. SEE "TAX MATTERS" HEREIN.

\$31,990,000*

SPLENDORA INDEPENDENT SCHOOL DISTRICT (Montgomery County, Texas) UNLIMITED TAX SCHOOL BUILDING AND REFUNDING BONDS, SERIES 2016B

Dated: October 1, 2016

Due: February 15, as shown on inside cover

PAYMENT TERMS . . . Interest on the \$31,990,000* Splendor Independent School District Unlimited Tax School Building and Refunding Bonds, Series 2016B (the "Bonds") will accrue from October 1, 2016, (the "Dated Date") and will be payable February 15 and August 15 of each year commencing February 15, 2017, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the 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" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE BONDS - PAYING AGENT/REGISTRAR").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly Chapter 45, Texas Education Code, as amended; Chapter 1207, Texas Government Code as amended, an election held within the District on May 7, 2016 (with respect to the school building bonds), and an order authorizing the issuance of the Bonds to be approved by the Board on September 19, 2016, the date of the sale of the Bonds (the "Order"). The Bonds are direct obligations of the Splendor Independent School District (the "District"), payable from an ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District, as provided in the Order (see "THE BONDS - AUTHORITY FOR ISSUANCE"). **An application has been filed and the District expects to receive approval for the Bonds to be guaranteed by the Permanent School Fund Guarantee (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").**

PURPOSE . . . Proceeds from the sale of the Bonds will be used (i) for the construction, acquisition and equipment of school buildings in the District (including the rehabilitation, renovation, expansion and improvement thereof), (ii) to refund existing obligations of the District as more particularly described in SCHEDULE I - REFUNDED BONDS (the "Refunded Bonds") in order to lower the overall debt service requirements of the District, and (iii) to pay the cost of issuance associated with the Bonds. See "PLAN OF FINANCING."

See Maturity Schedule on the inside cover

OPTIONAL REDEMPTION . . . The District reserves the right, at its option, to redeem the Bonds having stated maturities on and after February 15, 2027, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2026, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS - OPTIONAL REDEMPTION").

MANDATORY SINKING FUND REDEMPTION . . . In addition to the foregoing optional redemption provision, if principal amounts designated in the serial maturity schedule on page 2 are combined to create term bonds (the "Term Bonds"), each such Term Bond shall be subject to mandatory sinking fund redemption commencing on February 15 of the first year which has been combined to form such Term Bond and continuing on February 15 in each year thereafter until the stated maturity date of that Term Bond, and the amount required to be redeemed in any year shall be equal to the principal amount for such year set forth in the serial maturity schedule on page 2. Term Bonds to be redeemed in any year by mandatory sinking fund redemption shall be redeemed at par and shall be selected by lot from and among the Term Bonds then subject to redemption. The District, at its option, may credit against any mandatory sinking fund redemption requirement Term Bonds of the maturity then subject to redemption which have been purchased and canceled by the District or have been redeemed and not theretofore applied as a credit against any mandatory sinking fund redemption requirement.

LEGALITY . . . The Bonds are offered for delivery when, as and if issued by the District and received by the underwriters listed below (the "Underwriters") and subject to the approving opinion of the Attorney General of Texas and the opinion of Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Bond Counsel (see APPENDIX C, "FORM OF BOND COUNSEL'S OPINION"). Certain legal matters will be passed upon on behalf of the Underwriters by Andrews Kurth LLP, Underwriters' Counsel, Houston, Texas.

DELIVERY . . . It is expected that the Bonds will be available for delivery through The Depository Trust Company on October 18, 2016.

FROST BANK
BOK FINANCIAL SECURITIES, INC. COASTAL SECURITIES, INC. WILLIAM BLAIR

*Preliminary, subject to change.

MATURITY SCHEDULE

\$31,990,000* Unlimited Tax School Building and Refunding Bonds, Series 2016B

Due Feb. 15	Principal Amount*	Interest Rate	Initial Reoffering Yield ⁽¹⁾	CUSIP Number ⁽²⁾	Due Feb. 15	Principal Amount*	Interest Rate	Initial Reoffering Yield ⁽¹⁾	CUSIP Number ⁽²⁾
2017	\$ 1,100,000	%	%		2028	\$ 955,000 ⁽³⁾	%	%	
2018	2,840,000				2029	995,000 ⁽³⁾			
2019	2,890,000				2030	1,035,000 ⁽³⁾			
2020	2,970,000				2031	1,075,000 ⁽³⁾			
2021	3,065,000				2032	780,000 ⁽³⁾			
2022	3,155,000				2033	815,000 ⁽³⁾			
2023	3,265,000				2034	845,000 ⁽³⁾			
2024	815,000				2035	880,000 ⁽³⁾			
2025	845,000				2036	915,000 ⁽³⁾			
2026	880,000				2037	955,000 ⁽³⁾			
2027 ⁽³⁾	915,000								

(Interest accrues from October 1, 2016)

* Preliminary, subject to change.

- (1) The initial reoffering prices or yields of the Bonds are furnished by the Underwriters and represent the initial offering prices or yields to the public, which may be changed by the Underwriters at any time.
- (2) CUSIP Numbers have been assigned to the Bonds by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association, and are included solely for the convenience of the purchasers of the Bonds. Neither the District, the Financial Advisor nor the Underwriters shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (3) The Bonds having stated maturities on or after February 15, 2027 are subject to optional redemption prior to maturity on February 15, 2026 or any date thereafter, at a redemption price equal to the par amount of Bonds redeemed plus accrued interest to the date of redemption. See "THE BONDS—Optional Redemption."

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission (“Rule 15c2-12”), as amended and in effect on the date of this Official Statement, this document constitutes an Official Statement of the District with respect to the Bonds that has been “deemed final” by the District as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

This document, when further supplemented by adding information specifying the interest rates and certain other information relating to the Bonds, shall constitute a “final official statement” of the District with respect to the Bonds, as such term is defined in Rule 15c2-12.

This Official Statement, which includes the cover page, the schedule and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

No dealer, broker, salesperson or other person has been authorized to give 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.

Certain information set forth herein has been provided by sources other than the District that the District believes are reliable, but the District makes no representation as to the accuracy of such information. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the District’s undertaking to provide certain information on a continuing basis.

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

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT 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.

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

THIS OFFICIAL STATEMENT CONTAINS “FORWARD-LOOKING” STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM 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.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THESE SECURITIES HAVE BEEN REGISTERED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

NEITHER THE DISTRICT NOR ITS FINANCIAL ADVISOR NOR THE UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM OR THE AFFAIRS OF THE TEXAS EDUCATION AGENCY DESCRIBED UNDER “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.”

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader’s convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this final official statement for purposes of, and as that term is defined in, Rule 15c2-12.

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

OFFICIAL STATEMENT SUMMARY

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

- THE DISTRICT**..... The Splendora Independent School District (the “District”) is a political subdivision located in Montgomery County, Texas. The District is approximately 78 square miles in area (see “INTRODUCTION - DESCRIPTION OF DISTRICT”).
- THE OBLIGATIONS**..... The Bonds are issued as \$31,990,000* Unlimited Tax School Building and Refunding Bonds, Series 2016B (the “Bonds”). The Bonds are issued as serial bonds maturing on February 15 in the years and in the amounts listed on page 2 hereof, unless the underwriters of the Bonds listed on the cover page hereof (the “Underwriters”) designate one or more maturities as a “Term Bond” (see “THE BONDS - DESCRIPTION OF THE BONDS”).
- PAYMENT OF INTEREST** Interest on the Bonds accrues from October 1, 2016, and is payable on February 15, 2017, and each August 15 and February 15 thereafter until maturity or prior redemption (see “THE BONDS - DESCRIPTION OF THE BONDS” and “THE OBLIGATIONS - OPTIONAL REDEMPTION”).
- AUTHORITY FOR ISSUANCE** The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly Chapter 45, Texas Education Code, as amended, Chapter 1207, Texas Government Code as amended, an election held within the District on May 7, 2016 (with respect to the school building bonds), and an order authorizing the issuance of the Bonds to be approved by the Board on September 19, 2016, the date of the sale of the Bonds (the “Order”). The Bonds are direct obligations of the District, payable from an ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District, as provided in the Order (see “THE BONDS - AUTHORITY FOR ISSUANCE”).
- SECURITY FOR THE BONDS** The Bonds constitute direct obligations of the District, payable from a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, on all taxable property within the District. Additionally, the payment of the Bonds is guaranteed by the corpus of the Permanent School Fund of Texas (see “THE OBLIGATIONS - SECURITY AND SOURCE OF PAYMENT”).
- PERMANENT SCHOOL FUND GUARANTEE**..... The District has made application to the Texas Education Agency for approval of the Bonds to be guaranteed by the Permanent School Fund (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).
- REDEMPTION** The District reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2027 in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2026, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. Additionally, the Bonds may be subject to mandatory redemption in the event the Underwriters elect to aggregate one or more maturities as a Term Bond (see “THE BONDS - MANDATORY SINKING FUND REDEMPTION”).
- TAX EXEMPTION**..... In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein.
- USE OF PROCEEDS** Proceeds from the sale of the Bonds will be used (i) for the construction, acquisition and equipment of school buildings in the District (including the rehabilitation, renovation, expansion and improvement thereof), (ii) to refund existing obligations of the District as more particularly described in SCHEDULE I - REFUNDED BONDS (the “Refunded Bonds”) in order to lower the overall debt service requirements of the District, and (iii) to pay the cost of issuance associated with the Bonds. See “PLAN OF FINANCING.”

*Preliminary, subject to change.

RATINGS The District has eight issues of bonds outstanding which are rated “AAA” by S&P Global Ratings (“S&P”) by virtue of the guarantee of the Permanent School Fund of the State of Texas. The Bonds have been rated “AAA” by S&P based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program (see “OTHER INFORMATION - RATINGS”). The Bonds and the presently outstanding unenhanced tax-supported debt of the District are rated A+” by S&P.

BOOK-ENTRY-ONLY SYSTEM The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of \$5,000 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 in payment of its tax supported debt.

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SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 6/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	I&S Tax Supported Debt Outstanding at End of Year ⁽³⁾	Ratio of Tax		
					Supported Debt to Taxable Assessed Valuation	I&S Tax Supported Debt Per Capita	% Total Tax Collecitons
2012	18,000	\$ 395,825,188	\$ 21,990	\$ 41,908,393	10.59%	\$ 2,328	99.40%
2013	18,500	412,554,238	22,300	53,880,000	13.06%	2,912	97.39%
2014	18,500	435,317,294	23,531	52,225,000	12.00%	2,823	101.38%
2015	18,500	468,761,155	25,338	50,670,000	10.81%	2,739	98.42%
2016	18,500	522,897,462	28,265	49,195,000	9.41%	2,659	98.58%
2017	18,500	597,258,132 ⁽⁴⁾	32,284	71,105,000 ⁽⁵⁾	11.91% ⁽⁵⁾	3,844 ⁽⁵⁾	N/A ⁽⁶⁾

(1) Source: The District.

(2) Source: The District's Annual Financial Report and Montgomery Central Appraisal District, subject to change during the ensuing year.

(3) Approximately 63.53% of the District debt is paid with state assistance.

(4) Tax Roll as of July 25, 2016. Includes 100% of \$22,270,791 of value under review.

(5) Projected, includes the Bonds and excludes the Refunded Bonds.

(6) The tax collection cycle will begin on October 1, 2016.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	For Fiscal Year Ending June 30,					
	2016 ⁽¹⁾	2015	2014	2013	2012	2011
Beginning Balance	\$ 15,935,120	\$ 12,886,477	\$ 10,701,613	\$ 8,172,422	\$ 7,025,293	\$ 5,244,641
Total Revenue	33,375,744	31,009,263	26,817,523	26,341,118	24,446,815	24,842,652
Total Expenditures	30,471,878	27,952,793	24,632,659	23,811,927	23,187,634	23,062,000
Net Transfers	(1,794)	(7,827)	-	-	(112,052)	-
Ending Balance	<u>\$ 18,837,192</u>	<u>\$ 15,935,120</u>	<u>\$ 12,886,477</u>	<u>\$ 10,701,613</u>	<u>\$ 8,172,422</u>	<u>\$ 7,025,293</u>

(1) Unaudited, provided by the District.

For additional information regarding the District, please contact:

Mr. Kevin Lynch
 Assistant Superintendent of Business and
 Operations
 Splendor Independent School District
 23419 FM 2090
 Splendor, Texas 77372-6211
 (281) 689-3128

or

Joe Morrow
 FirstSouthwest, a Division of Hilltop Securities Inc.
 700 Milam Street, Suite 500
 Houston, Texas 77002
 (713) 651-9850

DISTRICT OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>Board of Trustess</u>	<u>Title</u>	<u>Term Expires</u>
Jackie Knott	President	November 2016
Vicki Thornton	Vice President	November 2017
Kino Manzella	Secretary	November 2017
Jason Dunn	Assistant Secretary	November 2018
Rex Fry	Board Member	November 2018
Dan Muirhead	Board Member	November 2017
Suzanne Soto	Board Member	November 2016

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>
Dr. Michael Say	Interim Superintendent of Schools	(1)
Mr. Rick Kershner	Assistant Superintendent of Academic and Human Resource Services	3 Years (2)
Mr. Kevin Lynch	Assistant Superintendent of Business and Operations	3.5 Years (3)

- (1) Dr. Michael Say was hired by the Board of Trustees to serve as Interim Superintendent. His first day of employment was August 1, 2016. The District has hired a search firm to conduct a search for a new superintendent.
- (2) Mr. Kershner has been with the District since June 2010. He has been in education for 24.5 years.
- (3) Mr. Lynch began serving the District as Director of Finance in January 2013. He has 28.5 years of experience in education and has been with the District since 1989.

CONSULTANTS AND ADVISORS

Auditors Hereford, Lynch, Sellars & Kirkham
Conroe, Texas

Bond Counsel Orrick Herrington & Sutcliffe LLP
Houston, Texas

Financial Advisor..... FirstSouthwest, a Division of Hilltop Securities Inc.
Houston, Texas

PRELIMINARY OFFICIAL STATEMENT
RELATING TO
\$31,990,000*
SPLENDORA INDEPENDENT SCHOOL DISTRICT
(Montgomery County, Texas)
UNLIMITED TAX SCHOOL BUILDING AND
REFUNDING BONDS, SERIES 2016B

INTRODUCTION

This Official Statement, which includes the schedule and the Appendices hereto, provides certain information regarding the issuance of \$31,990,000* Splendora Independent School District Unlimited Tax School Building and Refunding Bonds, Series 2016B (the “Bonds”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the order authorizing the issuance of the Bonds to be approved by the Board on September 19, 2016 (the “Order”), except as otherwise indicated herein.

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

DESCRIPTION OF THE DISTRICT

The District is a political subdivision of the State of Texas (the “State”) located in Montgomery County, Texas. The District is governed by a seven-member Board who serve staggered three-year terms with elections being held in November of each year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. The District covers approximately 78 square miles in Montgomery County, encompassing the City of Splendora, Texas.

PLAN OF FINANCING

PURPOSE

Proceeds from the sale of the Bonds will be used (i) for the construction, acquisition and equipment of school buildings in the District (including the rehabilitation, renovation, expansion and improvement thereof), (ii) to refund existing obligations of the District as more particularly described in SCHEDULE I - REFUNDED BONDS (the “Refunded Bonds”) in order to lower the overall debt service requirements of the District, and (iii) to pay the cost of issuance associated with the Bonds.

REFUNDED BONDS

The Refunded Bonds and the interest due thereon are to be paid on the scheduled redemption dates from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the “Escrow Agent”) pursuant to an escrow agreement for the Bond proceeds (the “Escrow Agreement”) between the District and the Escrow Agent.

The Order provide that from the proceeds of the sale of the Bonds received from the underwriters listed on the cover page hereof (the “Underwriters”) and other lawfully available District funds, if necessary, the District will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds on their redemption date. Such funds will be held by the Escrow Agent in a special escrow account for each series of Bonds (collectively, the “Escrow Funds”) and used to purchase portfolios of securities authorized by Section 1207.062, Texas Government Code, which authorized securities include direct noncallable obligations of the United States and/or noncallable obligations of an agency or instrumentality of the United States rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent and guaranteed by the full faith and credit of the United States of America (the “Escrow Securities”). Under the Escrow Agreement, the Escrow Funds are irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

Grant Thornton LLP, Certified Public Accountants, a nationally recognized accounting firm, will verify at the time of delivery of the Bonds to the Underwriters thereof the mathematical accuracy of the schedules that demonstrate the Escrow Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Funds, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. Such maturing principal of and interest on the Escrow Securities will not be available to pay the Bonds. See “OTHER INFORMATION – Verification of Arithmetical and Mathematical Computations”).

*Preliminary, subject to change.

By the deposit of the Escrow Securities and cash, if necessary, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of all of the Refunded Bonds in accordance with Chapter 1207, Texas Government Code, as amended, and the order 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 will be deemed to be fully paid and no longer outstanding, except for the purpose of being paid from funds provided therefor in the Escrow Agreement. Upon defeasance of the Refunded Bonds, the payment of such Refunded Bonds will no longer be guaranteed by the Permanent School Fund Guarantee Program.

The District has covenanted in the Escrow Agreement to make timely deposits to the Escrow Funds, 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 Funds are insufficient to make such payment.

USE OF PROCEEDS

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

THE BONDS

Sources of Funds:

Par Amount of Bonds	\$	-
Accrued Interest		
Premium		
Issuer Contribution to Refunding		
Total:	\$	-

Uses of Funds:

Deposit to Construction Fund	\$	-
Deposit to Escrow Fund		
Deposit to Interest & Sinking Fund		
Underwriters' Discount		
Cost of Issuance		
Total:	\$	-

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THE BONDS

DESCRIPTION OF THE OBLIGATIONS

The Bonds are dated October 1, 2016, and mature on February 15 in each of the years and in the amounts shown on the cover page hereof. Interest will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15, commencing February 15, 2017. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”), pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, the initial paying agent/registrars (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 “BOOK-ENTRY-ONLY SYSTEM” herein.

AUTHORITY FOR ISSUANCE

The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly Chapter 45, Texas Education Code, as amended, Chapter 1207, Texas Government Code as amended, an election held within the District on May 7, 2016 (with respect to the school building bonds), and the Order.

SECURITY AND SOURCE OF PAYMENT

All taxable property within the District is subject to a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, sufficient to provide for the payment of principal of and interest on all Bonds. Additionally, the payment of the Bonds is guaranteed by the corpus of the Permanent School Fund of Texas.

PERMANENT SCHOOL FUND GUARANTEE

In connection with the sale of the Bonds, the District has submitted an application to the Texas Education Agency and expects to receive approval from the Commissioner of Education for guarantee of the Bonds under the Permanent School Fund Guarantee Program (Chapter 45, Subchapter C of the Texas Education Code). Subject to satisfying certain conditions discussed under the heading “The Permanent School Fund Guarantee Program” herein, the Bonds will be absolutely and unconditionally guaranteed by the corpus of the Permanent School Fund of the State of Texas. In the event of default, registered owners will receive all payments due on the Bonds from the corpus of the Permanent School Fund.

OPTIONAL REDEMPTION

The District reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2027, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2026, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds of either series are to be redeemed, the District may select the maturities of Bonds within such series 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.

MANDATORY SINKING FUND REDEMPTION

In addition to the foregoing optional redemption provision, if principal amounts designated in the respective serial maturity schedules on page 2 are combined to create “Term Bonds”, each such Term Bond shall be subject to mandatory sinking fund redemption commencing on February 15 of the first year which has been combined to form such Term Bond and continuing on February 15 in each year thereafter until the stated maturity date of that Term Bond, and the amount required to be redeemed in any year shall be equal to the principal amount for such year set forth in the serial maturity schedule above. Term Bonds to be redeemed in any year by mandatory sinking fund redemption shall be redeemed at par and shall be selected by lot from and among the Term Bonds then subject to redemption. The District, at its option, may credit against any mandatory sinking fund redemption requirement Term Bonds of the maturity then subject to redemption which have been purchased and canceled by the District or have been redeemed and not theretofore applied as a credit against any mandatory sinking fund redemption requirement.

NOTICE OF REDEMPTION

Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

With respect to any optional redemption of the Bonds, unless all prerequisites to such redemption required by the Order have been met, including moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed having been received by the Paying Agent/Registrar prior to the giving of notice of such redemption, such notice shall state that said redemption may, at the option of the District, be conditional upon the satisfaction of all prerequisites and receipt of such moneys by the Paying Agent/Registrar on or prior to the date fixed for such redemption, and if such prerequisites to the redemption and sufficient moneys are not received, such notice shall be of no force and effect, the District shall not redeem such Bonds and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

AMENDMENTS

The District may amend the Order without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency or formal defect or omission therein. In addition, the District may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Order; except that, without the consent of the registered owners of all of the Bonds then outstanding, no such amendment, addition, or rescission may (1) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof, the redemption price, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required to be held by bond holders for consent to any such amendment, addition or rescission.

DEFEASANCE

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

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

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity 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 companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Obligation (“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.

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. Discontinuance of the DTC Book-Entry Only System by the District may require approval of DTC Participants under DTC Operational Procedures.

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

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 Resolution will be given only to DTC.

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

EFFECT OF TERMINATION OF BOOK-ENTRY ONLY SYSTEM

In the event that the Book-Entry Only System is discontinued by DTC or the use of the Book-Entry Only System is discontinued by the District, printed Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under "THE BONDS - TRANSFER, EXCHANGE AND REGISTRATION" below.

PAYING AGENT/REGISTRAR

The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. In the Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

TRANSFER, EXCHANGE AND REGISTRATION

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

RECORD DATE FOR INTEREST PAYMENT

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

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

BONDHOLDERS' REMEDIES

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or Order and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

Texas courts have held that statutory language authorizing school districts to sue and be sued does not waive a District's sovereign immunity from a suit for money damages, so that bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order's covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce any obligation of the District 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. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

This disclosure statement provides information relating to the program (the "Guarantee Program") administered by the Texas Education Agency (the "TEA") with respect to the Texas Permanent School Fund guarantee of tax-supported bonds issued by Texas school districts and the guarantee of revenue bonds issued by or for the benefit of Texas charter districts. The Guarantee Program was authorized by an amendment to the Texas Constitution in 1983 and by Subchapter C of Chapter 45 of the Texas Education Code, as amended (the "Act"). While the Guarantee Program applies to bonds issued by or for both school districts and charter districts, as described below, the Act and the program rules for the two types of districts have some distinctions. For convenience of description and reference, those aspects of the Guarantee Program that are applicable to school district bonds and to charter district bonds are referred to herein as the "School District Bond Guarantee Program" and the "Charter District Bond Guarantee Program," respectively.

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

HISTORY AND PURPOSE

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

endowment. The SLB is a three member board, the membership of which consists of the Commissioner of the Texas General Land Office (the "Land Commissioner") and two citizen members, one appointed by the Governor and one by the Texas Attorney General (the "Attorney General"). As of August 31, 2015, the General Land Office (the "GLO") managed approximately 20% of the PSF, as reflected in the fund balance of the PSF at that date.

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

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

In 2011, legislation was enacted that established the Charter District Bond Guarantee Program as a new component of the Guarantee Program. That legislation authorized the use of the PSF to guarantee revenue bonds issued by or for the benefit of certain open-enrollment charter schools that are designated as "charter districts" by the Commissioner. On approval by the Commissioner, bonds properly issued by a charter district participating in the Program are fully guaranteed by the corpus of the PSF. As described below, the implementation of the Charter District Bond Guarantee Program was deferred pending receipt of guidance from the Internal Revenue Service (the "IRS") which was received in September 2013, and the establishment of regulations to govern the program, which regulations became effective on March 3, 2014. See "The Charter District Bond Guarantee Program."

State law also permits charter schools to be chartered and operated by school districts and other political subdivisions, but bond financing of facilities for school district-operated charter schools is subject to the School District Bond Guarantee Program, not the Charter District Bond Guarantee Program.

While the School District Bond Guarantee Program and the Charter District Bond Guarantee Program relate to different types of bonds issued for different types of Texas public schools, and have different program regulations and requirements, a bond guaranteed under either part of the Guarantee Program has the same effect with respect to the guarantee obligation of the Fund thereto, and all guaranteed bonds are aggregated for purposes of determining the capacity of the Guarantee Program (see "Capacity Limits for the Guarantee Program"). The Charter District Bond Guarantee Program as enacted by State law has not been reviewed by any court, nor has the Texas Attorney General been requested to issue an opinion, with respect to its constitutional validity.

The sole purpose of the PSF is to assist in the funding of public education for present and future generations. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividends produced by Fund investments flowed into the Available School Fund (the "ASF"), where they are distributed to local school districts and open-enrollment charter schools based on average daily attendance. Any net gains from investments of the Fund accrue to the corpus of the PSF. Prior to the approval by the voters of the State of the Total Return Constitutional Amendment, costs of administering the PSF were allocated to the ASF. With the approval of the Total Return Constitutional Amendment, the administrative costs of the Fund have shifted from the ASF to the PSF. In fiscal year 2015, distributions to the ASF amounted to \$172.75 per student and the total amount distributed to the ASF was \$838.67 million.

Audited financial information for the PSF is provided annually through the PSF Comprehensive Annual Financial Report (the "Annual Report"), which is filed with the Municipal Securities Rulemaking Board ("MSRB"). The Annual Report includes the Message of the Executive Administrator of the Fund (the "Message") and the Management's Discussion and Analysis ("MD&A"). The Annual Report for the year ended August 31, 2015, as filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 ("Rule 15c2-12") of the federal Securities and Exchange Commission (the "SEC"), as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended August 31, 2015 is derived from the audited financial statements of the PSF, which are included in the Annual Report when it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2015 and for a description of the financial results of the PSF for the year ended August 31, 2015, the most recent year for which audited financial information regarding the Fund is available. The 2015 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2015 Annual Report or any other Annual Report. The TEA posts each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, the most recent disclosure for the Guarantee Program, the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (the "Investment Policy"), monthly updates with respect to the capacity of the Guarantee Program (collectively, the "Web Site Materials") on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/ and with the MSRB at www.emma.msrb.org. Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund's holdings of securities specified in Section 13(f), including exchange-traded (e.g., NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at www.sec.gov/edgar.shtml. A list of the Fund's equity and fixed income holdings as of August 31 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund's securities lending program. Such list, when filed, is incorporated herein and made a part hereof for all purposes.

THE TOTAL RETURN CONSTITUTIONAL AMENDMENT

The Total Return Constitutional Amendment approved a fundamental change in the way that distributions are made to the ASF from the PSF. The Total Return Constitutional Amendment requires that PSF distributions to the ASF be determined using a total-return-based formula instead of the current-income-based formula, which was used from 1964 to the end of the 2003 fiscal year. The Total Return Constitutional Amendment provides that the total amount distributed from the Fund to the ASF: (1) in

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

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

See "2011 Constitutional Amendment" below for a discussion of the historic and current Distribution Rates, and a description of amendments made to the Texas Constitution on November 8, 2011 that may affect Distribution Rate decisions.

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

With respect to the management of the Fund's financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE generally reviews the asset allocations during its summer meeting in even numbered years. The first asset allocation policy adopted by the SBOE following the Total Return Constitutional Amendment was in February 2004, and the policy was reviewed and modified or reaffirmed in the summers of 2006, 2008, 2010, 2012, 2014 and 2016. The Fund's investment policy provides for minimum and maximum ranges among the components of each of the asset classifications: equities, fixed income and alternative asset investments. The 2004 asset allocation policy decreased the fixed income target from 45% to 25% of Fund investment assets and increased the allocation for equities from 55% to 75% of investment assets. Subsequent asset allocation policies have continued to diversify Fund assets, and have added an alternative asset allocation to the fixed income and equity allocations. The alternative asset allocation category includes real estate, real return, absolute return and private equity components. Alternative asset classes diversify the SBOE-managed assets and are not as correlated to traditional asset classes, which is intended to increase investment returns over the long run while reducing risk and return volatility of the portfolio. The most recent asset allocation, from 2016, is as follows: (i) an equity allocation of 35% (consisting of U.S. large cap equities targeted at 13%, emerging and international equities at 17% and U.S. small/mid cap equities at 5%), (ii) a fixed income allocation of 19% (consisting of a 12% allocation for core bonds and a 7% allocation for emerging market debt in local currency) and (iii) an alternative asset allocation of 46% (consisting of a private equity allocation of 13%, a real estate allocation of 10%, an absolute return allocation of 10%, a risk parity allocation of 7% and a real return allocation of 6%). The 2016 asset allocation decreased U.S. large cap equities and international equities by 3% and 2%, respectively, and increased the allocations for private equity and real estate by 3% and 2%, respectively.

For a variety of reasons, each change in asset allocation for the Fund, including the 2016 modifications, have been implemented in phases, and that approach is likely to be carried forward when and if the asset allocation policy is again modified. At August 31, 2015, the Fund's financial assets portfolio was invested as follows: 44.96% in public market equity investments; 14.43% in fixed income investments; 10.80% in absolute return assets; 5.11% in private equity assets; 6.30% in real estate assets; 6.44% in risk parity assets; 5.55% in real return assets; 6.04% in emerging market debt; and 0.37% in cash.

Following on previous decisions to create strategic relationships with investment managers in certain asset classes, in September 2015 and January 2016, the SBOE approved the implementation of direct investment programs in private equity and absolute return assets, respectively, which has continued to reduce administrative costs with respect to those portfolios. The Attorney General has advised the SBOE in Op. Tex. Att'y Gen. No. GA-0998 (2013) ("GA-0998"), that the PSF is not subject to requirements of certain State competitive bidding laws with respect to the selection of investments. In GA-0998, the Attorney General also advised that the SBOE generally must use competitive bidding for the selection of investment managers and other third party providers of investment services, such as record keeping and insurance, but excluding certain professional services, such as accounting services, as State law prohibits the use of competitive bidding for specified professional services. GA-0998

provides guidance to the SBOE in connection with the direct management of alternative investments through investment vehicles to be created by the SBOE, in lieu of contracting with external managers for such services, as has been the recent practice of the PSF. The PSF staff and the Fund's investment advisor are tasked with advising the SBOE with respect to the implementation of the Fund's asset allocation policy, including the timing and manner of the selection of any external managers and other consultants.

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

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

MANAGEMENT AND ADMINISTRATION OF THE FUND

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

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

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

The SBOE contracts with its securities custodial agent to measure the performance of the total return of the Fund's financial assets. A consultant is typically retained for the purpose of providing consultation with respect to strategic asset allocation decisions and to assist the SBOE in selecting external fund management advisors. The SBOE also contracts with financial institutions for custodial and securities lending services. Like other State agencies and instrumentalities that manage large investment portfolios, the PSF has implemented an incentive compensation plan that may provide additional compensation for investment personnel, depending upon the criteria relating to the investment performance of the Fund.

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

regarding the investment of the PSF to ensure compliance with fiduciary standards, and to provide transactional advice in connection with the investment of Fund assets in non-traditional investments.

CAPACITY LIMITS FOR THE GUARANTEE PROGRAM

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

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

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

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

During fiscal year 2015, PSF staff was tasked with undertaking due diligence with the rating agencies that currently rate the Bond Guarantee Program (see “Ratings of Bonds Guaranteed Under the Guarantee Program” below) regarding ratings maintenance for the Fund in anticipation of consideration by the SBOE of an amendment to the SDBGP Rules and CDBGP Rules (as defined below) to provide for an increase in the multiplier that establishes the State law capacity limitation. At its September 2015 meeting, the SBOE voted to modify the SDBGP Rules and the CDBGP Rules to increase the State Law Capacity from 3 times the cost value multiplier to 3.25 times. At that meeting, the SBOE also approved a new 5% capacity reserve for the Charter District Bond Guarantee Program. As originally approved, the change to the State Law Capacity would have been effective August 22, 2016. However, at its meeting in November, 2015, the SBOE took action to make the change to the State Law Capacity effective on February 1, 2016.

Since July 1991, when the SBOE amended the Guarantee Program Rules to broaden the range of bonds that are eligible for guarantee under the Guarantee Program to encompass most Texas school district bonds, the principal amount of bonds guaranteed under the Guarantee Program has increased sharply. In addition, in recent years a number of factors have caused an increase in the amount of bonds issued by school districts in the State. See the table “Permanent School Fund Guaranteed Bonds” below. Effective September 1, 2009, the Act provides that the SBOE may annually establish a percentage of the cost value of the Fund to be reserved from use in guaranteeing bonds. The capacity of the Guarantee Program in excess of any reserved portion is referred to herein as the “Capacity Reserve.” The SDBGP Rules provide for a minimum Capacity Reserve for the overall Guarantee Program of no less than 5%, and provide that the amount of the Capacity Reserve may be increased by a majority vote of the SBOE. The CDBGP Rules provide for an additional 5% reserve of CDBGP capacity. The Commissioner is authorized to change the Capacity Reserve, which decision must be ratified or rejected by the SBOE at its next meeting following any change made by the Commissioner. The current Capacity Reserve is noted in the monthly updates with respect to the capacity of the Guarantee Program on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/, which are also filed with the MSRB.

Based upon historical performance of the Fund, the legal restrictions relating to the amount of bonds that may be guaranteed has generally resulted in a lower ratio of guaranteed bonds to available assets as compared to many other types of credit enhancements that may be available for Texas school district bonds and charter district bonds. However, changes in the value of the Fund due to changes in securities markets, investment objectives of the Fund, an increase in bond issues by school districts in the State or legal restrictions on the Fund, the implementation of the Charter District Bond Guarantee Program, or an increase in the calculation base of the Fund for purposes of making transfers to the ASF, among other factors, could adversely affect the ratio of Fund assets to guaranteed bonds and the growth of the Fund in general. It is anticipated that the issuance of the IRS Notice and the Proposed IRS Regulations will likely result in a substantial increase in the amount of bonds guaranteed under the Guarantee Program. The implementation of the Charter School Bond Guarantee Program is also expected to increase the amount of guaranteed bonds.

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

THE SCHOOL DISTRICT BOND GUARANTEE PROGRAM

The School District Bond Guarantee Program requires an application be made by a school district to the Commissioner for a guarantee of its bonds. If the conditions for the School District Bond Guarantee Program are satisfied, the guarantee becomes effective upon approval of the bonds by the Attorney General and remains in effect until the guaranteed bonds are paid or defeased, by a refunding or otherwise.

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

If a school district fails to pay principal or interest on a bond as it is stated to mature, other amounts not due and payable are not accelerated and do not become due and payable by virtue of the district's default. The School District Bond Guarantee Program does not apply to the payment of principal and interest upon redemption of bonds, except upon mandatory sinking fund redemption, and does not apply to the obligation, if any, of a school district to pay a redemption premium on its guaranteed bonds. The guarantee applies to all matured interest on guaranteed school district bonds, whether the bonds were issued with a fixed or variable interest rate and whether the interest rate changes as a result of an interest reset provision or other bond order provision requiring an interest rate change. The guarantee does not extend to any obligation of a school district under any agreement with a third party relating to guaranteed bonds that is defined or described in State law as a "bond enhancement agreement" or a "credit agreement," unless the right to payment of such third party is directly as a result of such third party being a bondholder.

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

The SBOE has approved and modified the SDBGP Rules in recent years, most recently in May 2010. Generally, the SDBGP Rules limit guarantees to certain types of notes and bonds, including, with respect to refunding bonds issued by school districts, a requirement that the bonds produce debt service savings, and that bonds issued for capital facilities of school districts must have been voted as unlimited tax debt of the issuing district. The Guarantee Program Rules include certain accreditation criteria for districts applying for a guarantee of their bonds, and limit guarantees to districts that have less than the amount of annual debt service per average daily attendance that represents the 90th percentile of annual debt service per average daily attendance for all school districts, but such limitation will not apply to school districts that have enrollment growth of at least 25% over the previous five school years. The SDBGP Rules are codified in the Texas Administrative Code at 19 TAC section 33.65, and are available at <http://ritter.tea.state.tx.us/rules/tac/chapter033/ch033a.html#33.65>.

THE CHARTER DISTRICT BOND GUARANTEE PROGRAM

The Charter District Bond Guarantee Program became effective March 3, 2014. The SBOE published final regulations in the Texas Register that provide for the administration of the Charter District Bond Guarantee Program (the "CDBGP Rules"). The CDBGP Rules are codified at 19 TAC section 33.67, and are available at <http://ritter.tea.state.tx.us/rules/tac/chapter033/ch033a.html#33.67>.

The Charter District Bond Guarantee Program has been authorized through the enactment of amendments to the Act, which provide that a charter holder may make application to the Commissioner for designation as a "charter district" and for a guarantee by the PSF under the Act of bonds issued on behalf of a charter district by a non-profit corporation. If the conditions for the Charter District Bond Guarantee Program are satisfied, the guarantee becomes effective upon approval of the bonds by the Attorney General and remains in effect until the guaranteed bonds are paid or defeased, by a refunding or otherwise.

The capacity of the Charter District Bond Guarantee Program is limited to the amount that equals the result of the percentage of the number of students enrolled in open-enrollment charter schools in the State compared to the total number of students enrolled in all public schools in the State multiplied by the available capacity of the Guarantee Program. Available capacity is defined as the maximum amount under SBOE rules, less Capacity Reserve and minus existing guarantees. The CDBGP Rules authorize the Commissioner to determine that ratio based on information provided to the TEA by school districts and open-enrollment charter schools, and the calculation will be made annually, on or about March 1 of each year. As of March 2016 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 4.68%. As of July 2016, there were 188 active open-enrollment charter schools in the State, and there were 675 charter school campuses operating under such charters (though as of such date, 39 of such campuses' operations have not begun serving students for various reasons). Section 12.101, Texas Education Code, as amended by the Legislature in 2013, provides that the Commissioner may grant not more than 215 charters through the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters permitted by the statute. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

On February 27, 2015, the Attorney General issued an opinion (Op. Tex. Att'y Gen. No. KP-0005 (2015)) in response to a request by the Commissioner for clarification of Section 45.0532, Texas Education Code ("Section 45.0532"), which defines how the capacity of the Charter District Bond Guarantee Program should be calculated. In the opinion, the Attorney General ruled that the proper method for determining charter district capacity is a limitation on the total amount of charter district bonds that the Commissioner may approve for guarantee in the cumulative amount. The opinion rejected an alternative reading of the statute that would have imposed a limitation on the total amount of charter district bonds that the Commissioner may approve each month, but not a cumulative limitation, and which, over time, could produce Charter District Bond Guarantee Program guarantees potentially exceeding the charter student ratio limitation in Section 45.0532.

In accordance with the Act, the Commissioner may not approve charter district bonds for guarantee if such guarantees will result in lower bond ratings for public school district bonds that are guaranteed under the School District Bond Guarantee Program. To be eligible for a guarantee, the Act provides that a charter district's bonds must be approved by the Attorney General, have an unenhanced investment grade rating from a nationally recognized investment rating firm, and satisfy a limited investigation conducted by the TEA.

With respect to the Charter District Bond Guarantee Program, the Act establishes a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Each charter district that has a bond guaranteed must annually remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 1/10 of one percent of the principal amount of guaranteed bonds outstanding. The Commissioner has approved a rule governing the calculation and payment amounts into the Charter District Reserve Fund. That rule has been codified at 19 TAC 33.1001, and is available at <http://ritter.tea.state.tx.us/rules/tac/chapter033/ch033aa.html#33.1001>.

The Charter District Bond Guarantee Program does not apply to the payment of principal and interest upon redemption of bonds, except upon mandatory sinking fund redemption, and does not apply to the obligation, if any, of a charter district to pay a redemption premium on its guaranteed bonds. The guarantee applies to all matured interest on guaranteed charter district bonds, whether the bonds were issued with a fixed or variable interest rate and whether the interest rate changes as a result of an interest reset provision or other bond resolution provision requiring an interest rate change. The guarantee does not extend to any obligation of a charter district under any agreement with a third party relating to guaranteed bonds that is defined or described in State law as a "bond enhancement agreement" or a "credit agreement," unless the right to payment of such third party is directly as a result of such third party being a bondholder.

The Act provides that immediately following receipt of notice that a charter district will be or is unable to pay maturing or matured principal or interest on a guaranteed bond, the Commissioner is required to instruct the Comptroller to transfer from the Charter District Reserve Fund to the district's paying agent an amount necessary to pay the maturing or matured principal or interest. If money in the Charter District Reserve Fund is insufficient to pay the amount due on a bond for which a notice of default has been received, the Commissioner is required to instruct the Comptroller to transfer from the PSF to the district's paying agent the amount necessary to pay the balance of the unpaid maturing or matured principal or interest. If a total of two or more payments are made under the Charter District Bond Guarantee Program on charter district bonds and the Commissioner determines that the charter district is acting in bad faith under the program, the Commissioner may request the Attorney General to institute appropriate legal action to compel the charter district and its officers, agents, and employees to comply with the duties required of them by law in regard to the guaranteed bonds. As is the case with the School District Bond Guarantee Program, the Act provides a funding "intercept" feature that obligates the Commissioner to instruct the Comptroller to withhold the amount paid with respect to the Charter District Bond Guarantee Program, plus interest, from the first State money payable to a charter district that fails to make a guaranteed payment on its bonds. The amount withheld will be deposited, first, to the credit of the PSF, and then to restore any amount drawn from the Charter District Reserve Fund as a result of the non-payment.

The CDBGP Rules provide that the PSF may be used to guarantee bonds issued for the acquisition, construction, repair, or renovation of an educational facility for an open-enrollment charter holder and equipping real property of an open-enrollment charter school and/or to refinance promissory notes executed by an open-enrollment charter school, each in an amount in excess of \$500,000 the proceeds of which loans were used for a purposes described above (so-called new money bonds) or for refinancing bonds previously issued for the charter school that were approved by the attorney general (so-called refunding bonds). Refunding bonds may not be guaranteed under the Charter District Bond Guarantee Program if they do not result in a present value savings to the charter holder.

The CDBGP Rules provide that an open-enrollment charter holder applying for charter district designation and a guarantee of its bonds under the Charter District Bond Guarantee Program satisfy various provisions of the regulations, including the following: It must (i) have operated at least one open-enrollment charter school with enrolled students in the State for at least three years; (ii) agree that the bonded indebtedness for which the guarantee is sought will be undertaken as an obligation of all entities under common control of the open-enrollment charter holder, and that all such entities will be liable for the obligation if the open-enrollment charter holder defaults on the bonded indebtedness, provided, however, that an entity that does not operate a charter school in Texas is subject to this provision only to the extent it has received state funds from the open-enrollment charter holder; (iii) have had completed for the past three years an audit for each such year that included unqualified or unmodified audit opinions; and (iv) have received an investment grade credit rating within the last year. Upon receipt of an application for guarantee under the Charter District Bond Guarantee Program, the Commissioner is required to conduct an investigation into the financial status of the applicant charter district and of the accreditation status of all open-enrollment charter schools operated under the charter, within the scope set forth in the CDBGP Rules. Such financial investigation must establish that an applying charter district has a historical debt service coverage ratio, based on annual debt service, of at least 1.1 for the most recently completed fiscal year, and a projected debt service coverage ratio, based on projected revenues and expenses and maximum annual debt service, of at least 1.2. The failure of an open-enrollment charter holder to comply with the Act or the applicable regulations, including by making any material misrepresentations in the charter holder's application for charter district designation or guarantee under the Charter District Bond Guarantee Program, constitutes a material violation of the open-enrollment charter holder's charter.

Beginning in July 2015, TEA began limiting new guarantees under the Charter District Bond Guarantee Program to conform to the Act and, subsequently, with CDBGP Rules that require the maintenance of a capacity reserve for the Charter District Bond Guarantee Program. Following the increase in the Program multiplier in February 2016 and the update of the percentage of students enrolled in open-enrollment charter schools to the total State scholastic census in March 2016, some new capacity became available under the Charter District Bond Guarantee Program, but that capacity was quickly exhausted. New guarantees under the Charter District Bond Guarantee Program will not be approved until new capacity for that Program becomes available, which could occur as a result of Fund investment performance, an increase in the Guarantee Program multiplier, growth in the relative percentage of students enrolled in open-enrollment charter schools to the total State scholastic census, or a combination of such circumstances.

CHARTER DISTRICT RISK FACTORS

Open-enrollment charter schools in the State may not charge tuition and, unlike school districts, charter districts have no taxing power. Funding for charter district operations is largely from amounts appropriated by the Legislature. The amount of such State payments a charter district receives is based on a variety of factors, including the enrollment at the schools operated by a charter district. The overall amount of education aid provided by the State for charter schools in any year is also subject to appropriation by the Legislature. The Legislature may base its decisions about appropriations for charter schools on many factors, including the State's economic performance. Further, because some public officials, their constituents, commentators and others have viewed charter schools as controversial, political factors may also come to bear on charter school funding, and such factors are subject to change.

Other than credit support for charter district bonds that is provided to qualifying charter districts by the Charter District Bond Guarantee Program, open-enrollment charter schools do not receive a dedicated funding allocation from the State to assist with the construction and acquisition of new facilities. Charter schools generally issue revenue bonds to fund facility construction and acquisition, or fund facilities from cash flows of the school. Some charter districts have issued non-guaranteed debt in addition to debt guaranteed under the Charter District Bond Guarantee Program, and such non-guaranteed debt is likely to be secured by a deed of trust covering all or part of the charter district's facilities. However, for a variety of reasons, the CDBGP Rules do not require that TEA receive a lien against charter district property as a condition to receiving a guarantee under the Charter District Bond Guarantee Program, and consequently, it is possible that other creditors of a charter district, but not TEA, might have a security interest in the properties of a charter district that could be foreclosed on in the event of a bond default.

The maintenance of a State-granted charter is dependent upon on-going compliance with State law and TEA regulations, and TEA monitors compliance with applicable standards. TEA has a broad range of enforcement and remedial actions that it can take as corrective measures, and such actions may include the loss of the State charter, the appointment of a new board of directors to govern a charter district, the assignment of operations to another charter operator, or, as a last resort, the dissolution of an open-enrollment charter school.

As described above, the Act includes a funding "intercept" function that applies to both the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. However, school districts are viewed as the "educator of last resort" for students residing in the geographical territory of the district, which makes it unlikely that State funding for those school districts would be discontinued, although the TEA can require the dissolution and merger into another school district if necessary to ensure sound education and financial management of a school district. That is not the case with a charter district, however, and open-enrollment charter schools in the State have been dissolved by TEA from time to time. If a charter district that has bonds outstanding that are guaranteed by the Charter District Bond Guarantee Program should be dissolved, debt service on guaranteed bonds of the district would continue to be paid to bondholders in accordance with the Charter District Bond Guarantee Program, but there would be no funding available for reimbursement of the PSF by the Comptroller for such

payments. As described under “The Charter District Bond Guarantee Program,” the Act establishes a Charter District Reserve Fund, which could in the future be a significant reimbursement resource for the PSF. At July 31, 2016, the Charter District Reserve Fund contained \$1,882,615.46.

RECENT CHARTER DISTRICT COMPLAINT

During May 2016, a complaint was made to the TEA by a Washington, D.C. law firm in connection with a charter district that has participated in the Charter District Bond Guarantee Program. A supplemental complaint was filed with TEA by the law firm in July 2016. According to published reports, the law firm was hired in late 2015 by the Turkish government to lead its case against Fethullah Gulen, a political enemy of Turkish President Tayyip Erdogan. The complaints were filed with respect to Harmony Public Schools (“HPS”), and alleged a variety of legal violations including that HPS misused bond money guaranteed under the Charter District Bond Guarantee Program to operate charter schools in Arkansas, that HPS has hired Turkish contractors in violation of competitive bidding requirements, and that Mr. Gulen is connected to HPS through a network of Turkish men who enter the U.S. on H-1B visas and then move between the different charter-school networks. In published statements, a spokesman for HPS has denied any wrong doing and has stated that HPS has no affiliation of any kind with any religious or social organizations or movements.

At the time of the filing of the complaints with TEA, HPS was the largest single charter district guaranteed under the Charter District Bond Guarantee Program, with some \$268,040,000 of its revenue bonds guaranteed under the program. The complaint process against a school district or a charter district may be initiated by any person who completes a form posted to the TEA website, and complaints are common for a variety of reasons in connection with both school districts and charter districts. When a complaint is filed, TEA makes a determination of whether it has jurisdiction over the matter or whether the substance of the all or part of the complaint should be referred to other State or federal agencies. If TEA determines it has jurisdiction, it will make a request for documents to the school district or charter district and after reviewing the documents received, it may open a formal investigation. In the case of HPS, certain of the allegations have been referred to other agencies and certain allegations have been determined to be within the investigative jurisdiction of TEA. TEA is reviewing the complaint with respect to those matters.

RATINGS OF BONDS GUARANTEED UNDER THE GUARANTEE PROGRAM

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

VALUATION OF THE PSF AND GUARANTEED BONDS

Permanent School Fund Valuations

Fiscal Year Ended 8/31	Book Value ⁽¹⁾	Market Value ⁽¹⁾
2011	\$24,789,514,408	\$29,900,679,571
2012	25,164,537,463	31,287,393,884
2013	25,599,296,902	33,163,242,374
2014	27,596,692,541	38,445,519,225
2015	29,085,524,714 ⁽²⁾	36,217,270,220 ⁽²⁾

(1) SLB managed assets are included in the market value and book value of the Fund. In determining the market value of the PSF from time to time during a fiscal year, the TEA uses current, unaudited values for TEA managed investment portfolios and cash held by the SLB. With respect to SLB managed assets shown in the table above, market values of land and mineral interests, internally managed real estate, investments in externally managed real estate funds and cash are based upon information reported to the PSF by the SLB. The SLB reports that information to the PSF on a quarterly basis. The valuation of such assets at any point in time is dependent upon a variety of factors, including economic conditions in the State and nation in general, and the values of these assets, and, in particular, the valuation of mineral holdings administered by the SLB, can be volatile and subject to material changes from period to period. At August 31, 2015, land, mineral assets, internally managed discretionary real estate, external discretionary real estate investments and cash managed by the SLB had book values of approximately \$44.80 million, \$13.42 million, \$232.88 million, \$1.91 billion and \$2.60 billion, respectively, and market values of approximately \$377.38 million, \$2.14 billion, \$242.84 million, \$1.89 billion and \$2.6 billion, respectively.

(2) At July 31, 2016, the PSF had a book value of \$29,826,283,514 and a market value of \$37,511,862,155 (July 31, 2016 values are based on unaudited data).

Permanent School Fund Guaranteed Bonds

At 8/31	Principal Amount ⁽¹⁾
2011	\$52,653,930,546
2012	53,634,455,141
2013	55,218,889,156
2014	58,364,350,783
2015	63,955,449,047 ⁽²⁾

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

(2) As of August 31, 2015, the TEA expected that the principal and interest to be paid by school districts over the remaining life of the bonds guaranteed by the Guarantee Program is \$103,722,905,410, of which \$39,767,456,363 represents interest to be paid. At August 31, 2015, there were \$63,955,449,047 of bonds guaranteed under the Guarantee Program and the capacity of the Guarantee Program was \$87,256,574,142 based on the three times cost value multiplier approved by the SBOE on May 21, 2010. Such capacity figures include the Reserve Capacity for the Guarantee Program. As a result of the SBOE actions in November 2015 described above, the State Law Capacity will increase effective February 1, 2016 from a cost value multiplier of 3 times to 3.25 times. Based on the cost value of the Fund at August 31, 2015, had such increase been effective at that date, it would have produced a State Law Capacity of \$94,527,955,321.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

	School District Bonds		Charter District Bonds		Totals	
	Number of Issues	Principal Amount Guaranteed	Number of Issues	Principal Amount Guaranteed	Number of Issues	Principal Amount Guaranteed
At 8/31						
2014 ⁽²⁾	2,869	\$58,061,805,783	10	\$302,545,000	2,879	\$58,364,350,783
2015	3,089	63,197,514,047	28	757,935,500	3,117	63,955,449,047

(1) Represents original principal amount; does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount shown excludes bonds that have been refunded and released from the Guarantee Program.

(2) Fiscal 2014 was the first year of operation of the Charter District Bond Guarantee Program. At July 31, 2016 (based on unaudited data), there were \$68,114,902,880 of bonds guaranteed under the Guarantee Program, representing 3,294 school district issues, aggregating \$67,232,070,880 in principal amount and 32 charter district issues, aggregating \$882,832,000 in principal amount. At July 31, 2016, the capacity of the Charter District Bond Guarantee Program was \$1,121,971,382 (based on unaudited data).

DISCUSSION AND ANALYSIS PERTAINING TO FISCAL YEAR ENDED AUGUST 31, 2015

The following discussion is derived from the Annual Report for the year ended August 31, 2015, including the Message of the Executive Administrator of the Fund and the Management’s Discussion and Analysis contained therein. Reference is made to the Annual Report, when filed, for the complete Message and MD&A. Investment assets managed by the fifteen member SBOE are referred to throughout this MD&A as the PSF(SBOE) assets. As of August 31, 2015, the Fund’s land, mineral rights and certain real assets are managed by the three-member SLB and these assets are referred to throughout as the PSF(SLB) assets. The current PSF asset allocation policy includes an allocation for real estate investments, and as such investments are made, and become a part of the PSF investment portfolio, those investments will be managed by the SBOE and not the SLB.

At the end of fiscal 2015, the Fund balance was \$33.8 billion, a decrease of \$1.1 billion from the prior year, primarily due to disbursement of \$0.8 billion in support of public education. During the year, the SBOE continued implementing the long term strategic asset allocation, diversifying the PSF(SBOE) with the intent to strengthen the Fund. The asset allocation is projected to increase returns over the long run while reducing risk and portfolio return volatility. The one year, three year, five year and ten year annualized total returns for the PSF(SBOE) assets were -3.36%, 7.27%, 8.95% and 5.99% respectively (total return takes into consideration the change in the market value of the Fund during the year as well as the interest and dividend income generated by the Fund’s investments). In addition, the SLB continued its shift into externally managed real asset investment funds and the one year, three year, and five year annualized total returns for the PSF(SLB) real assets, including cash, were 5.79%, 7.69%, and 8.83% respectively.

The market value of the Fund’s assets is directly impacted by the performance of the various financial markets in which the assets are invested. The most important factors affecting investment performance are the asset allocation decisions made by the SBOE and SLB. The current SBOE long term asset allocation policy allows for diversification of the PSF(SBOE) portfolio into alternative asset classes whose returns are not as positively correlated as traditional asset classes. The implementation of the long term asset allocation will occur over several fiscal years and is expected to provide incremental total return at reduced risk. As of August 31, 2015, the PSF(SBOE) portion of the Fund had diversified into emerging market large cap international equities, absolute return funds, real estate, private equity, risk parity, real return Treasury Inflation-Protected Securities, real return

commodities, and emerging market debt. Emerging international equities securities will be strategically added commensurate with the economic environment and the goals and objectives of the SBOE. As of August 31, 2015, the SBOE had approved and the PSF(SBOE) made capital commitments to real estate investments in the amount of \$2.32 billion and capital commitments to four private equity limited partnerships in the total amount of \$2.35 billion. Unfunded commitments at August 31, 2015 were \$801 million in real estate and \$982 million in private equity.

The PSF(SLB) portfolio is generally characterized by three broad categories: (1) discretionary real assets investments, (2) sovereign and other lands, and (3) mineral interests. Discretionary real assets investments consist of externally managed real estate, infrastructure, and energy/minerals investment funds; internally managed direct real estate investments, and cash. Sovereign and other lands consist primarily of the lands set aside to the PSF when it was created. Mineral interests consist of all of the minerals that are associated with PSF lands. The investment focus of PSF(SLB) discretionary real assets investments has shifted from internally managed direct real estate investments to externally managed real assets investment funds. The PSF(SLB) makes investments in certain limited partnerships that legally commit it to possible future capital contributions. At August 31, 2015, the remaining commitments totaled approximately \$1.95 billion.

The PSF(SBOE)'s investment in public equity securities experienced a return of -4.4% during the fiscal year ended August 31, 2015. The PSF(SBOE)'s investment in domestic fixed income securities produced a return of 1.5% during the fiscal year and absolute return investments yielded a return of 2.6%. The PSF(SBOE) real estate and private equity investments returned 13.0% and 13.0%, respectively. Risk parity assets produced a return of -9.5%, while real return assets yielded -15.3%. Emerging market debt produced a return of -21.3. The emerging market equity asset class initiated during the year yielded a -15.3% return since inception. Combined, all PSF(SBOE) asset classes produced an investment return of -3.36% for the fiscal year ended August 31, 2015, out-performing the benchmark index of -3.7% by approximately 35 basis points. All PSF(SLB) real assets (including cash) returned 5.79% for the fiscal year ending August 31, 2015.

For fiscal year 2015, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled \$144.1 million, a decrease of \$5.4 billion from fiscal year 2014 earnings of \$5.3 billion. This decrease reflects the performance of the securities markets in which the Fund was invested in fiscal year 2015. In fiscal year 2015, revenues earned by the Fund included lease payments, bonuses and royalty income received from oil, gas and mineral leases; lease payments from commercial real estate; surface lease and easement revenues; revenues from the resale of natural and liquid gas supplies; dividends, interest, and securities lending revenues; the net change in the fair value of the investment portfolio; and, other miscellaneous fees and income.

Expenditures are paid from the Fund before distributions are made under the total return formula. Such expenditures include the costs incurred by the SLB to manage the land endowment, as well as operational costs of the Fund, including external management fees paid from appropriated funds. Total operating expenditures, net of security lending rebates and fees, increased 40.1% for the fiscal year ending August 31, 2015. This increase is primarily attributable to the operational costs related to managing alternative investments due to diversification of the Fund, and from generally lower margins on sales of purchased gas.

The Fund supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. For fiscal years 2014 and 2015, the distribution from the SBOE to the ASF totaled \$838.7 million and \$838.7 million, respectively. There was no contribution to the ASF by the SLB in fiscal year 2015.

At the end of the 2015 fiscal year, PSF assets guaranteed \$63.955 billion in bonds issued by 846 local school districts and charter districts, the latter of which entered into the Program during the 2014 fiscal year. Since its inception in 1983, the Fund has guaranteed 6,164 school district and charter district bond issues totaling \$138.5 billion in principal amount. During the 2015 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program increased by 238, or 8.3%. The dollar amount of guaranteed school and charter bond issues outstanding increased by \$5.6 billion or 9.6%. The guarantee capacity of the Fund increased by \$4.24 billion, or 5.4%, during fiscal year 2015 due to growth in the cost basis of the Fund.

2011 CONSTITUTIONAL AMENDMENT

On November 8, 2011, a referendum was held in the State as a result of legislation enacted that year that proposed amendments to various sections of the Texas Constitution pertaining to the PSF. At that referendum, voters of State approved non-substantive changes to the Texas Constitution to clarify references to the Fund, and, in addition, approved amendments that effected an increase to the base amount used in calculating the Distribution Rate from the Fund to the ASF, and authorized the SLB to make direct transfers to the ASF, as described below.

The amendments approved at the referendum included an increase to the base used to calculate the Distribution Rate by adding to the calculation base certain discretionary real assets and cash in the Fund that is managed by entities other than the SBOE (at present, by the SLB). The value of those assets were already included in the value of the Fund for purposes of the Guarantee Program, but prior to the amendment had not been included in the calculation base for purposes of making transfers from the Fund to the ASF. While the amendment provided for an increase in the base for the calculation of approximately \$2 billion, no new resources were provided for deposit to the Fund. As described under "The Total Return Constitutional Amendment" the SBOE is prevented from approving a Distribution Rate or making a pay out from the Fund if the amount distributed would exceed 6% of the average of the market value of the Fund, excluding real property in the Fund, but including discretionary real asset investments on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium or if such pay out would exceed the Ten Year Total Return. The new calculation base is required to be used to determine all payments to the ASF from the Fund beginning with the 2012-13 biennium.

If there are no reductions in the percentage established biennially by the SBOE to be the Distribution Rate, the impact of the increase in the base against which the Distribution Rate is applied will be an increase in the distributions from the PSF to the ASF. As a result, going forward, it may be necessary for the SBOE to reduce the Distribution Rate in order to preserve the corpus of the Fund in accordance with its management objective of preserving intergenerational equity.

The Distribution Rates for the Fund were set at 3.5%, 2.5%, 4.2%, 3.3% and 3.5% for each of two year periods 2008-2009, 2010-2011, 2012-2013, 2014-2015 and 2016-2017, respectively. In September 2015, in accordance with the 2016-2017 Distribution Rate determination, the SBOE approved the distribution of \$1.056 billion to the ASF in fiscal year 2016, which represents a per student distribution of \$217.51, based on 2015 final student average daily attendance of 4,854,882.

Changes in the Distribution Rate for each biennial period has been the result of a number of financial and political reasons, as well as commitments made by the SLB in some years to transfer certain sums to the ASF. As an illustration of the impact of the broader base for the Distribution Rate calculation, PSF management calculates that the effect on transfers made by the SBOE in 2012-13 was an increase in the total return distribution by approximately \$73.7 million in each year of that biennium. If the SBOE were to maintain a Distribution Rate in future years at the level set for 2012-13, as the value of the real asset investments increase annually, distributions to the ASF would increase in the out years, and the increased amounts distributed from the Fund would be a loss to either the investment corpus of the PSF managed by SBOE or, should the SLB increase its transfers to the SBOE to cover this share of the distribution, to the assets managed by the SLB. In addition, the changes made by the amendment are expected to reduce the compounding interest in the Fund that would be derived if those assets remained in the corpus of the Fund. Other factors that may affect the corpus of the Fund that are associated with this change include the decisions that are made by the SLB or others that are, or may in the future be, authorized to make transfers of funds from the PSF to the ASF. While the SBOE has oversight of the Guarantee Program, it will not have the decision-making power with respect to all transfers to the ASF, as was the case in the past, which could adversely affect the ability of the SBOE to optimally manage its portion of the PSF assets.

The constitutional amendments approved on November 8, 2011 also provide authority to the GLO or any other entity other than the SBOE that has responsibility for the management of land or other properties of the Fund to determine whether to transfer an amount each year from Fund assets to the ASF revenue derived from such land or properties, with the amount transferred limited to \$300 million. Any amount transferred to the ASF by an entity other than the SBOE is excluded from the 6% Distribution Rate limitation applicable to SBOE transfers.

OTHER EVENTS AND DISCLOSURES

The State Investment Ethics Code governs the ethics and disclosure requirements for financial advisors and other service providers who advise certain State governmental entities, including the PSF. In accordance with the provisions of the State Investment Ethics Code, the SBOE periodically modifies its code of ethics, which occurred most recently in July 2016. The SBOE code of ethics includes prohibitions on sharing confidential information, avoiding conflict of interests and requiring disclosure filings with respect to contributions made or received in connection with the operation or management of the Fund. The code of ethics applies to members of the SBOE as well as to persons who are responsible by contract or by virtue of being a TEA PSF staff member for managing, investing, executing brokerage transactions, providing consultant services, or acting as a custodian of the PSF, and persons who provide investment and management advice to a member of the SBOE, with or without compensation under certain circumstances. The code of ethics is codified in the Texas Administrative Code at 19 TAC sections 33.5 et seq., and is available on the TEA web site at <http://ritter.tea.state.tx.us/rules/tac/chapter033/ch033a.html#33.5>.

In addition, the GLO has established processes and controls over its administration of real estate transactions and is subject to provisions of the Texas Natural Resources Code and its own internal procedures in administering real estate transactions for assets it manages for the Fund. A report of the State Auditor released in March 2016 noted that based on an audit of certain real estate transactions managed by the GLO, during the period from September 2009 to May 2015, the GLO failed to comply with certain of such legal requirements relating to conflict of interest reporting, complying with written procedures and maintenance of documentation and other statutory and procedural requirements. That report, which includes the response of GLO management agreeing to the recommendations of the report, is available at <http://www.sao.texas.gov/reports/main/16-018.pdf>.

Since 2007, TEA has made supplemental appropriation requests to the Legislature for the purpose of funding the implementation of the 2008 Asset Allocation Policy, but those requests have been denied or partly funded. In the 2011 legislative session, the Legislature approved an increase of 31 positions in the full-time equivalent employees for the administration of the Fund, which was funded as part of an \$18 million appropriation for each year of the 2012-13 biennium, in addition to the operational appropriation of \$11 million for each year of the biennium. The TEA has begun increasing the PSF administrative staff in accordance with the 2011 legislative appropriation, and the TEA received an appropriation of \$30.0 million and \$30.2 million for the administration of the PSF for fiscal years 2014 and 2015, respectively, and \$30.2 million for each of the fiscal years 2016 and 2017.

As of August 31, 2015, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property, and other litigation arising in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

PSF CONTINUING DISCLOSURE UNDERTAKING

The SBOE has adopted an investment policy rule (the "TEA Rule") pertaining to the PSF and the Guarantee Program. The TEA Rule is codified in Section I of the TEA Investment Procedure Manual, which relates to the Guarantee Program and is posted to the TEA web site at http://tea.texas.gov/Finance_and_Grants/Texas_Permanent_School_Fund/Texas_Permanent_School_Fund_Disclosure_Statement_-_Bond_Guarantee_Program/. The most recent amendment to the TEA Rule was adopted by the SBOE on November 19, 2010, and is summarized below. Through the adoption of the TEA Rule and its commitment to guarantee bonds, the SBOE has made the following agreement for the benefit of the issuers, holders and beneficial owners of guaranteed bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an "obligated person," within the meaning of Rule 15c2-12, with respect to guaranteed bonds. Nothing in the TEA Rule obligates the TEA to make any filings or disclosures with respect to guaranteed bonds, as the

obligations of the TEA under the TEA Rule pertain solely to the Guarantee Program. The issuer or an “obligated person” of the guaranteed bonds has assumed the applicable obligation under Rule 15c-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such undertakings. Under the TEA agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

The MSRB has established the Electronic Municipal Market Access (“EMMA”) system, and the TEA is required to file its continuing disclosure information using the EMMA system. Investors may access continuing disclosure information filed with the MSRB at www.emma.msrb.org, and the continuing disclosure filings of the TEA with respect to the PSF can be found at <http://emma.msrb.org/IssueView/NonCUSIP9IssueDetails.aspx?id=ER355077> or by searching for “Texas Permanent School Fund Bond Guarantee Program” on EMMA.

ANNUAL REPORTS

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

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

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

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

MATERIAL EVENT NOTICES

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

AVAILABILITY OF INFORMATION

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

LIMITATIONS AND AMENDMENTS

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

The continuing disclosure agreement of the TEA is made only with respect to the PSF and the Guarantee Program. The issuer of guaranteed bonds or an obligated person with respect to guaranteed bonds may make a continuing disclosure undertaking in accordance with Rule 15c2-12 with respect to its obligations arising under Rule 15c2-12 pertaining to financial and operating data concerning such entity and notices of material events relating to such guaranteed bonds. A description of such undertaking, if any, is included elsewhere in the Official Statement.

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

COMPLIANCE WITH PRIOR UNDERTAKINGS

During the last five years, the TEA has not failed to substantially comply with its previous continuing disclosure agreements in accordance with Rule 15c2-12.

SEC EXEMPTIVE RELIEF

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

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

LITIGATION RELATING TO THE TEXAS PUBLIC SCHOOL FINANCE SYSTEM

On seven occasions in the last thirty years, the Texas Supreme Court (the “Court”) has issued decisions assessing the constitutionality of the Texas public school finance system (the “Finance System”). The litigation has primarily focused on whether the Finance System, as amended by the Texas Legislature (the “Legislature”) from time to time (i) met the requirements of article VII, section 1 of the Texas Constitution, which requires the Legislature to “establish and make suitable provision for the support and maintenance of an efficient system of public free schools,” or (ii) imposed a statewide ad valorem tax in violation of article VIII, section 1-e of the Texas Constitution because the statutory limit on property taxes levied by school districts for maintenance and operation purposes had allegedly denied school districts meaningful discretion in setting their tax rates. In response to the Court’s previous decisions, the Legislature enacted multiple laws that made substantive changes in the way the Finance System is funded in efforts to address the prior decisions declaring the Finance System unconstitutional.

On May 13, 2016, the Court issued its opinion in the most recent school finance litigation, *Morath, et.al v. The Texas Taxpayer and Student Fairness Coalition, et al.*, No. 14-0776 (Tex. May 13, 2016) (“*Morath*”). The plaintiffs and intervenors in the case had alleged that the Finance System, as modified by the Legislature in part in response to prior decisions of the Court, violated article VII, section 1 and article VIII, section 1-e of the Texas Constitution. In its opinion, the Court held that “[d]espite the imperfections of the current school funding regime, it meets minimum constitutional requirements.” The Court also noted that: Lawmakers decide if laws pass, and judges decide if those laws pass muster. But our lenient standard of review in this policy-laden area counsels modesty. The judicial role is not to second-guess whether our system is optimal, but whether it is constitutional. Our Byzantine school funding “system” is undeniably imperfect, with immense room for improvement. But it satisfies minimum constitutional requirements.

POSSIBLE EFFECTS OF CHANGES IN LAW ON DISTRICT BONDS

The Court's decision in *Morath* upheld the constitutionality of the Finance System but noted that the Financing System was "undeniably imperfect." While not compelled by the *Morath* decision to reform the Finance System, the Legislature could enact future changes to the Finance System. Any such changes could benefit or be a detriment to the District. If the Legislature enacts future changes to, or fails adequately to fund the Finance System, or if changes in circumstances otherwise provide grounds for a challenge, the Finance System could be challenged again in the future. In its 1995 opinion in *Edgewood Independent School District v. Meno*, 917 S.W.2d 717 (Tex. 1995), the 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"), which prohibit the enactment of laws that impair prior obligations of contracts.

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

OVERVIEW

The following language constitutes only a summary of the Finance System as it is currently structured. For a more complete description of school finance and fiscal management in the State, reference is made to Vernon's Texas Codes Annotated, Education Code, Chapters 41 through 46, as amended.

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

Local funding is derived from collections of ad valorem taxes levied on property located within each district's boundaries. School districts are authorized to levy two types of property taxes: a limited M&O tax to pay current expenses and an unlimited interest and sinking fund ("I&S") tax to pay debt service on bonds. Generally, under current law, M&O tax rates are subject to a statutory maximum rate of \$1.17 per \$100 of taxable value for most school districts (although a few districts can exceed the \$1.17 limit as a result of authorization approved in the 1960s). Current law also requires school districts to demonstrate their ability to pay debt service on outstanding indebtedness through the levy of an ad valorem tax at a rate of not to exceed \$0.50 per \$100 of taxable property at the time bonds are issued. Once bonds are issued, however, districts may levy a tax to pay debt service on such bonds unlimited as to rate or amount (see "TAX INFORMATION – Tax Rate Limitations" herein). As noted above, because property values vary widely among school districts, the amount of local funding generated by the same tax rate is also subject to wide variation among school districts.

LOCAL FUNDING FOR SCHOOL DISTRICTS

The primary source of local funding for school districts is collections from ad valorem taxes levied against taxable property located in each school district. Prior to reform legislation that became effective during the 2006-2007 fiscal year (the "Reform Legislation"), the maximum M&O tax rate for most school districts was generally limited to \$1.50 per \$100 of taxable value. At the time the Reform Legislation was enacted, the majority of school districts were levying an M&O tax rate of \$1.50 per \$100 of taxable value. The Reform Legislation required each school district to "compress" its tax rate by an amount equal to the "State Compression Percentage." For fiscal years 2007–08 through 2016–17, the State Compression Percentage has been set at 66.67%, effectively setting the maximum compressed M&O tax rate for most school districts at \$1.00 per \$100 of taxable value. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. School districts are permitted, however, to generate additional local funds by raising their M&O tax rate by up to \$0.04 above the compressed tax rate without voter approval (for most districts, up to \$1.04 per \$100 of taxable value). In addition, if the voters approve a tax rate increase through a local referendum, districts may, in general, increase their M&O tax rate up to a maximum M&O tax rate of \$1.17 per \$100 of taxable value and receive State equalization funds for such taxing effort (see "TAX INFORMATION – Public Hearing and Rollback Tax Rate" herein). Elections authorizing the levy of M&O taxes held in certain school districts under older laws, however, may subject M&O tax rates in such districts to other limitations (See "TAX INFORMATION – Tax Rate Limitations").

STATE FUNDING FOR SCHOOL DISTRICTS

State funding for school districts is provided through the Foundation School Program, which provides each school district with a minimum level of funding (a “Basic Allotment”) for each student in average daily attendance (“ADA”). The Basic Allotment is calculated for each school district using various weights and adjustments based on the number of students in average daily attendance and also varies depending on each district’s compressed tax rate. This Basic Allotment formula determines most of the allotments making up a district’s basic level of funding, referred to as “Tier One” of the Foundation School Program. The basic level of funding is then “enriched” with additional funds known as “Tier Two” of the Foundation School Program. Tier Two provides a guaranteed level of funding for each cent of local tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates above \$1.00 per \$100 of taxable value). The Finance System also provides an Existing Debt Allotment (“EDA”) to subsidize debt service on eligible outstanding school district bonds and an Instructional Facilities Allotment (“IFA”) to subsidize debt service on newly issued bonds. IFA primarily addresses the debt service needs of property-poor school districts. A New Instructional Facilities Allotment (“NIFA”) also is available to help pay operational expenses associated with the opening of a new instructional facility; however, NIFA awards were not funded by the Legislature for either the 2012–13 or the 2014-15 State fiscal biennium. In 2015, the 84th Texas Legislature did appropriate funds in the amount of \$1,445,100,000 for the 2016-17 State fiscal biennium for an increase in the Basic Allotment, EDA, IFA, and NIFA support, as further described below.

Tier One and Tier Two allotments represent the State’s share of the cost of M&O expenses of school districts, with local M&O taxes representing the district’s local share. EDA and IFA allotments supplement a school district’s local I&S taxes levied for debt service on eligible bonds issued to construct, acquire and improve facilities. Tier One and Tier Two allotments and existing EDA and IFA allotments are generally required to be funded each year by the Texas Legislature. Since future-year IFA awards were not funded by the Texas Legislature for the 2014–15 fiscal biennium or the 2015-16 school year and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service on new bonds issued by districts to construct, acquire and improve facilities must be funded solely from local I&S taxes. For the 2016-17 school year, the Texas Legislature has appropriated \$55,500,000 for IFA allotments.

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

As described above, the cost of the basic program is based on an allotment per student known as the “Basic Allotment”. For fiscal year 2016-17, the Basic Allotment is \$5,140 for each student in average daily attendance. The Basic Allotment is then adjusted for all districts by several different weights to account for inherent differences between school districts. These weights consist of (i) a cost adjustment factor intended to address varying economic conditions that affect teacher hiring known as the “cost of education index”, (ii) district-size adjustments for small and mid-size districts and (iii) an adjustment for the sparsity of the district’s student population. The cost of education index and district-size adjustments applied to the Basic Allotment, create what is referred to as the “Adjusted Allotment”. The Adjusted Allotment is used to compute a “regular program allotment,” as well as various other allotments associated with educating students with other specified educational needs.

Tier Two supplements the basic funding of Tier One and provides two levels of enrichment with different guaranteed yields (i.e., guaranteed levels of funding by the State) depending on the district’s local tax effort. The first six cents of tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates ranging from \$1.01 to \$1.06 per \$100 of taxable value) will, for most districts, generate a guaranteed yield of \$77.53 per cent per weighted student in average daily attendance (“WADA”) for the fiscal year 2016-17, respectively. The second level of Tier Two is generated by tax effort that exceeds the district’s compressed tax rate plus six cents (for most districts eligible for this level of funding, M&O tax rates ranging from \$1.06 to \$1.17 per \$100 of taxable value) and has a guaranteed yield per cent per WADA of \$31.95 for fiscal year 2016-17. Property-wealthy school districts that have an M&O tax rate that exceeds the district’s compressed tax rate plus six cents are subject to recapture above this tax rate level at the equivalent wealth per student of \$319,500 (see “Wealth Transfer Provisions” below).

Because districts with compressed rates of less than \$1.00 have not been receiving the full Basic Allotment, the 84th Texas Legislature amended the Foundation School Program to enable some districts (known as “fractionally funded districts”) to increase their Tier 1 participation by moving the district’s local tax effort that would be equalized under Tier 2 at \$31.95 per penny to the Tier 1 Basic Allotment. The compressed tax rate of a school district that adopted a 2005 M&O Tax Rate below the maximum \$1.50 tax rate for the 2005 tax year can now include the portion of a district’s current M&O tax rate in excess of the first six cents above the district’s compressed tax rate until the district’s compressed tax rate is equal to the state maximum compressed tax rate of \$1.00, thereby eliminating the penalty against the Basic Allotment. For these districts, each one cent of M&O tax levy above the district’s compressed tax rate plus six cents, will have a guaranteed yield based on Tier One funding instead of the \$31.95 Tier Two yield for the fiscal year 2016-17. These conversions are optional for each applicable district in the 2016-17 fiscal year and are automatic beginning in the 2017-18 fiscal year.

In addition to the operations funding components of the Foundation School Program discussed above, the Foundation School Program provides a facilities funding component consisting of the Instructional Facilities Allotment (IFA) program and the Existing Debt Allotment (EDA) program. These programs assist school districts in funding facilities by, generally, equalizing a district’s I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the “IFA Guaranteed Yield”) in State and local funds for each cent of tax effort to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The guaranteed yield per cent of local tax effort per student in ADA has been \$35 since this program first began in 1997. To receive an IFA award, a school district must apply to the Commissioner in accordance with rules adopted by the Commissioner before issuing the bonds to be paid with IFA state assistance. The total amount of debt service assistance over a biennium for which a district may be awarded is limited to the lesser of (1) the actual debt service payments made by the district in the biennium in which the bonds are issued; or (2) the

greater of (a) \$100,000 or (b) \$250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. For the fiscal years 2011-12 through 2015-16, no funds were appropriated for new IFA awards by the Texas Legislature, although all prior awards were funded throughout such periods. The 84th Texas Legislature appropriated funds in the amount of \$55,500,000 for new IFA awards to be made during the 2016-17 fiscal year only.

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

A district may also qualify for a NIFA allotment, which provides assistance to districts for operational expenses associated with opening new instructional facilities. For the 2012-13 and 2014-15 State fiscal biennia, no funds were appropriated by the Texas Legislature for new NIFA allotments. The 84th Texas Legislature did appropriate funds in the amount of \$23,750,000 for each of the 2015-16 and 2016-17 fiscal years for NIFA allotments.

2006 LEGISLATION

Since the enactment of the Reform Legislation in 2006, most school districts in the State have operated with a “target” funding level per student (“Target Revenue”) that is based upon the “hold harmless” principles embodied in the Reform Legislation. This system of Target Revenue was superimposed on the Foundation School Program and made existing funding formulas substantially less important for most school districts. The Reform Legislation was intended to lower M&O tax rates in order to give school districts “meaningful discretion” in setting their M&O tax rates, while holding school districts harmless by providing them with the same level of overall funding they received prior to the enactment of the Reform Legislation. Under the Target Revenue system, each school district is generally entitled to receive the same amount of revenue per student as it did in either the 2005–2006 or 2006–07 fiscal year (under existing laws prior to the enactment of the Reform Legislation), as long as the district adopted an M&O tax rate that was at least equal to its compressed rate. The reduction in local M&O taxes resulting from the mandatory compression of M&O tax rates under the Reform Legislation, by itself, would have significantly reduced the amount of local revenue available to fund the Finance System. To make up for this shortfall, the Reform Legislation authorized Additional State Aid for Tax Reduction (“ASATR”) for each school district in an amount equal to the difference between the amount that each district would receive under the Foundation School Program and the amount of each district’s Target Revenue funding level. However, in subsequent legislative sessions, the Texas Legislature has gradually reduced the reliance on ASATR by increasing the funding formulas. This phase-out of ASATR began with actions adopted by the 83rd Texas Legislature. Beginning with the 2017-18 school year, the statutes authorizing ASATR are repealed.

2015 LEGISLATION

As a general matter, the 84th Texas Legislature did not enact substantive changes to the Finance System. However, of note, Senate Joint Resolution 1, passed during the 84th Texas Legislature, proposed a constitutional amendment increasing the mandatory homestead exemption for school districts from \$15,000 to \$25,000 and requiring that the tax limitation for taxpayers who are age 65 and older or disabled be reduced to reflect the additional exemption. The amendment was approved by the voters at an election held on November 3, 2015, and became effective for the tax year beginning January 1, 2015.

Senate Bill 1, which was also passed during the 84th Texas Legislature and was signed by the Governor on June 15, 2015, provides for additional state aid to hold school districts harmless for tax revenue losses resulting from the increased homestead exemption. Any hold-harmless funding for future biennia must be approved in a subsequent legislative session, and the District can make no representation that such funding will occur.

Senate Bill 1 also prohibits a school district from reducing the amount of or repealing an optional homestead exemption that was in place for the 2014 tax year (fiscal year 2015) for a period ending December 31, 2019. An optional homestead exemption reduces both the tax revenue and State aid received by a school district.

WEALTH TRANSFER PROVISIONS

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

a wealth per student that does not generate local funds sufficient to meet the statutory level of funding, a process known as “recapture”.

The equalized wealth levels that subject Chapter 41 districts to wealth equalization measures for fiscal year 2016–17 are set at (i) \$514,000 per student in WADA with respect to that portion of a district’s M&O tax effort that does not exceed its compressed tax rate (for most districts, the first \$1.00 per \$100 of taxable value) and (ii) \$319,500 per WADA with respect to that portion of a district’s M&O tax effort that is beyond its compressed rate plus \$.06 (for most districts, M&O taxes levied above \$1.06 per \$100 in taxable value). M&O taxes levied above \$1.00 but below \$1.07 per \$100 of taxable value are not subject to the wealth equalization provisions of Chapter 41. Chapter 41 districts with a wealth per student above the lower equalized wealth level but below the higher equalized wealth level must equalize their wealth only with respect to the portion of their M&O tax rate, if any, in excess of \$1.06 per \$100 of taxable value. Chapter 41 districts may be entitled to receive ASATR from the State in excess of their recapture liability of \$514,000 for the 2016-17 school year, and certain of such districts may use their ASATR funds to offset their recapture liability.

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

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

SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

The District’s wealth per student for the 2016-17 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.

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

TAX INFORMATION

AD VALOREM TAX LAW

The appraisal of property within the District is the responsibility of the Montgomery Central Appraisal District (the “Appraisal District”). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Property Tax Code to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the less of (1) the market value of the property, or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The District may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the District by petition filed with the Appraisal Review Board.

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

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

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

\$25,000; and an additional

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

State law also mandates a freeze on taxes paid on residence homesteads of persons 65 years of age or older which receive the \$10,000 exemption. Such residence homesteads shall be appraised and taxes calculated as on any other property, but taxes shall never exceed the amount imposed in the first year in which the property received the \$10,000 exemption. The freeze on ad valorem taxes on the homesteads of persons 65 years of age or older for general elementary and secondary public school purposes is also transferable to a different residence homestead. If improvements (other than maintenance, repairs or improvements required by governmental requirements) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. 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". 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. Pursuant to a constitutional amendment approved by the voters on May 12, 2007, legislation was enacted to reduce the school property tax limitation imposed by the freeze on taxes paid on residence homesteads of persons 65 years of age or over or of disabled persons to correspond to reductions in local school district tax rates from the 2005 tax year to the 2006 tax year and from the 2006 tax year to the 2007 tax year (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - GENERAL"). The school property tax limitation provided by the constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years.

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

(i) An exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision;

(ii) An exemption of up to 20% of the market value of residence homesteads; minimum exemption \$5,000.

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

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000; provided, however, that beginning in the 2009 tax year, a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual unemployment is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Further, the surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries. In addition, a partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Further, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

The freeze on taxes paid on residence homesteads of persons 65 years of age and older was extended to include the resident homesteads of "disabled" persons, including the right to transfer the freeze to a different residence homestead. A "disabled" person is one who is "under a disability for purposes of payment of disability insurance benefits under the Federal Old Age, Survivors and Disability Insurance".

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

The freeze on ad valorem taxes on the homesteads of persons 65 years of age or older for general elementary and secondary public school purposes is also transferable to a different residence homestead.

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

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

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 municipalities and counties to initiate tax abatement agreements. Credit will not be given by the Commissioner of Education in determining a district's property value wealth per student for (1) the appraisal value, in excess of the "frozen" value, of property that is located in a tax increment financing zone 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 zone of its intention to create the zone and the zone is created and has 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 certain school districts to grant tax abatements on certain eligible property to encourage economic development in their tax base and provides additional State funding for each year of such tax abatement in the amount of the tax credit provided to the taxpayer by the district.

TAX RATE LIMITATIONS

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters under Section 45.003(d) of the Texas Education Code, as amended. 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 May 4, 2002 under Chapter 20, Texas Education Code (now codified at Section 45.003, Texas Education Code). The maximum tax rate per \$100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) \$1.50 and (B) the sum of (1) the rate of \$0.17, and (2) the product of the "State Compression Percentage" multiplied by \$1.50. The State Compression Percentage has been set, and will remain, at 66.67% for fiscal years 2007-08 through 2016-17. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For a more detailed description of the State Compression Percentage, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Local Funding for School Districts." Furthermore, a school district cannot annually increase its tax rate in excess of the district's "rollback tax rate" without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate. See "TAX INFORMATION - PUBLIC HEARING AND ROLLBACK TAX RATE."

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

Chapter 45 of the Texas Education Code, as amended, requires a district to demonstrate to the Texas Attorney General that it has the prospective ability to pay debt service on a proposed issue of bonds, together with debt service on other outstanding "new debt" of the district, from a tax levied at a rate of \$0.50 per \$100 of assessed valuation before bonds may be issued. In demonstrating the ability to pay debt service at a rate of \$0.50, a district may take into account State allotments to the district which effectively reduces the district's local share of debt service. Once the prospective ability to pay such tax has been shown and the bonds are issued, a district may levy an unlimited tax to pay debt service. Taxes levied to pay debt service on bonds approved by district voters at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds) are not subject to the foregoing threshold tax rate test. In addition, taxes levied to pay refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the \$0.50 tax rate test; however, taxes levied to pay debt service on such bonds are included in the calculation of the \$0.50 tax rate test as applied to subsequent issues of "new debt." The new money portion of the Bonds are "new debt" and are subject to the \$0.50 threshold tax rate test. The refunding portion of the Bonds are issued pursuant to Section 1207, Texas Government Code, 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.

PUBLIC HEARING AND ROLLBACK TAX RATE

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

if the district had adopted an M&O tax rate for the preceding tax year equal to its effective M&O tax rate for that preceding tax year.

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

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

TAX RATIFICATION ELECTION

Voters in the District approved raising the District’s compressed tax rate from \$1.04 per \$100 of assessed valuation to \$1.17 per \$100 of assessed valuation in an election held on September 6, 2014. See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” and “TAX INFORMATION – PUBLIC HEARING AND ROLLBACK TAX RATE.” The District also lowered the interest and sinking fund debt service tax rate from \$0.2755 per \$100 of assessed valuation to \$0.1455 per \$100 of assessed valuation. In addition to the tax levied to pay debt service on the District’s outstanding bonds and the Bonds, approximately 63.53% of the District’s debt is paid with state assistance. To the extent that the interest and sinking fund tax levy and state assistance is not enough to cover the District’s debt service payment, surplus M&O funds may also be used for such purposes.

PROPERTY ASSESSMENT AND TAX PAYMENT

Property within the District is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first installment due February 1 of each year and the final installment due on August 1. Additionally, the owner of a residential homestead that is a person 65 years old or older is entitled by law to defer the payment of taxes without penalty during the time of ownership.

PENALTIES AND INTEREST

Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Cumulative Penalty	Cumulative Interest ^(b)	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	27 ^(a)	6	33

(a) Includes additional penalty of up to 20% assessed after July 1 in order to defray attorney collection expenses.

(b) Interest continues to accrue after July 1 at the rate of 1% per month until paid.

Taxes levied by the District are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with tax liens of all other such taxing units. A tax lien on real property has priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty and interest. At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. The ability of the District to collect delinquent taxes by foreclosure may be adversely affected by the amount of taxes owed to other taxing units, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of a taxpayer's debt. **Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.**

DISTRICT APPLICATION OF TAX CODE

The District grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$10,000; the disabled are also granted an exemption of \$10,000.

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

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

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

The District does not tax nonbusiness personal property; and Montgomery County collects taxes for the District.

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

The District does not tax freeport property.

The District has not adopted a tax abatement policy.

The District does not tax goods in transit.

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TABLE 1 - VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT

2016/2017 Market Valuation Established by Montgomery Central Appraisal District (excluding totally exempt property)		\$ 993,836,785
Less Exemptions/Reductions at 100% Market Value:		
Total Exempt Property	\$ 70,139,081	
Exempt Vet 100%	3,614,433	
Residential Homestead Exemptions (State Mandated)	76,670,472	
Over 65 Homestead Exemptions (State Mandated)	7,979,834	
Disabled Homestead Exemptions (State Mandated)	985,710	
Veteran Homestead Exemptions (State Mandated)	574,453	
Homestead Cap Adjustments	73,793,007	
House Bill 366 Exemptions	3,116	
Prorated Exempt Property	97,364	
Lease Vehicles Exemptions	1,977,856	
Productivity Loss	95,082,322	
Freeze Adjustments	65,661,005	<u>\$ 396,578,653</u>
2016/2017 Taxable Assessed Valuation		\$ 597,258,132 ⁽¹⁾
Debt Payable from Interest and Sinking Fund as of August 31, 2016:		
Unlimited Tax Bonds		\$ 73,725,000 ⁽²⁾
Interest and Sinking Fund as of July 18, 2016		\$ 104,443 ⁽³⁾
Net Debt Payable from Interest and Sinking Fund as of August 31, 2016		\$ 73,620,557 ⁽²⁾
Ratio Tax Supported Debt to Taxable Assessed Valuation		12.33%

2016 Estimated Population - 18,500
Per Capita Taxable Assessed Valuation - \$32,284
Per Capita Funded Debt - \$3,979

* Preliminary, subject to change.

(1) Tax Roll as of July 25, 2016. Includes 100% of \$22,270,791 of value under review.

(2) Includes the Bonds and excludes the Refunded Bonds. Approximately 63.53% of District debt is paid with State assistance.

(3) Unaudited. Does not include funds used for the August 15, 2016 debt payment.

TABLE 2 - VALUATION AND TAX SUPPORTED DEBT HISTORY

Fiscal Year Ended 6/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	I&S Tax Supported Debt Outstanding at End of Year ⁽³⁾	Ratio of Tax Supported Debt to Taxable Assessed Valuation	I&S Tax Supported Debt Per Capita
2012	18,000	\$ 395,825,188	\$ 21,990	\$ 41,908,393	10.59%	\$ 2,328
2013	18,500	412,554,238	22,300	53,880,000	13.06%	2,912
2014	18,500	435,317,294	23,531	52,225,000	12.00%	2,823
2015	18,500	468,761,155	25,338	50,670,000	10.81%	2,739
2016	18,500	522,897,642	28,265	49,195,000	9.41%	2,659
2017	18,500	597,258,132 ⁽⁴⁾	32,284	71,105,000 ⁽⁵⁾	11.91% ⁽⁵⁾	3,844 ⁽⁵⁾

(1) Source: The District.

(2) Source: District's Annual Financial Report and Montgomery Central Appraisal District, subject to change during the ensuing year.

(3) Approximately 63.537% of District debt is paid with state assistance.

(4) Tax Roll as of July 25, 2016. Includes 100% of \$22,270,791 of value under review.

(5) Projected, includes the Bonds and excludes the Refunded Bonds.

TABLE 3 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended	Tax Rate	Maintenance Tax	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2012	\$ 1.33000	\$ 1.04000	\$ 0.29000	\$ 5,264,475	94.66%	99.40%
2013	1.31550	1.04000	0.27550	5,427,151	93.70%	97.39%
2014	1.31550	1.04000	0.27550	5,726,599	96.59%	101.38%
2015	1.31550	1.17000 ⁽¹⁾	0.14550	6,166,553	94.15%	98.42%
2016	1.31550	1.17000 ⁽¹⁾	0.14550	7,063,937 ⁽²⁾	96.19%	98.58%

(1) Voters in the District approved raising the District's maintenance tax rate from \$1.04 per \$100 of assessed valuation to \$1.17 per \$100 of assessed valuation in an election held on September 6, 2014. See "TAX INFORMATION – TAX RATIFICATION ELECTION."

(2) Levy prior to final adjustment for frozen values.

TABLE 4 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2015/2016 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Entergy Texas Inc.	Electric Utility	\$ 14,822,430	2.99%
Komatsu Financial LP	Equipment Financing	11,793,479	2.38%
Willbros Construction LLC	Oil and Gas Construction	11,390,654	2.29%
Centric Pipe LLC	Pipeline	8,792,626	1.77%
Commercial Metals Company	Steel Trading	8,499,004	1.71%
Evolution Well Services LLC	Hydraulic Fracturing	7,951,080	1.60%
Caterpillar Financial Services Corp	Equipment Financing	6,317,016	1.27%
Splendor Pipe Services	Pipeline	5,000,000	1.01%
BNSF Railway Company	Railroad	4,796,110	0.97%
Kennedy Fabricating Inc.	Oil and Gas	3,606,440	0.73%
		<u>\$ 82,968,839</u>	<u>16.72%</u>

TABLE 5 - TAX ADEQUACY

2017 Principal and Interest Requirements.....	\$ 5,082,930	(1)
Less: Surplus Maintenance Funds.....	950,000	(2)
Less: Estimated Existing Debt Allotment.....	275,978	(3)(4)
Less: Estimated Facilities Allotment Payment.....	1,399,772	(3)(4)
Net Principal and Interest Requirements (2017).....	<u>\$ 2,457,180</u>	
\$0.4286 Tax Rate at 96% Collection Produces	\$ 2,457,454	
Maximum Principal and Interest Requirements (2022).....	\$ 6,654,655	(1)
Less: Estimated Existing Debt Allotment.....	2,648,074	(3)(4)
Less: Estimated Facilities Allotment Payment.....	1,414,592	(3)(4)
Net Principal and Interest Requirements (2022).....	<u>\$ 2,591,989</u>	
\$0.4521 Tax Rate at 96% Collection Produces	\$ 2,592,196	
Average Principal and Interest Requirements (2017-2043).....	\$ 3,776,578	(1)
Less: Average Expected Existing Debt Allotment.....	1,198,357	(3)(4)
Less: Average Expected Facilities Allotment Payment.....	1,056,859	(3)(4)
Net Average Principal and Interest Requirements (2017-2043).....	<u>\$ 1,521,362</u>	
\$0.2654 Tax Rate at 96% Collection Produces	\$ 1,521,718	

(1) Projected, includes the Bonds and excludes the Refunded Bonds.

(2) The District held a tax ratification election to increase the maintenance tax and reduced the debt tax. Unbudgeted surplus maintenance funds may be applied to debt service in the near term.

(3) Estimate based on calculations and expectations of state funding formulas as used by the Texas Education Agency. During fiscal year 2016 the District received approximately \$900,000 in excess EDA payments that will need to be returned to the State in fiscal year 2017.

(4) The amount of State aid for debt service may substantially differ from year to year, depending on a number of factors, including amounts, if any, appropriated for that purpose by the Texas Legislature and the District's wealth per student.

TABLE 6 - ESTIMATED OVERLAPPING DEBT

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

	2015 Taxable Assessed Value	2015 Tax Rate	Outstanding G.O. Debt as of August 1, 2016	Estimated % Applicable	District's Overlapping G.O. Debt
Splendora ISD	\$ 522,897,642	\$ 1.3155	\$ 73,725,000 (1)	100.00%	\$ 73,725,000
Montgomery Co.	48,656,889,850	0.4767	426,470,000	1.07%	4,583,116
Lone Star College System	168,901,952,787	0.1079	568,335,000	0.31%	1,759,488
City of Splendora	64,405,488	0.2473	4,185,000	100.00%	4,185,000
Total Direct & Overlapping Debt					<u>\$ 84,252,604</u>
Ratio of Direct and Overlapping Debt to Taxable Assessed Valuation					14.11%
Per Capita Overlapping Debt					\$ 4.554

(1) Projected, includes the Bonds and excludes the Refunded Bonds.

DEBT INFORMATION

TABLE 7 - PRO-FORMA TAX SUPPORTED DEBT SERVICE REQUIREMENTS

For The Period Ending 8/31 ⁽¹⁾	Outstanding Debt Service Requirements	Less: Refunded Debt Service*	The Series 2016B Bonds*			Total Net Debt Service Requirements	% of Principal Retired
			Principal	Interest ⁽²⁾	Total		
2017	\$ 3,268,793	\$ 279,248	\$ 1,100,000	\$ 993,384	\$ 2,093,384	\$ 5,082,930	
2018	3,284,349	479,994	2,840,000	1,000,700	3,840,700	6,645,055	
2019	3,287,621	481,279	2,890,000	943,400	3,833,400	6,639,743	
2020	3,286,248	482,093	2,970,000	869,950	3,839,950	6,644,105	
2021	3,290,825	482,433	3,065,000	779,425	3,844,425	6,652,818	26.97%
2022	3,295,821	482,291	3,155,000	686,125	3,841,125	6,654,655	
2023	3,296,109	481,666	3,265,000	573,500	3,838,500	6,652,943	
2024	3,291,621	480,616	815,000	491,900	1,306,900	4,117,905	
2025	3,302,546	479,141	845,000	458,700	1,303,700	4,127,105	
2026	3,306,421	482,063	880,000	424,200	1,304,200	4,128,558	50.50%
2027	3,300,445	479,378	915,000	388,300	1,303,300	4,124,367	
2028	3,299,900	481,076	955,000	350,900	1,305,900	4,124,724	
2029	3,312,752	482,048	995,000	311,900	1,306,900	4,137,605	
2030	3,312,704	482,280	1,035,000	271,300	1,306,300	4,136,724	
2031	3,428,533	481,770	1,075,000	229,100	1,304,100	4,250,863	71.39%
2032	3,431,675	480,413	780,000	192,000	972,000	3,923,263	
2033	2,436,606	483,088	815,000	160,100	975,100	2,928,619	
2034	2,171,425	479,975	845,000	126,900	971,900	2,663,350	
2035	2,171,825	481,075	880,000	92,400	972,400	2,663,150	
2036	2,169,425	481,275	915,000	56,500	971,500	2,659,650	88.37%
2037	2,169,125	480,575	955,000	19,100	974,100	2,662,650	
2038	1,686,475					1,686,475	
2039	1,692,088					1,692,088	
2040	740,488					740,488	
2041	742,125					742,125	98.08%
2042	742,888					742,888	
2043	742,775					742,775	100.00%
	<u>\$ 70,461,607</u>	<u>\$ 9,903,774</u>	<u>\$ 31,990,000</u>	<u>\$ 9,419,784</u>	<u>\$ 41,409,784</u>	<u>\$ 101,967,617</u>	

* Preliminary, subject to change.

- (1) The District receives State funding based on a fiscal year ending August 31. Currently, approximately 63.53% of District debt is paid with State assistance. State assistance is subject to change each year based on a variety of factors.
(2) Interest on Bonds is estimated at current market rates for the purpose of illustration.

TABLE 8 - INTEREST AND SINKING FUND BUDGET PROJECTION

Tax Supported Debt Service Requirements Fiscal Year Ending 8/31/2017 ⁽¹⁾		\$ 5,082,930
Interest and Sinking Fund, 8/31/2016 ⁽²⁾	\$ 104,443	
Interest and Sinking Fund Tax Levy @ 96% Collection	2,465,482	
Estimated Fund Balance Transfer of Surplus Maintenance Tax Collections ⁽³⁾	950,000	
Estimated Existing Debt Allotment	275,978	
Estimated Instructional Facilities Allotment	<u>1,399,772</u>	\$ 5,195,675
Estimated Balance, 8/31/2017		\$ 112,745

- (1) The District receives State funding based on a fiscal year ending August 31. Includes the Bonds and excludes the Refunded Bonds. Preliminary, subject to change.
(2) Unaudited.
(3) The District has an excess balance of unequalized tax collections as of the end of fiscal year 2016 of \$3,053,296.

TABLE 9 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

After issuance of the Bonds, the District will have no authorized but unissued unlimited tax bonds.

ANTICIPATED ISSUANCE OF UNLIMITED TAX DEBT

The District does not anticipate the issuance of additional unlimited tax debt in the next 12 months.

TABLE 10 - OTHER OBLIGATIONS

The District has no outstanding obligations other than the unlimited tax debt described herein.

PENSION FUND

Pension funds for employees of Texas school districts, and any employee in public education in Texas, are administered by the Teacher Retirement System of Texas (the "System"). The individual employees contribute a fixed amount of their salary to the System, currently 6.4%, and the State of Texas contributes funds to the System based on statutory required minimum salary for certified personnel, except any District personnel paid by federally funded programs. The District's employees' contributions to the System for the years ending June 30, 2015 were \$1,289,059. (For more detailed information concerning the retirement plan, see APPENDIX B, "EXCERPTS FROM THE DISTRICT'S ANNUAL FINANCIAL REPORT" - Note #IV.)

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

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FINANCIAL INFORMATION

TABLE 11 - CHANGES IN NET ASSETS

	Fiscal Year Ended June 30,				
	2015	2014	2013	2012	2011
REVENUES:					
<u>Program Revenues</u>					
Charges for Services	\$ 1,163,467	\$ 1,074,467	\$ 992,727	\$ 1,016,230	\$ 978,282
Operating Grants and Contributions	5,985,513	6,330,862	6,330,413	7,262,920	7,579,166
<u>General Revenues</u>					
Property Taxes	6,247,671	5,911,846	5,465,871	5,598,051	4,978,930
Grants and Contributions (Not Restricted)	23,891,009	20,598,436	20,663,417	18,903,044	20,712,206
Investment Earnings	14,022	12,952	12,208	10,823	11,934
Miscellaneous	26,619	41,196	63,568	61,075	124,884
Total Revenues	\$ 37,328,301	\$ 33,969,759	\$ 33,528,204	\$ 32,852,143	\$ 34,385,402
EXPENSES:					
Instruction	\$ 17,889,514	\$ 16,220,257	\$ 15,509,199	\$ 15,992,221	\$ 17,021,066
Instructional Resources and Media Services	250,652	265,757	262,418	254,216	274,120
Curriculum and Staff Development	360,498	532,420	441,976	448,413	621,369
Instructional Leadership	568,522	488,195	436,909	304,984	383,673
School Leadership	1,784,343	1,645,698	1,613,910	1,674,454	1,714,261
Guidance, Counseling and Evaluation Services	663,008	604,062	511,232	491,919	642,751
Social Work Services	-	-	-	-	43,551
Health Services	226,498	220,313	210,008	195,254	185,251
Student Transportation	1,298,372	1,231,756	1,153,362	1,141,896	1,305,406
Food Service	2,234,600	2,164,878	2,083,652	2,037,729	2,034,680
Extracurricular Activities	1,327,141	1,107,128	1,059,240	1,055,205	1,078,984
General Administration	1,068,803	1,059,979	1,091,888	997,476	1,065,614
Plant Maintenance and Operations	3,207,565	3,045,731	2,555,513	3,025,738	3,126,632
Security and Monitoring Services	263,210	243,660	230,048	236,009	235,550
Data Processing Services	534,474	477,406	498,335	515,590	447,795
Community Services	190,165	191,223	184,263	177,679	185,100
Interest on Long-Term Debt	2,064,258	2,182,673	1,795,935	1,658,591	2,087,679
Bond Issuance Costs and Fees	95,405	6,350	199,594	29,631	29,825
Payments Related to Shared Services Arrangements	464,313	469,521	529,908	562,980	-
Other Intergovernmental Charges	50,000	44,757	40,291	38,149	41,199
Total Expenses	\$ 34,628,099	\$ 32,201,764	\$ 30,407,681	\$ 30,838,134	\$ 32,524,506
Changes in Net Assets	\$ 2,700,202	\$ 1,767,995	\$ 3,120,523	\$ 2,014,009	\$ 1,860,896
Beginning Net Assets	\$ 22,637,573	\$ 20,869,578	\$ 18,078,020	\$ 16,064,011	\$ 14,203,115
Prior Period Adjustments	(3,680,689)	-	(328,965)	-	-
Ending Net Assets	\$ 21,657,086	\$ 22,637,573	\$ 20,869,578	\$ 18,078,020	\$ 16,064,011

Source: The District's audited financial statements.

TABLE 11-A - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended June 30,					
	UNAUDITED 2016	2015	2014	2013	2012	2011
Revenues:						
Local and Intermediate Sources	\$ 6,883,048	\$ 5,924,628	\$ 5,118,594	\$ 4,702,296	\$ 4,540,719	\$ 4,130,766
State Program Revenues	25,894,365	24,722,217	21,383,354	21,258,956	19,634,988	20,148,114
Federal Program Revenues	598,331	362,418	315,575	379,866	271,108	563,772
Total Revenues	<u>\$ 33,375,744</u>	<u>\$ 31,009,263</u>	<u>\$ 26,817,523</u>	<u>\$ 26,341,118</u>	<u>\$ 24,446,815</u>	<u>\$ 24,842,652</u>
Expenditures:						
Current:						
Instruction	\$ 16,612,568	\$ 15,530,456	\$ 13,728,222	\$ 12,978,159	\$ 12,950,947	\$ 12,971,402
Instructional Resources and Media Services	144,280	126,322	112,018	113,205	89,850	102,226
Curriculum and Staff Development	363,578	265,814	344,269	305,602	295,240	94,432
Instructional and School Leadership	2,445,902	2,376,512	2,109,742	2,031,462	1,545,097	1,977,169
Guidance, Counseling & Evaluation Services	693,639	669,828	596,459	503,492	255,885	293,615
Social Work Services	-	-	-	-	-	-
Health Services	236,493	224,811	213,011	205,203	189,964	180,102
Student Transportation	1,713,748	1,787,830	1,215,377	947,948	934,606	1,260,828
Cocurricular/Extracurricular Activities	1,025,919	913,560	812,197	774,233	753,815	752,488
General Administration	1,094,332	1,066,172	1,042,804	1,070,877	970,873	1,017,373
Plant Maintenance and Operations	3,290,803	3,491,799	3,048,728	3,394,022	3,735,087	3,394,439
Security and Monitoring Services	295,309	294,563	265,187	225,846	219,039	220,860
Data Processing Services	607,779	531,899	460,690	531,601	483,902	446,806
Community Services	136,046	158,914	169,677	160,078	162,200	115,236
Facilities Acquisition and Construction	1,284,827	-	-	-	-	-
Debt Services	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	164,000
Payments Related to Shared Services Arrangements	467,864	464,313	469,521	529,908	562,980	-
Other Intergovernmental Charges	58,791	50,000	44,757	40,291	38,149	71,024
Total Expenditures	<u>\$ 30,471,878</u>	<u>\$ 27,952,793</u>	<u>\$ 24,632,659</u>	<u>\$ 23,811,927</u>	<u>\$ 23,187,634</u>	<u>\$ 23,062,000</u>
Excess (Deficiency)	\$ 2,903,866	\$ 3,056,470	\$ 2,184,864	\$ 2,529,191	\$ 1,259,181	\$ 1,780,652
Other Financing Sources and (Uses)	(1,794)	(7,827)	-	-	(112,052)	-
Net Change in Fund Balances	<u>\$ 2,902,072</u>	<u>\$ 3,048,643</u>	<u>\$ 2,184,864</u>	<u>\$ 2,529,191</u>	<u>\$ 1,147,129</u>	<u>\$ 1,780,652</u>
Beginning General Fund Balance	\$ 15,935,120	\$ 12,886,477	\$ 10,701,613	\$ 8,172,422	\$ 7,025,293	\$ 5,244,641
Prior Period Adjustment	-	-	-	-	-	-
Ending General Fund Balance	<u>\$ 18,837,192</u>	<u>\$ 15,935,120</u>	<u>\$ 12,886,477</u>	<u>\$ 10,701,613</u>	<u>\$ 8,172,422</u>	<u>\$ 7,025,293</u>

Source: The District's audited financial statements for Fiscal Year 2011-2015. Unaudited financial information for Fiscal Year 2016.

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FINANCIAL POLICIES

Basis of Accounting . . .The accounting policies of the District substantially comply with the rules prescribed in Bulletin 769, Financial Accounting Manual by the Texas State Board of Education. These accounting policies conform to generally accepted accounting principles applicable to governments.

General Fund Balance . . .The District's current consensus is to maintain surplus and unencumbered funds equal to approximately one (1) month of expenditures in the General Fund. This allows the District to avoid interim borrowing pending tax receipts.

Debt Service Fund Balance . . . The District's current consensus is to maintain surplus and unencumbered funds equal to approximately 1/6th of the annual expenditures in the Debt Service Fund.

Budgetary Procedures . . .The District policy is to begin budget preparations on the individual school level in June of each year. The principals work with the teachers to formulate a working budget which then moves to the office of the Superintendent. After refinements at this level, the budget goes to the Board where it is further refined and goes through public hearings prior to final adoption in late August.

INVESTMENTS

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

LEGAL INVESTMENTS

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

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

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution.

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

INVESTMENT POLICIES

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

Under Texas law, the District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." At least quarterly the District's investment officers must submit an investment report to the Board of Trustees detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest District funds without express written authority from the Board.

ADDITIONAL PROVISIONS

Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the District, (3) require the registered principal of firms seeking to sell securities to the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy, (5) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (6) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements and (8) provide specific investment training for the Treasurer, the chief financial officer (if not the Treasurer) and the investment officer.

TABLE 12 - CURRENT INVESTMENTS

As of June 30, 2016, the District's investable funds were invested in the following categories:

Description	Percent of Total	Book Value	Market Value
TexPool	15.88%	\$ 5,121,457	\$ 5,121,457
Lonestar - Government Overnight Fund	43.18%	10,583,923	10,583,923
Checking Account	36.09%	5,383,543	5,383,543
Total	100.00%	\$ 21,088,923	\$ 21,088,923

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. For example, the Obama Administration's budget proposals in recent years have proposed legislation that would limit the exclusion from gross income of interest on the Bonds to some extent for high-income individuals. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains an "obligated person" with respect to the Bonds, within the meaning of Rule 15c2-12 (the "Rule") of the United States Securities and Exchange Commission ("SEC"). Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB").

ANNUAL REPORTS

The District will provide certain updated financial information and operating data to certain information vendors annually. 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 under Tables numbered 1 through 5 and 7 through 12 and in Appendix B. The District will update and provide this information within six months after the end of each fiscal year. The District will provide the updated information to the MSRB through the "EMMA" information system in accordance with recent amendments to the Rule.

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 when and if the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's current fiscal year end is June 30. Accordingly, it must provide updated information by December 31 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.

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 to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. In addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under "Annual Reports".

For these purposes, any event described in (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

AVAILABILITY OF INFORMATION

The District has agreed to provide the foregoing information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

LIMITATIONS AND AMENDMENTS

The District has agreed to update information and to provide notices of certain specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell 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.

The District may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein 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 to the amendment or (b) any person unaffiliated with the District (such as nationally recognized Certificate counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. If the District so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "ANNUAL REPORTS" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS

Over the past five years, the District has materially complied with its continuing disclosure undertakings pursuant to the Rule.

OTHER INFORMATION

RATINGS

The District has eight issues outstanding which are rated "AAA" by S&P Global Ratings ("S&P") by virtue of the guarantee of the Permanent School Fund of the State of Texas. The Bonds have been rated "AAA" by S&P based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program. The Bonds and the presently outstanding unenhanced tax-supported debt of the District are rated "A+" by S&P. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the respective view of such organization and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of company, circumstances so warrant. Any such downward revision or withdrawal of such rating, may have an adverse effect on the market price of the Bonds.

LITIGATION

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

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

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by FirstSouthwest, a Division of Hilltop Securities Inc. ("FirstSouthwest"), on behalf of the District relating to (a) computation of the sufficiency of the anticipated receipts from the Escrow Securities, together with the initial cash deposit, if any, to pay, when due, the principal, interest, and early redemption premium requirements, if any, of the Refunded Bonds, and (b) computation of the yields on the Bonds and the Escrow Securities was verified by Grant Thornton LLP, certified public accountants (the "Verification Agent"). Such computations were based solely on assumptions and information provided by FirstSouthwest on behalf of the District. The Verification Agent has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on 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.

The Verification Agent's report will be relied upon by Bond Counsel in rendering their opinions with respect to the tax exemption of interest on the Bonds and with respect to the defeasance of the Refunded Bonds.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. See "OTHER INFORMATION - RATINGS" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the District has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL MATTERS

The delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limitation as to rate or amount, upon all taxable property in the District and the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations. The form of Bond Counsel's opinion is attached hereto as Appendix C. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System.

Bond Counsel was engaged by, and only represents, the District. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under captions "PLAN OF FINANCING – REFUNDED BONDS," "THE BONDS" (except under the subcaptions "PERMANENT SCHOOL FUND GUARANTEE," "BOOK ENTRY ONLY SYSTEM" and "BONDHOLDER'S REMEDIES"), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" (except under the subcaption "SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT"), "TAX INFORMATION – TAX RATE LIMITATIONS", "TAX MATTERS," "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "COMPLIANCE WITH PRIOR UNDERTAKINGS"), and the subcaptions "OTHER INFORMATION – Registration and Qualification of Bonds for Sale," "OTHER INFORMATION - Legal Investments and Eligibility to Secure Public Funds In Texas" and "OTHER INFORMATION – LEGAL MATTERS", and such firm is of the opinion that the information relating to the Bonds and legal matters contained under such captions and subcaptions is an accurate description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order.

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

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

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

FINANCIAL ADVISOR

FirstSouthwest, a Division of Hilltop Securities Inc. 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. FirstSouthwest, a Division of Hilltop Securities Inc. has agreed, in its Financial Advisory contract, not to bid for the Bonds, either independently or as a member of a syndicate organized to bid the Bonds. FirstSouthwest, a Division of Hilltop Securities Inc., in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District, at a price of \$_____ (representing the principal amount of the Bonds, plus a net original issue premium of \$_____, and less an underwriting discount of \$_____) plus accrued interest. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

The Underwriters have reviewed the information in this Official Statement pursuant to their responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

One of the Underwriters is BOK Financial Securities, Inc., which is not a bank, and the Bonds are not deposits of any bank and are not insured by the Federal Deposit Insurance Corporation.

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

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

President, Board of Trustees
Splendora Independent School District

ATTEST:

Secretary

Schedule I

THE REFUNDED BONDS*

Unlimited Tax School Building Bonds, Series 2007

<u>Maturity</u> <u>February 15</u>		<u>Interest</u> <u>Rate</u>	<u>Par</u> <u>Amount</u>	<u>Call</u> <u>Date</u>	<u>Call</u> <u>Price</u>	
2019	(1)	4.150%	\$ 420,000	2/15/2017	100.00	%
2021	(1)	4.200%	460,000	2/15/2017	100.00	%
2023	(1)	4.250%	500,000	2/15/2017	100.00	%
2025	(1)	4.300%	540,000	2/15/2017	100.00	%
2027	(1)	4.350%	590,000	2/15/2017	100.00	%
2029	(1)	4.400%	645,000	2/15/2017	100.00	%
2031	(1)	4.500%	705,000	2/15/2017	100.00	%
2034	(1)	4.500%	1,180,000	2/15/2017	100.00	%
2037	(1)	4.300%	1,350,000	2/15/2017	100.00	%
		Total Par	\$ 6,390,000			

* Preliminary, subject to change

(1) Represents a mandatory sinking fund maturity for a term bond.

APPENDIX A

GENERAL INFORMATION REGARDING THE DISTRICT

ECONOMY AND LOCATION

Splendora Independent School District encompasses approximately 78 square miles and is a lumbering and petroleum producing area that includes the City of Splendora. The District is located approximately 35 miles north of Houston on U.S. Highway 59 in Montgomery County.

ENROLLMENT AND FACILITIES

The school facilities currently provided by the District include three elementary schools (PK-4), one junior high school (7-8) and one high school (9-12).

For the 2014/2015 school year, the District employs a staff of approximately 463 employees, which includes the professional staff of approximately 256. Educational statutes of the professional staff are as follows:

Doctorates	7
Master's Degree	69
Bachelor's Degree	188

Pupil/teacher ratios for the 2014/2015 school year are:

Elementary	16:1
Middle School	16:1
High School	15:1

SCHOOL ENROLLMENT

Fall	Academic	% of Increase
2003/2004	2,861	3.22%
2004/2005	2,901	1.38%
2005/2006	2,972	2.39%
2006/2007	3,049	2.53%
2007/2008	3,063	0.46%
2008/2009	3,098	1.13%
2009/2010	3,382	8.40%
2010/2011	3,487	3.01%
2011/2012	3,474	-0.37%
2012/2013	3,489	0.43%
2013/2014	3,490	0.03%
2014/2015	3,613	3.40%

MONTGOMERY COUNTY

Montgomery County is located on the southern edge of the Big Thicket. The economy is heavily influenced by timber and oil related businesses. Many residents commute south to the Houston metropolitan area. Cattle, greenhouse products, and timber are principal agricultural sources of income. The county seat is Conroe. The County's 2010 Census population was 455,746. Minerals produced include oil, gas, sand, and gravel. The Bush Intercontinental Airport is approximately five miles south of the County and is bordered by U.S. Highways 45 and 59 on the west and east, respectively.

APPENDIX B

EXCERPTS FROM THE
SPLENDORA INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2015

The information contained in this Appendix consists of excerpts from the Independent School District Annual Financial Report for the Year Ended June 30, 2015 and is not intended to be a complete statement of the District's financial condition. Reference is made to the complete Report for further information.

HLSK

Hereford, Lynch, Sellars & Kirkham

Certified Public Accountants • A Professional Corporation

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
Splendora Independent School District
23419 FM 2090
Splendora, TX 77372

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Splendora Independent School District (District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Splendora Independent School District as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note I.E., in 2015 the District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, and Statement No. 71, Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Required Supplementary Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Splendora Independent School District's basic financial statements. The Supplementary Information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The 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.

The Supplementary Information and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Supplementary Information and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 9, 2015 on our consideration of the Splendora Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Splendora Independent School District's internal control over financial reporting and compliance.

Respectfully,

Hereford, Lynch, Sellars & Kirkham, P.C.

HEREFORD, LYNCH, SELLARS & KIRKHAM, P.C.
Certified Public Accountants

Conroe, Texas
September 9, 2015

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Management's Discussion and Analysis

As management of the Splendora Independent School District (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 June 30, 2015.

Financial Highlights

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$21,657,086 (*net position*). Of this amount, \$13,228,899 (*unrestricted net position*) may be used to meet the District's ongoing obligations to students and creditors.
- The District's total net position decreased by \$980,487.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$19,437,169, an increase of \$522,842.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$15,735,198, or 56 percent of total general fund expenditures.
- The District's total bonded debt decreased by \$2,084,028 during the current 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 required supplementary information and supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

The government-wide financial statements of the District are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include Instruction, Instructional Resources and Media Services, Curriculum and Staff Development, Instructional Leadership, School Leadership, Guidance, Counseling, and Evaluation Services, Health Services, Student Transportation, Food Service, Extracurricular Activities, General Administration, Plant Maintenance and Operations, Security and Monitoring Services, Data Processing Services, Community Services, Interest on Long-term Debt, Issuance Costs and Fees, Facilities Repair and Maintenance, Payments Related to Shared Services Arrangements, and Other Intergovernmental Charges.

In fiscal year 2015, the District adopted five new statements of financial accounting standards issued by the Governmental Accounting Standards Board:

- Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*
- Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*
- Statement No. 69, *Government Combinations and Disposals of Government Operations*
- Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*
- Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*

Statement No. 67 establishes financial reporting standards, but not funding or budgetary standards, for state and local government defined benefit pension plans and defined contribution pension plans that are administered through trusts or equivalent arrangements (Pension Trusts) in which:

- a. Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.

- b. Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- c. Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

For defined benefit pension plans, this statement establishes standards of financial reporting for separately issued financial reports and presentation as pension trust funds in the financial statements of another government, and specifies the required approach to measuring the pension liability of employers and any nonemployer contributing entities for benefits provided through the pension plan (the net pension liability), about which certain information is required to be presented. Distinctions are made regarding the particular presentation requirements depending upon the type of pension plan administered. For defined contribution plans, the Statement provides specific note disclosure requirements.

The adoption of Statement No. 67 has no impact on the District's financial statements.

Statement No. 68 establishes standards of accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution pensions provided to the employees of state and local government employers through pension plans that are administered through trusts or equivalent arrangements criteria detailed above in the description of Statement No. 67. This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans within the scope of the Statement.

The requirements of Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts or equivalent arrangements as described above, and to the financial statements of state and local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. Note disclosure and RSI requirements about pensions also are addressed. For defined benefit pension plans, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

The adoption of Statement No. 68 has no impact on the District's governmental fund financial statements, which continue to report expenditures in the contribution amount determined by the state legislature for the TRS plan. The calculation of pension contributions is unaffected by the change. However, the adoption has resulted in the restatement of the District's beginning net position for the fiscal year 2015 government-wide financial statements to reflect the reporting of net pension liabilities and deferred inflows of resources and deferred outflows of resources for its qualified pension plan and the recognition of pension expense in accordance with the provisions of the statement. Net position as of July 1, 2014 was decreased by \$3,680,689 to reflect the cumulative effect of adoption. The net pension liability of \$3,938,386 and the deferred outflows of resources of \$257,697 at June 30, 2014 were reported as a prior period adjustment to the net position on July 1, 2014. Refer to Note IV.C for more information regarding the District's pension.

Statement No. 69 improves financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. The term "government combinations" is used to refer to a variety of arrangements including mergers and acquisitions. Mergers include combinations of legally separate entities without the exchange of significant consideration. Government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. Government combinations also include transfers of operations that do not constitute entire legally separate entities in which no significant consideration is exchanged. Transfers of operations may be present in shared service arrangements, reorganizations, redistricting, annexations, and arrangements in which an operation is transferred to a new government created to provide those services.

There was no impact on the District's financial statements as a result of the implementation of Statement No. 69.

Statement No. 70 was issued to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

The statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. The statement requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units.

There was no impact on the District's financial statements as a result of the implementation of Statement No. 70.

Statement No. 71 amends Statement No. 68 to require that, at transition, a government recognizes a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Since the measurement date of the pension plan was different than the District's fiscal year-end, the effect from the District's reported contributions to the plan subsequent to the respective measurement date of the plan as an increase in deferred outflow of resources and a decrease in net position are as follows:

- TRS – The beginning deferred outflow includes contributions from September 1, 2013 through June 30, 2014, totaling \$257,697.

The government-wide financial statements can be found as noted in the table of contents of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental 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 District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, 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 District'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 seventeen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and capital projects fund, which are considered to be major funds. Data from the other thirteen governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found as noted in the table of contents of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of students. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is similar to the accounting used for proprietary funds.

The basic fiduciary fund financial statements can be found as noted in the table of contents of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found as noted in the table of contents of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information and supplementary information, which includes schedules required by the Texas Education Agency. Such supplementary information can be found as noted in the table of contents of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve, over time, as a useful indicator of a District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$21,657,086 at the close of the most recent fiscal year.

SPLENDORA INDEPENDENT SCHOOL DISTRICT'S NET POSITION

	Governmental Activities					
	2015		2014		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Current and Other Assets	\$ 22,996,866	29	\$ 23,040,437	29	\$ (43,571)	-
Capital Assets	56,949,117	71	57,096,691	71	(147,574)	-
Total Assets	79,945,983	100	80,137,128	100	(191,145)	
Total Deferred Outflows of Resources	961,061	100	196,168	100	764,893	390
Noncurrent Liabilities	54,652,271	94	53,520,630	93	1,131,641	2
Other Liabilities	3,616,543	6	4,175,093	7	(558,550)	(13)
Total Liabilities	58,268,814	100	57,695,723	100	573,091	
Total Deferred Inflows of Resources	981,144	100	-	-	981,144	-
Net Position:						
Net Investment in Capital Assets	7,153,505	33	6,403,819	28	749,686	12
Restricted	1,274,692	6	2,580,480	11	(1,305,788)	(51)
Unrestricted	13,228,889	61	13,653,274	61	(424,385)	(3)
Total Net Position	\$ 21,657,086	100	\$ 22,637,573	100	\$ (980,487)	

The excess of assets/deferred outflows of resources over liabilities/deferred inflows of resources reported on the government-wide *Statement of Net Position* of \$21,657,086 at June 30, 2015 results from several factors. The net position remained stable as a result of the increase in revenues, state funding and property taxes, being more than the increase in expenses, including pension expense. The most significant change in net position resulted from the implementation of the GASB statements for pensions which decreased net position by \$3,680,689.

Net Investment in Capital Assets (\$7,153,505 or 33 percent of net position) reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, and furniture and equipment); less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, 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.

Restricted Net Position (\$1,274,692 or 6 percent of net position) are restricted for debt service and grants. The remaining balance of *unrestricted net position* (\$13,228,889) may be used to meet the District's ongoing obligations to students and creditors.

Governmental activities. Governmental activities increased the District's net position by \$2,700,202 from current operations and decreased net position by \$3,680,689 from the implementation of a new accounting standard as described in the notes to the financial statements. Key elements of this change are as follows:

SPLENDORA INDEPENDENT SCHOOL DISTRICT'S CHANGES IN NET POSITION

	Governmental Activities					
	2015		2014		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Revenue:						
Program Revenues:						
Charges for Services	\$ 1,163,467	3	\$ 1,074,467	3	\$ 89,000	8
Operating Grants and Contributions	5,985,513	16	6,330,862	19	(345,349)	(5)
General Revenues:						
Property Taxes, Levied for General Purpose	5,547,968	15	4,672,783	14	875,185	19
Property Taxes, Levied for Debt Service	699,703	2	1,239,063	4	(539,360)	(44)
Grants and Contributions Not Restricted to Specific Programs	23,891,009	64	20,598,436	60	3,292,573	16
Investment Earnings	14,022	-	12,952	-	1,070	8
Miscellaneous	26,619	-	41,196	-	(14,577)	(35)
Total Revenues	37,328,301	100	33,969,759	100	3,358,542	
Expenses:						
Instruction	17,889,514	51	16,220,257	50	1,669,257	10
Instructional Resources and Media Services	250,652	1	265,757	1	(15,105)	(6)
Curriculum and Staff Development	360,498	1	532,420	2	(171,922)	(32)
Instructional Leadership	568,522	2	488,195	2	80,327	16
School Leadership	1,784,343	5	1,645,698	5	138,645	8
Guidance, Counseling, and Evaluation Services	663,008	2	604,062	2	58,946	10
Health Services	226,498	1	220,313	1	6,185	3
Student Transportation	1,298,372	4	1,231,756	4	66,616	5
Food Service	2,234,600	6	2,164,878	7	69,722	3
Extracurricular Activities	1,327,141	4	1,107,128	3	220,013	20
General Administration	1,068,803	3	1,059,979	3	8,824	1
Plant Maintenance and Operations	3,207,565	9	3,045,731	9	161,834	5
Security and Monitoring Services	263,210	1	243,660	1	19,550	8
Data Processing Services	534,474	2	477,406	1	57,068	12
Community Services	190,165	1	191,223	1	(1,058)	(1)
Interest on Long-term Debt	2,064,258	6	2,182,673	7	(118,415)	(5)
Issuance Costs and Fees	95,405	-	6,350	-	89,055	1,402
Facilities Repair and Maintenance	86,758	-	-	-	86,758	-
Payment Related to Shared Services Arrangements	464,313	1	469,521	1	(5,208)	(1)
Other Intergovernmental Charges	50,000	-	44,757	-	5,243	12
Total Expenses	34,628,099	100	32,201,764	100	2,426,335	
Change in Net Position	2,700,202		1,767,995		932,207	
Net Position - Beginning	22,637,573		20,869,578		1,767,995	
Prior Period Adjustment - Implement GASB 68 and 71 for Pensions (a)	(3,680,689)		-		(3,680,689)	
Net Position - Beginning, as restated	18,956,884		20,869,578		(1,912,694)	
Net Position - Ending	\$ 21,657,086		\$ 22,637,573		\$ (980,487)	

(a) The restatement of the beginning net position in fiscal year 2015 is the result of the District implementing GASB Statement No. 68 and 71 in fiscal year 2015. The implementation is discussed above in MD&A and more information is available in Note IV.C.

Revenues are generated primarily from two sources. Grants and contributions (program and general revenues totaling \$29,876,522) represent 80 percent of total revenues and property taxes (\$6,247,671) represent 17 percent of total revenues. The remaining 3 percent is generated from charges for services, investment earnings, and miscellaneous revenues. The most significant change in revenues was an increase in grants and contributions, which results from an increase in state allotment.

The primary functional expense of the District is Instruction (\$17,889,514), which represents 51 percent of total expenses. The remaining functional categories of expenses are individually less than 10 percent of total expenses.

The current period increase in net position primarily results from the increase in state funding exceeding the increase in expenses from pension expense and other operating costs.

Financial Analysis of the Government's Funds

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

Governmental funds. 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, *unassigned fund balance* may serve as a useful measure of a District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$19,437,169, an increase of \$522,842.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$15,735,198 while total fund balance reached \$15,935,120. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 56 percent of total general fund expenditures, while total fund balance represents 57 percent of that same amount.

The fund balance of the District's general fund increased by \$3,048,643 during the current fiscal year. The increase was primarily due to expenditures appropriated not being expended.

The debt service fund has a total fund balance of \$1,109,207, all of which is restricted for the payment of debt service. The net decrease in fund balance during the current year in the debt service fund was \$1,300,543 and was due to the increase in debt requirements.

The capital projects fund has a total fund balance of \$1,436,327, all of which is restricted for capital acquisitions and contractual obligations. The decrease from the prior year is the result of new building construction.

General Fund Budgetary Highlights

The District amends the budget as needed throughout the year. The significant difference between the originally-adopted budget and the final amended budget of the general fund was primarily from an increase in state revenues of \$2 million resulting from an increase in state funding.

There were no significant variations between final budget and actual results.

Capital Assets and Long-term Liabilities

Capital assets. The District's investment in capital assets for its governmental type activities as of June 30, 2015, amounts to \$56,949,117 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and improvements, and furniture and equipment. The total decrease in the District's investment in capital assets for the current fiscal year was less than 1 percent.

Major capital asset additions during the current fiscal year included the following:

- \$797,077 Various school buses and vehicles
- \$895,663 Construction of a new building and renovations of old buildings
- \$895,344 Land purchases

SPLENDORA INDEPENDENT SCHOOL DISTRICT'S CAPITAL ASSETS
(net of depreciation)

	Governmental Activities					
	2015		2014		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Land and Improvements	\$ 1,135,678	2	\$ 1,040,334	2	\$ 95,344	9
Construction in Progress	-	-	10,944,521	19	(10,944,521)	(100)
Buildings and Improvements	53,903,613	95	44,088,848	77	9,814,765	22
Furniture and Equipment	1,909,826	3	1,022,988	2	886,838	87
Totals	\$ 56,949,117	100	\$ 57,096,691	100	\$ (147,574)	

Additional information on the District's capital assets can be found in the notes to the financial statements as noted in the table of contents of this report.

Long-term liabilities. At year-end, the District had the following long-term liabilities:

SPLENDORA INDEPENDENT SCHOOL DISTRICT'S OUTSTANDING DEBT

	Governmental Activities					
	2015		2014		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
General Obligation Bonds (Net)	\$ 51,415,519	94	\$ 53,499,547	93	\$ (2,084,028)	(4)
Compensated Absences	29,383	-	21,083	-	8,300	39
Net Pension Liability*	3,207,369	6	3,938,386	7	(731,017)	(19)
Totals	\$ 54,652,271	100	\$ 57,459,016	100	\$ (2,806,745)	

*2014 Net Pension Liability was restated for implementation of GASB 68.

The District's bonded debt decreased by \$2,084,028 (4 percent) during the current fiscal year. This is due to scheduled debt payments.

The District's general obligation debt is backed by the full faith and credit of the District and is further guaranteed by the Texas Permanent School Fund Guarantee Program.

State statutes do not limit the tax rate or amount for the support of school districts' bonded indebtedness. However, approval of the Attorney General of the State of Texas is required prior to the sale of bonds.

Additional information on the District's long-term debt can be found in the notes to the financial statements as indicated in the table of contents of this report.

The adoption of Statement No. 68 resulted in the District's reporting of net pension liabilities and deferred inflows of resources and deferred outflows of resources for each of its qualified pension plans and the recognition of pension expense in accordance with the provisions of the statement. The decrease in the District's net pension liability (NPL) to \$3,207,369 at June 30, 2015 from \$3,938,386 at June 30, 2014 was the result of a significant increase in net investment income in the TRS plan during 2014.

The following table provides the District's key pension statistics related to the TRS plan as of and for the fiscal year ended June 30, 2015:

SPLENDORA INDEPENDENT SCHOOL DISTRICT'S KEY PENSION STATISTICS

Net Pension Liability (NPL)	\$ 3,207,369
Pension Expense	\$ 1,184,989

Additional information on the District's net pension liability can be found in the notes to the financial statements as indicated in the table of contents of this report.

Economic Factors and Next Year's Budgets and Rates

- Current refined average daily attendance totals 3,565 students, which was less than a 1 percent decrease from the prior year.
- District staff totals 458 employees, which includes 224 teachers and 60 teachers' aides and secretaries.
- The District maintains 5 campuses for instruction.
- The unemployment rate for the County is currently 4.2 percent, which is a decrease from a rate of 4.7 percent a year ago. This compares favorably to the state's average unemployment rate of 4.4 percent, which is a decrease from a rate of 5.5 percent a year ago.
- Property values of the District are projected to increase 6 percent.
- A maintenance and operations tax rate of \$1.17 and a debt service tax rate of \$0.1455, a total of \$1.3155 were adopted for 2015-2016.

All of these factors were considered in preparing the District's budget for the 2016 fiscal year.

During the current fiscal year, unassigned fund balance in the general fund increased to \$15,735,198. The District plans to utilize unassigned fund balance to fund current period expenditures prior to collecting the current year tax levy.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Manager, Splendora Independent School District, 23419 FM 2090, Splendora, Texas 77372.

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BASIC FINANCIAL STATEMENTS

SPLENDORA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2015

EXHIBIT A-1

1

<u>Data Control Codes</u>	<u>Primary Government Governmental Activities</u>
ASSETS:	
1110 <i>Cash and Cash Equivalents</i>	\$ 6,049,480
1120 <i>Current Investments</i>	13,079,658
1220 <i>Property Taxes Receivable</i>	737,966
1230 <i>Allowance for Uncollectible Taxes</i>	(44,000)
1240 <i>Due from Other Governments</i>	2,951,562
1290 <i>Other Receivables (Net)</i>	13,428
1300 <i>Inventories</i>	208,772
Capital Assets:	
1510 <i>Land and Improvements</i>	1,135,678
1520 <i>Buildings and Improvements (Net)</i>	53,903,613
1530 <i>Furniture and Equipment (Net)</i>	1,909,826
1000 Total Assets	<u>79,945,983</u>
1700 DEFERRED OUTFLOWS OF RESOURCES	<u>961,061</u>
LIABILITIES:	
2140 <i>Interest Payable</i>	750,812
2165 <i>Accrued Liabilities</i>	2,837,270
2180 <i>Due to Other Governments</i>	14,166
2300 <i>Unearned Revenue</i>	14,295
Noncurrent Liabilities:	
2501 <i>Due Within One Year</i>	1,504,383
2502 <i>Due in More Than One Year</i>	53,147,888
2000 Total Liabilities	<u>58,268,814</u>
2600 DEFERRED INFLOWS OF RESOURCES	<u>981,144</u>
NET POSITION:	
3200 <i>Net Investment in Capital Assets</i>	7,153,505
3820 <i>Restricted for Grants</i>	808,619
3850 <i>Restricted for Debt Service</i>	466,073
3900 <i>Unrestricted</i>	13,228,889
3000 Total Net Position	<u>\$ 21,657,086</u>

The accompanying notes are an integral part of this statement.

SPLENDORA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

EXHIBIT B-1

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues		4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Governmental Activities
			Charges for Services			
	Primary Government:					
	Governmental Activities:					
0011	Instruction	\$ 17,889,514	\$ 73,728	\$ 1,693,094	\$ (16,122,692)	
0012	Intructional Resources and Media Services	250,652	-	97,662	(152,990)	
0013	Curriculum and Staff Development	360,498	-	103,357	(257,141)	
0021	Instructional Leadership	568,522	-	21,603	(546,919)	
0023	School Leadership	1,784,343	-	72,820	(1,711,523)	
0031	Guidance, Counseling, and Evaluation Services	663,008	-	24,392	(638,616)	
0033	Health Services	226,498	-	10,537	(215,961)	
0034	Student Transportation	1,298,372	-	35,850	(1,262,522)	
0035	Food Service	2,234,600	562,110	1,532,732	(139,758)	
0036	Extracurricular Activities	1,327,141	498,320	21,679	(807,142)	
0041	General Administration	1,068,803	-	39,610	(1,029,193)	
0051	Plant Maintenance and Operations	3,207,565	11,015	51,554	(3,144,996)	
0052	Security and Monitoring Services	263,210	-	8,106	(255,104)	
0053	Data Processing Services	534,474	-	10,593	(523,881)	
0061	Community Services	190,165	18,294	25,966	(145,905)	
0072	Interest on Long-term Debt	2,064,258	-	2,235,958	171,700	
0073	Issuance Costs and Fees	95,405	-	-	(95,405)	
0081	Facilities Repair and Maintenance	86,758	-	-	(86,758)	
0093	Payments Related to Shared Services Arrangements	464,313	-	-	(464,313)	
0099	Other Intergovernmental Charges	50,000	-	-	(50,000)	
TG	Total Governmental Activities	<u>34,628,099</u>	<u>1,163,467</u>	<u>5,985,513</u>	<u>(27,479,119)</u>	
TP	Total Primary Government	\$ <u>34,628,099</u>	\$ <u>1,163,467</u>	\$ <u>5,985,513</u>	<u>(27,479,119)</u>	
	General Revenues:					
MT	Property Taxes, Levied for General Purposes				5,547,968	
DT	Property Taxes, Levied for Debt Service				699,703	
GC	Grants and Contributions Not Restricted to Specific Programs				23,891,009	
IE	Investment Earnings				14,022	
MI	Miscellaneous				<u>26,619</u>	
TR	Total General Revenues				<u>30,179,321</u>	
CN	Change in Net Position				2,700,202	
NB	Net Position - Beginning				22,637,573	
PA	Prior Period Adjustment - Implement GASB 68 & 71 for Pensions				<u>(3,680,689)</u>	
	Net Position - Beginning, as restated				18,956,884	
NE	Net Position - Ending				\$ <u>21,657,086</u>	

The accompanying notes are an integral part of this statement.

SPLENDORA INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2015

Data Control Codes	199 <u>General Fund</u>	599 <u>Debt Service Fund</u>
ASSETS:		
1110 Cash and Cash Equivalents	\$ 3,878,749	\$ 1,111,865
1120 Current Investments	11,622,313	6,326
1220 Property Taxes Receivable	623,288	114,678
1230 Allowance for Uncollectible Taxes	(37,000)	(7,000)
1240 Due from Other Governments	2,622,852	-
1260 Due from Other Funds	597,091	5,182
1290 Other Receivables (Net)	13,428	-
1300 Inventories	<u>199,922</u>	<u>-</u>
1000 Total Assets	<u>19,520,643</u>	<u>1,231,051</u>
1000a Total Assets and Deferred Outflows of Resources	<u>\$ 19,520,643</u>	<u>\$ 1,231,051</u>
LIABILITIES:		
2160 Accrued Wages Payable	\$ 2,460,591	\$ -
2170 Due to Other Funds	444,772	-
2180 Due to Other Governments	-	14,166
2200 Accrued Expenditures	93,872	-
2300 Unearned Revenue	<u>-</u>	<u>-</u>
2000 Total Liabilities	<u>2,999,235</u>	<u>14,166</u>
2600 DEFERRED INFLOWS OF RESOURCES	<u>586,288</u>	<u>107,678</u>
FUND BALANCES:		
3410 Nonspendable - Inventories	199,922	-
3450 Restricted - Grant Funds	-	-
3470 Restricted - Capital Acquisition and Contractual Obligations	-	-
3480 Restricted - Debt Service	-	1,109,207
3545 Committed - Other	-	-
3600 Unassigned	<u>15,735,198</u>	<u>-</u>
3000 Total Fund Balances	<u>15,935,120</u>	<u>1,109,207</u>
4000 Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 19,520,643</u>	<u>\$ 1,231,051</u>

The accompanying notes are an integral part of this statement.

699	Total Nonmajor Funds	98 Total Governmental Funds
<u>Capital Projects Fund</u>	<u>Funds</u>	<u>Funds</u>
\$ 198,114	\$ 860,752	\$ 6,049,480
1,238,213	212,806	13,079,658
-	-	737,966
-	-	(44,000)
-	328,710	2,951,562
-	19,612	621,885
-	-	13,428
-	8,850	208,772
<u>1,436,327</u>	<u>1,430,730</u>	<u>23,618,751</u>
\$ 1,436,327	\$ 1,430,730	\$ 23,618,751
\$ -	\$ 272,980	\$ 2,733,571
-	177,113	621,885
-	-	14,166
-	9,827	103,699
-	14,295	14,295
<u>-</u>	<u>474,215</u>	<u>3,487,616</u>
-	-	693,966
-	7,754	207,676
-	808,619	808,619
1,436,327	-	1,436,327
-	-	1,109,207
-	140,142	140,142
-	-	15,735,198
<u>1,436,327</u>	<u>956,515</u>	<u>19,437,169</u>
\$ 1,436,327	\$ 1,430,730	\$ 23,618,751

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SPLENDORA INDEPENDENT SCHOOL DISTRICT
*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 JUNE 30, 2015*

EXHIBIT C-1R

Total Fund Balances - Governmental Funds (Exhibit C-1) \$ 19,437,169

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:

Governmental Capital Assets Costs	\$ 89,930,893	
Accumulated Depreciation of Governmental Capital Assets	<u>(32,981,776)</u>	56,949,117

Property taxes receivable, which will be collected subsequent to year-end, but are not available soon enough to pay expenditures and, therefore, are deferred in the funds. 693,966

Long-term liabilities, including bonds payable, compensated absences, and net pension liabilities, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Liabilities at year-end related to such items consist of:

Bonds Payable, at Original Par	\$ (50,670,000)	
Premiums on Bonds Payable	(745,519)	
Accrued Interest on the Bonds	(750,812)	
Compensated Absences	(29,383)	
Net Pension Liability	<u>(3,207,369)</u>	(55,403,083)

Deferred charge on refunding is reported as deferred outflow in the statement of net position and is not reported in the funds due to it is not a current financial resource available to pay for current expenditures. 183,580

Deferred outflows for pension are included in the statement of net position and are not reported in the funds due to they are not current financial resources available to pay for current expenditures. 777,481

Deferred inflows for pension are included in the statement of net position and are not reported in the funds due to they are not current financial resources available to pay for current expenditures. (981,144)

Total Net Position - Governmental Activities (Exhibit A-1) \$ 21,657,086

The accompanying notes are an integral part of this statement.

SPLENDORA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

Data Control Codes	199	599
	General Fund	Debt Service Fund
REVENUES:		
5700 <i>Local and Intermediate Sources</i>	\$ 5,924,628	\$ 744,439
5800 <i>State Program Revenues</i>	24,722,217	2,235,958
5900 <i>Federal Program Revenues</i>	362,418	-
5020 <i>Total Revenues</i>	<u>31,009,263</u>	<u>2,980,397</u>
EXPENDITURES:		
Current:		
0011 <i>Instruction</i>	15,530,456	-
0012 <i>Instructional Resources and Media Services</i>	126,322	-
0013 <i>Curriculum and Staff Development</i>	265,814	-
0021 <i>Instructional Leadership</i>	569,466	-
0023 <i>School Leadership</i>	1,807,046	-
0031 <i>Guidance, Counseling, and Evaluation Services</i>	669,828	-
0033 <i>Health Services</i>	224,811	-
0034 <i>Student Transportation</i>	1,787,830	-
0035 <i>Food Service</i>	-	-
0036 <i>Extracurricular Activities</i>	913,560	-
0041 <i>General Administration</i>	1,066,172	-
0051 <i>Plant Maintenance and Operations</i>	3,491,799	-
0052 <i>Security and Monitoring Services</i>	294,563	-
0053 <i>Data Processing Services</i>	531,899	-
0061 <i>Community Services</i>	158,914	-
Debt Service:		
0071 <i>Principal on Long-term Debt</i>	-	2,120,000
0072 <i>Interest on Long-term Debt</i>	-	2,128,714
0073 <i>Issuance Costs and Fees</i>	-	95,405
Capital Outlay:		
0081 <i>Facilities Acquisition and Construction</i>	-	-
Intergovernmental:		
0093 <i>Payments Related to Shared Services Arrangements</i>	464,313	-
0099 <i>Other Intergovernmental Charges</i>	50,000	-
6030 <i>Total Expenditures</i>	<u>27,952,793</u>	<u>4,344,119</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>		
1100 <i>Expenditures</i>	<u>3,056,470</u>	<u>(1,363,722)</u>
OTHER FINANCING SOURCES (USES):		
7901 <i>Refunding Bonds Issued</i>	-	3,530,000
7915 <i>Transfers In</i>	-	-
7916 <i>Premium or Discount on Issuance of Bonds</i>	-	216,149
8911 <i>Transfers Out</i>	(7,827)	-
8940 <i>Payment to Bond Refunding Escrow Agent</i>	-	(3,682,970)
7080 <i>Total Other Financing Sources (Uses)</i>	<u>(7,827)</u>	<u>63,179</u>
1200 <i>Net Change in Fund Balances</i>	3,048,643	(1,300,543)
0100 <i>Fund Balances - Beginning</i>	<u>12,886,477</u>	<u>2,409,750</u>
3000 Fund Balances - Ending	<u>\$ 15,935,120</u>	<u>\$ 1,109,207</u>

The accompanying notes are an integral part of this statement.

699	Total Nonmajor Funds	98 Total Governmental Funds
<u>Capital Projects Fund</u>	<u>Funds</u>	<u>Funds</u>
\$ 1,081	\$ 845,946	\$ 7,516,094
-	108,840	27,067,015
-	2,735,881	3,098,299
<u>1,081</u>	<u>3,690,667</u>	<u>37,681,408</u>
-	1,107,423	16,637,879
-	91,515	217,837
-	96,927	362,741
-	-	569,466
-	6,289	1,813,335
-	-	669,828
-	2,230	227,041
-	6,510	1,794,340
-	2,114,686	2,114,686
-	293,302	1,206,862
-	9,700	1,075,872
-	-	3,491,799
-	-	294,563
-	-	531,899
-	20,990	179,904
-	-	2,120,000
-	-	2,128,714
-	-	95,405
1,175,261	-	1,175,261
-	-	464,313
-	-	50,000
<u>1,175,261</u>	<u>3,749,572</u>	<u>37,221,745</u>
<u>(1,174,180)</u>	<u>(58,905)</u>	<u>459,663</u>
-	-	3,530,000
-	7,827	7,827
-	-	216,149
-	-	(7,827)
-	-	(3,682,970)
<u>-</u>	<u>7,827</u>	<u>63,179</u>
(1,174,180)	(51,078)	522,842
2,610,507	1,007,593	18,914,327
<u>\$ 1,436,327</u>	<u>\$ 956,515</u>	<u>\$ 19,437,169</u>

SPLENDORA INDEPENDENT SCHOOL DISTRICT**EXHIBIT C-3***RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2015***Total Net Changes in Fund Balances - Governmental Funds (Exhibit C-2)** \$ 522,842

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital Assets <i>increased</i>	\$ 2,065,197	
Depreciation Expense	<u>(2,212,771)</u>	(147,574)

Because some property taxes will not be collected for several months after the District's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased (decreased) by this amount this year. (57,700)

Issuance of bonds provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.

Par Value	\$ (3,530,000)	
(Premium) Discount	<u>(216,149)</u>	(3,746,149)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 2,120,000

Payment to escrow agent to refund bonds from refunding proceeds 3,682,970

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due, and includes amortization of related long-term debt accounts. The increase (decrease) in interest expense reported in the statement of activities consists of the following:

Accrued Interest on Current Interest Bonds Payable (<i>increased</i>) <i>decreased</i>	\$ 49,837	
Amortization of Bond Premiums	35,177	
Amortization of Deferred Charge on Refunding	<u>(20,558)</u>	64,456

The (increase) decrease in compensated absences is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. (8,300)

The net change in net pension liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. The net change consists of the following:

Deferred Outflows Increased (Decreased)	\$ 519,784	
Deferred Inflows (Increased) Decreased	(981,144)	
Net Pension Liability (Increased) Decreased	<u>731,017</u>	<u>269,657</u>

Change in Net Position - Governmental Activities (Exhibit B-1) \$ 2,700,202

The accompanying notes are an integral part of this statement.

SPLENDORA INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 FIDUCIARY FUNDS
 JUNE 30, 2015

EXHIBIT E-1

865
 Agency
 Fund

Data
 Control
 Codes

ASSETS:

1110 *Cash and Cash Equivalents*
 1000 **Total Assets**

Student Activity

\$ 77,695
 \$ **77,695**

LIABILITIES:

2190 *Due to Student Groups*
 2000 **Total Liabilities**

\$ 77,695
 \$ **77,695**

The accompanying notes are an integral part of this statement.

SPLENDORA INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

I. Summary of Significant Accounting Policies

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government (District). All fiduciary activities are reported only in the fund financial statements. *Governmental activities* normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions.

B. Reporting Entity

The Splendor Independent School District (District) is governed by a seven-member board of trustees (Board), which has governance responsibilities over all activities related to public, elementary and secondary, education within the District. Members of the Board are elected by the public; have authority to make decisions; appoint management and significantly influence operations; and have primary accountability for fiscal matters; the District is not included in any other governmental reporting entity. The accompanying financial statements present the District.

C. Basis of Presentation – Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category—governmental and fiduciary—are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those accounted for in another fund.

The *debt service fund* is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.

The *capital projects fund* accounts for the acquisition and construction of the District's major capital facilities.

Additionally, the District reports the following fund types:

The *agency fund* accounts for assets held by the District for student organizations. The fund is custodial in nature (assets equal liabilities) and does not involve measurement or results of operations.

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the amount due from agency fund is included in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds are eliminated in governmental activities.

SPLENDORA INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

E. New Accounting Standards Adopted

In fiscal year 2015, the District adopted five new statements of financial accounting standards issued by the Governmental Accounting Standards Board:

- Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*
- Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*
- Statement No. 69, *Government Combinations and Disposals of Government Operations*
- Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*
- Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*

Statement No. 67 establishes financial reporting standards, but not funding or budgetary standards, for state and local government defined benefit pension plans and defined contribution pension plans that are administered through trusts or equivalent arrangements (Pension Trusts) in which:

1. Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
2. Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
3. Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

For defined benefit pension plans, this Statement establishes standards of financial reporting for separately issued financial reports and presentation as pension trust funds in the financial statements of another government, and specifies the required approach to measuring the pension liability of employers and any nonemployer contributing entities for benefits provided through the pension plan (the net pension liability), about which certain information is required to be presented. Distinctions are made regarding the particular presentation requirements depending upon the type of pension plan administered. For defined contribution plans, the Statement provides specific note disclosure requirements.

The adoption of Statement No. 67 has no impact on the District's financial statements.

Statement No. 68 establishes standards of accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution pensions provided to the employees of state and local government employers through pension plans that are administered through trusts or equivalent arrangements criteria detailed above in the description of Statement No. 67. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans within the scope of the Statement.

The requirements of Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts or equivalent arrangements as described above, and to the financial statements of state and local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. Note disclosure and RSI requirements about pensions also are addressed. For defined benefit pension plans, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

The adoption of Statement No. 68 has no impact on the District's governmental fund financial statements, which continue to report expenditures in the contribution amount determined legislatively for the TRS plan. The calculation of pension contributions is unaffected by the change. However, the adoption has resulted in the restatement of the District's beginning net position for the fiscal year 2015 government-wide financial statements to reflect the reporting of net pension liability and deferred inflows of resources and deferred

SPLENDORA INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

outflows of resources for its qualified pension plan and the recognition of pension expense in accordance with the provisions of the Statement. Net position as of July 1, 2014, was decreased by \$3,680,689 to reflect the cumulative effect of adoption. The net pension liability of \$3,938,386 and the deferred outflows of resources of \$257,697 at June 30, 2014 were reported as a prior period adjustment to the net position on July 1, 2014. Refer to Note IV.C for more information regarding the District's pensions.

Statement No. 69 improves financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. The term "government combinations" is used to refer to a variety of arrangements including mergers and acquisitions. Mergers include combinations of legally separate entities without the exchange of significant consideration. Government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. Government combinations also include transfers of operations that do not constitute entire legally separate entities in which no significant consideration is exchanged. Transfers of operations may be present in shared service arrangements, reorganizations, redistricting, annexations, and arrangements in which an operation is transferred to a new government created to provide those services.

There was no impact on the District's financial statements as a result of the implementation of Statement No. 69.

Statement No. 70 was issued to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

The Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. The Statement requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units.

There was no impact on the District's financial statements as a result of the implementation of Statement No. 70.

Statement No. 71 amends Statement No. 68 to require that, at transition, a government recognizes a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Since the measurement date of the pension plan was different than the District's fiscal year-end, the effects from the District's reported contributions to the plan subsequent to the respective measurement date of the plan as an increase in deferred outflow of resources and a decrease in net position are as follows:

- TRS – The beginning deferred outflow includes contributions from September 1, 2013 through June 30, 2014, totaling \$257,697.

F. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

SPLENDORA INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as required under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Interest associated with the current fiscal period is considered to be susceptible to accrual and has been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items, including property taxes, are considered to be measurable and available only when cash is received by the District.

The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand and bank demand or time deposits with original maturities of three months or less from the date of acquisition.

2. Investments

Investments for the District are reported at fair value (generally based on quoted market prices) except for the position in investment pools. In accordance with state law, the pools operate in conformity with all of the requirements of the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Accordingly, the pools qualify as a 2a7-like pool and are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. The pools are subject to regulatory oversight by the State Treasurer, although it is not registered with the SEC.

3. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital Assets

Capital assets, which include land and improvements, construction in progress, buildings and improvements, and furniture and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. The District's infrastructure includes parking lots and sidewalks associated with various buildings. The cost of the infrastructure was initially capitalized with the building cost and is being depreciated over the same useful life as the building. 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 two years.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the District chose to include all such items regardless of their acquisition date or amount. The District was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate

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price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the District constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Land and improvements and construction in progress are not depreciated. The buildings and improvements and furniture and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

Capital Asset Classes	Lives
Buildings and Improvements	3-40
Furniture and Equipment	3-10

5. Deferred Outflows/Inflows of Resources

Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then. Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

The components of the deferred outflows of resources and deferred inflows of resources in the government-wide and fund level financial statements are as follows:

	Statement of	Balance Sheet - Governmental Funds	
	Net Position Governmental Activities	General Fund	Debt Service Fund
Deferred Outflows of Resources:			
Deferred Outflows from Pension Activities	\$ 777,481	\$ -	\$ -
Deferred Charge on Refunding	183,580	-	-
Total Deferred Outflows of Resources	\$ 961,061	\$ -	\$ -
Deferred Inflows of Resources:			
Deferred Inflows from Pension Activities	\$ 981,144	\$ -	\$ -
Unavailable Property Taxes	-	586,288	107,678
Total Deferred Inflows of Resources	\$ 981,144	\$ 586,288	\$ 107,678

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension activities are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan, except for projected and actual earnings differences on investments which are amortized on a closed basis over a 5-year period.
- Deferred charge/gain on refunding is amortized over the shorter of the life of the refunded or refunding debt.
- Property taxes are recognized in the period the amount becomes available.

6. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

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7. Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

8. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The board of trustees is the highest level of decision-making authority for the District that can, by board action or adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action or resolution remains in place until a similar action is taken (the board action or adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The board of trustees (Board) has by policy authorized the superintendent or his designee to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

9. Pension

In government-wide financial statements, pensions are required to be recognized and disclosed using the accrual basis of accounting (see Notes IV.C. and the RSI section immediately following the Notes to the Financial Statements), regardless of the amount recognized as pension expenditures on the modified accrual basis of accounting. The District recognizes a net pension liability for the qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, or the District's proportionate share thereof in the case of a cost-sharing multiple-employer plan, measured as of the respective pensions' fiscal year-end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

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H. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

Property taxes for the current calendar year are levied on approximately October 1 of each year and are payable by January 31 of the following year. Property tax receivables are recorded as of the date levied. Unpaid taxes become delinquent on February 1 and a tax lien on real property is created as of July 1 of each year.

3. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused leave benefits. The term leave includes local and state personal days and state sick leave days. Payment for unused leave days accumulated will be made upon retirement (in accordance with guidelines established by the Teacher Retirement System of Texas) for all employees. All sick pay is accrued when incurred for employees who are eligible for retirement in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have met the District's requirements and State's retirement eligibility requirements.

The District does not have a liability for unpaid vacation at year-end due to the District's policy does not allow a carryover of vacation days not taken by June 30.

4. Use of Estimates

The presentation of financial statements, in conformity with 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.

5. Data Control Codes

The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to ensure accuracy in building a statewide data base for policy development and funding plans.

II. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, National School Breakfast and Lunch Program special revenue fund and debt service fund. All other governmental funds adopt project length budgets. All annual appropriations lapse at fiscal year-end. The following procedures are followed in establishing the budgetary data reflected in the financial statements.

1. Prior to June 19 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning July 1. 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 after ten days' public notice of the meeting has been given.
3. Prior to July 1, the budget is legally enacted through passage of a resolution by the Board.

The appropriated budget is prepared by fund, function, and campus/department. The District's campus/department heads may make transfers of appropriations within a campus/department. Transfers of appropriations between campus/departments require the approval of the District's management. Transfers of appropriations between functions require the approval of the Board. The legal level of budgetary control (i.e.,

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the level at which expenditures may not legally exceed appropriations) is the function level. There were no significant differences between the original and final amended budget of the general fund.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as restricted, committed, or assigned fund balances as appropriate. The encumbrances do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

C. Excess of Expenditures Over Appropriations

For the year ended June 30, 2015, expenditures exceeded appropriations in the functions (the legal level of budgetary control) of the following funds:

<u>Fund</u>	<u>Function</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
National School Breakfast and Lunch Program	Food Service	\$ 2,080,000	\$ 2,099,355	\$ (19,355)

III. Detailed Notes on All Funds

A. Deposits and Investments

Cash Deposits. The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas School Depository Act. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the District's and the depository banks' agent bank. The pledged securities shall be in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Investments. The District's investment policy is in accordance with the Public Funds Investment Act, the Public Funds Collateral Act, and federal and state laws. State law and District policy limits credit risk by allowing investing in 1) Obligations of the United States or its agencies which are backed by the full faith and credit of the United States, obligations of the State of Texas or its agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm (NRIRF) not less than A or its equivalent; 2) Certificates of deposit issued by a depository located in Texas which is insured by the FDIC or purchased through a broker who has an office located in Texas; 3) Repurchase agreements secured by obligations of the United States or its agencies not to exceed 90 days to maturity from the date of purchase; 4) Bankers acceptances with a stated maturity of 270 days or fewer which are eligible for collateral for borrowing from a Federal Reserve Bank; 5) No-load money market mutual funds which shall be registered with the Securities and Exchange Commission which have an average weighted maturity of less than two years, investments comply with the Public Funds Investment Act and are continuously rated not less than AAA by at least one NRIRF; 6) A guaranteed investment contract (for bond proceeds only) which meets the criteria and eligibility requirements established by the Public Funds Investment Act; 7) Public funds investment pools which meets the requirements of the Public Funds Investment Act; 8) Commercial paper if it has a stated maturity of 271 days or fewer from the day of its issuance; and is rated not less than A-1 or P-1 or an equivalent rating by at least: two nationally recognized credit ratings agencies; or one nationally recognized agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state.

As of June 30, 2015, the District had the following governmental funds' investments:

<u>Investment Type</u>	<u>Standard & Poor's Rating</u>	<u>Fair Value</u>	<u>Percentage of Total Investments</u>	<u>Weighted Average Maturity (Years)</u>
Texpool - LGIP	AAAm	\$ 2,515,046	19%	0.12
Lone Star - Government Overnight Fund	AAAm	10,564,612	81%	0.28
Total Fair Value		\$ 13,079,658	100%	
Portfolio Weighted Average Maturity				0.25

Credit risk. For fiscal year 2015, the District invested in Texpool and Lone Star Investment Pool. Texpool is duly chartered and administered by the State Comptroller's Office. Lone Star Investment Pool is duly chartered by the State of Texas Interlocal Cooperation Act and is administered by First Public, LLC., formerly the Texas Association of School Boards Financial Services. The ratings of such investments are noted in the table above.

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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 its investment policy, the District reduces its exposure to declines in fair values by limiting the maturity of any individual investment from the time of purchase not to exceed one year.

Concentration of credit risk. The District's investment policy dictates that no individual investment transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2015, District's bank balance of \$6,494,285 was not exposed to custodial credit risk because it was insured and collateralized with securities held by the District's agent and in the District's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District is not exposed to custodial risk due to the investments are insured or registered, or securities held by the District or its agent in the District's name.

B. Receivables

Tax revenues of the general and debt service fund are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period increased (decreased) revenues as follows:

Uncollectibles Related to General Fund Property Taxes	\$ (11,836)
Uncollectibles Related to Debt Service Property Taxes	(844)
Total Uncollectibles of the Current Fiscal Year	\$ (12,680)

Approximately 55% of the outstanding balance of property taxes receivable is not anticipated to be collected within the next year.

C. Interfund Receivables, Payables, and Transfers

Receivables/Payables

The composition of interfund receivable/payable balances as of June 30, 2015, is as follows:

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ 597,091	\$ 444,772
Debt Service Fund	5,182	-
Other Governmental Funds - Nonmajor	19,612	177,113
Totals	\$ 621,885	\$ 621,885

Interfund balances consist of short-term lending/borrowing arrangements that result primarily from payroll and other regularly occurring charges that are primarily paid by the general fund and then charged back to the appropriate other fund. Additionally, some lending/borrowing may occur between two or more nonmajor governmental funds.

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Transfers

Interfund transfers are defined as “flows of assets without equivalent flow of assets in return and without a requirement for repayment.” Transfers are the use of funds collected in one fund and are transferred to finance various programs accounted for in other funds. The following is a summary of the District’s interfund transfers for the year ended June 30, 2015.

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
General Fund	National School Breakfast and Lunch Program	\$ 7,827
Total		\$ 7,827

D. Capital Assets

Capital asset activity for the year ended June 30, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Transfers & Adjustments</u>	<u>Ending Balance</u>
Governmental Activities:					
Capital Assets, not being Depreciated:					
Land and Improvements	\$ 1,040,334	\$ 95,344	\$ -	\$ -	\$ 1,135,678
Construction in Progress	10,944,521	895,663	-	(11,840,184)	-
Total Capital Assets, not being Depreciated	11,984,855	991,007	-	(11,840,184)	1,135,678
Capital Assets, being Depreciated:					
Buildings and Improvements	67,855,019	258,654	-	11,358,225	79,471,898
Furniture and Equipment	8,170,635	815,536	(144,813)	481,959	9,323,317
Total Capital Assets, being Depreciated	76,025,654	1,074,190	(144,813)	11,840,184	88,795,215
Less Accumulated Depreciation for:					
Buildings and Improvements	(23,766,171)	(1,802,114)	-	-	(25,568,285)
Furniture and Equipment	(7,147,647)	(410,657)	144,813	-	(7,413,491)
Total Accumulated Depreciation	(30,913,818)	(2,212,771)	144,813	-	(32,981,776)
Total Capital Assets, being Depreciated, net	45,111,836	(1,138,581)	-	11,840,184	55,813,439
Governmental Activities Capital Assets, net	\$ 57,096,691	\$ (147,574)	\$ -	\$ -	\$ 56,949,117

Depreciation expense was charged to functions of the District as follows:

Governmental Activities:	
11 Instruction	\$ 1,594,078
12 Instructional Resources and Media Services	35,726
21 Instructional Leadership	2,347
23 School Leadership	16,125
31 Guidance, Counseling, and Evaluation Services	7,839
33 Health Services	4,856
34 Student Transportation	184,565
35 Food Service	136,528
36 Extracurricular Activities	133,270
41 General Administration	12,428
51 Plant Maintenance and Operations	51,656
52 Security and Monitoring Services	9,708
53 Data Processing Services	16,658
61 Community Services	6,987
Total Depreciation Expense-Governmental Activities	\$ 2,212,771

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E. Long-term Liabilities

The District's long-term liabilities consist of bond indebtedness, compensated absences, and net pension liability. The current requirements for general obligation bonds principal and interest expenditures are accounted for in the debt service fund. Other long-term liabilities are generally liquidated with resources of the general fund.

Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2015, was as follows:

	Beginning Balance*	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	\$ 52,935,000	\$ 3,530,000	\$ (5,795,000)	\$ 50,670,000	\$ 1,475,000
Less Deferred Amounts:					
For Issuance Premiums (CIB's)	564,547	216,149	(35,177)	745,519	-
Total Bonds Payable, net	53,499,547	3,746,149	(5,830,177)	51,415,519	1,475,000
Compensated Absences	21,083	14,008	(5,708)	29,383	29,383
Net Pension Liability	3,938,386	2,201,279	(2,932,296)	3,207,369	-
Governmental Activity					
Long-term Liabilities	\$ 57,459,016	\$ 5,961,436	\$ (8,768,181)	\$ 54,652,271	\$ 1,504,383

* Per GASB 68, beginning balance for net pension liability includes the restatement of net pension liability at July 1, 2014.

General Obligation Bonds

The District issues general obligation bonds to provide funds for the construction and equipment of school buildings (BLDG) and to refund general obligation bonds (REF). General obligation bonds are direct obligations and pledge the full faith and credit of the District. These bonds are issued as 11-31 year current interest (CIB) with various amounts of principal maturing each year. The following is a summary of changes in the general obligation bonds for the fiscal year.

Series	Interest Rate	Original Issue	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
2002 BLDG	4.25-6.25%	13,870,000	2032	\$ 2,315,000	\$ -	\$ (415,000)	\$ 1,900,000
2003 BLDG	3.50-5.00%	4,830,000	2033	3,805,000	-	(3,805,000)	-
2003 REF	3.00-4.50%	6,519,997	2014	710,000	-	(710,000)	-
2007 BLDG	4.15-4.63%	8,000,000	2037	6,955,000	-	(180,000)	6,775,000
2008 BLDG	4.25-4.63%	8,450,000	2039	8,270,000	-	(185,000)	8,085,000
2008A BLDG	3.00-5.00%	8,635,000	2039	8,280,000	-	(185,000)	8,095,000
2011 REF	2.00-4.00%	9,320,000	2030	9,100,000	-	(40,000)	9,060,000
2013 BLDG	2.00-4.00%	13,500,000	2043	13,500,000	-	(275,000)	13,225,000
2015 REF	2.00-4.00%	3,530,000	2033	-	3,530,000	-	3,530,000
Total General Obligation Bonds				\$ 52,935,000	\$ 3,530,000	\$ (5,795,000)	\$ 50,670,000

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Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30	Principal	Interest	Total Requirements
2016	\$ 1,475,000	\$ 2,009,524	\$ 3,484,524
2017	1,520,000	1,963,478	3,483,478
2018	1,575,000	1,910,146	3,485,146
2019	1,635,000	1,855,752	3,490,752
2020	1,695,000	1,798,504	3,493,504
2021	1,760,000	1,737,378	3,497,378
2022	1,835,000	1,674,946	3,509,946
2023	1,910,000	1,599,390	3,509,390
2024	1,985,000	1,521,658	3,506,658
2025	2,075,000	1,440,508	3,515,508
2026	2,165,000	1,358,566	3,523,566
2027	2,245,000	1,273,428	3,518,428
2028	2,335,000	1,185,596	3,520,596
2029	2,435,000	1,094,768	3,529,768
2030	2,530,000	1,004,626	3,534,626
2031	2,755,000	908,322	3,663,322
2032	2,880,000	787,806	3,667,806
2033	1,990,000	661,382	2,651,382
2034	1,805,000	580,018	2,385,018
2035	1,885,000	501,382	2,386,382
2036	1,970,000	419,218	2,389,218
2037	2,055,000	333,282	2,388,282
2038	1,655,000	243,568	1,898,568
2039	1,730,000	171,900	1,901,900
2040	655,000	96,950	751,950
2041	680,000	74,026	754,026
2042	705,000	50,226	755,226
2043	730,000	25,550	755,550
Totals	\$ 50,670,000	\$ 28,281,898	\$ 78,951,898

As of June 30, 2015, the District did not have any authorized but unissued bonds.

In February 2015, the District issued \$3,530,000 of refunding bonds. The proceeds of the refunding bonds were used to legally defease \$3,675,000 of previously issued District bonds in order to lower its overall debt service requirements. The reacquisition price exceeded the net carrying value of the old debt by \$7,970. The District advance-refunded bonds in order to reduce its future debt service payments by \$806,871 and to obtain an economic gain (differences between the present values of the debt service payments on the old and new debt) of \$641,361.

F. Fund Balance

Other committed fund balance includes the following commitments of funds:

Other Governmental Funds:

Campus Activity Funds	\$ 140,142
Total Other Committed Fund Balance	\$ 140,142

G. Revenues from Local and Intermediate Sources

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

	General	Debt Service	Capital Projects	Other Funds	Totals
Property Taxes	\$ 5,565,604	\$ 739,767	\$ -	\$ -	\$ 6,305,371
Investment Income	7,611	4,672	1,081	658	14,022
Food Sales	-	-	-	562,110	562,110
Extracurricular Activities	215,142	-	-	283,178	498,320
Other	136,271	-	-	-	136,271
Total	\$ 5,924,628	\$ 744,439	\$ 1,081	\$ 845,946	\$ 7,516,094

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IV. Other Information

A. Risk Management

Property/Liability

The District is exposed to various risks of loss related to property/liability losses for which the District participates in the Texas Association of Public Schools Property and Liability Fund ("Fund"). The Fund was created to formulate, develop and administer a program of modified self-funding for the Fund's membership, obtain competitive costs for coverages, and develop a comprehensive loss control program. The District pays an annual premium to the Fund for its liability coverage and transfers the risk of loss to the Fund. The District's agreement with the Fund provides that the Fund will be self-sustaining through member premiums and may provide, through commercial companies, reinsurance contracts. In the event that the Fund was to discontinue operations, the member districts would be responsible for any eligible claims not funded by the Fund. In addition, there were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

Health Insurance

During the year ended June 30, 2015, employees of the District were covered by a health insurance plan. The District paid premiums of \$225 per month per employee to the plan and employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The contract between the District and the licensed insurer is renewable annually and terms of coverage and premium costs are included in the contractual provisions.

Workers' Compensation

The District participates in the Texas Association of School Boards Risk Management Fund ("Fund") Workers' Compensation Program. The Fund was created to formulate, develop and administer a program of modified self-funding for the Fund's membership, obtain competitive costs for coverage and develop a comprehensive loss control program. The District pays an annual premium to the Fund for its coverage and transfers the risk to the Fund. In the event that the Fund was to discontinue operations, the member districts would be responsible for any eligible claims not funded by the pool. There were no significant reductions in insurance coverage from the prior year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

B. Contingencies

The District participates in a number of federal and state financial assistance programs. Although the District's grant programs have been audited in accordance with the provisions of the Single Audit Act through June 30, 2015, these programs are subject to financial and compliance audits by the grantor agencies. The District is also subject to audit by the TEA of the attendance data upon which payments from the agency are based. These audits could result in questioned costs or refunds to be paid back to the granting agencies.

C. Defined Benefit Pension Plan

Plan Description

The District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

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Pension Plan Fiduciary Net Position

Detailed information about the TRS's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of services credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan Description above.

Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' 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.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2015 as discussed in Note 1 of the TRS 2014 CAFR. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for Plan fiscal years 2014 and 2015.

	<u>2015</u>	<u>2014</u>
Member	6.7%	6.4%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers/District	6.8%	6.8%

The contribution amounts for the District's fiscal year 2015 are as follows:

District Contributions	\$	565,600
Member Contributions		1,289,059
NECE On-behalf Contributions (State)		949,996

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

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As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

In addition to the employer contributions listed above, when employing a retiree of the Teacher Retirement System, the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

Actuarial Assumptions

The total pension liability in the August 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2014
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	30 Years
Asset Valuation Method	5 Year Market Value
Discount Rate	8.00%
Long-term Expected Investment Rate of Return*	8.00%
Salary Increases*	4.25% to 7.25%
Weighted-Average at Valuation Date	5.55%
Payroll Growth Rate	3.50%

*Includes Inflation of 3%

The actuarial methods and assumptions are primarily based on a study of actual experience for the four year period ending August 31, 2010 and adopted on April 8, 2011. With the exception of the post-retirement mortality rates for healthy lives and a minor change to the expected retirement age for inactive vested members stemming from the actuarial audit performed in the Summer of 2014, the assumptions and methods are the same as used in the prior valuation. When the mortality assumptions were adopted in 2011 they contained a significant margin for possible future mortality improvement. As of the date of the valuation there has been a significant erosion of this margin to the point that the margin has been eliminated. Therefore, the post-retirement mortality rates for current and future retirees were decreased to add additional margin for future improvement in mortality in accordance with the Actuarial Standards of Practice No. 35.

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Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2014 are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
Global Equity			
U.S.	18.0%	7.0%	1.4%
Non-U.S. Developed	13.0%	7.3%	1.1%
Emerging Markets	9.0%	8.1%	0.9%
Directional Hedge Funds	4.0%	5.4%	0.2%
Private Equity	13.0%	9.2%	1.4%
Stable Value			
U.S. Treasuries	11.0%	2.9%	0.3%
Absolute Return	0.0%	4.0%	0.0%
Stable Value Hedge Funds	4.0%	5.2%	0.2%
Cash	1.0%	2.0%	0.0%
Real Return			
Global Inflation Linked Bonds	3.0%	3.1%	0.0%
Real Assets	16.0%	7.3%	1.5%
Energy and Natural Resources	3.0%	8.8%	0.3%
Commodities	0.0%	3.4%	0.0%
Risk Parity			
Risk Parity	5.0%	8.9%	0.4%
Alpha			1.0%
Total	100.0%		8.7%

*The expected contribution to returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.

The following table presents the District's proportionate share of net pension liability for TRS calculated using the discount rate of 8.0%, as well as the District's proportionate share of the respective net pension liability if it was calculated using a discount rate that is 1-percentage-point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
TRS	\$ 5,731,374	\$ 3,207,369	\$ 1,319,883

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Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the District reported a liability of \$3,207,369 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District are as follows:

District's Proportionate Share of the Net Pension Liability	\$ 3,207,369
State's Proportionate Share of the Net Pension Liability Associated with the District	9,611,056
Total	\$ 12,818,425

The net pension liability was measured as of August 31, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2013 through August 31, 2014.

At August 31, 2014, the employer's proportion of the net pension liability was .0120075%. The change in the employer's proportion of the net pension liability was immaterial and therefore disregarded this year.

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

There was a change in employer contribution requirements that occurred after the measurement date of the net pension liability and the employer's reporting date. A 1.5 % contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees went into law effective September 1, 2014. The amount of the expected resultant change in the employer's proportion cannot be determined at this time.

For the year ended June 30, 2015, the District recognized pension expense of \$1,184,989 and revenue of \$888,524 for support provided by the state.

At June 30, 2015, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actuarial Experience	\$ 49,603	\$ -
Changes of Assumptions	208,483	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	980,303
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions (Cost-Sharing Plan)	-	841
District Contribution after Measurement Date	519,395	-
Totals	\$ 777,481	\$ 981,144

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\$519,395 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources (deferred inflows of resources) related to pensions will be recognized in pension expense as follows:

Year Ending June 30:

2016	\$ (201,679)
2017	(201,679)
2018	(201,679)
2019	(201,679)
2020	43,397
Thereafter	40,261
Totals	\$ (723,058)

D. School District Retiree Health Plan

Plan Description. The Splendor 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-Care provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The Teacher Retirement System of Texas issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS website at www.trs.state.tx.us under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701.

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. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2015-2013.

Contribution Rates

Year	Active Member		State		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2015	0.65%	\$ 125,058	1.00%	\$ 181,015	0.55%	\$ 105,818
2014	0.65%	\$ 113,930	1.00%	\$ 150,630	0.55%	\$ 96,402
2013	0.65%	\$ 111,553	0.50%	\$ 92,887	0.55%	\$ 94,391

In addition, the State of Texas contributed \$59,020, \$48,269, and \$65,978 in 2015, 2014, and 2013, respectively, for on-behalf payments for Medicare Part D and Early Retiree Reinsurance Program.

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 are on behalf of the District and 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.

E. Joint Venture-Shared Service Arrangement

The District participates in the following shared service arrangements:

Southeast Texas Cooperative for Special Services

The District participates in a shared services arrangement which provides services for special education students, funded under TEC Section 29.007, TGC 791.001. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Liberty ISD, nor does the District have a new equity interest in

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the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent is responsible for part of the financial activities of the shared services arrangement.

Conroe ISD Regional Day School Program for the Deaf

The District participates in a shared services arrangement, Conroe ISD Regional Day School Program for the Deaf, with numerous districts for the education of students with a hearing impairment. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Conroe 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 exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent is responsible for the financial activities of the shared services arrangement.

F. Nonmonetary Transactions

During 2015, the District received textbooks purchased by the State of Texas for the benefit of the District for a purchase price of \$78,387. The District receives the textbooks as part of state funding for textbook allotment. The textbooks have been recorded in the amount of \$78,387 in a special revenue fund as both state revenues and expenditures, which represents the amount of consideration given by the State of Texas.

G. Prior period Adjustment

Net position at July 1, 2014 was restated per the following table for the implementation of GASB 68 and 71:

	Governmental Activities
Beginning Net Position, as Previously Reported	\$ 22,637,573
Implementation of GASB 68 and 71 for Pensions	(3,680,689)
Beginning Net Position, Restated	<u>\$ 18,956,884</u>

APPENDIX C

FORM OF BOND COUNSEL'S OPINION



Orrick, Herrington & Sutcliffe LLP
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_____, 2016

We have acted as Bond Counsel in connection with the issuance by the Splendora Independent School District (the "District") of its Unlimited Tax School Building and Refunding Bonds, Series 2016B (the "Bonds"), dated October 1, 2016, in the aggregate principal amount of \$_____. The Bonds are issuable in fully registered form only, in denominations of \$5,000 or integral multiples thereof, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the order adopted by the Board of Trustees of the District authorizing the issuance of the Bonds (the "Bond Order").

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 obligations that are being refunded (the "Refunded Bonds") with the proceeds of the Bonds. 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 LLP, 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 Bond 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.

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; and

- (2) The Bonds are payable, both as to principal and interest, from the receipts of all 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.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Bond Order and the Tax Certificate (as hereinafter defined) executed by the District in connection with the issuance of the Bonds, including, without limitation, covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes.

Also based on our examination as described above, it is our further opinion that, subject to the restrictions hereinafter described, interest on the Bonds, including any accrued “original issue discount” properly allocable to the holders of the Bonds, is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (“Code”), and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. For purposes of the alternative minimum tax imposed on corporations under Section 56 of the Code, interest on the Bonds is included in computing adjusted current earnings. The “original issue discount” on any Bonds is the excess of its stated redemption price at maturity over the initial offering price to the public at which price a substantial amount of the Bonds of the same maturity was sold. The “public” does not include bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.



In providing the opinion set forth in the foregoing paragraph, we are assuming continuing compliance with the Covenants (as hereinafter defined) by the District. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the Bonds in order for interest on the Bonds to be and remain excludable from gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, restrictions on the use, expenditure and investment of the proceeds of the Bonds and the use of the property financed by the Bonds, limitations on the source of the payment of and the security for the Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the Bonds to the United States Treasury. The Bond Order and the District's tax certificate for the Bonds (the "Tax Certificate") contain covenants (the "Covenants") under which the District has agreed to comply with such requirements. If the District fails to comply with the Covenants interest on the Bonds could become includable in gross income for federal income tax purposes retroactively to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Bonds from becoming includable in gross income for federal income tax purposes. We have no responsibility to monitor compliance with the Covenants after the date of issue of the Bonds.

Certain requirements and procedures contained, incorporated or referred to in the Bond Order and Tax Certificate, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents.

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.