PRELIMINARY OFFICIAL STATEMENT
Dated September 27, 2016

Ratings:
Moody's: Applied For
Fitch: Applied For
PSF: Applied For
See ("OTHER INFORMATION - Ratings" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and the Bonds are not "private activity bonds". See "TAX MATTERS - Tax Exemption" herein for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.

$92,070,000*
ROUND ROCK INDEPENDENT SCHOOL DISTRICT
(A Political Subdivision of the State of Texas, located within Williamson and Travis Counties, Texas)
UNLIMITED TAX SCHOOL BUILDING AND REFUNDING BONDS, SERIES 2016

Dated: October 1, 2016
Interest to Accrue from Date of Delivery

Due: August 1, as shown on the next page

PAYMENT TERMS . . . The $92,070,000* Round Rock Independent School District Unlimited Tax School Building and Refunding Bonds, Series 2016 (the "Bonds") will be issued by the Round Rock Independent School District (the "District" or the "Issuer"). Interest on the Bonds will accrue from their date of initial delivery to the Underwriters (the "Underwriters"), will be payable on February 1 and August 1 of each year commencing February 1, 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 denominations of $5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the owners thereof.** Debt service 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 BOKF, NA, Austin, Texas (see "THE BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Chapter 45, as amended, Texas Education Code and Chapters 1207 and 1371, as amended, Texas Government Code (together, the "Financing Act"), an election held in the District on May 10, 2014 (the "Election"), and are direct and voted obligations of the District, payable from a continuing direct ad valorem tax levied, without legal limit as to rate or amount, on all taxable property located within the District, and an order approved by the District's Board of Trustees (the "Board") on September 15, 2016 (the "Bond Order") (see "THE BONDS - Authority for Issuance"). In the Bond Order, and as permitted by the Financing Act, the Board delegated to certain District officials the authority to execute a pricing certificate (the "Pricing Certificate") evidencing the final sale terms of the Bonds. The Pricing Certificate and the Bond Order are referred to herein collectively as the "Order."

PURPOSE . . . Proceeds from the sale of the Bonds will be used (i) for the construction, acquisition and equipment of school buildings in the District, the purchase of necessary sites for school buildings, the purchase of school buses, the purchase of technology equipment, (ii) to refund certain maturities of the District's currently outstanding indebtedness as disclosed in Schedule I hereto (the "Refunded Obligations") for debt service savings and (iii) and to pay the costs of issuing the Bonds.

CUSIP PREFIX: 779240
MATURITY SCHEDULE & 9 DIGIT CUSIP NUMBERS
See Schedule on Page 2

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell LLP, Austin, Texas, Bond Counsel (see APPENDIX C - "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by Escamilla & Poneck, LLP, San Antonio, Texas, as Underwriters' Counsel.

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on Wednesday, November 2, 2016 (the "Date of Delivery").

SIEBERT CISNEROS SHANK & CO., L.L.C.

J.P. MORGAN **PIPER JAFFRAY & CO.**

* Preliminary, subject to change.

MATURITY SCHEDULE*

CUSIP No. Prefix: 779240

Principal Amount	Maturity (August 1)	Interest Rate	Price or Yield	CUSIP Suffix(1)	Principal Amount	Maturity (August 1)	Interest Rate	Price or Yield	CUSIP Suffix(1)
$ 3,445,000	2017				$ 6,565,000	2030			
5,885,000	2018				1,050,000	2031			
6,180,000	2019				1,090,000	2032			
6,510,000	2020				1,135,000	2033			
6,840,000	2021				1,180,000	2034			
4,270,000	2022				1,225,000	2035			
4,495,000	2023				1,275,000	2036			
4,720,000	2024				1,325,000	2037			
4,970,000	2025				1,380,000	2038			
5,215,000	2026				1,435,000	2039			
6,210,000	2027				1,495,000	2040			
6,470,000	2028				1,550,000	2041			
6,155,000	2029								

(Interest accrues from the date of initial delivery)

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(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of The American Bankers Association and are included solely for convenience of the registered owners of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the District, the Financial Advisor, or the Underwriters is responsible for the selection or correctness of the CUSIP Numbers set forth herein.

REDEMPTION . . . The District reserves the right, at its option, to redeem the Bonds having stated maturities on and after August 1, ____, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on August 1, ____, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. See “THE BONDS - Redemption.” If the Underwriters designate two or more maturities of the Bonds as a Term Bond (defined herein), such Term Bonds will be subject to mandatory sinking fund redemption (see “THE BONDS – Redemption”).

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* Preliminary, subject to change.

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USE OF INFORMATION

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended ("Rule 15c2-12"), and in effect on the date of this Preliminary Official Statement, this document constitutes a Preliminary 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 Official Statement, which includes the cover page 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 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.

In connection with this offering, the Underwriters may over-allot or effect transactions which stabilize the market price of the issue at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

NONE OF THE DISTRICT, THE FINANCIAL ADVISOR OR 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".

The agreements of the District and others related to the Bonds are contained solely in the documents 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 THIS ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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

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TABLE OF CONTENTS

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

OFFICIAL STATEMENT SUMMARY

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

THE DISTRICT............................. The Round Rock Independent School District (the "District") is a political subdivision located in Williamson and Travis Counties, Texas. The District is approximately 110 square miles in area (see "INTRODUCTION - Description of District").

THE BONDS................................. The Bonds are issued as $92,070,000* Unlimited Tax School Building and Refunding Bonds, Series 2016. The Bonds are issued as serial bonds maturing on August 1, 2017 through August 1, 2041, unless 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 their date of initial delivery to the Underwriters, and is payable initially on February 1, 2017 and on each August 1 and February 1 thereafter until stated maturity or prior redemption. See "THE BONDS - Description of the Bonds" and "THE BONDS – Redemption."

AUTHORITY FOR ISSUANCE......... The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Chapter 45, as amended, Texas Education Code and Chapters 1207 and 1371, as amended, Texas Government Code (together, the "Financing Act"), an election held in the District on May 10, 2014 (the "Election"), and an order approved by the District's Board of Trustees (the "Board") on September 15, 2016 (the "Bond Order") (see "THE BONDS - Authority for Issuance"). In the Bond Order, and as permitted by the Financing Act, the Board delegated to certain District officials the authority to execute a pricing certificate (the "Pricing Certificate") evidencing the final sale terms of the Bonds. The Pricing Certificate and the Bond Order are referred to herein collectively as the "Order."

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 District has made application to the Texas Education Agency and has received conditional approval for the payment of the Bonds to be guaranteed by the Permanent School Fund of Texas (see "THE BONDS - Security and Source of Payment" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

PERMANENT SCHOOL FUND GUARANTEE................................ The District has has made application to the Texas Education Agency and the District has received conditional approval for the Bonds to be guaranteed by the corpus of the Permanent School Fund (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

REDEMPTION.............................. The District reserves the right, at its option, to redeem the Bonds having stated maturities on and after August 1, ____, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on August 1, ____, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If the Underwriters designate two or more maturities of the Bonds as a Term Bond (defined herein) such Term Bonds will be subject to mandatory sinking fund redemption. See "THE BONDS - Redemption."

TAX EXEMPTION........................... In the opinion of Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and the Bonds are not "private activity bonds". See "TAX MATTERS - Tax Exemption" for a discussion of the opinion of Bond Counsel, including a description of the alternative minimum tax consequences for corporations.

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, the purchase of necessary sites for school buildings, the purchase of school buses, the purchase of technology equipment, (ii) to refund certain maturities of the District's currently outstanding indebtedness as disclosed in Schedule I hereto (the "Refunded Obligations") for debt service savings and (iii) and to pay the costs of issuing the Bonds.

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* Preliminary, subject to change.

RATINGS .... Applications for contract ratings on the Bonds have been made to Moody's Investors Service, Inc. ("Moody's") and Fitch Ratings ("Fitch") (see "OTHER INFORMATION - Ratings"). The presently outstanding tax supported debt of the District is rated "Aaa" by Moody's and "AAA" by Fitch without regard to credit enhancement. The District has not applied to Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") for a rating on the Bonds. The District also has several issues outstanding which are rated "Aaa" by Moody's and "AAA" by S&P, and five issues outstanding which are rated "Aaa" by Moody's and "AAA" by Fitch, by virtue of the guarantee of the Permanent School Fund of the State of Texas.

BOOK-ENTRY-ONLY SYSTEM...... The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 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.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 6/30	Estimated District Population[(1)]	Taxable Assessed Valuation[(2)]	Per Capita Taxable Assessed Valuation	Tax Supported Debt Outstanding at End of Year	Per Capita Tax Supported Debt	Ratio of Tax Supported Debt to Taxable Assessed Valuation	% of Total Tax Collections
2013	240,777	$ 21,188,286,011	$ 88,000	$ 705,365,000	$ 2,930	3.33%	99.75%
2014	243,451	21,723,027,652	89,230	664,400,000	2,729	3.06%	100.14%
2015	245,368	24,777,077,484	100,979	760,595,000	3,100	3.07%	99.43%
2016	245,368 [(3)]	26,821,830,920	109,313	806,725,000	3,288	3.01%	100.21% [(4)]
2017	245,368 [(3)]	29,276,484,400	119,317	783,440,000 [(5)]	3,193 [(5)]	2.68% [(5)]	N/A

(1) Source: District officials.
(2) As reported by the Williamson Central Appraisal District and Travis Central Appraisal District on the District's Certified Totals; subject to change during the ensuing year.
(3) FY 2016 and 2017 population not available; therefore FY 2016 and 2017 population assumes no growth, for purposes of illustration.
(4) As of June 30, 2016.
(5) Excludes the Refunded Obligations and includes the Bonds; preliminary, subject to change.

CHANGES IN NET ASSETS CONSOLIDATED STATEMENT SUMMARY

	Fiscal Year Ended June 30,				
	2015	2014	2013	2012	2011
Beginning Net Assets	$ 266,173,924 [(1)]	$ 299,915,965	300,371,614 [(1)]	$ 306,964,592	$ 293,292,467
Total Revenue	500,532,170	475,280,318	453,411,611	458,464,444	465,074,368
Total Expenditures	(484,333,194)	(460,208,358)	(453,867,260)	(460,801,999)	(451,402,243)
Ending Net Assets	$ 282,372,900	$ 314,987,925	$ 299,915,965	$ 304,627,037	$ 306,964,592

Source: The District's Annual Financial Reports.
(1) Restated.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	For Fiscal Year Ended June 30,				
	2015	2014	2013	2012	2011
Beginning Balance	$ 218,638,989	$ 231,372,101	$ 236,867,135	$ 221,621,162	$ 200,993,482
Total Revenue	372,128,864	343,317,900	328,969,436	333,899,692	337,587,975
Total Expenditures	(365,712,402)	(355,959,117)	(335,566,406)	(309,721,638)	(318,067,730)
Net Funds Available	6,416,462	(12,641,217)	(6,596,970)	24,178,054	19,520,245
Other Resources	653,576	(91,895)	1,101,936	(8,932,081)	1,107,435
Ending Balance	$ 225,709,027	$ 218,638,989	$ 231,372,101	$ 236,867,135	$ 221,621,162

Source: The District's Annual Financial Reports.

For additional information regarding the District, please contact:

Randy Staats		Raul Villaseñor
Chief Financial Officer		Managing Director
Round Rock Independent School District	or	FirstSouthwest, a Division of Hilltop Securities Inc.
1311 Round Rock Avenue		70 Northeast Loop 410, Suite 710
Round Rock, Texas 78681		San Antonio, Texas 78216
(512) 464-5038		(210) 308-2200
(512) 464-5055 Fax		(210) 349-7585 Fax
randy_staats@roundrockisd.org		raul.villaseñor@hilltopsecurities.com

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DISTRICT OFFICIALS, STAFF AND CONSULTANTS

THE BOARD OF TRUSTEES

Board of Trustees	Length of Service	Term Expires	Occupation
Paul J. Tisch President, Place 6	3 Years	November 2018	Consultant
Pauline Law Vice President, Place 7	3 Years	November 2016	Technology Project Manager
Terri Romere Secretary, Place 4	6 Years	November 2018	Realtor
Nikki Gonzales Trustee, Place 1	1 Year	November 2016	Operations Director
Charles Chadwell Trustee, Place 2	8 Years	November 2016	Sales Representative
Diane M. Cox Trustee, Place 3	11 Years	November 2018	Sales Account Executive
Suzi J. David Trustee, Place 5	1 Year	November 2018	General Manager

APPOINTED OFFICIALS

Administrative Officers	Position
Superintendent	
Dr. Steve Flores	Superintendent of Schools
Administrator	
Randy Staats	Chief Financial Officer

CONSULTANTS AND ADVISORS

Independent Auditors .... Maxwell Locke & Ritter LLP
Austin, Texas

Bond Counsel .... Bracewell LLP
Austin, Texas

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

OFFICIAL STATEMENT

RELATING TO

$92,070,000*
ROUND ROCK INDEPENDENT SCHOOL DISTRICT
(A Political Subdivision of the State of Texas, located within Williamson and Travis Counties, Texas)
UNLIMITED TAX SCHOOL BUILDING AND REFUNDING BONDS, SERIES 2016

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of $92,070,000* Round Rock Independent School District Unlimited Tax School Building and Refunding Bonds, Series 2016 (the "Bonds"). Except as otherwise indicated herein, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the order (the "Bond Order") authorizing the issuance of the Bonds, and the pricing certificate (the "Pricing Certificate") executed pursuant to the Bond Order. The Bond Order and the Pricing Certificate are referred to herein collectively as the "Order."

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. ("FirstSouthwest"), San Antonio, Texas, upon payment of reasonable copying, handling and delivery charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the final Official Statement pertaining to the Bonds will be filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system. *See* "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

DESCRIPTION OF THE DISTRICT . . . The Round Rock Independent School District (the "District") is a political subdivision of the State of Texas (the "State") located in Williamson and Travis Counties, Texas. The District is governed by a seven-member Board who serve staggered four-year terms with elections being held in November of every even numbered 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 the District. Support services are supplied by consultants and advisors. The District covers approximately 110 square miles in Williamson and Travis Counties, encompassing the City of Round Rock, Texas.

PLAN OF FINANCING

USE OF BOND PROCEEDS . . . Proceeds from the sale of the Bonds will be used (i) for the construction, acquisition and equipment of school buildings in the District, the purchase of necessary sites for school buildings, the purchase of school buses, the purchase of technology equipment, (ii) to refund certain maturities of the District's currently outstanding indebtedness as disclosed in Schedule I hereto (the "Refunded Obligations") for debt service savings and (iii) and to pay the costs of issuing the Bonds.

REFUNDED OBLIGATIONS . . . The principal and interest due on the Refunded Obligations are to be paid on the scheduled interest payment dates and the respective redemption dates of such Refunded Obligations, from funds to be deposited pursuant to a certain Escrow and Trust Agreement (the "Escrow Agreement"), dated as of September 15, 2016, between the District and BOKF, NA, Austin, Texas (the "Escrow Agent"). The Order provides that from the proceeds of the sale of the Bonds received from the Underwriters, along with a cash deposit from the District (if any), the District will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Obligations on their redemption date. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase direct obligations of the United States of America or other permitted defeasance securities (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations.

Grant Thornton LLP, 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 Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Obligations. **Such maturing principal of and interest on the Federal Securities will not be available to pay the Bonds** (see "OTHER INFORMATION - Verification of Arithmetical and Mathematical Computations").

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* Preliminary, subject to change.

By the deposit of the Federal 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 Obligations in accordance with State law. 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 Obligations will be outstanding only for the purpose of receiving payments from the Federal Securities and any cash held for such purpose by the Escrow Agent and such Refunded Obligations will not be deemed as being outstanding obligations of the District payable from taxes nor for the purpose of applying any limitation on the issuance of debt.

The defeasance of the Refunded Obligations will result in the cancellation of the Permanent School Fund Guarantee with respect to the Refunded Obligations.

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds are dated October 1, 2016, and mature on August 1 in each of the years and in the principal amounts shown on page 2 hereof. Interest will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 1 and August 1 of each year, commencing February 1, 2017. The 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 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.

AUTHORITY FOR ISSUANCE . . . The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Chapter 45, as amended, Texas Education Code and Chapters 1207 and 1371, as amended, Texas Government Code (together, the "Financing Act"), an election held in the District on May 10, 2014 (the "Election"), and an order approved by the District's Board of Trustees (the "Board") on September 15, 2016 (the "Bond Order") (see "THE BONDS - Authority for Issuance"). In the Bond Order, and as permitted by the Financing Act, the Board delegated to certain District officials the authority to execute a pricing certificate (the "Pricing Certificate") evidencing the final sale terms of the Bonds. The Pricing Certificate and the Bond Order are referred to herein collectively as 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 debt service on the Bonds. Additionally, the District has made application to the Texas Education Agency and the District has received conditional approval for the guarantee of the payment of scheduled principal and interest on the Bonds, when due, by the Permanent School Fund. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" herein).

TAX RATE LIMITATION . . . Under State law, the ad valorem tax levied to pay debt service on the Bonds is unlimited as to rate or amount. However, at the time bonds representing new debt are approved by the Attorney General of Texas, the District is required to demonstrate that debt service on all of its outstanding unlimited tax bonds issued as "new debt" can be paid from a tax rate of not more than $0.50. A portion of the Bonds will be issued as "new debt" and that portion of the Bonds will be subject to the $0.50 limitation. Once issued, the District is required to set a tax rate sufficient to pay debt service on its outstanding unlimited tax debt without limit as to rate or amount. See "TAX RATE LIMITATIONS" and "DEBT LIMITATIONS" herein.

REDEMPTION . . . The District reserves the right, at its option, to redeem the Bonds having stated maturities on and after August 1, ____, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on August 1, ____, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine the Bonds, or portions thereof, within such maturity to be redeemed. If the Underwriters designate two or more maturities of the Bonds as a term bond (each, a "Term Bond"), such Term Bonds will be subject to mandatory sinking fund redemption.

NOTICE OF REDEMPTION . . . Not less than thirty (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 Owners of the Bonds to be redeemed at the address of the 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.

In the Order, the District reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the District retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the District delivers a certificate of the District to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Bonds subject to conditional redemption and such redemption has been rescinded shall remain Outstanding, and the rescission of such redemption shall not constitute an Event of Default. Further, in the case of a conditional redemption, the failure of the District to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an Event of Default.

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 AND SUBJECT, IN THE CASE OF AN OPTIONAL REDEMPTION, TO ANY RIGHTS OR CONDITIONS RESERVED BY THE DISTRICT IN THE NOTICE, 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.

DEFEASANCE . . . The Order provides that the Bonds may be defeased, refunded or discharged in any manner permitted by applicable law. Under current State law, such discharge may be accomplished by either (i) depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of and all interest to accrue on the Bonds to maturity or prior redemption or (ii) by depositing with a paying agent, or other authorized escrow agent, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested in (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality of the United States of America, and that are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding obligations to refund the Bonds, that are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent. The foregoing obligations may be in book-entry-only form, and shall mature and/or bear interest in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. If any such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Order.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid for purposes of applying any debt limitation on indebtedness or for purposes of taxation. After firm banking and financial arrangements for the discharge, 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, the District may reserve the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Bonds which have been defeased to their maturity date, 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 authorizes.

Defeasance will cancel the Permanent School Fund Guarantee with respect to those defeased Bonds.

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

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 accredited by DTC 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 sources the District, Underwriters, and Financial Advisor believe to be reliable, but the District, the Underwriters, and the Financial Advisor take no responsibility for the accuracy thereof.*

The District, the Underwriters, and the Financial Advisor 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 United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered certificate will be issued for each maturity of the Bonds in the aggregate principal amount of each such maturity and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's rating: "AA+". The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owners 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 the 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 account 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. will consent or vote with respect to the 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Debt service 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 payable dates 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 debt service to Cede & Co (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall 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 and the Paying Agent/Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered to DTC.

The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered in certificated form.

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 Order will be given only to DTC.

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 BOKF, NA, Austin, Texas. In the Bond 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. Any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State 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 will 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 "THE BONDS - 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 will 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 will 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 determining the person to whom the interest is payable on the Bonds on any interest payment date means the close of business on the 15th day of the month preceding the 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 will be 15 days after the Special Record Date) will 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 . . . The Order provides that (i) the failure to make payment of principal of or interest on any of the Bonds when due and payable, or (ii) default in the performance or observance of any other covenant, agreement or obligation of the District, which default materially and adversely affects the rights the Owners, including but not limited to, their prospect or ability to be repaid in accordance with the Order, and the continuation thereof for a period of 60 days after notice of such default is given by any Owners to the District, shall constitute an Event of Default. If an Event of Default occurs, 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 the District or District officials to carry out the legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds or the Order and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so 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. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Chapter 1371, which pertains to the issuance of public securities by issuers such as the District, permits the District to waive sovereign immunity in the proceeding authorizing the issuance of the Bonds. Notwithstanding its reliance upon the provisions of Chapter 1371, in connection with the issuance of the Bonds (as further described under the caption "THE BONDS – Authority for Issuance"), the District has not waived the defense of sovereign immunity with respect thereto. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages outside of Chapter 1371, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order 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 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 Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

USE OF PROCEEDS . . . The proceeds from the sale of the Bonds will be applied approximately as follows:

Sources of Funds:	
Par Amount of the Bonds	$
Premium	
Total Sources of Funds	$ -
Uses of Funds:	
Deposit to Construction Fund	$
Deposit to Escrow Fund	
Total Underwriters' Discount	
Cost of Issuance	
Total Uses of Funds	$ -

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 TEA (defined below) and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the District, the Financial Advisor, or the Remarketing Agent.

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 at17% 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 increased 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	
At 8/31	Number Of Issues	Principal Amount Guaranteed	Number Of Issues	Principal Amount Guaranteed	Number Of Issues	Principal Amount Guaranteed
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	757,935,000	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 2015–16, 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" herein).

STATE FUNDING FOR SCHOOL DISTRICTS . . . State funding for school districts is provided through the Foundation School Program, which provides each school district with a minimum level of funding (a "Basic Allotment") for each student in average daily attendance ("ADA"). The Basic Allotment is calculated for each school district using various weights and adjustments based on the number of students in average daily attendance and also varies depending on each district's compressed tax rate. This Basic Allotment formula determines most of the allotments making up a district's 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 years 2015-16 and 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 $74.28 and $77.53 per cent per weighted student in average daily attendance ("WADA") for the fiscal year 2015-16 and 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 years 2015-16 and 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 2015-16 and fiscal year 2016-17. These conversions are optional for each applicable district in the 2015-16 and 2016-17 fiscal years 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 2015–16 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 2015-16 and 2016-17 school years, 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.

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE ROUND ROCK INDEPENDENT SCHOOL DISTRICT

The District's wealth per student for the 2016-17 school year is more than the equalized wealth value. Accordingly, the District has been required to exercise one of the permitted wealth equalization options and has elected to purchase attendance credits through the State for redistribution under the Foundation School Program.

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

TAX RATE LIMITATIONS

A school district is authorized to levy maintenance and operation taxes ("M&O Tax") subject to approval of a proposition submitted to district voters. The maximum M&O Tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next succeeding paragraph. The maximum voted M&O Tax rate for the District is $1.50 per $100 of assessed valuation as approved by the voters pursuant to Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended ("Article 2784e-1"). Article 2784e-1 limits the District's annual M&O Tax rate based upon a comparison between the District's outstanding bonded indebtedness and the District's taxable assessed value per $100 of assessed valuation. Article 2784e-1 provides for a reduction of $0.10 for each one percent (1%) or major fraction thereof increase in bonded indebtedness beyond seven percent (7%) of assessed valuation of property in the District. This limitation is capped when the District's bonded indebtedness is ten percent (10%) (or greater) of the District's assessed valuation which would result in an annual M&O Tax rate not to exceed $1.20. Lastly, the Texas Attorney General in reviewing the District's transcript of proceedings will allow the District to reduce the amount of its outstanding bonded indebtedness by the amount of funds (on a percentage basis) that the District receives in State assistance for the repayment of this bonded indebtedness (For example, if the District anticipates that it will pay 75% of its bonded indebtedness from State assistance, for the purposes of Article 2784e-1, the Texas Attorney General will assume that only 25% of the District's bonded indebtedness is outstanding and payable from local ad valorem taxes). The bonded indebtedness of the District after the issuance of the Bonds will be approximately 2.68% of the District's current taxable assessed valuation of property. See "TAX INFORMATION - Table 1 Valuation, Exemptions and Tax Supported Debt" herein.

The maximum tax rate per $100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) $1.50, or such lower rate as described in the preceding paragraph, and (B) the sum of (1) the rate of $0.17, and (2) the product of the "state compression percentage" multiplied by $1.50. The state compression percentage has been set, and will remain, at 66.67% for fiscal years 2007-08 through 2015-16. 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 - General". 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 - 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 for a tax unlimited as to rate or amount for the support of school district bonded indebtedness (see "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS").

DEBT LIMITATIONS

Section 45.0031, Texas Education Code, as amended ("Section 45.0031"), requires a district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by district voters at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, "exempt bonds"), from a tax levied at a rate of $0.50 per $100 of assessed valuation before bonds may be issued. In demonstrating the ability to pay debt service at a rate of $0.50, a district may take into account EDA and IFA allotments to the district, which effectively reduces the district's local share of debt service, and may also take into account Tier One funds allotted to the district. The District is required to deposit any State allotments provided solely for payment of debt service into the District's interest and sinking fund upon receipt of such amounts. In addition, the District must, prior to levying an interest and sinking fund tax rate that exceeds $0.50 per $100 of assessed valuation, credit to the interest and sinking fund other State assistance, including Tier One funds that may be used for either operating purposes or for payment of debt service, in an amount equal to the amount needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Once the prospective ability to pay such tax has been shown and the bonds are issued, a district may levy an unlimited tax to pay debt service. Taxes levied to pay refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the $0.50 tax rate test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the $0.50 threshold tax rate test when applied to subsequent bond issues. A portion of the Bonds is being issued for school building purposes pursuant to Chapter 45, Texas Education Code as new debt and that portion of the Bonds is subject to the threshold tax rate test. A portion of the Bonds is being issued as refunding bonds pursuant to Chapter 1207 and that portion of the Bonds is not subject to the $0.50 threshold tax rate test; however, taxes levied to pay debt service on that portion of the Bonds will be included in the calculation of the $0.50 tax rate test as applied to subsequent issues of "new debt". 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 Texas Attorney General must find that the district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the $0.50 threshold tax rate test from a tax rate of $0.45 per $100 of valuation. The District has not used State assistance other than EDA or IFA allotment funding or projected property values to satisfy this threshold test.

TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the District is the responsibility of the Williamson Central Appraisal District and the Travis Central Appraisal District (the "Appraisal Districts"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal Districts are required under the Texas Property Tax Code to appraise all property within the Appraisal Districts 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 appraisers is to be used. State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of (a) 10% of the appraised value of the property for the preceding tax year, (b) the appraised value of the property for the preceding tax year and, and (c) the market value of all new improvements to the property. The value placed upon property within each of the Appraisal Districts is subject to review by an Appraisal Review Board, each consisting of three members appointed by the Board of Directors of the respective Appraisal Districts. Each of the Appraisal Districts is required to review the value of property within the Appraisal Districts 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 respective Appraisal Review Board.

Reference is made to the Texas 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 or repairs) 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.

In addition, under Article VIII, Section 1-b, 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 Article VIII, Section 1-b, 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 Article VIII, Section 2, 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.

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”.

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” herein). The school property tax limitation provided by the constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years.

Article VIII provides that eligible owners of both agricultural land (Section l-d) and open-space land (Section l-d-l), 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.

Under Section 11.253 of the Texas Tax Code, “Goods-in-transit” are exempt from taxation unless a taxing unit opts out of the exemption. Goods-in-transit are defined as tangible personal property that: (i) is acquired in or imported into the state to be forwarded to another location in the state or outside the state; (ii) is detained at a location in the state in which the owner of the property does not have a direct or indirect ownership interest for assembling, storing, manufacturing, processing, or fabricating purposes by the person who acquired or imported the property; (iii) is transported to another location in the state or outside the state not later than 175 days after the date the person acquired the property in or imported the property into the state; and (iv) does not include oil, natural gas, petroleum products, aircraft, dealer’s motor vehicle inventory, dealer’s vessel and outboard motor inventory, dealer’s heavy equipment inventory, or retail manufactured housing inventory.

The District and the other taxing bodies within the territory may jointly agree to the creation of a tax increment financing zone, under which the tax values on property in the zone are “frozen” at the value of the property at the time of creation of the zone. The District also may enter into tax abatement agreements to encourage economic development. Under an abatement agreement, a property owner agrees to construct certain improvements on its property. The District in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the abatement agreement. In the case of a tax increment financing zone, the property owners pay taxes on all improvements located in the zone, and the District in turn remits payment of taxes levied on “incremental values” to the tax increment financing zone which are then used to finance infrastructure improvements for properties within the zone. The abatement agreement could last for a period of up to 10 years. Under current law, the Comptroller of Public Accounts is to determine taxable value of property within each school district in the State (which taxable value figure is used in calculating a district’s wealth per student) and in making such determination the taxable value is to exclude (i) the total dollar amount of any captured appraised value of property located in a reinvestment zone on August 31, 1999, that generates taxes paid into a tax increment fund and is eligible for tax increment financing under a reinvestment zone financing plan approved before September 1, 1999 and (ii) the total dollar value of taxable property covered by a tax abatement agreement entered into.

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 - General” 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.

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 on February 1 of each year and the final installment due on August 1.

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	32[(a)]	6	38

(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 claims of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. 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 $13,000.

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 Williamson County and Travis County collect 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 does tax goods-in-transit.

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TABLE 1 - VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT

2016/2017 Market Valuation Established by Williamson & Travis Counties Appraisal Districts (excluding totally exempt property)		$ 32,086,210,521
Less Exemptions/Reductions at 100% Market Value:		
Disabled Persons (Local and State)	$ 10,125,711	
Homestead Cap Adjustment	528,823,271	
Residential Homestead Exemption (State Mandated)	1,247,205,482	
Residential Homestead Over 65 Exemption (State Mandated)	99,464,072	
Disabled Veteran Exemption	109,408,893	
Productivity Loss	598,850,420	
Pollution Exemption	1,798,111	
Prorated Exempt Property	2,113,337	
House Bill/Solar Wind	6,590,691	
House Bill 366 (Personal Property Under $500)	54,384	
Freeport Exemption	190,946,274	
Other: Community Housing Development	14,345,475	$ 2,809,726,121
2016/2017 Taxable Assessed Valuation		$ 29,276,484,400
Existing Debt Payable from Ad Valorem Taxes (as of 8/1/2016)(1)	$ 691,370,000	
The Bonds(2)	92,070,000	
Total Debt Payable from Ad Valorem Taxes		$ 783,440,000
Interest and Sinking Fund (as of 8/1/2016)		$ 25,452,916
Ratio Tax Supported Debt to Taxable Assessed Valuation		2.68%

2017 Estimated Population - 245,368
Per Capita Taxable Assessed Valuation - $119,317
Per Capita Debt Payable from Ad Valorem Taxes - $3,193

Enrollment 2016/17 - 47,106
Per Student Direct Debt - $16,631
Per Student 2014 Assessed Valuation - $621,502

(1) Excludes the Refunded Obligations.
(2) Preliminary, subject to change.

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TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

	Taxable Appraised Value for Fiscal Year Ended June 30,					
	2017		2016		2015	
Category	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 18,610,651,760	58.00%	$ 17,074,450,849	57.89%	$ 15,472,699,247	56.45%
Real, Residential, Multi-Family	3,995,941,347	12.45%	3,330,301,805	10.32%	2,792,109,632	9.71%
Real, Vacant Lots/Tracts	326,750,835	1.02%	339,782,140	1.71%	380,591,078	1.77%
Real, Acreage (Land Only)	645,399,697	2.01%	622,981,819	2.38%	629,243,379	2.69%
Real, Farm and Ranch Improvements	28,825,485	0.09%	31,125,759	0.05%	29,670,330	0.05%
Real, Commercial/Industrial	6,509,395,943	20.29%	6,152,675,066	19.19%	5,393,575,033	19.74%
Real and Tangible Personal, Utilities	56,838,816	0.18%	191,605,589	0.64%	167,836,107	0.83%
Tangible Personal, Commercial/Industrial	1,616,511,200	5.04%	1,628,942,736	6.54%	1,640,785,827	8.02%
Tangible Personal, Other	2,919,184	0.01%	3,059,316	0.01%	3,149,920	0.01%
Mobile Homes	321,407	0.00%	201,051	0.00%	204,256	0.00%
Real Property, Inventory/Other	292,654,847	0.91%	215,192,823	1.27%	192,110,523	0.73%
Total Appraised Value Before Exemptions	$ 32,086,210,521	100.00%	$ 29,590,318,953	100.00%	$ 26,701,975,332	100.00%
Adjustments	-		-		-	
Less: Total Exemptions/Reductions	2,809,726,121		2,768,488,033		1,924,897,848	
Taxable Assessed Value	$ 29,276,484,400		$ 26,821,830,920		$ 24,777,077,484	

	Taxable Appraised Value for Fiscal Year Ended June 30,			
	2014		2013	
Category	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 13,398,499,913	57.75%	$ 12,757,668,952	59.42%
Real, Residential, Multi-Family	2,387,732,386	9.03%	2,194,129,106	9.11%
Real, Vacant Lots/Tracts	395,517,712	1.78%	399,960,821	2.09%
Real, Acreage (Land Only)	551,669,239	2.77%	606,787,996	0.29%
Real, Farm and Ranch Improvements	12,170,325	0.05%	11,782,674	0.05%
Real, Commercial/Industrial	4,440,445,743	19.37%	4,461,008,691	20.02%
Real and Tangible Personal, Utilities	146,999,494	0.84%	188,150,804	0.87%
Tangible Personal, Commercial/Industrial	1,513,418,509	7.35%	1,811,612,011	7.33%
Tangible Personal, Other	3,227,576	0.02%	3,323,281	0.00%
Mobile Homes	222,361	0.00%	230,770	0.02%
Real Property, Inventory/Other	294,316,151	1.04%	164,105,887	0.81%
Total Appraised Value Before Exemptions	$ 23,144,219,409	100.00%	$ 22,598,760,993	100.00%
Adjustments	-		-	
Less: Total Exemptions/Reductions	1,421,191,757		1,410,474,982	
Taxable Assessed Value	$ 21,723,027,652		$ 21,188,286,011	

NOTE: Valuations shown are certified taxable assessed values reported by the Williamson Central Appraisal District and the Travis Central Appraisal District. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal Districts update their records.

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TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY

Fiscal Year Ended 6/30	Estimated Population[1]	Taxable Assessed Valuation[2]	Taxable Assessed Valuation Per Capita	Tax Supported Debt Outstanding at End of Year	Ratio of Tax Supported Debt to Taxable Assessed Valuation	Tax Supported Debt Per Capita
2013	240,777	$ 21,188,286,011	88,000	$ 705,365,000	3.33%	$ 2,930
2014	243,451	21,723,027,652	89,230	664,400,000	3.06%	2,729
2015	245,368	24,777,077,484	100,979	760,595,000	3.07%	3,100
2016	245,368	26,821,830,920	109,313	806,725,000	3.01%	3,288
2017	245,368 (3)	29,276,484,400	119,317	783,440,000 (4)	2.68% (4)	3,193 (4)

(1) Source: District officials.
(2) As reported by the Williamson Central Appraisal District and Travis Central Appraisal District on the District's Certified Totals; subject to change during the ensuing year.
(3) FY 2016 and 2017 population not available; therefore FY 2016 and 2017 population assumes no growth, for purposes of illustration.
(4) Excludes the Refunded Obligations and includes the Bonds; preliminary, subject to change.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 6/30	Tax Rate	Local Maintenance	I & S Fund	Tax Levy	% Current Collections	% Total Collections
2012	$ 1.3350	$ 1.0400	$ 0.2950	$ 268,675,499	99.39%	100.12%
2013	1.3800	1.0400	0.3400	287,686,645	99.35%	99.75%
2014	1.3674	1.0400	0.3274	288,216,643	99.36%	100.14%
2015	1.3375	1.0400	0.2975	332,435,529	99.22%	99.43%
2016	1.3325	1.0400	0.2925	351,318,015	99.53% (1)	100.21% (1)

(1) As of June 30, 2016.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Type of Property	2016/17 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Dell Computer Holdings LP	Industrial	$ 336,368,627	1.15%
Apple Inc	Industrial	317,589,768	1.08%
BRI 1869 Parmer LLC	Commercial	203,136,832	0.69%
IMT Capital II Riata LP	Real Estate	178,219,225	0.61%
CPG Round Rock LP	Commercial	142,423,939	0.49%
NW Austin Office Partners LLC	Real Estate	115,580,191	0.39%
Union Investment Real Estate GMBH	Real Estate	109,668,303	0.37%
Lakeline Developers	Commercial	101,695,369	0.35%
Dedicated Oconnor RR LP	Commercial	85,000,000	0.29%
Apple Inc	Industrial	83,407,844	0.28%
		$ 1,673,090,098	5.71%

TABLE 6 - TAX ADEQUACY

Principal and Interest Requirements for the Period Ended August 31, 2017	$82,390,804
Plus: Cash Defeasance of a Portion of the 2028 Maturity of the Series 2007 Bonds	11,215,000
Less: State and Other Revenues	(2,810,658)
Less: Transfer from Existing Debt Service Fund	(5,760,865)
Net Principal and Interest Requirements	$85,034,281
$0.2925 Interest and Sinking Fund Tax Rate @ 99.3% Collections [(1)]	$85,034,281

(1) Assumes a $29,276,484,400 Net Taxable Value in 2016-2017.

TABLE 7 - 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.

Taxing Jurisdiction	Assessed Value	Tax Rate	Supported Debt	% Applicable	Debt As of 6/1/2016	Debt As Of 6/1/2016
Austin CCD	$ 159,157,520,833	$ 0.1005	$ 240,463,659	16.85%	$ 40,518,127	$ 210,966,950
Austin, City of	111,728,079,087	0.4589	1,442,619,994	8.19%	118,150,578	210,230,000
Avery Ranch Rd District #1	1,280,767,555	0.0975	9,660,000	41.68%	4,026,288	24,993,760
Brushy Creek MUD	1,618,368,467	0.4700	31,145,000	100.00%	31,145,000	55,670,832
Brushy Creek MUD - Sendero Springs & Cornerstone Defined Area	322,151,888	0.2700	12,685,000	100.00%	12,685,000	47,150,000
Cedar Park, City of	7,306,007,406	0.4795	178,060,000	9.13%	16,256,878	138,397,968
Fern Bluff MUD	533,596,131	0.4645	4,580,000	100.00%	4,580,000	27,685,000
North Austin MUD #1	994,185,607	0.3170	6,705,000	100.00%	6,705,000	48,625,000
Paloma Lake MUD #1	158,660,037	0.9500	17,120,000	100.00%	17,120,000	101,005,000
Paloma Lake MUD #2	96,068,553	0.9500	12,565,000	100.00%	12,565,000	82,430,000
Round Rock, City of	10,872,394,068	0.4147	184,155,000	97.04%	178,704,012	52,600,000
The Meadows At Chandler	292,675,790	0.4350	4,090,000	100.00%	4,090,000	1,835,000
Travis County	137,704,606,029	0.4169	627,146,497	4.26%	26,716,441	100,317,000
Travis County ESD #2	8,224,136,580	0.0958	170,000	15.34%	26,078	-
Travis Couty Healthcare District	137,784,688,362	0.1178	11,355,000	4.26%	483,723	-
Walsh Ranch MUD	108,541,186	0.7200	6,185,000	100.00%	6,185,000	19,790,000
Wells Branch MUD	978,287,309	0.3900	290,000	34.70%	100,630	485,000
Williamson County	47,568,637,054	0.4815	932,689,942	42.48%	396,206,687	75,000,000
Williamson County MUD #10	341,628,554	0.6700	18,085,000.00	100.00%	18,085,000	62,045,747
Williamson County MUD #11	367,100,116	0.7500	25,705,000	100.00%	25,705,000	86,706,952
Williamson County W.S. Irrigation & DD #3	393,296,712	0.7306	32,965,000	40.56%	13,370,604	64,433,596
Round Rock Independent School District	29,276,484,400	1.3325	783,440,000 [(1)]	100.00%	783,440,000 [(1)]	-
Total Direct and Overlapping Tax Supported Debt					$1,716,865,045	
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation					5.86%	
Per Capita Overlapping Tax Supported Debt					$ 6,997.10	

(1) Includes the Bonds, excludes the Refunded Obligations. Preliminary, subject to change.

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TABLE 8 - PRO FORMA TAX SUPPORTED DEBT SERVICE REQUIREMENTS

Period Ending 8/31	Outstanding Debt Service (1) Principal	Interest	Less: Federal Subsidy	Total	The Bonds(2) Principal	Interest	Total	Total Tax-Supported Debt Service	% of Principal Retired
2017	$ 44,525,000	$ 33,937,967	$ (2,851,343)	$ 75,611,624	$ 3,445,000	$ 3,334,180	$ 6,779,180	$ 82,390,804	
2018	41,385,000	29,953,119	(2,811,775)	68,526,344	5,885,000	4,289,850	10,174,850	78,701,194	
2019	40,225,000	28,261,918	(2,766,388)	65,720,529	6,180,000	3,995,600	10,175,600	75,896,129	
2020	42,100,000	26,421,673	(2,717,372)	65,804,300	6,510,000	3,686,600	10,196,600	76,000,900	
2021	34,620,000	24,478,635	(2,665,839)	56,432,795	6,840,000	3,361,100	10,201,100	66,633,895	29.58%
2022	25,750,000	25,414,630	(2,557,653)	48,606,976	4,270,000	3,019,100	7,289,100	55,896,076	
2023	23,995,000	24,172,871	(2,441,704)	45,726,167	4,495,000	2,805,600	7,300,600	53,026,767	
2024	25,050,000	22,964,428	(2,315,794)	45,698,634	4,720,000	2,580,850	7,300,850	52,999,484	
2025	26,175,000	21,686,660	(2,180,390)	45,681,270	4,970,000	2,344,850	7,314,850	52,996,120	
2026	27,375,000	20,316,761	(2,028,333)	45,663,428	5,215,000	2,096,350	7,311,350	52,974,778	48.98%
2027	34,080,000	18,856,977	(1,861,213)	51,075,764	6,210,000	1,835,600	8,045,600	59,121,364	
2028	35,755,000	17,058,206	(1,687,763)	51,125,443	6,470,000	1,525,100	7,995,100	59,120,543	
2029	31,360,000	15,178,037	(1,507,678)	45,030,359	6,155,000	1,201,600	7,356,600	52,386,959	
2030	32,815,000	13,513,562	(1,320,852)	45,007,710	6,565,000	893,850	7,458,850	52,466,560	
2031	34,305,000	11,803,470	(1,126,880)	44,981,589	1,050,000	565,600	1,615,600	46,597,189	73.84%
2032	35,910,000	9,963,055	(918,515)	44,954,540	1,090,000	523,600	1,613,600	46,568,140	
2033	37,580,000	8,036,893	(701,910)	44,914,983	1,135,000	480,000	1,615,000	46,529,983	
2034	30,500,000	6,021,580	(476,851)	36,044,729	1,180,000	434,600	1,614,600	37,659,329	
2035	22,065,000	4,354,347	(243,022)	26,176,325	1,225,000	387,400	1,612,400	27,788,725	
2036	11,065,000	3,127,150	-	14,192,150	1,275,000	338,400	1,613,400	15,805,550	92.10%
2037	11,585,000	2,568,800	-	14,153,800	1,325,000	287,400	1,612,400	15,766,200	
2038	12,130,000	1,983,900	-	14,113,900	1,380,000	234,400	1,614,400	15,728,300	
2039	12,660,000	1,416,900	-	14,076,900	1,435,000	179,200	1,614,200	15,691,100	
2040	13,210,000	824,600	-	14,034,600	1,495,000	121,800	1,616,800	15,651,400	
2041	5,150,000	206,000	-	5,356,000	1,550,000	62,000	1,612,000	6,968,000	100.00%
	$ 691,370,000	$ 372,522,137	$ (35,181,277)	$ 1,028,710,860	$ 92,070,000	$ 40,584,630	$ 132,654,630	$ 1,161,365,491	

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(1) Excludes the Refunded Obligations and does not include limited maintenance and operational tax debt obligations. Preliminary, subject to change. See "Table11 – Other Obligations". Interest on the District's Variable Rate Unlimited Tax School Building Bonds, Series 2015 is calculated at the Term Rate of 1.500% through August 1, 2021 and at the Stepped Rate of 6.00% per annum thereafter.

(2) Interest on the Bonds has been calculated at assumed rates for purposes of illustration. Preliminary; subject to change.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Principal and Interest Requirements for the Period Ended August 31, 2018	$ 78,701,194
$0.2925 Interest and Sinking Fund Tax Rate @ 99.3% Collections [1]	$ 93,405,265

(1) Assumes an estimated $32,158,533,562 Net Taxable Value in 2017-2018.

TABLE 10 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

Purpose	Date Authorized	Amount Authorized	Issued to Date	Unissued Balance
School Building and Equipment	May 10, 2014	$ 234,155,000	$ 234,155,000	$ -
Technology	May 10, 2014	25,945,000	25,945,000	-
Fine Arts Facilities	May 10, 2014	38,900,000	38,900,000	-
		$ 299,000,000	$ 299,000,000	$ -

ANTICIPATED ISSUANCE OF UNLIMITED TAX DEBT . . . The District does not anticipate issuing additional unlimited tax bonds within the next twelve months. The District is, however, currently exploring the possibility of calling a bond election in May 2017.

TABLE 11 - OTHER OBLIGATIONS

LEASES: The District is obligated under agreements for certain copier equipment for which the rental expenditures for the year ended June 30, 2015 was $726,177. In addition, rental expenditures for the same period for month to month agreements related to portable building rentals were $365,425.

PENSION FUND . . . Pension funds for employees of State school districts, and any employee in public education in the State, 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 6.7%, and the State contributes funds to the System based on statutory required minimum salary for certified personnel, except any District personnel paid by Federally funded programs. (For more detailed information concerning the retirement plan, see APPENDIX B – "Excerpts from the District's Annual Financial Report" - Note R.)

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FINANCIAL INFORMATION

TABLE 12 - CHANGE IN NET ASSETS

	Fiscal Year Ended June 30,				
	2015	2014	2013	2012	2011
Program Revenues:					
Charges for Services	$ 14,830,456	$ 14,716,933	$ 15,227,826	$ 14,877,022	$ 14,608,753
Operating Grants & Contributions	51,135,903	53,180,573	47,032,741	58,070,892	57,191,407
Capital Grants & Contributions	2,713,972	2,712,141	4,133,553	3,271,621	1,866,944
State Aid Formula Grants	80,292,876	83,435,957	81,953,175	94,321,393	100,676,484
Property Taxes - General Purpose	259,548,801	230,321,856	217,679,938	210,490,187	206,704,714
Property Taxes - Debt Service	74,233,718	72,507,137	71,024,325	59,728,985	67,509,013
Investment Earnings	577,029	413,773	625,259	171,178	590,392
Contributions Not Related to Specific Programs	2,723,462	1,381,582	2,892,785	2,686,999	3,909,333
Miscellaneous	14,475,953	16,610,366	12,842,009	14,846,167	12,017,328
Total Revenues	$ 500,532,170	$ 475,280,318	$ 453,411,611	$ 458,464,444	$ 465,074,368
Expenses:					
Instruction	$ 237,315,367	$ 227,455,600	$ 223,847,590	$ 216,768,767	$ 212,205,597
Instructional Resources	7,066,205	7,232,396	7,268,551	7,081,039	7,466,953
Curriculum and Staff Development	16,645,205	15,553,611	14,726,954	12,815,045	13,881,179
Instructional Leadership	4,920,911	4,633,267	3,997,801	3,621,808	3,555,665
School Leadership	20,537,079	20,468,470	19,106,810	18,660,791	18,419,611
Guidance, Counseling, and Evaluation Services	13,583,710	12,849,537	12,857,465	12,255,257	12,276,344
Social Work Services	736,812	613,353	597,968	578,485	711,266
Health Services	4,023,501	4,090,046	4,081,093	3,921,035	4,091,734
Student Transportation	10,554,471	10,837,618	10,358,050	10,753,635	10,557,567
Food Services	18,853,918	18,983,948	19,229,578	18,810,797	18,537,900
Extracurricular Activities	13,354,825	13,219,506	13,483,436	12,474,056	11,996,397
General Administration	41,212,167	39,773,666	40,157,081	43,862,421	38,966,763
Plant Maintenance and Operations	33,112,997	30,014,413	30,693,165	30,884,561	31,485,252
Security and Monitoring Services	2,982,886	2,899,124	2,043,760	2,033,923	2,298,385
Data Processing Services	7,214,718	7,509,722	5,263,671	5,181,884	5,988,229
Community Services	2,342,049	2,898,811	2,872,992	2,972,224	3,392,798
Interest on Long-term Debt	24,977,277	30,386,914	33,925,677	42,528,933	36,901,607
Other Debt Service Expenditures	1,318,713	4,949	1,600	3,450	346,789
Facilities Acquisition	20,746,356	8,121,110	6,822,844	12,898,376	15,730,757
Incremental Costs Associated with Chapter 41	-	-	-	260,646	-
Payments to Alternative Education Programs	430,481	459,912	431,523	414,770	446,971
Other Governmental Charges	2,403,546	2,202,385	2,099,651	2,020,096	2,144,479
Total Expenses	$ 484,333,194	$ 460,208,358	$ 453,867,260	$ 460,801,999	$ 451,402,243
Increase (Decrease) in Net Assets	$ 16,198,976	$ 15,071,960	$ (455,649)	$ (2,337,555)	$ 13,672,125
Beginning Net Assets	266,173,924 (1)	299,915,965	300,371,614 (1)	306,964,592	293,292,467
Ending Net Assets	$ 282,372,900	$ 314,987,925	$ 299,915,965	$ 304,627,037	$ 306,964,592

Source: The District's Annual Financial Reports.

(1) Restated.

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TABLE 12A - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended June 30,				
	2015	2014	2013	2012	2011
Revenues:					
Local and Intermediate Sources	$269,333,661	$239,550,178	$226,326,156	$219,168,586	$216,118,417
State Sources	99,253,219	101,522,431	99,025,534	111,411,135	117,236,462
Federal Sources	3,541,984	2,245,291	3,617,746	3,319,971	4,233,096
Total Revenues	$372,128,864	$343,317,900	$328,969,436	$333,899,692	$337,587,975
Expenditures:					
Instruction	$215,501,759	$201,599,074	$200,234,605	$182,507,568	$190,745,978
Instructional Resources	6,023,902	5,747,314	5,713,599	5,526,949	3,400,885
Curriculum & Staff Development	13,185,857	11,507,051	11,125,523	10,134,094	10,675,889
Instructional Leadership	4,481,921	4,170,212	3,736,593	3,319,178	3,332,994
School Leadership	21,277,135	20,611,321	19,123,406	18,633,190	18,777,258
Guidance & Counseling	13,580,483	12,596,305	12,551,110	12,142,034	12,378,500
Social Work Services	802,758	669,620	651,466	650,230	800,930
Health Services	3,618,873	3,462,621	3,388,905	3,283,432	3,447,777
Student Transportation	11,204,697	11,373,195	10,899,534	11,326,519	11,566,769
Co-Curricular Activities	9,948,674	8,990,773	9,125,152	8,331,820	8,107,473
General Administration	7,099,405	6,845,338	6,612,782	6,410,496	7,188,301
Plant Maintenance & Operations	38,597,793	34,928,238	37,017,576	35,627,378	31,304,294
Security & Monitoring Services	3,113,905	3,005,356	2,145,211	2,130,012	2,433,785
Data Processing	7,414,717	7,762,112	5,345,488	4,418,808	5,933,627
Community Services	1,988,113	1,807,202	1,812,740	1,830,616	2,191,339
Principal on Long Term Debt	-	-	-	-	1,260,167
Interest on Long Term Debt	-	-	-	-	88,025
Facilities Acquisition	4,435,344	18,319,908	-	-	-
Other Debt Service Expenditures	708,291	-	-	-	850,827
Capital Outlay	-	-	3,614,468	795,589	991,462
Incremental Costs (Chapter 41)	-	-	-	260,646	-
Payments to Juvenile Justice Program	430,481	459,912	431,523	414,770	446,971
Other Intergovernmental Charges	2,298,294	2,103,565	2,036,725	1,978,309	2,144,479
Total Expenditures	$365,712,402	$355,959,117	$335,566,406	$309,721,638	$318,067,730
Excess (Deficiency) of Revenues Over Expenditures	$ 6,416,462	$ (12,641,217)	$ (6,596,970)	$ 24,178,054	$ 19,520,245
Sale of Real Property	$ -	$ -	$ -	$ -	$ -
Loan Proceeds	-	-	-	-	-
Insurance Recovery	10,933	6,925	1,164,859	9,706	151,378
Other Resources	-	-	-	-	33,378
Net Transfers	747,895	-	-	(8,900,000)	922,679
Early Retirement Expenses	-	-	-	-	-
Other (Uses)	(105,252)	(98,820)	-	-	-
Non-Operating Expenses	-	-	(62,923)	(41,787)	-
Total	$ 653,576	$ (91,895)	$ 1,101,936	$ (8,932,081)	$ 1,107,435
Net Change in Fund Balance	$ 7,070,038	$ (12,733,112)	$ (5,495,034)	$ 15,245,973	$ 20,627,680
Fund Balance - Beginning	218,638,989	231,372,101	236,867,135	221,621,162	200,993,482
Fund Balance - Ending	$225,709,027	$218,638,989	$231,372,101	$236,867,135	$221,621,162

Source: The District's Annual Financial Reports.

INVESTMENTS

The District invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the Board of Trustees. 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, including letters of credit, of the United States or its agencies and instrumentalities, (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 are unconditionally guaranteed, insured, 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 and share certificates (i) issued by a depository institution that has its main office or a branch office in the State of Texas, that 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, at least annually, 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; (b) 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; (c) 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 (d) the District appoints the depository institution selected under (a) above, a custodian 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, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are 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 of Texas; (9) bankers' acceptances with a stated maturity of 270 days or less from the date of its issuance, 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 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, (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the preceding clauses, 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, and (13) public funds investment pools that have an advisory board which includes participants in the pool 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. Texas law also permits the District to invest bond proceeds in a guaranteed investment contract, subject to limitations as set forth in the Public Funds Investment Act, Texas Government Code, Chapter 2256 (the "PFIA").

In addition to authorized investments described above, the Texas law provides that the District may invest in corporate bonds that, at the time of purchase, are rated by a nationally recognized investment rating firm "AA-" or the equivalent and have a stated final maturity that is not later than the third anniversary of the date the corporate bonds were purchased. As used herein, corporate bond means a senior secured debt obligation issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm, and does not include unsecured debt obligations or debt obligations that, on conversion, would result in the holder becoming a stockholder or shareholder in the entity that issued the debt obligation. The District may not (1) invest in the aggregate more than 15% of its monthly average fund balance, excluding funds held for the payment of debt service, in corporate bonds or (2) invest more than 25% of the funds invested in corporate bonds in any one domestic business entity, including subsidiaries and affiliates of the entity. The investment officer of the District must sell any corporate bonds not later than seven days after a nationally recognized investment rating firm (1) issues a release that places the corporate bonds or the entity that issued the corporate bonds on negative credit watch or the equivalent, if the corporate bonds are rated "AA-" or the equivalent at the time the release is issued; or (2) changes the rating on the corporate bonds to a rating lower than "AA-" or the equivalent. The District may invest its funds in corporate bonds only if the Board of Trustees of the District (1) amends its investment policy to authorize corporate bonds as an eligible investment, (2) adopts procedures to provide for the monitoring of rating changes in corporate bonds and liquidating the investment in corporate bonds and (3) identifies the funds eligible to be invested in corporate bonds. The District has not taken these steps to authorize the investment of District funds in corporate bonds.

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 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, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' 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, District investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the District shall submit an investment report detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any 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 strategy statements and (b) state law. No person may invest District funds without express written authority from the Board of Trustees.

ADDITIONAL PROVISIONS . . . Under State law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt a rule, order, Order or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, Order or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Trustees; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the District's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (6) provide specific investment training for the District's designated Investment Officer; (7) 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 purchase agreement; (8) 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; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

TABLE 13 - CURRENT INVESTMENTS

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

Type of Investment	% of Portfolio	Market Value
Cash	0.17%	$ 987,589
State Pools	59.39%	353,818,358
Mutual Funds	25.23%	150,310,304
FHLB	6.73%	40,118,800
FHLMC	1.69%	10,057,510
FNMA	5.11%	30,447,530
Treasury Note	1.68%	10,009,770
Totals	100.00%	$ 595,749,861

As of such date, 93.2% of the District's investment portfolio will mature within 12 months. The market value of the investment portfolio was approximately 99.9% of its purchase price. No funds of the District are invested in derivative securities; i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

TAX MATTERS

TAX EXEMPTION . . . In the opinion of Bracewell LLP, Bond Counsel, under existing law (i) interest on the Bonds is excludable from gross income for federal income tax purposes and (ii) the Bonds are not "private activity bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and, as such, interest on the Bonds is subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds and the source of repayment, limitations on the investment of proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds be paid periodically to the United States, and requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The District has covenanted in the Order that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Order pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the District, the District's Financial Advisor and the Underwriters with respect to matters solely within the knowledge of the District, the District's Financial Advisor and the Underwriters, respectively, which Bond Counsel has not independently verified. If the District fails to comply with the covenants in the Order or if the foregoing representations or the Report are determined to be inaccurate or incomplete, interest on the Bonds could become includable in gross income from the date of delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

The Code also imposes a 20% alternative minimum tax on the "alternative minimum taxable income" of a corporation, if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT or REMIC) includes 75% of the amount by which its "adjusted current earnings" exceeds its other "alternative minimum taxable income." Because interest on tax-exempt obligations, such as the Bonds, is included in a corporation's "adjusted current earnings," ownership of the Bonds could subject a corporation to alternative minimum tax consequences.

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

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date hereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures, the Service is likely to treat the District as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds regardless of the ultimate outcome of the audit.

ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS

COLLATERAL TAX CONSEQUENCES . . . Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit, and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE PREMIUM . . . The issue price of all or a portion of the Bonds may exceed the stated redemption price payable at maturity of such Bonds. Such Bonds (the "Premium Bonds") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Premium Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Bonds.

TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT . . . The issue price of all or a portion of the Bonds may be less than the stated redemption price payable at maturity of such Bonds (the "Original Issue Discount Bonds"). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Bonds under the captions "TAX EXEMPTION" and "ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS - COLLATERAL TAX CONSEQUENCES" and "- TAX LEGISLATIVE CHANGES" generally applies, and should be considered in connection with the discussion in this portion of the Official Statement.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

The foregoing discussion assumes that (i) the Underwriters have purchased the Bonds for contemporaneous sale to the public and (ii) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the inside cover page of this Official Statement. Neither the Issuer nor Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each Original Issue Discount Bond accrues daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (i) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (ii) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of Original Issue Discount Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

TAX LEGISLATIVE CHANGES . . . Current law may change so as to directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed, pending or future legislation.

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for a description of the TEA's continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State, as the case may be, and to provide timely notice of certain specified events related to the guarantee to the MSRB.

ANNUAL REPORTS . . . The District will provide certain updated financial information and operating data to MSRB annually. The information to be updated includes all financial information and operating data with respect to the District of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 13 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 in electronic format, which will be available to the public free of charge via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site identified below or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial information and operating data of the type described in the preceding paragraph by the required time and audited financial information when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix D 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 the last day of December 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 clause (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 FROM MSRB . . . The District has agreed to provide the foregoing information only to the MSRB. All documents provided by the District to the MSRB described under "Annual Reports" and "Event Notices" will be in an electronic format and accompanied by identifying information as prescribed by the MSRB.

AMENDMENTS . . . 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 bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District 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 . . . During the past five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12.

OTHER INFORMATION

RATINGS

Applications for contract ratings on the Bonds have been made to Moody's Investors Service, Inc. ("Moody's") and Fitch Ratings ("Fitch"). The presently outstanding unenhanced tax supported debt of the District is rated "Aaa" by Moody's and "AAA" by Fitch without regard to credit enhancement. The District has not applied to Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") for a rating on the Bonds. The District also has several issues outstanding which are rated "Aaa" by Moody's and "AAA" by S&P, and five issues outstanding which are rated "Aaa" by Moody's and "AAA" by Fitch, by virtue of the guarantee of the Permanent School Fund of the State of Texas. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the District makes no representation as to the appropriateness of the ratings. The District has has made application to the Texas Education Agency and the District has received conditional approval for the Bonds to be guaranteed by the corpus of the Permanent School Fund (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM' herein. The ratings reflect only the respective views of such organizations and the District makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings 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.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the Bonds has not been registered under the 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 the Code. See "TAX MATTERS – Tax Exemption" herein for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for 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. Certain legal matters will be passed upon for the Underwriters by Escamilla & Poneck, LLP, San Antonio, Texas as Underwriters' Counsel.

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 "THE BONDS" (excluding the information under the subcaptions "Permanent School Fund Guarantee", "Book-Entry-Only System", "Bondholders Remedies", and "Use of Proceeds"), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", "TAX MATTERS," "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaptions "Availability of Information from MSRB" and "Compliance With Prior Undertakings"), and the subcaptions "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 and fair 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.

FINANCIAL ADVISOR

FirstSouthwest 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, in its capacity as Financial Advisor, has not verified and 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. In the normal course of business, the Financial Advisor may also from time to time sell investment securities to the District for the investment of bond proceeds or other funds of the District upon the request of the District.

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.

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

Grant Thornton LLP, a firm of independent public accountants (the "Verification Agent"), will deliver to the District, on or before the settlement date of the Bonds, its verification report (the "Report") indicating that it has verified, in accordance with attestation standards established by the American Institute of Certified Public Accountants, the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Federal Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements of the Refunded Obligations and (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes.

The verification performed by the Verification Agent will be solely based upon data, information and documents provided to the Verification Agent by the District and its representatives. The Verification Agent has restricted its procedures to recalculating the computations provided by the District and its representatives and has not evaluated or examined the assumptions or information used in the computations.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District, at an underwriting discount of $_________. 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.

Siebert Cisneros Shank & Co., L.L.C. has entered into an agreement with Muriel Siebert & Co. for the retail distribution of certain securities offerings, at the original issue prices. Pursuant to said agreement, if applicable to the Bonds, Muriel Siebert & Co. will purchase Bonds at the original issue price less the selling concession with respect to any Bonds that Muriel Siebert & Co. sells. Siebert Cisneros Shank & Co., L.L.C. will share a portion of its underwriting compensation with Muriel Siebert & Co.

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

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.

MISCELLANEOUS

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.

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, SEC rule 15c2-12.

The Order authorizing the issuance of the Bonds will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Bonds by the Underwriters.

/s/
President, Board of Trustees
Round Rock Independent School District

ATTEST:

/s/
Secretary, Board of Trustees
Round Rock Independent School District

SCHEDULE I

SCHEDULE OF REFUNDED OBLIGATIONS*

Unlimited Tax School Building Bonds, Series 2007

Original Dated Date	Maturity (August 1)	Interest Rate	Amount
February 1, 2007	2018	5.000%	$ 3,500,000
	2019	5.000%	3,675,000
	2021	5.000%	7,950,000 (1)
	2023	5.000%	8,775,000 (2)
	2025	5.000%	9,700,000 (3)
	2028	5.000%	5,265,000 (4)
	2029	3.250%	6,075,000
	2030	3.250%	6,375,000
	2031	3.250%	6,700,000
	2032	3.250%	7,050,000
			$ 65,065,000

The Refunded Obligations are to be called on August 1, 2017 at par.

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(1) Represents a Term Bond maturing August 1, 2021.
(2) Represents a Term Bond maturing August 1, 2023.
(3) Represents a Term Bond maturing August 1, 2025.
(4) Represents a portion of a Term Bond maturing August 1, 2028

* Preliminary, subject to change.

APPENDIX A

GENERAL INFORMATION REGARDING THE DISTRICT

GENERAL INFORMATION REGARDING THE DISTRICT

LOCATION

The Round Rock Independent School District (the "District") is a political subdivision located in Williamson and Travis Counties, Texas, covers approximately 110 square miles, and encompasses the City of Round Rock, Texas. The District's economic base consists of manufacturing, services, trade, and residential and commercial construction. The District has an estimated 2016 population of 245,368. The area has one of the largest technical industries in the United States.

BOARD OF TRUSTEES

The District is governed by a seven-member Board of Trustees (the "Board") who serve staggered four-year terms with elections being held in November of every even numbered 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 the District. Support services are supplied by consultants and advisors.

Board of Trustees	Length of Service	Term Expires	Occupation
Paul J. Tisch President, Place 6	3 Years	November 2018	Consultant
Pauline Law Vice President, Place 7	3 Years	November 2016	Technology Project Manager
Terri Romere Secretary, Place 4	6 Years	November 2018	Realtor
Nikki Gonzales Trustee, Place 1	1 Year	November 2016	Operations Director
Charles Chadwell Trustee, Place 2	8 Years	November 2016	Sales Representative
Diane M. Cox Trustee, Place 3	11 Years	November 2018	Sales Account Executive
Suzi J. David Trustee, Place 5	1 Year	November 2018	General Manager

ADMINISTRATIVE OFFICERS

Steve Flores, Ph.D., ***Superintendent of Schools*****.** Dr. Flores was hired as Superintendent of the Round Rock Independent School District in October 2013. He previously served as Superintendent for the Harlingen Consolidated Independent School District. Prior to that, he served as an educational aide, teacher, coach, campus administrator, and district administrator for four other Texas school districts.

Bob Cervi, ***Chief Operating Officer*****.** Mr. Cervi joined the Round Rock Independent School District in September 2015 after having served in a similar role in another Texas school district. He also worked in facilities management in two Oklahoma school districts. He began his career as a teacher and coach.

Robbin Gesch, ***Chief of Teaching & Learning*****.** Since 2004, Ms. Gesch has served the Round Rock Independent School District in various curriculum and campus support leadership roles. Prior to joining Round Rock Independent School District, she served three other Texas public school districts as a teacher, counselor, and district administrator.

Daniel Presley, Ed.D., ***Chief of Schools and Innovation*****.** Dr. Presley joined the Round Rock Independent School District in 2009 as a high school principal, progressing to his current position in 2014. Prior to joining Round Rock Independent School District, he served four other school districts as a teacher and campus administrator.

Randy Staats, ***Chief Financial Officer*****.** Mr. Staats has served in various financial leadership roles since joining the Round Rock Independent School District in 1998. He was previously employed in the banking industry.

SUPPLIER DIVERSITY PROGRAM

The District's Supplier Diversity Program ensures that the District will use its best efforts to ensure that small, women-owned and minority businesses are informed of current and future purchasing activities and will promote and encourage the participation of minority-owned, women-owned, and small businesses in the purchasing of all goods and services. The program is subject to review and modification from time to time by the District.

PROGRAM DEFINITIONS . . . *"SMALL BUSINESS"* is defined as a concern which is independently owned and operated, and which is not dominant in its field of operation. The business employs less than 50 employees and/or less than $3 million in annual business volume from this local operation.

"MINORITY BUSINESS" is a business concern which is at least 51% owned by one or more minority individual(s) or, in the case of any publicly owned business, at least 51% of the stock is owned by one or more of the minority individual(s) and whose management and daily business operations are controlled by one or more of the minority individual(s) who own it. Minority individuals means residents of the United States who are members of one of the following groups:

- African Americans
- Hispanics
- American Indians
- Asian Americans
- Alaska Natives
- Pacific Islanders
- Other individuals found to be economically and socially disadvantaged by the Small Business Administration under Section 8(a) of the Small Business Act.

"WOMAN BUSINESS ENTERPRISE" means a business concern which follows the same guidelines as a Minority Business Enterprise but which is owned by a woman.

CERTIFICATION . . . Any business wishing to be identified by the District as a small, women-owned or minority business shall be certified as such by either a Texas State or Local Government which conducts a certification program or by the business "self-certifying" its business under one of the definitions listed above.

SUPPLIER PLANS . . . *Construction Projects.* Prospective general contractors (includes all forms of general contractors, e.g., Construction Manager at Risk) submit a Supplier Diversity Plan and information prior to Construction Projects concerning subcontracting opportunities.

Goods and Services Contracts. Although supplier diversity is promoted in all District procurements, for purchases exceeding $10,000, prospective suppliers are specifically requested to indicate whether there are subcontracting opportunities in their Marketplace, and who they are subcontracting with or if they are self performing all of the procurement.

[The remainder of this page intentionally left blank.]

ATTENDANCE . . . Information concerning growth in average daily attendance for the District is set forth in the following table:

School Year	Enrollment	Percent Change	School Year	Enrollment	Percent Change
1975-76	4,132	N/A	1996-97	25,138	4.92%
1976-77	5,336	29.14%	1997-98	26,081	3.75%
1977-78	6,451	20.90%	1998-99	27,234	4.42%
1978-79	7,661	18.76%	1999-00	30,337	11.40%
1979-80	8,463	10.47%	2000-01	31,342	3.31%
1980-81	9,558	12.94%	2001-02	32,563	3.90%
1981-82	10,468	9.52%	2002-03	33,786	3.76%
1982-83	11,125	6.28%	2003-04	35,185	4.14%
1983-84	12,168	9.38%	2004-05	36,501	3.74%
1984-85	14,367	18.07%	2005-06	37,271	2.11%
1985-86	15,719	9.41%	2006-07	39,170	5.09%
1986-87	16,855	7.23%	2007-08	39,963	2.02%
1987-88	16,798	(0.34%)	2008-09	41,016	2.63%
1988-89	17,340	3.23%	2009-10	42,480	3.57%
1989-90	17,868	3.04%	2010-11	44,569	4.92%
1990-91	18,615	4.18%	2011-12	45,034	1.04%
1991-92	19,740	6.04%	2012-13	45,749	1.59%
1992-93	20,778	5.26%	2013-14	46,666	2.00%
1993-94	21,813	4.98%	2014-15	47,092	1.25%
1994-95	22,907	5.02%	2015-16	47,655	1.01%
1995-96	23,960	4.60%			

[The remainder of this page intentionally left blank.]

FACILITIES

School Facility	Year Occupied	Capacity[a]	2016-17 Enrollment[b]
Elementary Schools			
Anderson Mill Elementary	1977-78	500	500
Berkman Elementary	1955-56	500	449
Blackland Prairie Elementary	2001-02	800	748
Bluebonnet Elementary	1986-87	460	433
Brushy Creek Elementary	1981-82	480	791
Cactus Ranch Elementary	2001-02	800	982
Caldwell Heights Elementary	1999-00	750	625
Callison Elementary	2008-09	900	754
Canyon Creek Elementary	1998-99	500	426
Caraway Elementary	1978-79	750	722
Chandler Oaks Elementary	2010-11	600	541
Deepwood Elementary	1977-78	420	328
Double File Trail Elementary	1986-87	620	612
England Elementary	2012-13	900	927
Fern Bluff Elementary	1992-93	728	625
Forest Creek Elementary	1996-97	750	834
Forest North Elementary	1977-78	370	350
Gattis Elementary	1992-93	680	657
Great Oaks Elementary	1997-98	750	686
Herrington Elementary	2011-12	900	990
Joe Lee Johnson	2016-17	900	491
Jollyville Elementary	1992-93	440	414
Laurel Mountain Elementary	1985-86	400	753
Live Oak Elementary	1987-88	620	530
Old Town Elementary	1988-89	852	774
Pond Springs Elementary	1985-86	750	659
Purple Sage Elementary	1981-82	440	377
Robertson Elementary	1979-80	750	422
Sommer Elementary	2008-09	900	1,147
Spicewood Elementary	1974-75	520	802
Teravista Elementary	2008-09	900	811
Union Hill Elementary	2002-03	750	762
Voigt Elementary	1975-76	640	535
Wells Branch Elementary	1985-86	750	478
Middle Schools			
Canyon Vista Middle	1984-85	1,250	1,346
Cedar Valley Middle	1993-94	1,300	1,434
Chisholm Trail Middle	1981-82	900	1,024
C.D. Fulkes Middle	1961-62	800	674
Deerpark Middle	1988-89	992	896
Noel Grisham Middle	1976-77	883	694
Hernandez Middle	2010-11	1,200	767
Hopewell Middle	2002-03	1,200	1,039
Ridgeview Middle	2001-02	1,200	1,336
Walsh Middle	2008-09	1,200	1,673
High Schools			
Cedar Ridge High	2010-11	2,400	2,694
McNeil High	1992-93	2,200	2,656
Round Rock High	1972-73	2,337	3,170
Stony Point High	1999-00	2,400	2,607
Westwood High	1981-82	2,150	2,686
Round Rock Opportunity Center	1986-87	N/A	51
Early College High	2016-17	N/A	112
Success	2014-15	336	312
		45,518	47,106

(a) Does not include 274 transportable buildings.
(b) As of August 23, 2016.

THE CITY OF ROUND ROCK AND WILLIAMSON COUNTY

THE CITY OF ROUND ROCK

The City of Round Rock (the "City") is located eight miles north of Austin and lies within Williamson and Travis Counties. Due to the City's proximity to Austin, their economy is diversified by industry, business, professional, farming, and ranching. The City is located near the high-tech and computer manufacturing area.

WILLIAMSON COUNTY

Williamson County (the "County") was created and organized in 1848. The County's economy is diversified by agribusiness, manufacturing and education. The principal sources of agriculture include grain, cotton, wheat, corn, and oats. Minerals produced in the County include oil, natural gas, stone, sand and gravel.

EMPLOYMENT AND WAGES BY INDUSTRY - WILLIAMSON COUNTY(1)(2)

	Fourth Quarter				
	2015	2014	2013	2012	2011
Natural Resources and Mining	1,209	1,402	1,233	1,057	900
Construction	10,738	9,898	9,014	8,321	8,209
Manufacturing	11,575	11,660	7,455	7,122	6,559
Trade, Transportation & Utilities	37,748	35,951	39,830	38,837	38,634
Information	1,557	1,550	1,464	1,281	1,277
Financial Activities	7,499	7,554	7,680	7,453	6,966
Professional and Business Services	19,329	18,334	17,548	14,818	13,999
Education and Health Services	17,407	16,143	14,884	13,793	12,071
Leisure and Hospitality	19,190	17,946	16,818	16,052	15,008
Other Services	5,484	5,072	5,288	5,049	4,707
Unclassified	77	42	49	39	50
State Government	420	434	484	626	832
Local Government	21,600	20,977	20,343	19,816	19,838
Total Employment	153,834	146,963	142,090	134,265	129,050
Total Wages	$ 2,016,739,035	$ 1,833,810,462	$ 1,744,021,855	$ 1,627,749,634	$ 1,529,898,674

(1) Source: Texas Workforce Commission.
(2) Statistics do not include Federal employees or their wages.

LABOR FORCE STATISTICS FOR WILLIAMSON COUNTY(1)

	2016(2)	2015(3)	2014(3)	2013(3)	2012(3)
Civilian Labor Force	271,671	260,653	255,327	247,291	237,645
Total Employed	261,817	251,650	244,204	234,340	223,807
Total Unemployed	9,854	9,003	11,123	12,951	13,838
Unemployment Rate	3.6%	3.5%	4.4%	5.2%	5.8%
% Unemployed (Texas)	5.1%	4.5%	5.1%	6.2%	6.7%
% Unemployed (U.S.)	5.1%	5.3%	6.2%	7.4%	8.1%

(1) Source: Texas Employment Commission.
(2) As of July 2016.
(3) Actual annual statistics.

APPENDIX B

EXCERPTS FROM THE

ROUND ROCK INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2015

The information contained in this Appendix consists of excerpts from the Round Rock 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.

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Round Rock: 303 East Main Street
Round Rock, TX 78664

INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
Round Rock Independent School District:

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 Round Rock Independent School District (the "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.

Auditors' 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 the District as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note D and Note Z to the financial statements, for the year ended June 30, 2015, the District adopted new accounting guidance, Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* and GASB Statement No. 71*, Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*, resulting in a restatement of the District's net position as of June 30, 2014. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 16, budgetary comparison information on pages 62 and 63, the schedule of the District's proportionate share of the net pension liability on page 64, and the schedule of district contributions on page 65 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB 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 the District's basic financial statements. The other supplementary information, the schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other 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, the other 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.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated November 12, 2015 on our consideration of the 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 the District's internal control over financial reporting and compliance.

Maxwell Locke + Ritter LLP

Austin, Texas
November 12, 2015

ALL CHILDREN WILL LEARN ... *WHATEVER IT TAKES!*

Management's Discussion and Analysis

This section of the Round Rock Independent School District's (the "District") financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2015. Please read this analysis in conjunction with the District's financial statements that follow this section.

Financial Highlights

- The District's net position at June 30, 2015 was approximately $282.4 million.
- The fund balance for the General Fund at June 30, 2015 was approximately $225.7 million, an increase of approximately $7.1 million from the prior year. The increase was due to an increase in property tax revenue based on higher than anticipated assessed property values as well as expenditures that were less than originally budgeted.
- For the year ended June 30, 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 GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*. The implementation of these standards resulted in a prior period adjustment to net position of $48,814,001 to recognize the net pension liability at the beginning of the measurement period ending August 31, 2014, and the deferred outflows of resources related to the District's contributions after the beginning of the measurement period through June 30, 2014.

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 are comprised of 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 other 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 that of a private sector business.

The *statement of net position* presents information on all of the District's assets and deferred outflows of resources, and liabilities and deferred inflows 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 as to 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 such as uncollected property tax and earned but unused sick and vacation leave.

The government-wide financial statements distinguish functions of the District that are principally supported by taxes, intergovernmental revenues, and user fees & charges *(governmental activities).* The governmental activities of the District include the education of District students and the programs necessary to support such education.

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 three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources,* as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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 government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between *governmental funds* and *governmental activities.*

The District maintains numerous 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, Debt Service, and Capital Projects Funds as they are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for the General Fund. A budgetary comparison schedule has been provided for this fund to demonstrate compliance with this budget. Supplementary budgetary comparison schedules have also been prepared for the Child Nutrition, Debt Service, and Capital Projects Funds and are included in the other supplementary information section of this report.

Proprietary funds. The District maintains an *internal service fund* as an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses this internal service fund to account for its self-insurance and flexible spending programs. Since this service is provided to District employees as an employee benefit contingent upon employment, the internal service fund is considered a *governmental activity* and is included in the government-wide financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. 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.

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.

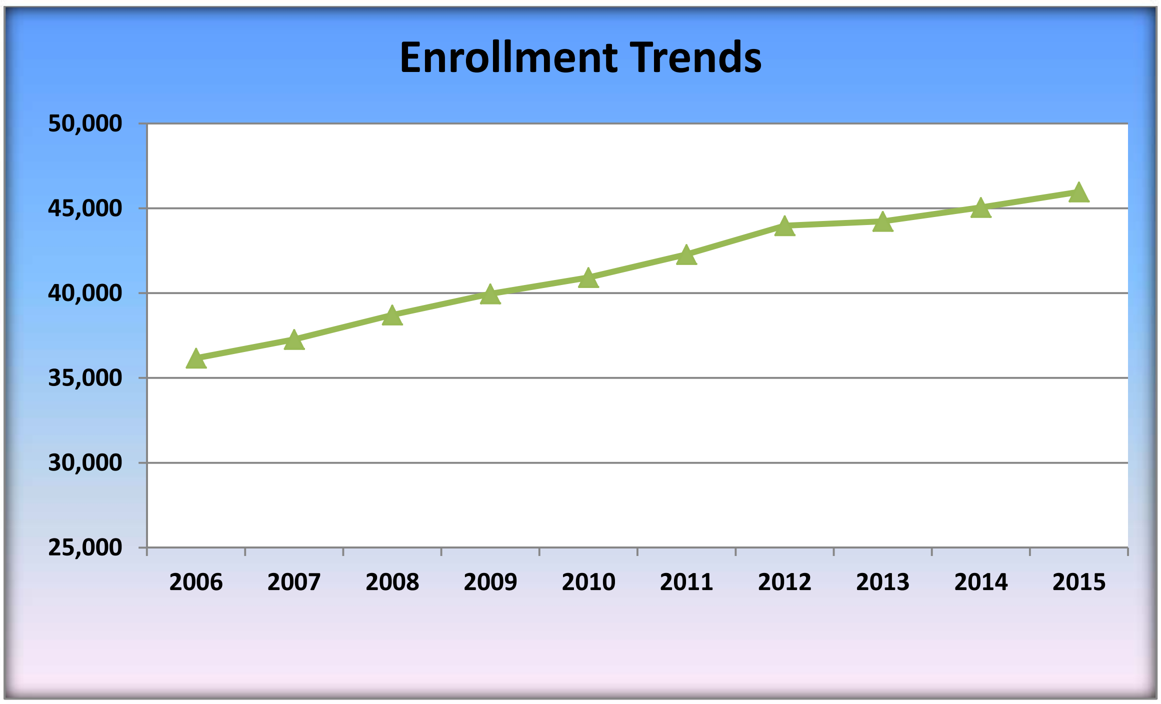
Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. In addition, certain information required by the Texas Education Agency and the federal government regarding tax collection and grant expenditures is also presented along with required supplementary information related to the District's contributions to a cost-sharing pension plan with the Teacher Retirement System of Texas.

Government-wide Financial Analysis

Net position may serve over time as a useful indicator of the District's financial position. For the fiscal year ending June 30, 2015, net position was $282,372,900, an increase of $16,198,976 as compared to June 30, 2014, as restated.

Student enrollment continues to grow as shown in the graph below. Enrollment has increased by 9,327 students, or 25%, over the last ten years. The citizenship of the District passed bond measures in 2006, 2008, and 2014 to provide for new facilities to support student growth, facility renovations and additions to existing facilities, land purchases, the expansion of technology in curriculum delivery, and new school buses. Growth in the area is expected to continue into the foreseeable future.

State funding in Texas is based upon the District's average daily attendance. The District receives additional weighted funding for students enrolled in career and technology coursework, gifted and talented, special education, bilingual, and compensatory education. The demographics of the District and the types of coursework students pursue are continuing to evolve in the District.



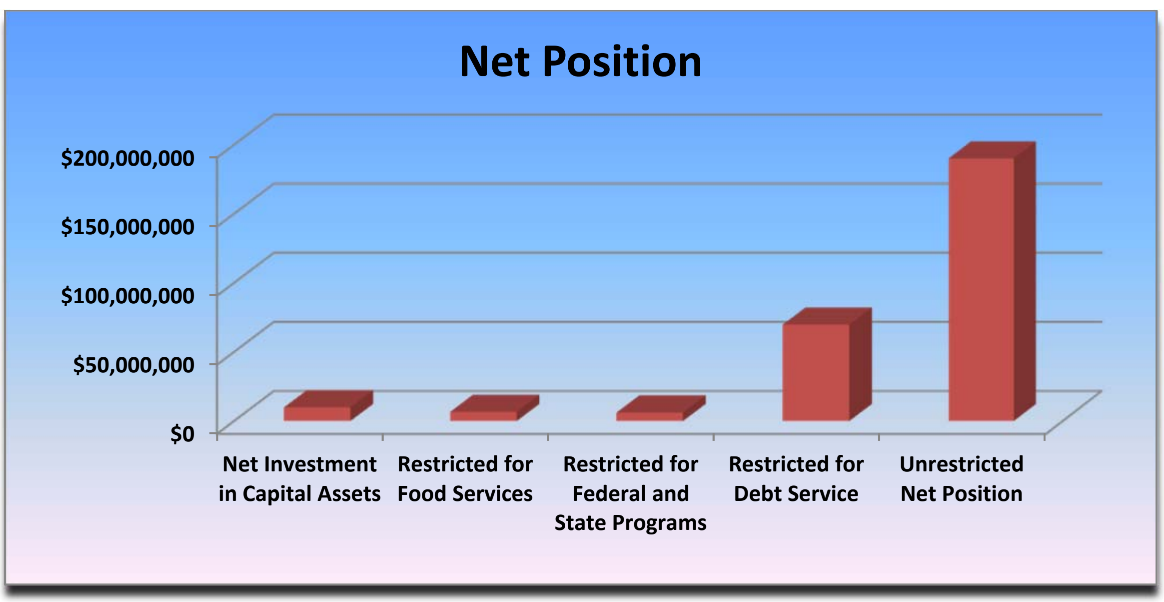
The District's debt balance is greater than its capital asset balance as much of the equipment and technological purchases from capital (bond) funds do not meet the District's capitalization threshold and the fact that many of the District's facilities have been in existence for a number of years and have large accumulated depreciation balances. This has resulted in a net position of $9,857,470 with respect to its net investment in capital assets. Overall, the unrestricted net position for the District totaled $190,056,293 at fiscal year-end.

Net position as of June 30, 2015 as compared to the previous fiscal year can be presented as follows:

Round Rock Independent School District
Summarized Net Position

	Governmental Activities as of	
	June 30, 2015	**June 30, 2014**
Current and other assets	$ 538,151,621	$ 413,446,189
Capital assets	644,521,997	655,806,954
Total assets	1,182,673,618	1,069,253,143
Deferred outflows of resources	11,261,561	-
Long-term liabilities outstanding	790,396,268	645,904,465
Other liabilities	108,162,782	108,360,753
Total liabilities	898,559,050	754,265,218
Deferred inflows of resources	13,003,229	-
Net position:		
Net investment in capital assets	9,857,470	4,926,855
Restricted	82,459,137	81,307,320
Unrestricted	190,056,293	228,753,840
Total net position	$ 282,372,900	$ 314,987,925

The District continues to be fiscally conservative and has an unrestricted net position of $190,056,293. The net position of the District has increased $16,198,976 during the current fiscal year.



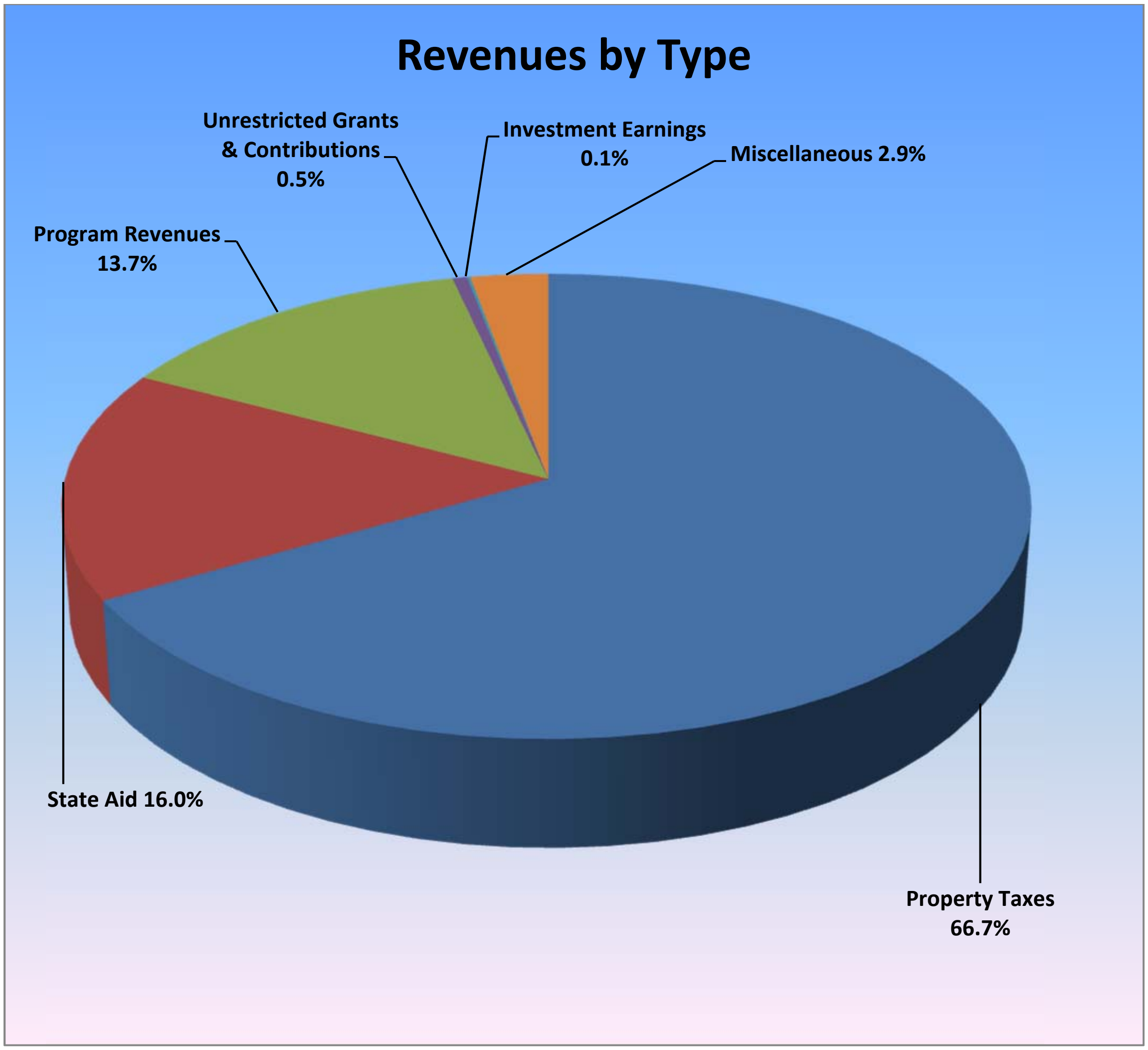
Net position may be restricted for a variety of uses by the District. These restrictions are imposed by bond covenants or specific laws. *Restricted net position* is available for use in the designated areas only. *Unrestricted net position* may be used by the District to meet ongoing operating obligations as determined by the Board of Trustees ("the Board").

Governmental activities. Governmental activities increased the District's net position by $16,198,976 during the current fiscal year. Key elements are as follows:

Round Rock Independent School District
Summarized Changes in Net Position

		Governmental Activities	
		Year Ended June 30, 2015	**Year Ended June 30, 2014**
Revenues:			
Program revenues:			
Charges for services	$	14,830,456	14,716,933
Operating grants and contributions		51,135,903	53,180,573
Capital grants and contributions		2,713,972	2,712,141
General revenues:			
Property taxes levied for general purposes		259,548,801	230,321,856
Property taxes levied for debt service		74,233,718	72,507,137
State aid – formula grants		80,292,876	83,435,957
Grants and contributions not restricted to a specific program		2,723,462	1,381,582
Investment earnings		577,029	413,773
Miscellaneous		14,475,953	16,610,366
Total revenues	$	500,532,170	475,280,318
Expenses:			
Instructional	$	261,026,777	250,241,607
Instructional leadership		25,457,990	25,101,737
Student support services		61,107,237	60,594,008
General administration		41,212,167	39,773,666
Support services		43,310,601	40,423,259
Community services		2,342,049	2,898,811
Interest & Expenses on long-term debt		26,295,990	30,391,863
Facilities acquisition		20,746,356	8,121,110
Intergovernmental Charges		2,403,546	2,662,297
Total expenses		484,333,194	460,208,258
Increase (Decrease) in net position	$	16,198,976	15,071,960
Net position, beginning		266,173,924	299,915,965
Prior period adjustment		-	(48,814,001)
Net position, ending	$	282,372,900	266,173,924

Approximately sixty-seven percent of the District's total financial resources are derived from property taxes as depicted below.

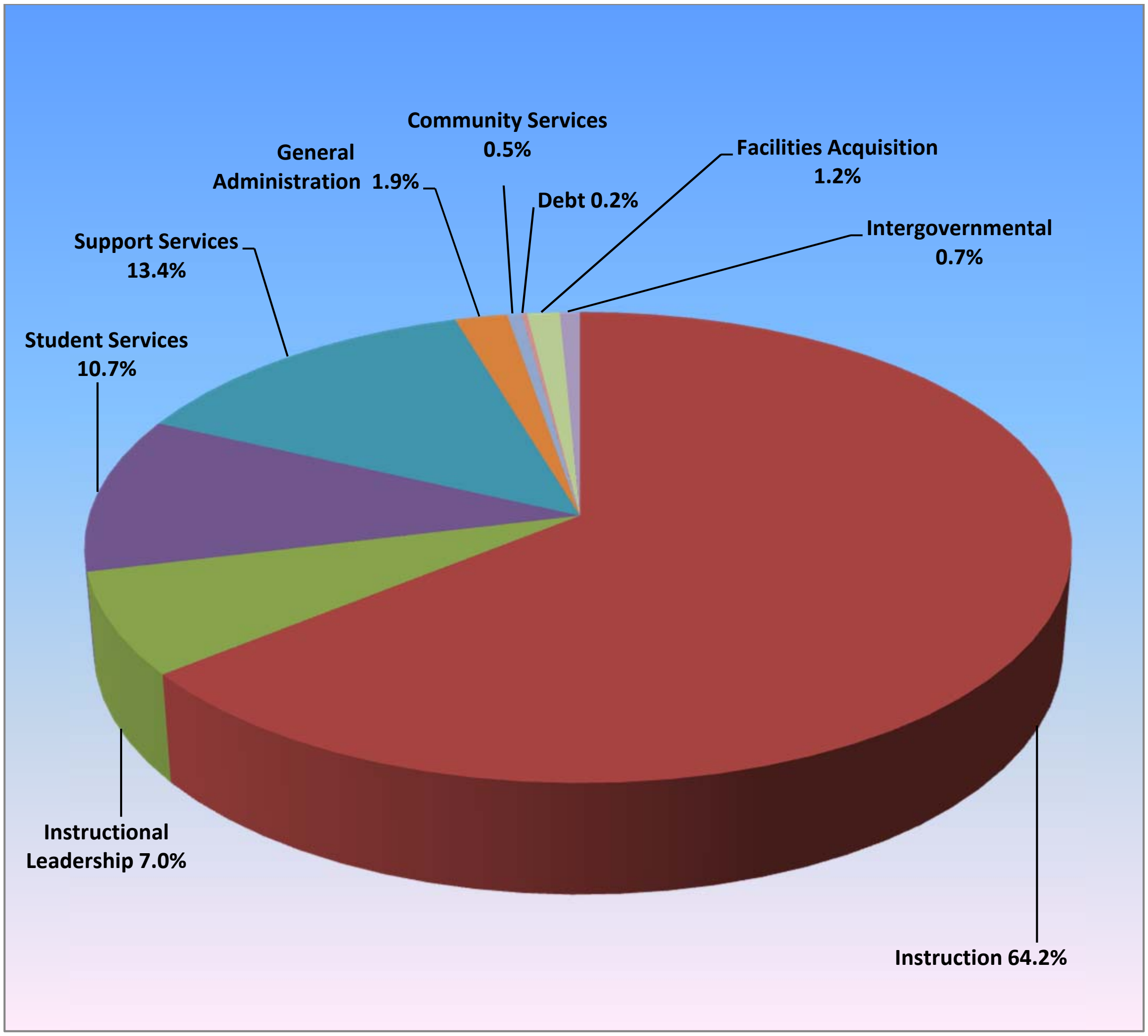


State funding is based upon a combination of weighted average daily student attendance and property values. The state funding formula has been modified continually through the years and state funding represented eighteen percent of the District's revenues. The current maintenance and operating tax rate of $1.04 per $100 of property taxable value is the maximum allowed under state law.

An additional thirteen pennies are available to districts but must be approved by the voters through a tax ratification election. The District has not elected to seek additional authorization from its citizens.

General Fund expenditures per pupil were $7,848 during the current fiscal year compared to $7,444 in the prior year. Total governmental activity expenditures per pupil for the fiscal year, excluding capital projects, totaled $10,286 as compared to $9,900 in the previous year.

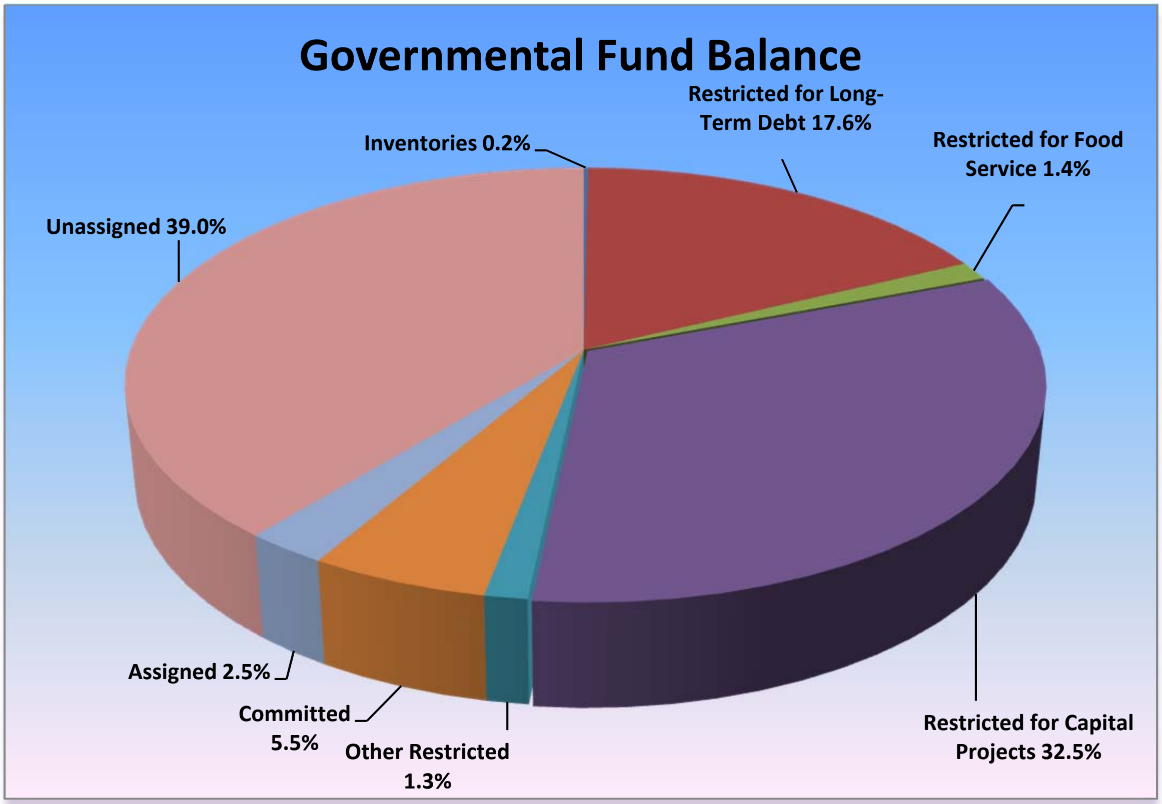
Sixty-four percent of General Fund expenditures were dedicated for instructional effort. When combined with student support services such as counseling, nursing, and transportation services, seventy-five percent of General Fund expenditures were dedicated to direct student services.



Financial Analysis of the Government's Funds

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 remaining 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 government's net resources available for spending at the end of the fiscal year.



The General Fund is the operating fund of the District. At the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of $467,613,469. Of this amount $182,567,867 constitutes *unassigned* fund balances available for use in the General Fund activities at the District's discretion. The remainder of the fund balance is *nonspendable, restricted, committed, or assigned* to indicate that it is not available for new spending because it has already been designated for bond projects, debt service, and other District programs.

The General Fund is the maintenance and operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the General Fund was $182,567,867 while total fund balances for all funds increased to $467,613,469. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to the total fund expenditures. Unassigned General Fund fund balance represents 50 percent of the total General Fund expenditures, while total General Fund fund balance represents 62 percent of that same amount. It is important to note that due to the cyclical nature of the District's revenue stream, a sufficient level of fund balance is necessary for cash flow purposes as tax payments, which are the bulk of the District's revenue, are not due until January 31st. Regular monthly operating expenditures are estimated at $31 million during the 2015-16 year.

The District sets maintenance and debt tax rates in September of each year. The District's fiscal year ends on June 30th while the tax year continues through the following August. Tax collections related to the levies are used for expenditures which occur through the month of August such as eleven and twelve month salaries, summer school, utilities, and summer maintenance projects.

The Debt Service Fund has a total fund balance of $82,432,949 for the current fiscal year, all of which is restricted for the payment of debt service. This amount represents 108 percent of the total debt requirements of $76,530,141 for the subsequent fiscal year. The Debt Service Fund fund balance must be sufficient to cover the August debt service payment of $60,354,092, which is not payable in the current fiscal year. When taking the subsequent debt service payment into account, the Debt Service Fund balance represents 60 percent of the debt service requirements.

The Capital Projects Fund had a total fund balance of $151,881,864. This represents funds remaining from the bond referendums in 2006, 2008, and 2014. The increase in fund balance from the prior year was due to the issuance of $142,125,000 in Series 2015 bonds. These funds are dedicated for new facilities, renovations/additions of existing facilities, technology upgrades, architectural services, and land acquisition.

Proprietary Funds. The District's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The District operates an internal service fund to account for its self-insurance and flexible spending programs. The fund had an increase in net position of $846,715. The District continues to pay 100% of the employee portion of health coverage for the lowest tiered plan.

Budgetary Highlights

Major differences between the General Fund original budget and the final budget can be briefly summarized as follows:

- The allocation of $1 million from General Fund fund balance for specific instructional initiatives.
- The addition of funds for ongoing technology operational costs.
- The completion of the construction of Success High School, an alternative education facility, using General Fund fund balance.
- The use of General Fund fund balance for completion of the final phase of retrofitting light fixtures to save on energy usage and reduce future expenditures.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2015 amounts to $644,521,997 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, furniture, and equipment.

Round Rock Independent School District
Capital Assets
(net of depreciation)

	Governmental Activities
Land	$ 113,726,083
Construction in Progress	8,542,051
Buildings and Improvements	510,494,962
Furniture and Equipment	11,758,901
Total	$ 644,521,997

Additional information on the District's capital assets can be found in Note L of this report.

Long-term debt. At the end of the current fiscal year, the District had total bonded debt outstanding of $788,117,787. The bonded debt constitutes a direct obligation of the District from a continuing, direct ad valorem tax levied against all taxable property of the District without legal limit as to rate or amount. Some bonds are also guaranteed by the corpus of the Permanent School Fund of the State of Texas. Moody's Investors Services, Fitch Ratings and Standard & Poor's have provided bond ratings of Aaa, AA+ (with positive outlook) and AA, respectively to the District's outstanding debt obligations.

Additional information on the District's long-term debt can be found in Note P of this report.

Economic Factors and Next Year's Budgets and Rates

The District is located in what has historically been one of the fastest growing regions of the State. Continued growth is expected for years to come as the area is adjacent to Austin and major national employers and educational institutions. Assessed property values are expected to grow in the future as the area is diverse in its economic offerings and close proximity to three educational institutions. The Round Rock Chamber of Commerce is continually working to attract new businesses to the area to continue to expand the economy and provide more jobs to the region. In June 2015, the Round Rock ISD Board of Trustees passed a resolution to exempt Freeport property from taxation. This action is expected to attract even more manufacturing firms to the area as both the City of Round Rock and Williamson County also have this exemption in place.

Requests for Information

This financial report is designed to provide a general overview of 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 Chief Financial Officer, Round Rock Independent School District, 1311 Round Rock Avenue, Round Rock, Texas 78681.

Round Rock Independent School District A - 1

Statement of Net Position

June 30, 2015

Data Control Codes		1 Governmental Activities
	ASSETS	
1110	Cash and Cash Equivalents	$ 420,112,035
1120	Current Investments	90,169,920
1220	Delinquent Property Taxes Receivable	5,186,473
1230	Allowance for Uncollectable Taxes	(2,114,686)
1240	Due from Other Governments	22,764,665
1250	Accrued Interest	182,064
1267	Due from Fiduciary Funds	272,405
1290	Other Receivables (net)	694,751
1310	Inventories	883,994
1410	Prepaid Items	
		538,151,621
	Capital Assets:	
1510	Land	113,726,083
1520	Buildings and Improvements, net	510,494,962
1530	Furniture and Equipment, net	11,758,901
1580	Construction in Progress	8,542,051
1000	Total Assets	1,182,673,618
	DEFERRED OUTFLOWS OF RESOURCES	
1700	Deferred charges on bond refundings	1,571,396
1700	Pension contributions after measurement date	6,269,723
1700	Pension actuarial losses	3,420,442
1700	Total Deferred Outflows of Resources	11,261,561
	LIABILITIES	
2110	Accounts Payable	9,023,722
2140	Interest Payable	13,409,176
2150	Payroll Deductions & Withholdings	398,008
2160	Accrued Wages Payable	38,530,503
2180	Due to Other Governments	28,997
2190	Due to Other	
2200	Accrued Expenses	1,880,000
2300	Unearned Revenue	
		63,270,406
	Noncurrent Liabilities:	
2125	Due Within One Year	44,892,376
2500	Due in More Than One Year	790,396,268
2000	Total Liabilities	898,559,050
	DEFERRED INFLOWS OF RESOURCES	
2600	Deferred inflows related to pension liability	13,003,229
	NET POSITION	
3200	Net Investment in Capital Assets	9,857,470
	Restricted for:	
3820	Food Service	6,632,571
3820	Federal and State Programs	6,101,786
3850	Debt Service	69,724,780
3900	Unrestricted	190,056,293
3000	Total Net Position	$ 282,372,900

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

Round Rock Independent School District

Statement of Activities

For the Year Ended June 30, 2015

Data Control Codes	Functions/Programs	Expenses	Program Revenues: 3 Charges for Services	4 Operating Grants and Contributions	5 Capital Grants and Contributions	8 Net (Expense) Revenue Changes in Net Position Total
	Primary Government:					
	Governmental Activities:					
0011	Instruction	$ 237,315,367	247,099	26,686,675		(210,381,593)
0012	Instructional Resources	$ 7,066,205		239,920		(6,826,285)
0013	Curriculum and Staff Development	$ 16,645,205		4,978,144		(11,667,061)
0021	Instructional Leadership	$ 4,920,911		795,149		(4,125,762)
0023	School Leadership	$ 20,537,079		1,033,433		(19,503,646)
0031	Guidance and Counseling	$ 13,583,710		1,278,754		(12,304,956)
0032	Social Work Services	$ 736,812		32,341		(704,471)
0033	Health Services	$ 4,023,501		151,340		(3,872,161)
0034	Student Transportation	$ 10,554,471	1,324,313	3,031,701		(6,198,457)
0035	Food Services	$ 18,853,918	9,242,061	8,197,824		(1,414,033)
0036	Extracurricular Activities	$ 13,354,825	985,954	993,560		(11,375,311)
0041	General Administration	$ 41,212,167		423,824		(40,788,343)
0051	Facilities Maintenance and Operations	$ 33,112,997	1,835,754	2,224,793		(29,052,450)
0052	Security and Monitoring Services	$ 2,982,886		279,652		(2,703,234)
0053	Data Processing Services	$ 7,214,718		192,325		(7,022,393)
0061	Community Services	$ 2,342,049	1,195,275	587,469		(559,305)
0071	Interest on Long-Term Debt	$ 24,977,277				(24,977,277)
0271	Other Debt Service Expenditures	$ 1,318,713				(1,318,713)
0081	Facilities Acquisition	$ 20,746,356		8,999	2,713,972	(18,023,385)
0095	Payment to Juvenile Justice Alternative Education Program (JJAEP)	$ 430,481				(430,481)
0099	Other Intergovernmental Charges	$ 2,403,546				(2,403,546)
TG	Total Governmental Activities	484,333,194	14,830,456	51,135,903	2,713,972	(415,652,863)

Control Codes	General Revenues and Other:	
MT	Property Taxes Levied for General Purposes	259,548,801
DT	Property Taxes Levied for Debt Service	74,233,718
SF	State Aid - Formula Grants	80,292,876
GC	Grants and Contributions Not Restricted to Specific Progr	2,723,462
IE	Investment Earnings	577,029
MI	Miscellaneous	14,475,953
TG	Total General Revenues and Other	431,851,839
CN	Change in Net Position	16,198,976
NB	Net Position, Beginning - as restated	266,173,924
NE	Net Position, Ending	$ 282,372,900

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

Round Rock Independent School District

Balance Sheet - Governmental Funds
June 30, 2015

Data Control Codes		10 General Fund	50 Debt Service Fund	60 Capital Projects Fund	Non-Major Governmental Funds	98 Total Governmental Funds
	ASSETS					
1110	Cash and Cash Equivalents	152,256,094	82,208,310	156,385,194	13,902,095	$ 404,751,693
1120	Current Investments	90,169,920				90,169,920
1225	Taxes Receivables, net	2,370,780	701,007			3,071,787
1240	Receivables from Other Governments	19,259,632			3,505,033	22,764,665
1250	Accrued Interest	180,233	586	1,151	94	182,064
1260	Due from Other Funds	6,553,455	224,053	141,465		6,918,973
1290	Other Receivables	631,095			63,656	694,751
1300	Inventories	653,910			230,084	883,994
1400	Prepaid Items					
1000	Total Assets	272,075,119	83,133,956	156,527,810	17,700,962	529,437,847
	DEFERRED OUTFLOWS OF RESOURCES					
1700	Deferred outflows					
	Total Deferred Outflows of Resources					
1000A	Total Assets and Deferred Outflows	272,075,119	83,133,956	156,527,810	17,700,962	529,437,847
	LIABILITIES					
2110	Accounts Payable	3,662,482		4,645,946	715,294	9,023,722
2140	Interest Payable					
2150	Payroll Deductions and Withholdings	398,008				398,008
2160	Accrued Wages Payable	36,562,336			1,968,167	38,530,503
2170	Due to Other Funds	3,253,401			6,504,703	9,758,104
2180	Payables to Other Governments	27,176			1,821	28,997
2190	Due to Student Groups					
2199	Due to Other					
2200	Accrued Expenditures					
2300	Unearned Revenue	91,909			921,348	1,013,257
2000	Total Liabilities	43,995,312		4,645,946	10,111,333	58,752,591
	DEFERRED INFLOWS OF RESOURCES					
2600	Deferred inflows	2,370,780	701,007			3,071,787
	Total Deferred Inflows of Resources	2,370,780	701,007			3,071,787
	FUND BALANCES					
	Nonspendable:					
3410	Inventories	653,910			162,396	816,306
3430	Prepaid Items					
	Restricted:					
3451	Food Service				6,470,175	6,470,175
3452	High School Allotment	4,043,635				4,043,635
3470	Capital Acquisition			151,881,864		151,881,864
3480	Retirement of Long Term Debt		82,432,949			82,432,949
3490	Maintenance of Effort	2,058,151				2,058,151
3500	Committed	24,605,664			957,058	25,562,722
3580	Assigned	11,779,800				11,779,800
3600	Unassigned	182,567,867				182,567,867
	Unassigned, Reported in Nonmajor:					
3610	Special Revenue Funds					
3000	Total Fund Balances	225,709,027	82,432,949	151,881,864	7,589,629	467,613,469
4000	Total Liabilities, Deferred Inflows and Fund Balances	$ 272,075,119	83,133,956	156,527,810	17,700,962	$ 529,437,847

Amounts reported for governmental activities in the statement of net position (A-1) are different because:

Data Control Codes		
1	Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	644,521,997
2	The amount of interest accrued for bonds payable in August is required to be recognized in the statement of net position.	(13,409,176)
3	Revenue in governmental activities is recognized in the period received.	4,085,044
4	Some liabilities, including bonds payable and the net pension liability, are not due and payable in the current period and, therefore, are not reported in the funds.	(835,288,644)
5	The revenues and expenses of the internal service fund are distributed in the statement of activities but are not considered part of the governmental funds.	16,591,878
6	Deferred inflows and outflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.	(1,741,668)
19	Net position of governmental activities	$ 282,372,900

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

Round Rock Independent School District

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2015

Data Control Codes		10 General Fund	50 Debt Service Fund	60 Capital Projects Fund	Non-Major Governmental Funds	98 Total Governmental Funds
	REVENUES					
5700	Local and Intermediate Sources	269,333,661	74,248,770	47,583	$ 12,050,470	$ 355,680,484
5800	State Program Revenues	99,253,219			5,047,943	104,301,162
5900	Federal Program Revenues	3,541,984	2,713,972		25,635,473	31,891,429
5020	Total Revenues	372,128,864	76,962,742	47,583	42,733,886	491,873,075
	EXPENDITURES					
	Current:					
0011	Instruction	215,501,759			17,323,726	232,825,485
0012	Instructional Resources	6,023,902			22,354	6,046,256
0013	Curriculum and Staff Development	13,185,857			4,478,389	17,664,246
0021	Instructional Leadership	4,481,921			638,232	5,120,153
0023	School Leadership	21,277,135			110,284	21,387,419
0031	Guidance and Counseling	13,580,483			692,734	14,273,217
0032	Social Work Services	802,758				802,758
0033	Health Services	3,618,873			321	3,619,194
0034	Student Transportation	11,204,697				11,204,697
0035	Food Services				17,490,723	17,490,723
0036	Extracurricular Activities	9,948,674			773,192	10,721,866
0041	General Administration	7,099,405			1,607	7,101,012
0051	Facilities Maintenance and Operations	38,597,793			929,297	39,527,090
0052	Security and Monitoring Services	3,113,905			655	3,114,560
0053	Data Processing Services	7,414,717			14,850	7,429,567
0061	Community Services	1,988,113			510,626	2,498,739
0071	Principal on Long-Term Debt		42,680,000			42,680,000
0171	Interest on Long-Term Debt		31,782,948			31,782,948
0271	Other Debt Service Expenditures	708,291	144,480	465,942		1,318,713
0081	Facilities Acquisition	4,435,344		32,948,106	42,490	37,425,940
0092	Incremental Costs Associated with Chapter 41					
0093	Payments Related to Shared Service Agreements					
0095	Payments to Juvenile Justice Alternative Education Programs	430,481				430,481
0099	Other Intergovernmental Charges	2,298,294				2,298,294
6030	Total Expenditures	365,712,402	74,607,428	33,414,048	43,029,480	516,763,358
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	6,416,462	2,355,314	(33,366,465)	(295,594)	(24,890,283)
	OTHER FINANCING SOURCES (USES) :					
7911	Proceeds From Sale of Bonds			142,125,000		142,125,000
	Proceeds of Refunding Bonds		60,515,000			60,515,000
7912	Sale of Real Property					
7915	Transfers In	747,895	385			748,280
7916	Premium on Sale of Bonds		4,043,412	10,108,486		14,151,898
7940	Other Resources					
7956	Insurance Recovery	10,933				10,933
8911	Transfers Out		(230,350)	(517,930)		(748,280)
8949	Payment to Refunded Bond Escrow Agent		(65,399,252)			(65,399,252)
8980	Miscellaneous Other Uses	(105,252)				(105,252)
	Total Other Financing Sources (Uses)	653,576	(1,070,805)	151,715,556		151,298,327
1200	Net Change in Fund Balances	7,070,038	1,284,509	118,349,091	(295,594)	126,408,044
0100	Fund Balances, Beginning	218,638,989	81,148,440	33,532,773	7,885,223	341,205,425
3000	Fund Balances, Ending	$ 225,709,027	82,432,949	151,881,864	7,589,629	$ 467,613,469

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

Round Rock Independent School District 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

Net change in fund balances—total governmental funds (from C-2)	$ 126,408,044
Amounts reported for *governmental activities* in the statement of activities (B-1) are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays ($18,345,608) were less than depreciation ($28,127,725) and asset removal ($1,502,840) in the current period.	(11,284,957)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which bond proceeds ($202,640.000) exceeded payment to refunded bond escrow agent($65,399,252) and repayments of principal ($42,680,000)	(94,560,748)
Premium received on bonds and deferred charges on bonds refunded are amortized over the life of the bond. This is the amount by which bond premium ($14,151,898) exceeded premium and deferred charge on bond refunding amortization ($6,579,127).	(7,572,771)
Deferred inflows and outflows of resources related to the net pension liability do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	2,993,244
The amount of interest which is accrued but not yet paid for bond payments due in August is not recognized in the governmental funds. This is the change in interest payable.	226,544
The revenues and expenses of the internal service fund are distributed in the statement of activities and are not considered a governmental fund. The difference is the change in net position.	846,715
Revenues are considered earned when due. This is the amount of the decrease in delinquent taxes receivable and Other Governmental fund revenues which have been received and not yet expended under the terms of the grant.	(688,389)
Certain costs associated with the accrual of sick and vacation leave are recognized as expenditures in the governmental funds when established. This is the increase in sick leave ($161,580) plus the increase in vacation accrual ($7,126).	(168,706)
Change in net position of governmental activities (see B-1)	$ 16,198,976

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

Round Rock Independent School District D-1

Statement of Net Position

Proprietary Funds

June 30, 2015

	Governmental Activities— Internal Service Funds
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 15,360,342
Due from Other Funds	3,111,536
Total Current Assets	18,471,878
LIABILITIES	
Current Liabilities:	
Accrued Wages Payable	
Total Current Liabilities	
Noncurrent liabilities:	
Claims and judgments	1,880,000
Total liabilities	1,880,000
Net Position - unrestricted	$ 16,591,878

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

Round Rock Independent School District D-2

Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2015

	Governmental Activities— Internal Service Funds
Operating Revenues:	
Local and Intermediate Sources	$ 35,352,956
Total Operating Revenues	35,352,956
Operating Expenses:	
Other Operating Costs	34,512,889
Total Operating Costs	34,512,889
Operating Income	840,067
Nonoperating Revenues:	
Interest and Investment Revenue	6,648
Total Nonoperating Revenue	6,648
Change in Net Position	846,715
Total net position - beginning	15,745,163
Total net position - ending	$ 16,591,878

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

Round Rock Independent School District
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2015

		Governmental Activities— Internal Service Funds
Cash Flows from Operating Activities:		
Cash Received Interfund Services Provided	$	35,198,659
Cash Paid to Suppliers for Goods and Services		(34,572,889)
Net Cash Provided by Operating Activities		625,770
Cash Flows from Investing Activities - Interest and Investment Revenue	$	6,648
Cash and cash equivalents—beginning of the year		14,727,924
Cash and cash equivalents—end of the year	$	15,360,342
Reconciliation of Operating Income to Cash Provided by Operating Activities		
Provided by Operating Activities		
Operating Income	$	840,067
Change in assets and liabilities:		
Receivables, net		
Due from other funds		(154,297)
Accounts and other payables		
Due to other funds		
Claims and judgments		(60,000)
Net cash provided by operating activities	$	625,770

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

Round Rock Independent School District E-1

Statement of Fiduciary Net Position

June 30, 2015

		Agency Funds
Assets		
Cash and Cash Equivalents	$	3,506,276
Other Receivables		247,329
Total Assets		3,753,605
Liabilities		
Due to Other Funds		272,405
Due to Other Governments		
Due to Student Groups		3,481,200
Total Liabilities	$	3,753,605

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

ALL CHILDREN WILL LEARN ... *WHATEVER IT TAKES!*

A. Reporting Entity

The Board of Trustees (the "Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the Round Rock Independent School District (the "District"). Because members of the Board are elected by the public; have the authority to make decisions, appoint administrators, and significantly influence operations; and have the primary accountability for fiscal matters; the District is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board ("GASB") Statement No. 14, "The Financial Reporting Entity" and GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units." There are no component units included within the reporting entity.

The District receives funding from local, state, and federal government sources and must comply with the requirements of these funding entities. However, the District is not included in any other governmental reporting entity. The District is a governmental entity exempt from federal income taxation and reporting under Internal Revenue Code Section 115.

B. Government-Wide and Fund 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 District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* normally are supported by taxes, state funding revenue, and user service charges.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. All capital asset depreciation is reported as a direct expense of the functional program that benefits from the use of the capital assets. Indirect costs associated with grant activities are allocated to administrative and support services functions to cover the overhead cost of providing the program. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirement of a particular function, as well as, charges for services relating to the food service function. Taxes and other items are not properly included among program revenues and are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. 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 have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This measurement focus means that only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present resources (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets. 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 under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when the obligation has matured.

Property taxes, state revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

Grant funds are considered to be earned when all eligibility requirements have been met and to the extent of expenditures made under the provisions of the grant, and accordingly, when such funds are received in advance, they are recorded as unearned revenue.

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

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 general government, except those required to be accounted for in another fund.

The *Debt Service Fund* is used to account for revenues collected to pay interest and related costs and to retire long-term debt.

The *Capital Projects Fund* is used to account for proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions.

Additionally, the District reports the following non-major fund types:

Special revenue funds are used to account for resources restricted, committed, or assigned for specific purposes by a grantor or the Board. Federal and state financial assistance generally is accounted for in a *special revenue fund*. Generally, unused balances are returned to the grantor at the close of specified project periods. With respect to the food service and campus activity funds, funds are rolled over from year to year for use in the program(s).

The *internal service fund (a proprietary fund type)* is used to account for the operations of the District's self-insurance and flexible spending programs. Internal service funds inherently create redundancy because their expenses are recorded a second time in the funds that are billed for the services they provide. Therefore, on the government-wide statements, the operations of the internal service fund are consolidated.

Agency funds (a fiduciary fund type) are custodial in nature and are used to account for clearing accounts and the activities of student groups and District scholarships. The student activity organizations exist with the explicit approval of, and are subject to revocation by, the District's Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as program revenues include operating grants and contributions, food service user charges, and capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the District's internal service funds are health insurance premiums to participate in the District's self insured health program. Operating expenses for the internal service fund include the cost of health services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity

<u>Deposits and Investments</u>

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

Temporary investments are recorded at fair value and consist of U.S. Government agency obligations, mutual funds, and investments in the registered local government investment pools. The District accrues interest on temporary investments based on the terms and effective interest rates of the specific investments. Statutes authorize the District to invest in obligations of the U.S. Treasury or the State of Texas (the "State"), obligations of certain U.S. Government agencies, certificates of deposit, money market savings accounts, certain municipal securities, repurchase agreements, common trust funds and other investments specifically allowed by Chapter 2256 of the Texas Government Code and Sections 23.80 and 20.42 of the Texas Education Code. For the purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they mature within three months or less when purchased.

<u>Receivables and Payables</u>

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Another type of interfund transaction is a transfer, which occurs when resources of one fund are transferred to another.

All property tax receivables are shown net of an allowance for uncollectible taxes. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based upon historical experience in collecting personal property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. The property tax receivable allowance is equal to 41% of outstanding property taxes as of June 30, 2015.

Inventories and Prepaid Items

Inventories of supplies on the balance sheet are stated at weighted average cost, while inventories of donated food commodities are recorded at fair values supplied by the Texas Department of Human Services. Inventory items are recorded as expenditures when they are consumed. Supplies are used for almost all functions of activity, while food commodities are used only in the food service program. Although commodities are received at no cost, the fair value is supplied by the Texas Department of Human Services and recorded as inventory and revenue when received. When requisitioned, inventory is depleted and expenditures are charged. Inventories also include facilities maintenance and operation supplies, as well as instructional supplies. Supplies inventory reported in the General Fund and Child Nutrition Fund is offset in the fund level financial statements by a fund balance reserve that indicates that it is “non-spendable resources”.

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. Prepaid items reported in the General Fund are offset in the fund level financial statements by a fund balance reserve that indicates that it is “non-spendable resources”.

Pensions

The District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*. The fiduciary net position of the Teacher Retirement System of Texas (“TRS”) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS’s fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See Note Z for the prior period adjustment related to the adoption of GASB Statements No. 68 and No. 71.

Governmental Fund Balances

Certain resources of the governmental funds are set aside for the repayment or use of specific programs and are recorded to four categories of designations:

Nonspendable – Amounts that cannot be spent because they are either not in a spendable form or are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of constraints imposed by external providers, or imposed by constitutional provisions or enabling legislation.

Committed – Amounts that can only be used for specific purposes pursuant to approval by formal action by the Board.

Assigned – For the General Fund, amounts that are appropriated by the Board or Board designee that are to be used for specific purposes. For all other governmental funds, any remaining positive amounts not previously classified as nonspendable, restricted or committed.

Unassigned fund balances are amounts that are available for any purpose; these amounts can be reported only in the District's General Fund. The District's unassigned fund balance will be maintained to provide the District with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The unassigned General Fund balance may only be appropriated by resolution of the Board. Amendments or modifications of the committed fund balance must also be approved by resolutions of the Board. When it is appropriate for fund balance to be assigned, the Board has delegated authority by resolution to the Superintendent. In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted, committed, assigned and unassigned. The purpose of the Capital Projects Fund is to account for funds used to pay for voter approved capital projects, and the purpose of the Debt Service Fund is to account for funds used to pay the long and short term debt obligations used to fund the District's capital projects. The Board has allocated a portion of unassigned fund balance for the anticipated budget shortfall in future years that could be realized at the current local, state and federal funding levels. Although this portion of unassigned fund balance has been allocated by the Board, it does not meet the requirements of committed or assigned fund balance as presented in GASB Statement No. 54 and therefore, cannot be reported as such.

Per the District's Adopted Fiscal and Budgetary Strategy, the minimum fund balance requirement in the General Fund is 30% of the subsequent year's budget.

The District's governmental fund balance designations can be identified as follows:

General Fund

Nonspendable		
Inventories	$	653,910
Restricted		
High School Allotment	$	4,043,635
Maintenance of Effort		2,058,151
Total Restricted	$	6,101,786

Committed		
Major Maintenance	$	1,715,317
Construction Projects		2,588,753
Technology		14,179,035
Finance/Student Systems Studies		2,377,337
Superintendent Instructional Initiatives		1,748,422
Initial Operating Costs – New Schools		1,996,800
Total Committed	$	24,605,664
Assigned		
Together We Can Program	$	800,302
Leave Programs		4,665,000
Purchase Orders Carried Forward		3,219,935
Performing Arts Center		704,116
Athletic Playoffs		384,008
Bond Reimbursement Resolutions		2,006,439
Total Assigned	$	11,779,800
Total Nonspendable, Restricted, Committed, Assigned – General Fund	**$**	**43,141,160**
Debt Service Fund		
Restricted		
Retirement of Long Term Debt	$	82,432,949
Total Restricted – Debt Service Fund	**$**	**82,432,949**
Capital Projects Fund		
Restricted		
Capital Acquisition	$	151,881,864
Total Restricted – Capital Projects Fund	**$**	**151,881,864**
Nonmajor Funds		
Nonspendable		
Food Service - Inventories	$	162,396
Restricted		
Food Service	$	6,470,175
Committed		
Campus Activity Fund	$	957,058
Total Nonspendable, Restricted, Committed, Assigned – Nonmajor Funds	**$**	**7,589,629**
Total Nonspendable, Restricted, Committed, Assigned Governmental Fund Balances	**$**	**285,045,602**

Fund balances set aside for the Debt Service and Capital Project Funds are restricted by bond covenant for use in capital and debt activities financed through the sale of bonds.

Capital Assets

Capital assets, which include land, construction in progress, buildings, furniture and equipment are reported in the governmental activities columns in the government-wide financial statements. The District defines capital assets as assets with an initial, individual cost of more than $5,000 and an estimated life greater than one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of the donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	40
Building Improvements	20
Portable Buildings	15
Kitchen Equipment	10
Mainframes/Telephone Systems	10
Buses	10
Vehicles	5
Maintenance Equipment	5
Musical Instruments	5
Technology Equipment	5
Other Equipment	5

Compensated Absences

The State of Texas has created a minimum leave program consisting of five days of personal leave per year with no limit on accumulation and transferability among districts for every person regularly employed in Texas public schools. Local school districts may provide additional sick leave beyond the State minimum.

District employees are granted five to seven workdays of local sick leave depending upon their calendar, which can accumulate to a maximum of one hundred workdays. The District's policy is to use substitute personnel when classroom employees utilize their earned sick days.

Upon the retirement or resignation of certain employees, the District pays any accrued vacation leave in a cash payment to such employee. Employees who retire from the District with at least ten years continuous service are entitled to a partial financial benefit of their accumulated local sick leave. Based upon years of service and type of position, employees are awarded $50 to $90 per day of unused local sick leave to a maximum of 80 days.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenses in the period incurred.

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

Rebatable Arbitrage

The interest paid on debt issued by the District as tax exempt bonds is exempt from federal income tax. As a result, purchasers of state and local debt are willing to accept lower interest rates than they would on taxable debt. The District temporarily reinvests the proceeds of tax-exempt debt in interest earning investments and securities, which sometimes yield a higher rate of return than the bond interest rate. The federal tax code refers to this practice as arbitrage. The District did not have a liability for rebatable arbitrage as of June 30, 2015. No recognition is made in governmental funds until rebatable amounts are actually due and payable to the federal government.

Fund Equity/Net Position

The District complies with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. In the fund financial statements, governmental funds report nonspendable, restrictions or commitments of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties or through action of the Board for use for a specific purpose. Assignments of fund balance represent tentative management plans that are subject to change.

Deferred Outflows and Inflows of Resources

The District complies with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides guidance for reporting the financial statement elements of deferred outflows of resources, which represent the consumption of the District's net position that is applicable to a future reporting period, and deferred inflows of resources, which represent the District's acquisition of net position applicable to a future reporting period.

The District complies with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Recently Issued Accounting Pronouncements

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after June 15, 2017. The objective of GASB Statement No. 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. GASB Statement No. 75 establishes standards for measuring and recognizing liabilities, deferred outflows of resources and deferred inflows of resources, and expense/expenditures. GASB Statement No. 75 also identifies the methods and assumptions that are required to 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. In addition, GASB Statement No. 75 addresses the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit other postemployment benefits plan and for employers whose employees are provided with defined contribution other postemployment benefits. Management is evaluating the effects that the full implementation of GASB Statement No. 75 will have on its financial statements for the year ended June 30, 2018.

E. Explanation of Certain Differences Between the Governmental Funds Balance Sheet and Government-Wide Statement of Net Position

Total Fund Balances, Governmental Funds		$ 467,613,469
Net Capital Assets used in governmental activities are not financial resources and are not reported in the funds.		
Capital Assets, beginning of year	$ 1,111,149,977	
Additions, net of CIP transfers	18,345,608	
Removals, net of CIP transfers	(1,502,840)	
Less: Accumulated Depreciation	(474,203,531)	644,521,997
The amount of interest accrued for bonds payable in August is required to be recognized in the statement of net position.		(13,409,176)

Revenue in governmental activities is recognized in the period received.	4,085,044
Some liabilities, including bonds payable and the net pension liability, are not due and payable in the current period and, therefore, are not reported in the funds.	(835,288,644)
The revenues and expenses in the internal service fund are distributed in the statement of activities and are not considered part of the governmental funds.	16,591,878
Deferred inflows and outflows of resources are not due and payable in the current period and, therefore, are not reported in the funds	(1,741,668)
Total Net Position, Governmental Activities	$ 282,372,900

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

Net change in fund balance, governmental funds		$126,408,044
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of the assets is allocated over their useful life as depreciation expense.		
Capital Outlay, net of CIP transfers	$18,345,608	
Less: Depreciation Expense	(28,127,725)	
Removals, net of CIP transfers	(1,502,840)	(11,284,957)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.		
Repayment of bond principal	42,680,000	
Payment to refunded bond escrow agent	65,399,252	
Bond proceeds	(202,640,000)	(94,560,748)
Premium received on bonds and deferred charges on bonds refunded are amortized over the life of the bond.		(7,572,771)
Deferred inflows and outflows of resources related to the net pension liability do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		2,993,244
The amount of interest which is accrued but not yet paid for bond payments due in August is not recognized in the governmental funds. This is the change in interest payable.		226,544

The revenues and expenses of the internal service fund are distributed in the statement of activities and are not considered a governmental fund. The difference is the change in net position.		846,715
Revenues are considered earned when due. This is the amount of decrease in delinquent taxes receivable and Other Governmental revenues received but not expended under the terms of the grant.		(688,389)
Certain costs associated with the accrual of sick and vacation leave are recognized as expenditures in the governmental funds.		
Increase in Sick Leave	$(161,580)	
Increase in Vacation Leave	(7,126)	(168,706)
Change in net position of governmental activities		$ 16,198,976

G. Deposits and Investments

Chapter 2256 of the Texas Government Code (the "Public Funds Investment Act") authorizes the District to invest its funds under a written investment policy (the "Investment Policy"). The District's deposits and investments are invested pursuant to the Investment Policy, which is approved annually by the Board. The primary objectives of the District's investment strategy, in order of priority, are safety, liquidity, and yield.

The District is authorized to invest in the following investment instruments provided that they meet the guidelines established in the investment policy:

- Direct obligations of the United States of America.
- Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the United States of America.
- Direct obligations of the various United States agencies and instrumentalities.
- Fully collateralized Certificates of Deposit/Share Certificates.
- Repurchase Agreements approved by the District's Board.
- No-load money market mutual funds that are registered with and regulated by the Securities and Exchange Commission.
- Local government investment pools, created to function as money market mutual funds, organized in conformity with Chapter 791 and Chapter 2256 of the Government Code.
- Local government investment pools which meet other specified criteria as stated in the investment policy.

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the School Depository Act. The depository bank deposits for safekeeping and trust with the District's agent approved securities 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 dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. Therefore, the District is not exposed to custodial credit risk.

The Public Funds Investment Act requires an annual audit of investment practices. Audit procedures in this area are conducted as a part of the overall audit, and focus on the areas of investment practices, management reports and establishment of appropriate policies. The District materially adhered to the requirements of the Public Funds Investment Act. Additionally, investment practices of the District were in accordance with local policies.

At June 30, 2015, the carrying amount of the District's deposits (cash and interest-bearing savings accounts included in temporary investments) was $411,394 and the bank balance was $1,247,075. The District's cash deposits during the year ended June 30, 2015, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name. The following is disclosed regarding coverage of deposits on the date of largest deposit balances.

a. Name of depository bank: Bank of America

Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was $156,640,243.

b. Largest cash, savings, and time deposit combined account balance amounted to $134,970,349 and occurred during the month of July 2014.

c. Total amount of FDIC coverage at the largest combined balance was $ 500,000.

Temporary Investments

Statutes authorize the District to invest in obligations of the U.S. Treasury or the State, certain U.S. agencies, certificates of deposit, money market savings accounts, certain municipal securities, repurchases agreements, and common trust funds.

Investments held at year-end consisted of the following:

Type	Fair Value	Weighted Average Maturity (in days)	Standard & Poor's Rating
Texas Local Government Investment Pools			
TexPool	$ 61,849,079	1	AAAm
TexSTAR	60,826,185	1	AAAm
TexasTERM	85,063,511	1	AAAm
Lone Star	73,730,602	1	AAAm
Mutual Funds			
Federated	33,105,924	1	AAAm
Bank of America – JP Morgan US Govt Mkt	89,128,891	1	AAAm
Black Rock	19,502,725	1	AAAm
Securities			
Treasury Note	10,007,030	153	AA
Federal National Mortgage Assoc.	20,027,740	273	AAA
Federal Farm Credit Bank	20,014,470	191	AA
Federal Home Loan Banks	30,108,430	218	AA
Federal Home Loan Mortgage Corp.	10,012,250	199	AA
Total	$ 513,376,837		

The District participates in the Texas Local Government Investment Pool ("TexPool"), an external investment pool. The State Comptroller of Public Accounts maintains oversight responsibility for TexPool. This responsibility includes the ability to influence operations, designation of management, and accountability for fiscal matters. Although TexPool is not registered with the SEC as an investment company, it operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. GASB Statement No. 31 allows 2a7-like pools to use amortized cost (which excludes unrealized gains and losses) rather than market value to report net assets to compute share price. The fair value of the District's position in TexPool is the same as the value of TexPool shares.

The District participates in the TexasTERM Local Government Investment Pool ("TexasTERM"), an external investment pool. TexasTERM was established under the provisions of the Interlocal Cooperations Act, Chapter 791 of the Texas Government Code and Chapter 2256 of the Public Funds Investment Act. An Advisory Board composed of participants and non-participant members elected by the participant shareholders of TexasTERM is responsible for the overall management of TexasTERM, including formulation and implementation of its investment and operating policies. In addition, Advisory Board members select and oversee the activities of the Investment Advisor and Custodian of TexasTERM and monitor investment performance and the method of valuing the shares. TexasTERM is a floating net asset value fund, which is a non-2a7 fund, and has a rating from Standard and Poor's of AAAm. It is a fundamental objective of TexasTERM to assure the return of principal and interest at the date planned for redemption of shares, however the net asset value of shares may fluctuate prior to the planned redemption date. GASB Statement No. 31 allows that the value at maturity and fair value to be the same for investment positions that mature within one year of the purchase date of the position. Therefore, TexasTERM's fair value and the value at maturity for the District's investment are the same.

The District participates in the TexStar Local Government Investment Pool ("TexSTAR"), an external investment pool. The pool is overseen by a five member governing board made up of three participants and one of each of the program's professional administrators. The responsibility of the board includes the ability to influence operations, designation of management, and accountability for fiscal matters. In addition, the pool has a Participant Advisory Board which provides input and feedback on the operations and direction of the program and Standard and Poor's reviews the pool on a weekly basis to ensure the pool's compliance with its rating requirements. Although TexSTAR is not registered with the SEC as an investment company, it operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. GASB Statement No. 31 allows 2a7-like pools to use amortized cost (which excludes unrealized gains and losses) rather than fair value to report net assets to compute share price. The fair value of the District's position in TexSTAR is the same as the value of TexSTAR shares.

The District participates in the First Public Local Government Pool ("Lone Star"), an external investment pool. A Board of Trustees composed of participants of Lone Star is responsible for the overall management of Lone Star. The funds are managed by two separate investment advisors – American Beacon and Bank of New York Mellon. The funds within Lone Star are not registered mutual funds under the Investment Company Act of 1940 and are not available to individual investors. Lone Star's fair value and the value at maturity for the District's investment is the same. Lone Star has a Standard & Poor's rating of AAAm.

The District invests excess funds in money market mutual funds with Federated, Bank of America – JP Morgan US Government Market and Black Rock. All three investments are registered with the Security and Exchange Commission and have been approved by the National Association of Insurance Commissioners (NAIC). All three funds are rated AAAm by Standard & Poor's and seek to preserve the value of an investment at $1 per share, while holding a weighted average maturity of 90 days or less.

Fair values of U.S. Agency securities are based on quoted market values. The investments are reported by the District at fair value in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." In accordance with GASB Statement No. 31, unrealized gains of $93,405 were recognized in the financial statements.

Credit Risk

Credit risk is the possibility of loss occurring due to the inability of an investment instrument to meet financial obligations. As of June 30, 2015, investments were diversified in local government investment pools, mutual funds, and U.S. agency securities with sufficient ratings from Standard & Poor's to reduce the probability of loss and comply with the District's investment policy.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of investments in a single issuer. Information regarding investments in any one issuer that represents five percent or more of the District's total investments must be disclosed under GASB Statement No. 40, excluding investments issued or explicitly guaranteed by the U.S. government. At June 30, 2015, the District's investments which require disclosure are as follows:

Issuer	Fair Value	Percentage of Portfolio
Federal Home Loan Banks	$ 30,108,430	6%

Interest Rate Risk

As a means of minimizing risk of loss due to interest rate fluctuations, the investment policy requires that maturities will not exceed the weighted average maturity of two years. Quality short-to-medium term securities should be purchased, which complement each other in a structured manner that minimizes risk and meets the District's cash flow requirements. Two years is the maximum period of time before maturity.

At June 30, 2015, approximately 82% of the investment portfolio was invested in pools and mutual funds, with the remainder invested in short-to-medium term U.S. agency securities. Term limits on individual maturities did not exceed two years from the purchase date.

H. Property Taxes

The Texas Legislature in 1979 adopted a comprehensive Property Tax Code (the “Code”) which established a county-wide appraisal district and an appraisal review board in each county in the State. The Williamson County and Travis County Central Appraisal Districts (the “Appraisal Districts”) are responsible for the recording and appraisal of all property in the District. Under the Code, the Board sets the tax rates on property and the County Tax Assessor/Collector provides tax collection services. The Appraisal District is required under the Code to assess property at 100% of its market value. Under certain circumstances, taxpayers and taxing units, including the District, may challenge orders of the Appraisal Review Board through various appeals and, if necessary, legal action.

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period including those expected to be collected during a 60-day period after the close of the school fiscal year.

The final assessed value as of January 1, 2014 upon which the October 2014 levy was based was $25,204,547,170. The District levied taxes based on a combined tax rate of $1.3375 for $100 of assessed valuation for local maintenance and debt service.

Current collections for the year ended June 30, 2015, were 99.22% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of June 30, 2015, property taxes receivable, net of estimated uncollectible taxes, totaled $2,370,780 and $701,007 for General Fund and Debt Service Fund, respectively.

I. Receivables

Receivables at June 30, 2015 for the District’s individual major funds and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

Receivables	General	Debt Service	Capital Projects	Non-Major
Taxes	$ 3,991,692	$1,194,781		
Other Governments	19,259,632			3,505,033
Other Receivables and Accrued Interest	811,328	586	1,151	63,750
Less: Allowance for Uncollectible Taxes	(1,620,912)	(493,774)		
Net Total Receivables	$22,441,740	$701,593	$1,151	$3,568,783

J. Interfund Receivables and Payables

Interfund balances occur when one fund pays or receives resources for another fund and at June 30, 2015 consisted of the following individual fund receivables and payables:

Fund	Receivable	Payable
General Fund:		
Non-Major Governmental Funds	$ 6,504,703	
Internal Service Fund		3,111,536
Debt Service Fund		400
Capital Projects Fund		141,465
Agency Fund	48,752	
Total General Fund	6,553,455	3,253,401
Debt Service Fund:		
General Fund	400	
Agency Fund	223,653	
Total Debt Service Fund	224,053	
Capital Projects Fund:		
General Fund	141,465	
Agency Fund:		
General Fund		48,752
Debt Service Fund		223,653
Total Agency Fund		272,405
Non Major Governmental Funds:		
General Fund		6,504,703
Internal Service Fund:		
General Fund	3,111,536	
Total	$ 10,030,509	10,030,509

K. Transfers

Transfers of funds occur within governmental funds to account for bond issuance costs paid by the General Fund and the transfer of remaining fund balance in Capital Projects Fund to the Debt Service Fund. The following is a summary of the transfers for the year ended June 30, 2015:

Debt Service Fund:		
General Fund	$	230,350
Capital Projects Fund:		
General Fund		517,545
Debt Service Fund		385
Total Capital Projects Fund		517,930
Total	$	748,280

L. Changes in Capital Assets

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

	Balance 06/30/14	Additions	Reclassification	Deletions	Balance 06/30/15
Land	$ 112,897,288	828,795			113,726,083
Construction In Progress	37,823,830	8,542,051		(37,823,830)	8,542,051
Total Capital Assets, Not Being Depreciated	150,721,118	9,370,846		(37,823,830)	122,268,134
Buildings	908,926,968	43,200,524		(31,000)	952,096,492
Equipment	51,501,891	3,598,068		(10,739,057)	44,360,902
Total Capital Assets, Being Depreciated	960,428,859	46,798,592		(10,770,057)	996,457,394
Less Accumulated Depreciation:					
Buildings	418,354,991	23,277,539		(31,000)	441,601,530
Equipment	36,988,032	4,850,186		(9,236,217)	32,602,001
Total Accumulated Depreciation	455,343,023	28,127,725		(9,267,217)	474,203,531
Total Capital Assets Being Depreciated, Net of Depreciation	505,085,836	18,670,867		(1,502,840)	522,253,863
Total Capital Assets	$ 655,806,954	28,041,713		(39,326,670)	644,521,997

Depreciation expense was charged to functions/programs of primary government activities as follows:

Instruction	$ 17,477,885
Instructional Resources	1,110,417
Instructional Leadership	90,112
School Administration	782,472
Guidance and Counseling	383,473
Health Services	540,381
Student Transportation	136,086
Food Services	1,622,173
Extracurricular Activities	2,380,877
General Administration	90,112
Facilities Maintenance and Operations	3,403,016
Data Processing Services	110,721
Total	$ 28,127,725

M. Deferred Charges on Bond Refundings

The following is a summary of changes in deferred charges on bond refundings for the year ended June 30, 2015.

Balance, as of June 30, 2014	$	-
Additions		1,634,252
Amortization		(62,856)
Balance, at June 30, 2015	**$**	**1,571,396**

N. Change in Long-Term Liabilities

The following is a summary of changes in long-term liabilities (including general obligation bonds and leave) for the year ended June 30, 2015. See Note R for additional long-term liabilities related to the District's net pension liability.

	Balance 06/30/14	Adjustment	Additions	Deletions	Balance 06/30/15
Bonds Payable	$ 684,412,872		216,791,898	(113,086,983)	788,117,787
Sick Leave	2,957,385		161,580		3,118,965
Vacation Leave	1,537,073		7,126		1,544,199
Total	$ 688,907,330		216,960,604	(113,086,983)	792,780,951

Current portion of long-term liabilities is as follows:

Bonds payable	$ 44,555,000
Vacation Leave	115,815
Sick Leave	221,561
Total	$ 44,892,376

O. Leases

The District is obligated under agreements for certain copier equipment for which the rental expenditures for the year ended June 30, 2015 was $726,177. In addition, rental expenditures for the same period for month to month agreements related to portable building rentals were $365,425.

P. Long-term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2015:

Balance, as of June 30, 2014	$	684,412,872
Series 2015 Refunding Bonds		60,515,000
Premium on Series 2015 Refunding Bonds		4,043,412
Series 2015 Fixed Rate Bonds		67,140,000
Premium on Series 2015 Fixed Rate Bonds		9,039,200
Series 2015 Variable Rate Bonds		74,985,000
Premium on Series 2015 Variable Rate Bonds		1,069,286
Bonds Refunded by Series 2015 Refunding Bonds		(63,765,000)
Retirements		(42,680,000)
Premium Amortization		(6,641,983)
Balance, at June 30, 2015	**$**	**788,117,787**

Included in the balance of Long-term Debt at June 30, 2015 are the unamortized premium amounts on bond issues and unamortized premium amounts on refunding bonds issued in previous years of $27,556,003.

Bonded debt consisted of the following at June 30, 2015:

Series Description	Amount Original Issue	Matures Through	Interest Rate	Outstanding at 6/30/15
2005 Refunding Bonds	169,880,000	2016	3.00 to 5.00%	22,487,155
2007 School Building Bonds	103,100,000	2032	3.25 to 5.25%	85,901,498
2008 School Building Bonds	119,125,000	2033	4.00 to 5.00%	112,661,325
2009 School Building Bonds	137,530,000	2034	3.00 to 5.25%	123,126,265
2009 Refunding Bonds	39,465,000	2019	2.00 to 5.00%	18,039,415
2010 Refunding Bonds	32,225,000	2022	3.25 to 5.00%	34,877,271
2010A School Building Bonds	27,665,000	2020	3.00 to 5.00%	18,758,272
2010B School Building Bonds	61,760,000	2036	4.73 to 5.18%	61,760,000
2010D School Building Bonds	103,840,000	2036	1.11 to 6.02%	93,995,000
2015 Refunding Bonds	60,515,000	2020	3.00 to 5.00%	64,402,896
2015 Fixed Rate Bonds	67,140,000	2041	2.00 to 5.00%	76,067,605
2015 Variable Rate Bonds	74,985,000	2041	1.50%	76,041,085
Totals	$ 997,230,000			$ 788,117,787

For the general obligation bonds, the District has pledged as collateral the proceeds of a continuing, direct annual tax levied against taxable property within the District without limitation as to rate. The Texas Education Code generally limits issuance of additional ad valorem tax bonds if the tax rate needed to pay aggregate principal and interest amounts of the District's tax bond indebtedness exceeds $0.50 per $100 of assessed valuation of taxable property within the District at the time of the sale. After the sale, however, the District may set a tax rate at whatever level necessary to meet debt obligations. The District's debt service tax rate for 2015 is $0.2975.

On February 25, 2015, the District issued $67,140,000 in Unlimited Tax School Building Bonds and $74,985,000 in Variable Rate Unlimited Tax School Building Bonds for the construction, acquisition and equipment of school buildings in the District, the purchase of necessary sites for school buildings, the purchase of school buses, the purchase of technology equipment, and pay the costs associated with the issuance of bonds. The net proceeds of $151,250,000 (after payment of $983,486 in underwriting fees, insurance, and other issuance costs) were invested by the District to fund future capital projects.

On June 3, 2015 the District issued $60,515,000 of Refunding Bonds to currently refund $63,765,000 of previously issued District bonds in order to lower its overall debt service requirements. The net proceeds of $65,399,252 (after payment of $374,279 in underwriting fees, insurance, and other issuance costs and payment to the bank of $1,215,119 related to the refunded bonds) were deposited with an escrow agent to provide the debt service payment on the portion of bonds currently refunded. As a result, $63,765,000 of bond principal is considered defeased and the liability for these bonds was removed from the basic financial statements. The reacquisition price exceeded the net carrying amount of the old debt by $1,634,252. This amount is recorded as a deferred outflow of resources and amortized over the remaining life of the refunded debt which is shorter than the life of the new debt issued. The current refunding resulted in an economic gain of $5,055,705.

The annual principal installments for each of the outstanding issues vary each year. As of June 30, 2015, the debt service requirements of bonded indebtedness to maturity are as follows:

Year Ending June 30	Principal	Interest	Total Requirements
2016	44,555,000	31,975,141	76,530,141
2017	50,290,000	32,497,594	82,787,594
2018	40,735,000	32,018,908	72,753,908
2019	42,740,000	30,139,680	72,879,680
2020	37,880,000	28,273,408	66,153,408
2021-2025	156,875,000	115,721,106	272,596,106
2026-2030	157,505,000	78,509,172	236,014,172
2031-2035	174,070,000	34,944,533	209,014,533
2036-2040	47,690,000	6,478,198	54,168,198
2041	8,255,000	187,650	8,442,650
Total	$ 760,595,000	390,745,390	1,151,340,390

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions as of June 30, 2015.

The outstanding 2015 Variable Rate Bonds will bear interest at a per annum rate of 1.50% from the date of delivery through July 31, 2016. Thereafter, these bonds will bear interest at a term rate determined by the remarketing agent with a term rate period of one year unless a different rate period is specified by the District as provided in the bond order.

In the current year, the District defeased outstanding general obligation bonds through the 2015 Refunding Bonds by placing the proceeds of the new bonds and additional payments from the District in an irrevocable trust to provide for the future debt service payments on the old bonds. Accordingly, the trust account assets and defeased bonds are not included in the District's financial statements. At June 30, 2015 outstanding bonds of $63,765,000 are considered defeased.

As of June 30, 2015, $147,750,000 of general obligation bonds authorized by voters of the District had not been issued.

Q. Revenues from Local and Intermediate Sources

For the year ended June 30, 2015, revenues from local and intermediate sources in governmental funds consisted of the following:

	General Fund	Debt Service Fund	Capital Projects Fund	Non-Major Funds
Property Tax	$ 258,644,863	74,017,901		
Penalty & Interest	767,720	204,888		
Food Service				9,242,061
Investment Income	496,870	25,981	43,075	4,455
Co-curricular Activities	1,012,397			
Gifts & Bequests	242,536			280,177
Rent	1,137,165			
Tuition	1,326,685			
Campus Activity				752,452
Other	5,705,425		4,508	1,771,325
Total	$ 269,333,661	74,248,770	47,583	12,050,470

R. Defined Benefit Pension Plans

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.

Pension Plan Fiduciary Net Position

Detailed information about TRS's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.trs.state.tx.us; 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 service 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 fiscal years 2014 and 2015.

	2014	2015
Contribution Rates:		
Member	6.4%	6.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
2015 District Contributions		$ 6,890,794
2015 Member Contributions		$ 19,194,599
2015 NECE On-behalf Contributions		$ 13,656,452

Contributors to the plan include members, employers and the State 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 GAA.

As the non-employer contributing entity for public education and junior colleges, the State 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 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 TRS 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 was decreased to add additional margin for future improvement in mortality in accordance with the Actuarial Standards of Practice No. 35.

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:

	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
Global Equity			
U.S.	18%	7.0%	1.4%
Non-U.S. Developed	13%	7.3%	1.1%
Emerging Markets	9%	8.1%	0.9%
Directional Hedge Funds	4%	5.4%	0.2%
Private Equity	13%	9.2%	1.4%
Stable Value			
U.S. Treasuries	11%	2.9%	0.3%
Absolute Return	0%	4.0%	0.0%
Stable Value Hedge Funds	4%	5.2%	0.2%
Cash	1%	2.0%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	3.1%	0.0%
Real Assets	16%	7.3%	1.5%
Energy and Natural Resources	3%	8.8%	0.3%
Commodities	0%	3.4%	0.0%
Risk Parity			
Risk Parity	5%	8.9%	0.4%
Alpha	0%	0.0%	1.0%
Total	100%		8.7%

* The Expected Contribution to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability	$ 75,958,671	$ 42,507,693	$ 17,492,593

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 $9,315,328 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 were as follows:

District's Proportionate share of the collective net pension liability	$ 42,507,693
State's proportionate share that is associated with the District	144,189,661
Total	$ 186,697,534

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 employer's proportion of the net pension liability was based on the employer'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 collective net pension liability was 0.1591% which was an increase of 0.0006% from its proportion measured as of August 31, 2013. The change in proportion 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 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 $17,227,606 and revenue of $13,330,066 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 actual economic experience	$ 657,395	$ -
Changes in actuarial assumptions	2,763,047	-
Difference between projected and actual investment earnings	-	12,992,087
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	-	11,142
Contributions paid to TRS subsequent to the measurement date	6,269,723	-
Total	$ 9,690,165	$ 13,003,229

The $6,269,723 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. The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Pension Expense Amount
Year ended June 30:	
2016	$ (2,674,124)
2017	(2,674,124)
2018	(2,674,124)
2019	(2,674,124)
2020	573,898
Thereafter	539,811

S. On-Behalf Payments for Fringe Benefits

In accordance with GASB Statement No. 24, the District has recognized as revenues and expenditures, contributions made by the State to TRS on-behalf of the District's employees. For the year ended June 30, 2015, the State made contributions of $811,915 related to on-behalf Medicare Part D payments. These revenues equal expenditures and are reflected in the fund financial statements for the General Fund.

T. School District Retiree Health Plan

Plan Description – The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost sharing multiple-employer defined benefit post employment health care plan administered by TRS. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under TRS. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS Web site 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 2013 – 2015.

Contribution Rates

	Active Member		State		School District	
Year	Rate	Amount	Rate	Amount	Rate	Amount
2015	.65%	$1,732,200	1.0%	$2,664,923	.55%	$1,465,708
2014	.65%	$1,660,239	1.0%	$2,554,214	.55%	$1,404,818
2013	.65%	$1,607,419	.5%	$1,236,476	.55%	$1,360,124

U. Risk Financing and Other Coverage

<u>Property Casualty Insurance</u>

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and natural disasters for which the District participates as a self funded member of the Property Casualty Alliance of Texas (“the Fund”). All governmental entities participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund protects the District against higher than expected claims costs through the purchase of stop loss coverage for any covered claim in excess of the Fund’s self-insured retentions.

The Fund uses the services of an independent actuary to determine reserve adequacy and fully fund those reserves. As of February 28, 2015, the Fund carried a discounted reserve of $4,556,869 for future development on reported claims and claims that have been incurred but not yet reported. The Fund engages the services of an independent auditor to conduct an independent financial audit after the close of each plan year on February 28. The Fund's audited financial statements as of February 28, 2015, are available at the Property Casualty Alliance of Texas offices.

Health Insurance

For employee health benefits, an internal service fund has been established to account for and finance its uninsured risks of loss. Settled claims have not exceeded this commercial coverage since the inception of the internal service fund. Under this program, the District provides up to a maximum of $300,000 of health care claims per individual participant per year. The District purchases excess risk insurance for health care claims in excess of $300,000.

Liabilities for claims in the Internal Service Fund are based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements and the amount of loss can be reasonably estimated. The outstanding claims plus the incurred but not reported ("IBNR") claim liability estimate of $1,880,000 at June 30, 2015 is an actuarial estimate of health care claims outstanding at year end which have not been reported to the plan administrator. A reconciliation of the IBNR claim liability is as follows:

Year	Beginning Balance	Estimated Claims	Claim Payments	Ending Balance
2015	$1,940,000	$28,929,560	$28,989,560	$1,880,000
2014	$2,370,000	$27,765,488	$28,195,488	$1,940,000
2013	$2,900,000	$33,203,225	$33,733,225	$2,370,000

Workers' Compensation Pool

During the year ended June 30, 2015, the District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund (the "TASB Risk Fund"). The TASB Risk Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The TASB Risk Fund's Workers Compensation Program is authorized by Chapter 504, Texas Labor Code. All members participating in the TASB Risk Fund execute Interlocal Agreements that define the responsibilities of the parties. The TASB Risk Fund provides statutory workers' compensation benefits to its members and their injured employees.

The TASB Risk Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the TASB Risk Fund's self-insured retention of $1.5 million. The TASB Risk Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2014, the TASB Risk Fund carries a discounted reserve of $56,905,750 for future development on reported claims and claims that have been incurred but not yet reported. For the year-ended August 31, 2015, the TASB Risk Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions.

The TASB Risk Fund engages the services of an independent auditor to conduct an independent financial audit after the close of each plan year on August 31. The audit is approved by the TASB Risk Fund's Board of Trustees in February of the following year. The TASB Risk Fund's audited financial statements as of August 31, 2014, are available at the TASB offices and have been filed with the Texas State Board of Insurance in Austin.

Unemployment Compensation

During the year ended June 30, 2015, the District met its statutory unemployment compensation obligations by participating as a self-funded member of the TASB Risk Fund. The TASB Risk Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and Chapter 504, Texas Labor Code. All members participating in the TASB Risk Fund execute Interlocal Agreements that define the responsibilities of the parties.

As a self-funded member of the TASB Risk Fund, the District is solely responsible for all claim costs, both reported and unreported.

The TASB Risk Fund provides administrative services to its self-funded members including claims administration and customer service.

The TASB Risk Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is approved by the TASB Risk Fund's Board of Trustees in February the following year. The TASB Risk Fund's audited financial statements as of August 31, 2014, are available at the TASB offices and have been filed with the Texas State Board of Insurance in Austin.

V. Internal Service Fund Consolidation

The internal service fund is supported by contributions from the District for employee health insurance. Employees, who were regularly employed for at least 20 hours per week were entitled to a monthly contribution of $370 per month for health insurance. The District eliminated these contributions in the reconciliation process as these expenses also were reflected in the internal service fund in the form of insurance reimbursement expense.

Health insurance premiums were eliminated as follows:

Instruction	$ 15,657,404
Instructional Resources	367,936
Curriculum and Staff Development	845,160
Instructional Leadership	265,369
School Leadership	1,561,182
Guidance and Counseling	991,047
Social Work Services	54,694
Health Services	255,396
Student Transportation	699,758
Food Services	344,933
Extracurricular Activities	392,557
General Administration	424,123
Facilities Maintenance and Operations	1,514,424
Security and Monitoring Services	112,112
Data Processing Services	300,137
Community Services	129,953
Total	$ 23,916,185

W. Utility Expenditures

Total utility expenditures of $8,945,976 have been distributed to the following functions in the Statement of Activities to more accurately represent the utility cost per functional area.

Instruction	$ 5,558,812
Instructional Resources	353,166
Instructional Leadership	28,660
School Leadership	248,864
Guidance and Counseling	121,963
Health Services	171,867
Student Transportation	43,282
Food Services	515,929
Extracurricular Activities	757,234
General Administration	28,660
Facilities Maintenance and Operations	1,082,324
Data Processing Services	35,215
Total	$ 8,945,976

X. Commitments and Contingencies

The District is a defendant in various lawsuits. While it is not possible at this time to predict the outcome of these legal actions, in the opinion of management, the disposition of these matters will not have a material adverse effect on the District's financial position.

The District participates in a number of federal 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 amounts, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

At June 30, 2015, the District is committed under construction contracts with a remaining balance of approximately $36,751,735.

Y. Shared Services Arrangements

The District is the fiscal agent for a Shared Services Arrangement ("SSA") for the Capital Area Regional Day School Program for the Deaf which provides educational services to students for the member districts listed below. All services are provided by the fiscal agent and the member districts provide the funds to the fiscal agent. The District has accounted for the fiscal agent's activities of the SSA in a special revenue fund. Expenditures from the SSA are summarized below:

Burnet CISD	$ 54,243
Eanes ISD	-
East Williamson County Coop	49,631
Florence ISD	-
Georgetown ISD	196,107
Hutto ISD	100,799
Jarrell ISD	6,149
Lago Vista ISD	3,075
Lake Travis ISD	27,012
Leander ISD	328,967
Liberty Hill ISD	-
Llano ISD	11,639
Manor ISD	49,631
Marble Falls ISD	-
Pflugerville ISD	244,419
Round Rock ISD	608,524
Total	$ 1,680,196

Z. Prior Period Adjustment

In accordance with the adoption of GASB Statements No. 68 and No. 71 in the current fiscal year, the District must record its proportionate share of the net pension liability related to its contributions to the TRS cost-sharing pension plan at the beginning of the measurement period ending August 31, 2014. In addition, the District must record a deferred outflow of resources for its contributions to TRS from the beginning of the measurement period through June 30, 2014. The effect of this change in accounting principle is as follows:

Net position - June 30, 2014	$ 314,987,925
Net pension liability - August 31, 2013	(52,195,962)
District contributions - September 1, 2013 - June 30, 2014	3,381,961
Net position - June 30, 2014, as restated	$ 266,173,924

ALL CHILDREN WILL LEARN ... ***WHATEVER IT TAKES!***

REQUIRED SUPPLEMENTARY INFORMATION

ALL CHILDREN WILL LEARN ... *WHATEVER IT TAKES!*

Round Rock Independent School District G-1

Required Supplementary Information

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

General Fund

For the Year Ended June 30, 2015

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
	Budgetary Fund Balance, July 1	$ 218,638,989	218,638,989	218,638,989	
	Revenue:				
5700	Local and Intermediate Services	259,039,642	267,660,566	269,333,661	1,673,095
5800	State Program Revenues	99,183,565	100,218,601	99,253,219	(965,382)
5900	Federal Program Revenues	3,100,000	3,100,000	3,541,984	441,984
7910	Other Resources				
7912	Sale of Real Property				
7914	Proceeds from Sale of Bonds				
7915	Transfers In			747,895	747,895
7956	Insurance Recovery			10,933	10,933
	Amounts Available for Appropriation	361,323,207	370,979,167	372,887,692	1,908,525
	Expenditures:				
0011	Instruction	217,153,370	220,091,886	215,501,759	4,590,127
0012	Instructional Resources	5,806,980	6,091,556	6,023,902	67,654
0013	Curriculum and Staff Development	13,283,875	13,556,323	13,185,857	370,466
0021	Instructional Leadership	5,162,738	5,045,887	4,481,921	563,966
0023	School Leadership	21,567,167	21,798,236	21,277,135	521,101
0031	Guidance and Counseling	13,613,584	14,132,839	13,580,483	552,356
0032	Social Work Services	753,135	839,582	802,758	36,824
0033	Health Services	3,671,905	3,678,185	3,618,873	59,312
0034	Student Transportation	11,453,652	11,678,619	11,204,697	473,922
0036	Extracurricular Activities	7,757,731	10,221,492	9,948,674	272,818
0041	General Administration	7,406,794	7,687,471	7,099,405	588,066
0051	Facilities Maintenance and Operations	39,577,911	41,866,715	38,597,793	3,268,922
0052	Security and Monitoring Services	3,339,653	3,335,395	3,113,905	221,490
0053	Data Processing Services	5,691,195	7,677,682	7,414,717	262,965
0061	Community Services	2,121,610	2,211,305	1,988,113	223,192
0071	Debt Principal and Interest Payments		774,351	708,291	66,060
0081	Facilities Acquisition	85,624	6,387,623	4,435,344	1,952,279
0092	Incremental Costs Associated with Chapter 41				
0095	Payment to Juvenile Justice Alternative Education Programs	500,000	500,000	430,481	69,519
0099	Other Intergovernmental Charges	2,172,364	2,299,764	2,298,294	1,470
8911	Transfers Out				
8949	Other Uses				
8980	Miscellaneous Other Uses			105,252	(105,252)
	Total Charges to Appropriations	361,119,288	379,874,911	365,817,654	14,057,257
	Budgetary fund balance, June 30	$ 218,842,908	209,743,245	225,709,027	$ 15,965,782

See accompanying Independent Auditors' Report and notes to Budgetary Comparison Schedule.

Budgetary Information

The official budget was prepared for adoption for the General Fund, Debt Service Fund, Capital Projects Fund, and the Child Nutrition Program Fund, which is included within the Special Revenue Funds. The basis of budgeting is the same as GAAP. The District also budgets for federal grants in the special revenue fund types and all capital projects. These budgets are all on a project basis and are not part of the annual operating budget. The following procedures are followed in establishing the budgetary data reflected in the general purpose financial statements:

a. Prior to June 20th 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.

b. 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.

c. Prior to July 1, the budget is legally enacted through approval by the Board.

Once a budget is approved, it can be amended at the fund and function level only by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Such amendments are reflected in the official minutes of the Board. The District's amended budget includes the allocation of $1 million from General Fund fund balance for specific instructional initiatives, the addition of funds for ongoing technology operational costs, the approval of the Board to utilize General Fund fund balance to complete the construction of Success High School, an alternative education facility, and use of General Fund fund balance for the completion of the final phase of retrofitting light fixtures to save on energy usage and reduce future expenditures.

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

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at June 30, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget.

ROUND ROCK INDEPENDENT SCHOOL DISTRICT G-2

Schedule of the District's Proportionate Share of the Net Pension Liability
Teacher Retirement System of Texas
For the Year Ended June 30, 2015

		2014	2013
District's proportion of the net pension liability		0.1591%	0.1585%
District's proportionate share of the net pension liability	$	42,507,693	52,195,962
State's proportionate share of the net pension liability associated with the District		144,189,661	176,998,863
Total	$	186,697,354	229,194,825

		2014	2013
District's covered-employee payroll (for Measurement Year)	$	256,986,247	248,591,719
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll		16.54%	21.00%
Plan fiduciary net position as a percentage of the total pension liability		83.25%	78.17%
Plan's net pension liability as a percentage of covered employee payroll		72.90%	93.10%

ROUND ROCK INDEPENDENT SCHOOL DISTRICT

Schedule of District Contributions
Teacher Retirement System of Texas
Last 10 Fiscal Years

	2015	2014	2013	2012	2011
Contractually required contributions	$ 8,517,038	$ 5,502,777	$ 5,295,482	$ 4,815,762	$ 5,258,534
Contributions in relation to the contractual required contributions	8,517,038	5,502,777	5,295,482	4,815,762	5,258,534
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
District's covered employee payroll	$ 266,492,396	255,421,431	247,295,194	239,784,056	241,168,667
Contributions as a percentage of covered payroll	3.20%	2.15%	2.14%	2.01%	2.18%

	2010	2009	2008	2007	2006
Contractually required contributions	$ 4,756,187	$ 4,181,097	$ 3,795,680	$ 3,266,680	$ 2,993,274
Contributions in relation to the contractual required contributions	4,756,187	4,181,097	3,795,680	3,266,680	2,993,274
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
District's covered employee payroll	$ 231,943,410	218,661,607	204,033,493	188,081,594	169,709,751
Contributions as a percentage of covered payroll	2.05%	1.91%	1.86%	1.74%	1.76%

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

Texas
New York
Washington, DC
Connecticut
Seattle
Dubai
London

Bracewell LLP
111 Congress Avenue
Suite 2300
Austin, Texas 78701-4061

512.472.7800 Office
800.404.3970 Fax

[Closing Date]

$___________
ROUND ROCK INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING AND REFUNDING BONDS,
SERIES 2016

WE HAVE represented Round Rock Independent School District (the "District") as its bond counsel in connection with an issue of bonds (the "Bonds") described as follows:

> ROUND ROCK INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING AND REFUNDING BONDS, SERIES 2016, dated October 1, 2016.
>
> The Bonds mature, bear interest, are subject to redemption and may be transferred and exchanged as set out in the Bonds and in the bond order adopted by the Board of Trustees of the District authorizing their issuance (the "Bond Order") and a pricing certificate executed pursuant to the authority delegated in the Bond Order (the "Pricing Certificate," and, together with the Bond Order, the "Order").

WE HAVE represented the District 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 for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein. Capitalized terms used herein, unless otherwise defined, have the meanings set forth in the Order.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds, which contains certified copies of certain proceedings of the District; a certain escrow agreement (the "Escrow Agreement") between the District and BOKF, NA, as escrow agent (the "Escrow Agent"); a report (the "Report") of Grant Thornton LLP, Certified Public Accountants (the "Verification Agent"), regarding the mathematical accuracy of certain computations and verifying the sufficiency of the deposits made with the Escrow Agent for the defeasance of the Refunded

Bonds; customary certificates of officers, agents and representatives of the District and other public officials; and other certified showings relating to the authorization and issuance of the Bonds. We have also examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, Treasury Regulations and published rulings of the Internal Revenue Service (the "Service") as we have deemed relevant. We have also examined executed Bond No. T-1 of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

(A) 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 effective and, therefore, the Bonds constitute valid and legally binding obligations of the District;

(B) A continuing ad valorem tax, without limit as to rate or amount, has been levied on all taxable property in the District and pledged irrevocably to the payment of the principal of and interest on the Bonds; and

(C) Firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Bonds pursuant to 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 the Escrow Agreement.

THE RIGHTS OF THE OWNERS of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

IT IS OUR FURTHER OPINION THAT, under existing law:

(1) Interest on the Bonds is excludable from gross income for federal income tax purposes; and

(2) The Bonds are not "private activity bonds" within the meaning of the Code, and, as such, interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Bonds will be included in the "adjusted current earnings" of a corporation (other than any S corporation, regulated investment company, REIT or REMIC) for purposes of computing its alternative minimum tax liability.

In providing such opinions, we have relied on representations of the District, the District's financial advisor and the underwriters of the Bonds with respect to matters solely within the knowledge of the District, the District's financial advisor and the underwriters, respectively, which we have not independently verified. In addition, we have assumed for purposes of this opinion continuing compliance with the covenants in the Order pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. We have further relied on the Report of the Verification Agent regarding the mathematical accuracy of certain computations. If such representations or the Report are determined to be inaccurate or incomplete or the District fails to comply with the foregoing covenants of the Order, interest on the Bonds could become includable in gross income from the date of the original delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

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

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Bonds).

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures, the Service is likely to treat the District as the taxpayer. We observe that the District has covenanted in the Order not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.