

**PRELIMINARY OFFICIAL STATEMENT**

Ratings: Moody's: "A1/Aaa"  
S&P: "TBD/AAA"  
(See "OTHER INFORMATION - Ratings"  
and "THE PERMANENT SCHOOL FUND  
GUARANTEE PROGRAM" herein.)

**Dated October 4, 2016**

**NEW ISSUE - Book-Entry-Only**

In the opinion of Bond Counsel, assuming continuing compliance by the District after the date of initial delivery of the Bonds with certain covenants contained in the Order, and subject to the matters set forth under "TAX MATTERS" herein, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings and court decisions (1) will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of delivery of the Bonds, and (2) will not be included in computing the alternative minimum taxable income of individuals or, except as described herein, corporations.

**\$44,695,000\***

**MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**  
**(A political subdivision of the State of Texas located in Hidalgo County, Texas)**  
**UNLIMITED TAX REFUNDING BONDS, SERIES 2016**

**Dated Date: October 1, 2016**

(Interest will accrue from Delivery Date.)

**Due: August 15, 2017 and February 15, as shown on Page 2**

**PAYMENT TERMS** . . . Interest on the \$44,695,000\* Mission Consolidated Independent School District Unlimited Tax Refunding Bonds, Series 2016 (the "Refunding Bonds" or "Bonds") will accrue from the "Delivery Date" (defined hereafter) and will be payable February 15 and August 15 of each year commencing August 15, 2017 until maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Refunding Bonds will be issued as fully registered obligations in denominations of \$5,000 of principal amount or any integral multiple thereof for any one stated maturity. The definitive Refunding Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC"), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Refunding Bonds may be acquired in authorized denominations thereof. No physical delivery of the Refunding Bonds will be made to the beneficial owners thereof. The principal of and interest on the Refunding 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 Refunding Bonds (see "THE REFUNDING BONDS - Book-Entry-Only System"). The initial Paying Agent/Registrar is U.S. Bank National Association, Houston, Texas (see "THE REFUNDING BONDS - Paying Agent/Registrar").

**AUTHORITY FOR ISSUANCE** . . . The Refunding Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Chapter 1207, Texas Government Code, as amended, and an order (the "Order") to be adopted by the Board of Trustees (the "Board") of the Mission Consolidated Independent School District (the "District") on October 11, 2016. The Refunding Bonds are direct obligations of the District, payable from an annual ad valorem tax levied, without legal limit as to rate or amount, on all taxable property located within the District, as provided in the Order (see "THE REFUNDING BONDS - Authority for Issuance"). **The District has received conditional approval for the payment of the Refunding Bonds to be guaranteed by the corpus of the Permanent School Fund of Texas. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein; see also "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for a discussion of recent developments in Texas law affecting the financing of school districts in Texas.**

**PURPOSE** . . . Proceeds from the sale of the Refunding Bonds will be used (1) to refund a portion of the District's outstanding debt (the "Refunded Bonds") and (2) to pay the costs associated with the sale of the Refunding Bonds (see "PLAN OF FINANCING"); also see Schedule I for a detailed listing of the Refunded Bonds and their call dates).

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**CUSIP PREFIX: 605041**

**Maturity Schedule, Interest Rates, Initial Yields & 9 Digit CUSIP**  
**See Schedule on Page 2**

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**LEGALITY** . . . The Refunding Bonds are offered for delivery when, as and if issued and received by the Underwriters shown below (the "Underwriters") and subject to the approving opinion of the Attorney General of Texas and the legal opinion of The J. Ramirez Law Firm, San Juan, Texas, Bond Counsel (see Appendix C, "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by Winstead PC, San Antonio, Texas, Counsel for the Underwriters.

**DELIVERY** . . . It is expected that the Refunding Bonds will be available for delivery through DTC on or about November 3, 2016\* (the "Delivery Date").

**FROST BANK**

**STIFEL, NICOLAUS & COMPANY, INCORPORATED**

**RBC CAPITAL MARKETS, LLC**

\* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

**MATURITY SCHEDULE\*****CUSIP<sup>(2)</sup> Prefix: 605041**

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield <sup>(1)</sup></u>	<u>CUSIP Suffix <sup>(2)</sup></u>
8/15/2017	\$ 860,000			
2/15/2019	1,150,000			
2/15/2020	1,195,000			
2/15/2021	1,250,000			
2/15/2022	1,310,000			
2/15/2023	1,380,000			
2/15/2024	1,450,000			
2/15/2025	1,525,000			
2/15/2026	1,605,000			
2/15/2027	1,685,000			
2/15/2028	1,770,000			
2/15/2029	1,860,000			
2/15/2030	1,955,000			
2/15/2031	2,780,000			
2/15/2032	2,895,000			
2/15/2033	3,015,000			
2/15/2034	3,135,000			
2/15/2035	3,265,000			
2/15/2036	3,395,000			
2/15/2037	3,535,000			
2/15/2038	3,680,000			

**(Interest to accrue from the Delivery Date)**

(1) Yield represents the initial offering yield to the public which has been established by the Underwriters for public offerings and may subsequently be changed from time to time at the sole discretion of the Underwriters.

(2) CUSIP is a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. Neither the District, the Financial Advisor, nor the Underwriters take any responsibility for the accuracy of CUSIP numbers.

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

\* Preliminary, subject to change.

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

No dealer, broker, salesman or other person has been authorized by the District or the Underwriters to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Underwriters. This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

Certain information set forth herein has been obtained from the District and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Financial Advisor or the Underwriters. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this 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 "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM - PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE OF INFORMATION" for a description of the undertakings of the Texas Education Agency (the "TEA") and the District, respectively, to provide certain information on a continuing basis.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriters does not guarantee the accuracy or completeness of such information.

The cover page contains certain information for general reference only and is not intended as a summary of this offering. Investors should read the entire Official Statement, including all schedules and appendices attached hereto, to obtain information essential to making an informed investment decision.

IN CONNECTION WITH THE OFFERING OF THE REFUNDING BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE REFUNDING BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

NEITHER THE DISTRICT, ITS FINANCIAL ADVISOR, NOR THE UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY ONLY SYSTEM OR THE AFFAIRS OF THE TEXAS EDUCATION AGENCY ("TEA") DESCRIBED UNDER "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", AS SUCH INFORMATION HAS BEEN PROVIDED BY THE DEPOSITORY TRUST COMPANY AND THE TEA, RESPECTIVELY.

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

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

Neither the United States Securities and Exchange Commission nor any state securities commission has approved, or disapproved, of the Bonds or passed upon the adequacy or accuracy of this document. Any representation to the contrary is a criminal offense.

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

## PRELIMINARY 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 Refunding 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 Mission Consolidated Independent School District (the “District”) is a political subdivision of the State of Texas (the “State”) located in Hidalgo County. The District encompasses approximately 41 square miles in area (see “INTRODUCTION - Description of the District”). The District is governed by a seven-member Board of Trustees (the “Board”) who serve staggered four-year terms with elections being held in May of each year. Policy-making and supervisory functions are the responsibility of, and are vested in the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are provided by consultants and advisors.
- THE REFUNDING BONDS**..... The \$44,695,000\* Unlimited Tax Refunding Bonds, Series 2016 (the “Refunding Bonds”) are issued as serial bonds maturing on August 15, 2017 and February 15 in the years 2019 through 2038 (see “THE REFUNDING BONDS - Description of the Bonds”).
- PAYMENT OF INTEREST** ..... Interest on the Refunding Bonds accrues from the Delivery Date, as defined on the cover here of and is payable on August 15, 2017 and each February 15 and August 15 thereafter until maturity or prior redemption (see “THE REFUNDING BONDS - Description of the Bonds”).
- AUTHORITY FOR ISSUANCE** ..... The Refunding Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including Chapter 1207, Texas Government Code, and an order (the “Order”) to be adopted by the Board on October 11, 2016. (see “THE REFUNDING BONDS - Authority for Issuance”).
- SECURITY FOR THE REFUNDING BONDS**..... The Refunding Bonds constitute direct obligations of the District, payable from an annual ad valorem tax levied by the District, without legal limit as to rate or amount, on all taxable property within the District. Additionally, an application has been filed and the District has received conditional approval for the payment of the Refunding Bonds to be guaranteed by the corpus of the Permanent School Fund of Texas (see “THE REFUNDING BONDS - Security and Source of Payment”).
- PERMANENT SCHOOL FUND GUARANTEE**..... The District has received conditional approval from the Texas Education Agency for the payment of the Refunding Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).
- OPTIONAL REDEMPTION** ..... The District reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2027, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2026, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE REFUNDING BONDS - Optional Redemption”).
- TAX MATTERS**..... In the opinion of Bond Counsel, interest on the Refunding Bonds is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under “TAX MATTERS - Tax Exemption” herein, and is not includable in the alternative minimum taxable income of individuals. See “TAX MATTERS – Tax Exemption” for a discussion of the opinion of Bond Counsel, including the alternative minimum tax consequences for corporations.
- USE OF PROCEEDS** ..... Proceeds from the sale of the Refunding Bonds will be used (1) to refund a portion of the District’s outstanding debt (the “Refunded Bonds”) and (2) to pay the costs associated with the sale of the Refunding Bonds (see “PLAN OF FINANCING”); also see Schedule I for a detailed listing of the Refunded Bonds and their call date).
- RATINGS** ..... The Refunding Bonds have been rated “A1” by Moody’s Investors Service, Inc. (“Moody’s”) and “TBD” by Standard and Poor’s Global Ratings (“S&P”) without regard to credit enhancement and “Aaa” by Moody’s and “AAA” by S&P through by virtue of the guarantee of the corpus of the Permanent School Fund of the State of Texas (see “OTHER INFORMATION - Ratings” and “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).

\* Preliminary, subject to change.

**BOOK-ENTRY-ONLY**

**SYSTEM** ..... The definitive Refunding 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 Refunding Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Refunding Bonds will be made to the beneficial owners thereof. Principal and interest on the Refunding 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 Refunding Bonds (see “THE REFUNDING BONDS - Book-Entry-Only System”).

**PAYMENT RECORD** ..... The District has never defaulted in payment of its tax supported debt.

**SELECTED FINANCIAL INFORMATION**

Tax Year	Fiscal Year Ended	Estimated Population <sup>(1)</sup>	Taxable Assessed Valuation <sup>(2)</sup>	Taxable Assessed Valuation Per Capita	Net		Tax		Ratio of Tax	
					Unlimited Tax Supported Outstanding at End of Year <sup>(2)</sup>	Limited Tax Supported Outstanding at End of Year	Supported Debt Outstanding at End of Year	Supported Net Debt to Taxable Assessed Valuation	Tax Supported Net Debt Per Capita	
2010	8/31/2011	45,257	\$ 1,641,767,267 <sup>(3)</sup>	\$ 36,277	\$ 47,379,686	\$ -	\$ 47,379,686	2.89%	\$ 1,047	
2011	8/31/2012	46,964	1,632,174,577 <sup>(3)</sup>	34,754	46,732,174	-	46,732,174	2.86%	995	
2012	8/31/2013	48,778	1,639,479,201 <sup>(3)</sup>	33,611	45,507,622	2,978,000	48,485,622	2.96%	994	
2013	8/31/2014	50,771	1,678,223,921 <sup>(4)</sup>	33,055	44,100,649	2,978,000	47,078,649	2.81%	927	
2014	8/31/2015	52,771	1,624,999,091 <sup>(5)</sup>	30,793	40,250,929	2,978,000	43,228,929	2.66%	819	
2015	6/30/2016 <sup>(6)</sup>	66,146	1,656,072,261 <sup>(5)</sup>	25,037	40,064,682	2,978,000	43,042,682	2.60%	651	
2016	6/30/2017	67,741	1,814,038,075 <sup>(5)</sup>	26,779	40,778,452 <sup>(7)</sup>	2,978,000 <sup>(7)</sup>	43,756,452	2.41%	646	

- (1) Source District.
- (2) Net of State Aid. Percentage of State share is as reported by the Texas Education Agency in the Summary of Finances reports for the corresponding fiscal year.
- (3) Valuations as reported in the District’s FYE Audit.
- (4) FYE 2014 valuations as reported by the Texas Education Agency as the District’s State Certified District Property Values, subject to change.
- (5) As reported by the Hidalgo County Appraisal District on District’s certified roll; such values are subject to change during the ensuing year.
- (6) The District’s fiscal year end changed from August 31 to June 30 beginning on September 1, 2015.
- (7) Projected, subject to change. Includes the Refunding Bonds and excludes the Refunded Bonds.

For additional information regarding the District, please contact:

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**DISTRICT OFFICIALS, STAFF AND CONSULTANTS**

**ELECTED OFFICIALS**

<u>Board of Trustees</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Patricia O'Cana-Olivarez President	7 Years	May 2019	Attorney
Roy Vela Vice President	2 Years	May 2018	Provider Relations Representative
Petra B. Ramirez Secretary	2 Years	May 2018	Retired Educator
Charlie Garcia III Board Member	3 Month	May 2019	Architect
Minnie R. Rodgers Board Member	2 Years	May 2018	Retired Educator
Dr. Sonia M. Trevino Board Member	3 Months	May 2019	Chiropractor
Jerry Zamora Board Member	3 Months	May 2019	Law Enforcement Officer

**SELECTED ADMINISTRATIVE STAFF**

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>
Ricardo Lopez	Superintendent	3 Years
Rumalda Ruiz	Assistant Superintendent for Finance	8 Years
Anna Zuniga	Director of Finance	16 Years

**CONSULTANTS AND ADVISORS**

Auditors .....	Long Chilton, LLP McAllen, Texas
Bond Counsel .....	The J. Ramirez Law Firm San Juan, Texas
Financial Advisor .....	FirstSouthwest, a Division of Hilltop Securities Inc. Pharr and Dallas, Texas

**PRELIMINARY OFFICIAL STATEMENT  
RELATING TO**

**\$44,695,000\***

**MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
UNLIMITED TAX REFUNDING BONDS, SERIES 2016**

**INTRODUCTION**

This Official Statement, which includes the Schedule I and the Appendices hereto, provides certain information regarding the issuance of \$44,695,000\* Mission Consolidated Independent School District Unlimited Tax Refunding Bonds, Series 2016 (the "Refunding Bonds"). The Official Statement speaks only as of its date and the information contained herein is subject to change. The Official Statement pertaining to the Refunding Bonds and the Escrow Agreement (defined below) will be deposited with the Municipal Securities Rulemaking Board through its Electronic Municipal Marketing Access ("EMMA") system. See "CONTINUING DISCLOSURE OF INFORMATION" herein for a description of the District's undertaking to provide continuing disclosure to the public on a continuing basis. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the order authorizing the issuance and sale of the Refunding Bonds (the "Order") to be adopted by the Board of Trustees (the "Board") of the Mission Consolidated Independent School District (the "District" to "Issuer") on October 11, 2016, except as otherwise indicated herein.

There follows in this Preliminary Official Statement descriptions of the Refunding 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., Pharr, Texas.

**THE DISTRICT** . . . The District is a political subdivision located in Hidalgo County, Texas. The District is governed by a seven-member Board who serve staggered four-year terms with elections being held in May of each year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. The District covers approximately 41 square miles encompassing the City of Mission, City of Alton and City of Palmhurst.

**PLAN OF FINANCING**

**PURPOSE** . . . Proceeds from the sale of the Refunding Bonds will be used (1) to refund a portion of the District's outstanding debt (the "Refunded Bonds") (see Schedule I for a detailed listing of the Refunded Bonds and their call date) and (2) to pay the costs associated with the issuance of the Refunding Bonds.

**REFUNDED BONDS** . . . The principal and interest due on the Refunded Bonds are to be paid on the scheduled interest payment dates and the redemption date of such Refunded Bonds from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the District and U.S. Bank National Association, Houston, Texas (the "Escrow Agent"). The Order provides that the District will deposit with the Escrow Agent a portion of the proceeds of the sale of the Bonds, in an amount which, together with the Federal Securities (defined below) purchased with a portion of the Bond proceeds and the District contribution and the interest to be earned on such Federal Securities, will be sufficient to accomplish the discharge and final payment of the Refunded Bonds on their redemption date. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase direct obligations of the United States of America (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

Grant Thornton LLP, a nationally recognized accounting firm, will verify at the time of delivery of the Bonds to the Underwriters that the Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. **Such maturing principal of and interest on the Federal Securities will not be available to pay the debt service on the Bonds** (see "OTHER INFORMATION – Verification of Arithmetical and Mathematical Computations").

By the deposit of the Federal Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), and the order authorizing the issuance of the Refunded Bonds. It is the opinion of Bond Counsel that as a result of such defeasance and in reliance upon the report of Grant Thornton LLP, the Refunded Bonds will be outstanding for the purpose of receiving payments from the Federal Securities and any cash held for such purpose by the Escrow Agent, and the Refunded Bonds will not be deemed as being outstanding obligations of the District payable from the sources and secured in the manner provided in the ordinances authorizing their issuance or for the purpose of applying any limitation on the issuance of debt or any other purpose.

The District has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to make payments on the Refunded Bonds, if for any reason the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment. After defeasance of the Refunded Bonds, the Permanent School Fund Guarantee with respect thereto will terminate.

**SOURCES AND USES OF PROCEEDS** . . . The proceeds from the sale of the Refunding Bonds will be applied approximately as follows:

**Sources of Funds**

Par Amount of Bonds	
Premium	_____
Total Sources of Funds	=====

**Uses of Funds**

Deposit to Escrow Fund	
Underwriters' Discount	
Costs of Issuance	_____
Total Uses of Funds	=====

**THE REFUNDING BONDS**

**DESCRIPTION OF THE REFUNDING BONDS** . . . The Refunding Bonds will be dated as of October 1, 2016 and interest on the Refunding Bonds will accrue from November 3, 2016 (the "Delivery Date"), such interest is payable on February 15 and August 15 in each year, commencing on August 15, 2017 until maturity or prior redemption. The Refunding Bonds will mature on the dates, in the principal amounts, and will bear interest at the rates set forth on page 2 of this Official Statement, and such interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

The Refunding Bonds will be issued only in fully registered form and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. The Refunding Bonds will be issued in denominations of \$5,000 of principal amount or any integral thereof within a maturity. **No physical delivery of the Refunding Bonds will be made to the beneficial owners thereof.** The principal of and interest on the Refunding 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 Refunding Bonds (see "THE REFUNDING BONDS - Book-Entry-Only System" herein).

Interest on the Refunding Bonds is payable to the registered owner appearing on the bond registration books of the Paying Agent/Registrar on the Record Date (as defined below) and such interest shall be paid by the U.S. Bank National Association, Houston, Texas (the "Paying Agent/Registrar") (i) by check sent United States Mail, first class postage prepaid, to the address of the registered owner recorded in the bond register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The principal and interest of the Refunding Bonds is payable at maturity or, upon prior redemption, upon their presentation and surrender to the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Refunding Bonds, all payments will be made as described under "THE REFUNDING BONDS - Book-Entry-Only System" herein. If the date for the payment of the principal of or interest on the Refunding Bonds shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the designated corporate office of the Paying Agent/Registrar is located is authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

**AUTHORITY FOR ISSUANCE** . . . The Refunding Bonds are issued and the tax levied for their payment, as amended, pursuant to authority conferred by the Constitution and the laws of the State of Texas, including Chapter 1207, Texas Government Code, and the Order.

**SECURITY AND SOURCE OF PAYMENT** . . . All taxable property within the District is subject to an annual ad valorem tax levied by the District, without legal limit as to rate or amount, sufficient to provide for the payment of principal of and interest on the Refunding Bonds. Additionally, the District has received conditional approval for the payment of the Refunding Bonds to be guaranteed by the corpus of the Permanent School Fund of Texas.

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

In the event the District defeases any of the Refunding Bonds, the payment of such defeased Refunding Bonds will cease to be guaranteed by the Permanent School Fund (see "THE REFUNDING BONDS – Defeasance").

**OPTIONAL REDEMPTION** . . . The District reserves the right, at its option, to redeem Refunding Bonds having stated maturities on and after February 15, 2027, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2026, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Refunding Bonds are to be redeemed, the District may select the maturities of Refunding Bonds to be redeemed. If less than all the Refunding Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Refunding Bonds are in Book-Entry-Only form) shall determine by lot the Refunding Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption



shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

**NOTICE OF REDEMPTION.** . . . Not less than 30 days prior to a redemption date for the Refunding Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Refunding Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND ANY OTHER CONDITION TO REDEMPTION SATISFIED, THE REFUNDING 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.

ANY NOTICE SO MAILED WILL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, AND ANY CONDITIONS STATED IN THE NOTICE HAVING BEEN MET, THE REFUNDING BONDS CALLED FOR REDEMPTION WILL 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 BOND OR PORTION THEREOF WILL CEASE TO ACCRUE.

**DEFEASANCE.** . . . The District reserves the right to defease the Refunding Bonds in any manner now or hereafter permitted by law. Upon defeasance, such defeased Refunding Bonds shall no longer be regarded to be outstanding or unpaid and such defeased Refunding Bonds will no longer be guaranteed by the corpus of the Permanent School Fund.

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

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

DTC will act as securities depository for the Refunding Bonds. The Refunding Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Refunding Bonds in the aggregate principal amount of 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 issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Refunding Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Refunding Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Refunding

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 Refunding Bonds, except in the event that use of the book-entry system for the Refunding Bonds is discontinued.

To facilitate subsequent transfers, all Refunding 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 Refunding 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 Refunding Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Refunding Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Refunding Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Refunding Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Refunding Bonds may wish to ascertain that the nominee holding the Refunding Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Refunding Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Refunding 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 Refunding Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Refunding 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 date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments on the Refunding Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Refunding Bonds at any time by giving reasonable notice to the District or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Refunding Bond certificates are required to be printed and delivered.

**Use of Certain Terms in Other Sections of this Official Statement.** In reading this Official Statement it should be understood that while the Refunding 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 Refunding 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.

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

**Effect of Termination of Book-Entry-Only System.** In the event that the Book-Entry-Only System is discontinued, printed certificates will be issued to the holders and the Refunding Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under "THE REFUNDING BONDS - Transfer, Exchange and Registration" below.

**PAYING AGENT/REGISTRAR . . .** The initial Paying Agent/Registrar is U.S. Bank National Association, Houston, Texas. In the Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Refunding Bonds are duly paid, and any successor Paying Agent/Registrar shall be a bank or trust company or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Refunding Bonds. Upon any change in the Paying Agent/Registrar for the Refunding Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Refunding Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

In the event the Book-Entry-Only System should be discontinued, interest on the Refunding Bonds will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest will be paid (i) by check sent United States mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Refunding Bonds will be paid to the registered owner at the stated maturity or, upon prior redemption, upon presentation to the designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Refunding Bonds, payments of principal of the Refunding Bonds and interest on the Refunding Bonds will be made as described in "THE REFUNDING BONDS - Book-Entry-Only System," above.

**TRANSFER, EXCHANGE AND REGISTRATION . . .** In the event the Book-Entry-Only System should be discontinued, printed Bond certificates will be delivered to registered owners and thereafter the Refunding Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Refunding Bonds may be assigned by the execution of an assignment form on the respective Refunding Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Refunding Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Refunding 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 Refunding Bonds issued in an exchange or transfer of Refunding 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 Refunding 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 Refunding Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 of principal for any one maturity and for a like aggregate principal amount as the Refunding Bonds surrendered for exchange or transfer. See "THE REFUNDING BONDS - Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Refunding Bonds. Neither the District nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond called for redemption in part.

**RECORD DATE FOR INTEREST PAYMENT . . .** The date for determining the person to whom the interest payable on the Refunding Bonds on any interest payment date means the close of business on the last day of the preceding month ("Record Date").

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner 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 does not provide for the appointment of a trustee to represent the interests 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, in the event of any such failure to perform, and the State fails to honor the Permanent School Fund Guarantee as hereafter discussed, the bondholders would be responsible for the initiation and cost of any legal action to enforce performance of the Order. Furthermore, the Order does not establish specific events of default with respect to the Bonds and, under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the District to observe any covenant under the Order. Bondholders of Bonds could seek a judgment against the District if a default occurred in the payment of principal or interest on any such Bonds; however, such judgment could not be satisfied by execution against any property of the District and a suit for monetary damages could be vulnerable to the defense of sovereign immunity. 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. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, bondholders may not be able to bring such a suit against the District for breach of the Refunding Bonds or Order covenants. A bondholder's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the District to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as they became due or perform other material terms and covenants contained in the Order. In general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform legally imposed ministerial duties necessary for the performance of a valid contract, and Texas law provides that, following their approval by the Attorney General and issuance, the Bonds are valid and binding obligations for all purposes according to their terms. However, the enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

The District is also eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or 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. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code. 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 that the District fails to make a payment on the Bonds when due.

## **THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM**

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/](http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/) and with the MSRB at [www.emma.msrb.org](http://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](http://www.sec.gov/edgar.shtml). A list of the Fund’s equity and fixed income holdings as of August 31 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund’s securities lending program. Such list, when filed, is incorporated herein and made a part hereof for all purposes.

### **The Total Return Constitutional Amendment**

The Total Return Constitutional Amendment approved a fundamental change in the way that distributions are made to the ASF from the PSF. The Total Return Constitutional Amendment requires that PSF distributions to the ASF be determined using a total-return-based formula instead of the current-income-based formula, which was used from 1964 to the end of the 2003 fiscal year. The Total Return Constitutional Amendment provides that the total amount distributed from the Fund to the ASF: (1) in each year of a State fiscal biennium must be an amount that is not more than 6% of the average of the market value of the Fund, excluding real property (the “Distribution Rate”), on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium (the “Distribution Measurement Period”), in accordance with the rate adopted by: (a) a vote of two-thirds of the total membership of the State Board of Education (“SBOE”), taken before the Regular Session of the Legislature convenes or (b) the Legislature by general law or appropriation, if the SBOE does not adopt a rate as provided by clause (a); and (2) over the ten-year period consisting of the current State fiscal year and the nine preceding state fiscal years may not exceed the total return on all investment assets of the Fund over the same ten-year period (the “Ten Year Total Return”). In April 2009, the Attorney General issued a legal opinion, Op. Tex. Att’y Gen. No. GA-0707 (2009) (“GA-0707”), at the request of the Chairman of the SBOE with regard to certain matters pertaining to the Distribution Rate and the determination of the Ten Year Total Return. In GA-0707 the Attorney General opined, among other advice, that (i) the Ten Year Total Return should be calculated on an annual basis, (ii) a contingency plan adopted by the SBOE, to permit monthly transfers equal in aggregate to the annual Distribution Rate to be halted and subsequently made up if such transfers temporarily exceed the Ten Year Total Return, is not prohibited by State law, provided that such contingency plan applies only within a fiscal year time basis, not on a biennium basis, and (iii) that the amount distributed from the Fund in a fiscal year may not exceed 6% of the average of the market value of the Fund or the Ten Year Total Return. In accordance with GA-0707, in the event that the Ten Year Total Return is exceeded during a fiscal year, transfers

to the ASF will be halted. However, if the Ten Year Total Return subsequently increases during that biennium, transfers may be resumed, if the SBOE has provided for that contingency, and made in full during the remaining period of the biennium, subject to the limit of 6% in any one fiscal year. Any shortfall in the transfer that results from such events from one biennium may not be paid over to the ASF in a subsequent biennium as the SBOE would make a separate payout determination for that subsequent biennium.

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

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

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

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

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

Following on previous decisions to create strategic relationships with investment managers in certain asset classes, in September 2015 and January 2016, the SBOE approved the implementation of direct investment programs in private equity and absolute return assets, respectively, which has continued to reduce administrative costs with respect to those portfolios. The Attorney General has advised the SBOE in Op. Tex. Att’y Gen. No. GA-0998 (2013) (“GA-0998”), that the PSF is not subject to requirements of certain State competitive bidding laws with respect to the selection of investments. In GA-0998, the Attorney General also advised that the SBOE generally must use competitive bidding for the selection of investment managers and other third party providers of investment services, such as record keeping and insurance, but excluding certain professional services, such as accounting services, as State law prohibits the use of competitive bidding for specified professional services. GA-0998 provides guidance to the SBOE in connection with the direct management of alternative investments through investment vehicles to be created by the SBOE, in lieu of contracting with external managers for such services, as has been the recent practice of the PSF. The PSF staff and the Fund’s investment advisor are tasked with advising the SBOE with respect to the implementation of the Fund’s asset allocation policy, including the timing and manner of the selection of any external managers and other consultants.

In accordance with the Texas Constitution, the SBOE views the PSF as a perpetual institution, and the Fund is managed as an endowment fund with a long-term investment horizon. Under the total-return investment objective, the Investment Policy provides that the PSF shall be managed consistently with respect to the following: generating income for the benefit of the public free schools of Texas, the real growth of the corpus of the PSF, protecting capital, and balancing the needs of present and future generations of Texas school children. As described above, the Total Return

Constitutional Amendment restricts the annual pay out from the Fund to the total-return on all investment assets of the Fund over a rolling ten-year period. State law provides that each transfer of funds from the PSF to the ASF is made monthly, with each transfer to be in the amount of one-twelfth of the annual distribution. The heavier weighting of equity securities and alternative assets relative to fixed income investments has resulted in greater volatility of the value of the Fund. Given the greater weighting in the overall portfolio of passively managed investments, it is expected that the Fund will reflect the general performance returns of the markets in which the Fund is invested.

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

### **Management and Administration of the Fund**

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

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

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

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

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

### **Capacity Limits for the Guarantee Program**

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

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

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

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

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

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

<b>Permanent School Fund Valuations</b>		
Fiscal Year Ended 8/31	Book Value <sup>(1)</sup>	Market Value <sup>(1)</sup>
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 <sup>(2)</sup>	36,217,270,220 <sup>(2)</sup>

<sup>(1)</sup> 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.

<sup>(2)</sup> 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).

<b>Permanent School Fund Guaranteed Bonds</b>	
At 8/31	Principal Amount <sup>(1)</sup>
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 <sup>(2)</sup>

<sup>(1)</sup> 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.

<sup>(2)</sup> 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<sup>(1)</sup>**

	<u>School District Bonds</u>		<u>Charter District Bonds</u>		<u>Totals</u>	
	<u>Number of Issues</u>	<u>Principal Amount Guaranteed</u>	<u>Number of Issues</u>	<u>Principal Amount Guaranteed</u>	<u>Number of Issues</u>	<u>Principal Amount Guaranteed</u>
<u>At 8/31</u>						
2014 <sup>(2)</sup>	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

<sup>(1)</sup> 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.

<sup>(2)</sup> 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/](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](http://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](http://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 "despite 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 Maintenance and Operations ("M&O") tax to pay current expenses and an unlimited interest and sinking ("I&S") fund 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 under law 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 Texas Education Commissioner (the "Compassioner"). 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 MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**

The District's wealth per student for the 2016-17 school year is less than the equalized wealth value. Accordingly, the District has not been required to exercise one of the permitted wealth equalization options. As a district with wealth per student less than the equalized wealth value, the District may benefit by agreeing to accept taxable property or funding assistance from or agreeing to consolidate with a property-rich district to enable such district to reduce its wealth per student to the permitted level.

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

### **TAX INFORMATION**

**AD VALOREM TAX LAW . . .** The appraisal of property within the District is the responsibility of the Hidalgo County Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under Title I of the Texas Tax Code (the "Property Tax Code") to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. Effective January 1, 2010, 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 that would not 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 property's appraised value in the preceding tax year, plus (b) the property's appraised value in the preceding tax year, plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board within the Appraisal District, consisting of members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The District may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the District by petition filed with the appropriate Appraisal Review Board.

Reference is made to the 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 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 for all residence homesteads; 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 who are 65 years of age or older or disabled, to the extent that such persons are eligible for 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 who are 65 years of age or older or disabled is also transferable to a different residence homestead. If improvements (other than repairs or improvements required to comply with governmental requirements) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. A “disabled” person is one who is “under a disability for purposes of payment of disability insurance benefits under the Federal Old Age, Survivors and Disability Insurance”. Also, a surviving spouse of a taxpayer who is 65 years of age or older who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse and the spouse was at least 55 years of age at the time of the death of the individual’s spouse. Pursuant to a constitutional amendment approved by the voters on May 12, 2007, legislation was enacted to reduce the school property tax limitation imposed by the freeze on taxes paid on residence homesteads of persons who are 65 years of age or over or disabled to correspond to reductions in local school district tax rates from the 2005 tax year to the 2006 tax year and from the 2006 tax year to the 2007 tax year (see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – General”). The school property tax limitation provided by the constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years.

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

- (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.

After the exemption described in (i) above is authorized, such exemption may be repealed or decreased or increased in amount (a) by the governing body of the political subdivision or (b) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than \$3,000 of the market value.

The surviving spouse of an individual who qualifies for the exemption listed in (i) above for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual’s spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

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

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000; provided, however, that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran’s residence homestead. Effective January 1, 2012, subject to certain conditions, the surviving spouses of a deceased veteran who had received a disability rating of 100% will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries. Pursuant to a constitutional amendment approved by the voters on November 5, 2013 and legislation effective January 1, 2014, a partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled to an exemption equal to the percentage of the veteran’s disability if the residence was donated at no cost to the veteran by a charitable organization. Also as approved by voters on November 5, 2013 and effective January 1, 2014, the surviving spouse of a member of the armed forces who is killed in action is entitled to a property tax exemption for all or part of the market value of such surviving spouse’s residence homestead if the surviving spouse has not remarried since the service member’s death and said property was the service member’s residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

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

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.

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of “goods-in-transit.” “Goods-in-transit” is defined by Section 11.253 of the Tax Code, which is effective for tax years 2008 and thereafter, as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. Section 11.253 permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax year. A taxpayer may receive only one of the freeport exemption or the goods-in-transit exemption for items of personal property.

A city or county may create a tax increment financing district (“TIF”) within the city or county with defined boundaries and establish a base value of taxable property in the TIF at the time of its creation. Overlapping taxing units, including school districts, may agree with the city or county to contribute all or part of future ad valorem taxes levied and collected against the “incremental value” (taxable value in excess of the base value) of taxable real property in the TIF to pay or finance the costs of certain public improvements in the TIF, and such taxes levied and collected for and on behalf of the TIF are not available for general use by such contributing taxing units. Effective September 1, 2001, school districts may not enter into tax abatement agreements under the general statute that permits cities and counties to initiate tax abatement agreements. In addition, credit will not be given by the Commissioner of Education in determining a district’s property value wealth per student for (1) the appraised value, in excess of the “frozen” value, of property that is located in a TIF created after May 31, 1999 (except in certain limited circumstances where the municipality creating the tax increment financing zone gave notice prior to May 31, 1999 to all other taxing units that levy ad valorem taxes in the TIF of its intention to create the TIF and the TIF was created and had its final project and financing plan approved by the municipality prior to August 31, 1999), or (2) for the loss of value of abated property under any abatement agreement entered into after May 31, 1993. Notwithstanding the foregoing, in 2001 the Legislature enacted legislation known as the Texas Economic Development Act, which provides incentives for school districts to grant limitations on appraised property values and provide ad valorem tax credits to certain corporations and limited liability companies to encourage economic development within the district. Generally, during the last eight years of the ten-year term of a tax limitation agreement, the school district may only levy and collect ad valorem taxes for maintenance and operation purposes on the agreed-to limited appraised property value. The taxpayer is entitled to a tax credit from the school district for the amount of taxes imposed during the first two years of the tax limitation agreement on the appraised value of the property above the agreed-to limited value. Additional State funding is provided to a school district for each year of such tax limitation in the amount of the tax credit provided to the taxpayer. During the first two years of a tax limitation agreement, the school district may not adopt a tax rate that exceeds the district’s rollback tax rate (see “TAX INFORMATION - Public Hearing and Rollback Tax Rate” and “TAX INFORMATION – District Application of Tax Code”).

**TAX RATE LIMITATIONS . . .** A school district is authorized to levy maintenance and operation (“M&O”) taxes subject to approval of a proposition submitted to district voters. 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 two succeeding paragraphs. The maximum voted M&O tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on March 9, 1963 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 Notes will be approximately 2.96% 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 2012–13. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For a more detailed description of the State Compression Percentage, see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Local Funding for School Districts”. Furthermore, a school district cannot annually increase its tax rate in excess of the district’s “rollback tax rate” without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate. See “TAX INFORMATION - Public Hearing and Rollback Tax Rate” and “Table 4 - Tax Rate, Levy and Collection History” for the District’s current tax rate).

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



The District held a tax ratification election on September 17, 2011, in which the voters approved a tax rate that exceeded the District's "rollback tax rate" by 13 cents per hundred dollar valuation (see "Table 4 - Tax Rate, Levy and Collection History" hereof).

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

**PUBLIC HEARING AND ROLLBACK TAX RATE.** . . In setting its annual tax rate, the governing body of a school district generally cannot adopt a tax rate exceeding the district's "rollback tax rate" without approval by a majority of the voters voting at an election approving the higher rate. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures and (2) a rate for debt service. For the 2007-08 fiscal year and thereafter, the rollback tax rate for a school district is the lesser of (A) the sum of (1) the product of the district's "state compression percentage" for that year multiplied by \$1.50, (2) the rate of \$0.04, (3) any rate increase above the rollback tax rate in prior years that were approved by voters, and (4) the district's current debt rate, or (B) the sum of (1) the district's effective maintenance and operations tax rate, (2) the product of the district's state compression percentage for that year multiplied by \$0.06; and (3) the district's current debt rate (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - General" for a description of the "state compression percentage"). Effective June 19, 2009, if for the preceding tax year a district adopted 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.

By each September 1 or as soon thereafter as practicable, the Board of Trustees adopts a tax rate per \$100 taxable value for the current year. Before adopting its annual tax rate, a public meeting must be held for the purpose of adopting a budget for the succeeding year. A notice of public meeting to discuss budget and proposed tax rate must be published in the time, format and manner prescribed in Section 44.004 of the Texas Education Code. Section 44.004(e) of the Texas Education Code provides that a person who owns taxable property in a school district is entitled to an injunction restraining the collection of taxes by the district if the district has not complied with such notice requirements or the language and format requirements of such notice as set forth in Section 44.004(b), (c) and (d) and if such failure to comply was not in good faith. Section 44.004(e) further provides the action to enjoin the collection of taxes must be filed before the date the district delivers substantially all of its tax bills. Furthermore, Section 26.05 of the Property Tax Code 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. Beginning September 1, 2009, 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 <sup>(a)</sup>	Cumulative Interest <sup>(a)</sup>	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12 <sup>(a)</sup>	6	18

(a) After July, penalty remains at 12%, and interest accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest is to compensate the taxing unit for revenue lost because of the delinquency. In addition, if an account is delinquent in July, an attorney's collection fee of up to 20% may be added to the total tax penalty and interest charge.

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

**DISTRICT APPLICATION OF TAX CODE . . .** The District grants the state-mandated exemption to the market value of the residence homestead of \$25,000; the disabled are also granted the state-mandated exemption to the market value of the residence of \$10,000.

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

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

The District has adopted the tax freeze for citizens who are disabled or are 65 years of age or older, which became a local option and subject to local referendum on January 1, 2004.

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

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

The District does tax freeport property.

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**TABLE 1 - VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT**

2016/17 Market Valuation Established by Hidalgo County Appraisal District (excluding totally exempt property)		\$ 2,489,401,084
Less Exemptions/Reductions at 100% Market Value:		
Agricultural & Timber Use Reductions	\$ 195,839,652	
Disabled Veterans	11,870,059	
Freeport	7,598,766	
Historical Exemptions	5,000	
Homestead Cap Adjustment	23,945,651	
Residential Homestead Exemptions	252,759,367	
Residential Homestead Exemptions, Over 65 and Disabled	37,838,732	
Pollution Control	-	
Value Lost to Freeze Adjustments	<u>145,505,782</u>	<u>675,363,009</u>
2016/17 Taxable Assessed Valuation		\$ 1,814,038,075
Debt Payable from Ad Valorem Taxes as of August 31, 2016		
Outstanding Unlimited Tax Bonds <sup>(1)</sup>		\$ 78,100,222
The Refunding Bonds <sup>(2)</sup>		44,695,000
Limited Tax Notes		<u>2,978,000</u>
Total Debt Payable from Ad Valorem Taxes		\$ 125,773,222
Less: State Aid <sup>(3)</sup>		<u>\$ (80,179,140)</u>
Net Debt Payable from Ad Valorem Taxes		\$ 45,594,082
Interest and Sinking Fund as of June 30, 2016 <sup>(4)</sup>		\$ 2,331,540
Ratio of Gross Tax Supported Debt to Taxable Assessed Valuation		6.93%
Ratio of Net Tax Supported Debt to Taxable Assessed Valuation		2.51%

2016 Estimated Population - 66,146  
Per Capita Taxable Assessed Valuation - \$27,425  
Per Capita Gross Debt Payable from Ad Valorem Taxes - \$1,901  
Per Capita Debt Net Payable from Ad Valorem Taxes - \$689

(1) Excludes the Refunded Bonds.

(2) Preliminary, subject to change.

(3) Reported by the Texas Education Agency at 65.295% of the currently outstanding unlimited tax debt as of September 19, 2016; subject to change. The District received Instructional Facilities Allotment and Existing Debt Allotment from the State.

(4) Unaudited.

**TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY**

Category	Taxable Appraised Value for Fiscal Year					
	2017		2016		2015	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 1,325,766,214	53.26%	\$ 1,225,028,583	53.90%	\$ 1,158,962,310	53.61%
Real, Residential, Multi-Family	78,682,457	3.16%	68,168,542	3.00%	65,523,384	3.03%
Real, Vacant Lots/Tracts	101,519,093	4.08%	107,835,987	4.74%	108,267,151	5.01%
Real, Acreage (Land Only)	202,859,013	8.15%	173,011,378	7.61%	181,758,101	8.41%
Real, Farm and Ranch Improvements	67,919,423	2.73%	65,470,156	2.88%	56,260,971	2.60%
Real, Commercial & Industrial	461,802,293	18.55%	376,193,507	16.55%	345,442,386	15.98%
Special Inventory	19,400,100	0.78%	17,035,402	0.75%	14,495,947	0.67%
Real, Oil, Gas and Other Mineral Reserves	179,160	0.01%	253,410	0.01%	316,620	0.01%
Tangible Personal, Commercial & Industrial	155,270,126	6.24%	147,206,697	6.48%	137,841,674	6.38%
Real and Intangible Personal, Utilities	64,056,845	2.57%	81,845,231	3.60%	79,916,791	3.70%
Tangible Personal, Other	-	0.00%	-	0.00%	-	0.00%
Tangible Personal, Mobile Homes	8,996,558	0.36%	9,064,651	0.40%	9,340,034	0.43%
Exempt	-	0.00%	-	0.00%	-	0.00%
Real Property, Inventory	2,949,802	0.12%	1,659,552	0.07%	3,838,477	0.18%
Total Appraised Value Before Exemptions	\$ 2,489,401,084	100.00%	\$ 2,272,773,096	100.00%	\$ 2,161,963,846	100.00%
Less: Total Exemptions/Reductions	675,363,009		616,700,835		536,964,756	
Adjustments	-		-		-	
Taxable Assessed Value	<u>\$ 1,814,038,075</u> <sup>(1)</sup>		<u>\$ 1,656,072,261</u> <sup>(1)</sup>		<u>\$ 1,624,999,091</u> <sup>(2)</sup>	

Category	Taxable Appraised Value for Fiscal Year			
	2014		2013	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 1,147,283,591	53.94%	\$ 1,109,870,565	55.08%
Real, Residential, Multi-Family	64,835,823	3.05%	62,546,489	3.10%
Real, Vacant Lots/Tracts	105,102,872	4.94%	91,000,033	4.52%
Real, Acreage (Land Only)	181,201,570	8.52%	198,660,066	9.86%
Real, Farm and Ranch Improvements	59,962,592	2.82%	53,026,240	2.63%
Real, Commercial and Industrial	333,367,231	15.67%	289,092,446	14.35%
Special Inventory	15,130,591	0.71%	13,268,230	0.66%
Real, Oil, Gas and Other Mineral Reserves	242,370	0.01%	70,280	0.00%
Tangible Personal, Commercial & Industrial	129,922,678	6.11%	117,129,241	5.81%
Real and Intangible Personal, Utilities	76,329,909	3.59%	67,612,331	3.36%
Tangible Personal, Other	-	0.00%	1,445	0.00%
Tangible Personal, Mobile Homes	6,576,589	0.31%	6,387,016	0.32%
Exempt	-	0.00%	-	0.00%
Real Property, Inventory	6,899,881	0.32%	6,444,541	0.32%
Total Appraised Value Before Exemptions	\$ 2,126,855,697	100.00%	\$ 2,015,108,923	100.00%
Less: Total Exemptions/Reductions	533,525,642		505,873,505	
Adjustments	84,893,866		130,243,783	
Taxable Assessed Value	<u>\$ 1,678,223,921</u> <sup>(3)</sup>		<u>\$ 1,639,479,201</u> <sup>(3)</sup>	

(1) Based on information from the Appraisal District. Values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

(2) FYE 2014 valuations are as reported by the Texas Education Agency as the Districts State Certified District Property Values, subject to change.

(3) Valuations as reported in the District's FYE Audit.

**TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY**

Tax Year	Fiscal Year Ended	Estimated Population <sup>(1)</sup>	Taxable Assessed Valuation <sup>(2)</sup>	Taxable Assessed Valuation Per Capita	Net Unlimited Tax Supported Outstanding at End of Year <sup>(2)</sup>	Limited Tax Supported Outstanding at End of Year	Tax Supported Debt Outstanding at End of Year	Ratio of Tax Supported Net Debt to Taxable Assessed Valuation	Tax Supported Net Debt Per Capita
2010	8/31/2011	45,257	\$ 1,641,767,267 <sup>(3)</sup>	\$ 36,277	\$ 47,379,686	\$ -	\$ 47,379,686	2.89%	\$ 1,047
2011	8/31/2012	46,964	1,632,174,577 <sup>(3)</sup>	34,754	46,732,174	-	46,732,174	2.86%	995
2012	8/31/2013	48,778	1,639,479,201 <sup>(3)</sup>	33,611	45,507,622	2,978,000	48,485,622	2.96%	994
2013	8/31/2014	50,771	1,678,223,921 <sup>(4)</sup>	33,055	44,100,649	2,978,000	47,078,649	2.81%	927
2014	8/31/2015	52,771	1,624,999,091 <sup>(5)</sup>	30,793	40,250,929	2,978,000	43,228,929	2.66%	819
2015	6/30/2016 <sup>(6)</sup>	66,146	1,656,072,261 <sup>(5)</sup>	25,037	40,064,682	2,978,000	43,042,682	2.60%	651
2016	6/30/2017	67,741	1,814,038,075 <sup>(5)</sup>	26,779	40,778,452 <sup>(7)</sup>	2,978,000 <sup>(7)</sup>	43,756,452	2.41%	646

- (1) Source District.
- (2) Net of State Aid. Percentage of State share is as reported by the Texas Education Agency in the Summary of Finances reports for the corresponding fiscal year.
- (3) Valuations as reported in the District's FYE Audit.
- (4) FYE 2014 valuations as reported by the Texas Education Agency as the Districts State Certified District Property Values, subject to change.
- (5) As reported by the Hidalgo County Appraisal District on District's certified roll; such values are subject to change during the ensuing year.
- (6) The District's fiscal year end changed from August 31 to June 30 beginning on September 1, 2015.
- (7) Projected, subject to change.

**TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY**

Tax Year	Fiscal Year Ended	Tax Rate	Local Maintenance	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2010	8/31/2011	\$ 1.3000	\$ 1.0400	\$ 0.2600	\$ 20,708,600	91.65%	98.51%
2011	8/31/2012	1.3000	1.1700	0.1300	20,613,066	92.93%	99.86%
2012	8/31/2013	1.3000	1.1700	0.1300	20,700,162	93.50%	100.34%
2013	8/31/2014	1.3000	1.1700	0.1300	21,668,744	94.38%	100.72%
2014	8/31/2015	1.3300	1.1700	0.1600	22,404,044	95.93%	101.53%
2015	6/30/2016 <sup>(1)</sup>	1.3672	1.1700	0.1972	23,686,232	93.56% <sup>(2)</sup>	98.38% <sup>(2)</sup>
2016	6/30/2017	1.3582	1.1700	0.1882	25,713,659	NA	NA

- (1) The District's fiscal year end changed from August 31 to June 30 beginning September 1, 2015.
- (2) Due to fiscal year end change, collections only reflect a 10 month period.

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**TABLE 5 - TEN LARGEST TAXPAYERS**

<u>Name of Taxpayer</u>	<u>Nature of Property</u>	<u>2016/17 Taxable Assessed Valuation</u>	<u>% of Total Taxable Assessed Valuation</u>
Sharyland Utilities LP	Electric Utility	\$ 27,351,610	1.51%
AEP Texas Central Co	Electric Utility	19,751,680	1.09%
Royal Technologies Corporation	Injection Molding	15,032,318	0.83%
Royal Technologies Corp	Injection Molding	14,484,073	0.80%
Bert Ogden Chevrolet - Mission	Automobile Sales	13,361,474	0.74%
Wal-Mart Stores	Commercial	11,787,598	0.65%
H E Butt Grocery Company LP	Grocery	11,115,672	0.61%
Colimar Inc.	Distribution Hub	11,088,975	0.61%
HEB Grovery Company LP	Grocery	8,695,283	0.48%
Spikes Motor Co Inc.	Automobile Sales	8,150,787	0.45%
		<u>\$ 140,819,470</u>	<u>7.76%</u>

**TABLE 6 - TAX ADEQUACY<sup>(1)(2)</sup>**

Tax Year 2017 Principal and Interest Requirements	\$ 3,269,625
\$0.1939 Tax Rate at 93% Collection Produces	\$ 3,271,200
Average Annual Principal and Interest Requirements, 2017-2038	\$ 2,790,764
\$0.1655 Tax Rate at 93% Collection Produces	\$ 2,792,077
Maximum Annual Principal and Interest Requirements, 2017	\$ 3,269,625
\$0.1939 Tax Rate at 93% Collection Produces	\$ 3,271,200

- (1) Based on the Tax Year Freeze Adjustment Taxable Assessed Valuation of \$1,814,038,075, and an estimated State Aid of 65.295% as reported by the Texas Education Agency as of September 19, 2016.
- (2) In 2011, the District held a Tax Ratification Election in which the voters authorized to reduce the Interest and Sinking Fund portion of the tax rate to \$0.1300 and increase the Maintenance and Operations portion of the tax rate to \$1.1700. The District will meet its debt obligations with remaining available funds from the Interest and Sinking fund portion of the tax rate as well as legally declared surplus funds from the General Fund.

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**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 debt ("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 Tax Debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the District.

Taxing Jurisdiction	2016/2017		Total Tax Supported Debt	Estimated % Applicable	District's
	Taxable Assessed Value	Tax Rate <sup>(2)</sup>			Overlapping Tax Supported Debt
					8/31/2016
Mission CISD	\$ 1,814,038,075	\$ 1.3582	\$ 125,773,222 <sup>(1)</sup>	100.00%	\$ 125,773,222
Alton, City of	381,494,412	0.4540	7,449,000	72.84%	5,425,852
Hidalgo County	32,500,611,220	0.5900	198,210,000	6.59%	13,062,039
Hidalgo County Drainage District #1	31,817,387,327	0.0957	145,305,000	6.90%	10,026,045
Mission, City of	4,090,953,114	0.4990	43,335,000	40.49%	17,546,342
South Texas College	33,051,982,985	0.1850	161,905,000	6.59%	10,669,540
Total Direct and Overlapping Tax Supported Debt					\$ 182,503,039
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation					10.06%
Per Capita Overlapping Tax Supported Debt					\$ 2,694

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

(2) Except for the District these reflect 2015 Tax Year tax rates, as of publication 2016 Tax Year rates not available.

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## DEBT INFORMATION

**TABLE 8 - PRO FORMA UNLIMITED TAX SUPPORTED DEBT SERVICE REQUIREMENTS**

Calendar Year Ending 31-Dec	Unlimited Tax Outstanding Debt Service <sup>(1)</sup>			The Refunding Bonds <sup>(2)</sup>			Total Unlimited Tax Debt Service	% of Principal Retired
	Principal	Interest	Total D/S	Principal	Interest	Total D/S		
2016	\$ 5,295,000	\$ 5,662,075	\$ 10,957,075	\$ -	\$ -	\$ -	\$ 10,957,075	
2017	3,765,222	3,294,321	7,059,544	860,000	1,501,650	2,361,650	9,421,194	
2018	4,060,000	3,021,225	7,081,225	-	1,899,800	1,899,800	8,981,025	
2019	3,010,000	2,883,150	5,893,150	1,150,000	1,882,550	3,032,550	8,925,700	
2020	3,135,000	2,760,250	5,895,250	1,195,000	1,841,400	3,036,400	8,931,650	18.30%
2021	3,260,000	2,632,350	5,892,350	1,250,000	1,786,250	3,036,250	8,928,600	
2022	3,395,000	2,499,250	5,894,250	1,310,000	1,722,250	3,032,250	8,926,500	
2023	3,545,000	2,351,250	5,896,250	1,380,000	1,655,000	3,035,000	8,931,250	
2024	3,705,000	2,187,375	5,892,375	1,450,000	1,584,250	3,034,250	8,926,625	
2025	3,895,000	2,006,225	5,901,225	1,525,000	1,509,875	3,034,875	8,936,100	38.43%
2026	4,090,000	1,806,600	5,896,600	1,605,000	1,431,625	3,036,625	8,933,225	
2027	4,270,000	1,619,850	5,889,850	1,685,000	1,349,375	3,034,375	8,924,225	
2028	4,445,000	1,447,175	5,892,175	1,770,000	1,263,000	3,033,000	8,925,175	
2029	4,650,000	1,242,750	5,892,750	1,860,000	1,172,250	3,032,250	8,925,000	
2030	4,880,000	1,004,500	5,884,500	1,955,000	1,076,875	3,031,875	8,916,375	63.84%
2031	2,740,000	814,000	3,554,000	2,780,000	972,400	3,752,400	7,306,400	
2032	2,885,000	673,375	3,558,375	2,895,000	858,900	3,753,900	7,312,275	
2033	3,030,000	525,500	3,555,500	3,015,000	740,700	3,755,700	7,311,200	
2034	3,190,000	370,000	3,560,000	3,135,000	617,700	3,752,700	7,312,700	
2035	3,355,000	206,375	3,561,375	3,265,000	489,700	3,754,700	7,316,075	88.51%
2036	3,500,000	61,250	3,561,250	3,395,000	356,500	3,751,500	7,312,750	
2037	-	-	-	3,535,000	217,900	3,752,900	3,752,900	97.00%
2038	-	-	-	3,680,000	73,600	3,753,600	3,753,600	100.00%
	<u>\$ 78,100,222</u>	<u>\$ 39,068,846</u>	<u>\$ 117,169,069</u>	<u>\$ 44,695,000</u>	<u>\$ 26,003,550</u>	<u>\$ 70,698,550</u>	<u>\$ 187,867,619</u>	

(1) Excludes the Refunded Bonds.

(2) Preliminary, subject to change.

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**TABLE 8A - TAX SUPPORTED DEBT SERVICE REQUIREMENTS**

Calendar Year Ending 31-Dec	Limited Tax Outstanding Debt Service			Less: Subsidy <sup>(1)</sup>	Net Limited Tax Debt Service	% of Principal Retired
	Principal	Interest	Total D/S			
2016	-	129,543	129,543	(120,086)	9,457	
2017	-	129,543	129,543	(120,086)	9,457	
2018	-	129,543	129,543	(120,086)	9,457	
2019	-	129,543	129,543	(120,086)	9,457	0.00%
2020	-	129,543	129,543	(120,086)	9,457	
2021	-	129,543	129,543	(120,086)	9,457	
2022	-	129,543	129,543	(120,086)	9,457	
2023	-	129,543	129,543	(120,086)	9,457	
2024	-	129,543	129,543	(120,086)	9,457	0.00%
2025	-	129,543	129,543	(120,086)	9,457	
2026	-	129,543	129,543	(120,086)	9,457	
2027	-	129,543	129,543	(120,086)	9,457	
2028	-	129,543	129,543	(120,086)	9,457	
2029	-	129,543	129,543	(120,086)	9,457	0.00%
2030	2,978,000	64,772	3,042,772	(60,043)	2,982,728	100.00%
	<u>\$ 2,978,000</u>	<u>\$ 1,878,374</u>	<u>\$ 4,856,374</u>	<u>\$ (1,741,252)</u>	<u>\$ 3,115,121</u>	

(1) Calculated at 92.70% of interest due. Subject to change.

**TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION**

I&S Tax Supported Debt Service Requirements, Calendar Year Ending 12/31/2017 <sup>(1)</sup>	\$ 9,421,194
Interest and Sinking Fund Balance, as of June 30, 2016 <sup>(2)</sup>	2,331,540
Estimated State Aid (Instructional Facilities Allotment) <sup>(3)</sup>	6,151,773
Estimated State Aid (Existing Debt Allotment) <sup>(3)</sup>	-
Interest and Sinking Fund Tax Levy at 93% Collections <sup>(4)</sup>	2,670,264
Budgeted Transfer from General Fund	-
Estimated Total Available Funds	<u>\$ 11,153,577</u>
Estimated Interest and Sinking Fund Balance as of December 31, 2017	<u>\$ 1,732,383</u>

(1) Preliminary, subject to change.

(2) The District's fiscal year end changed from August 31 to June 30 beginning on September 1, 2015. Unaudited

(3) As reported by the Texas Education Agency as of September 19, 2016; subject to change.

(4) Based on the Tax Year Freeze Adjusted Taxable Assessed Valuation of \$1,814,038,075.

**TABLE 10 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS**

The District does not have any authorized but unissued unlimited tax bonds.

**ANTICIPATED ISSUANCE OF ADDITIONAL TAX DEBT . . .** "The District's Public Facility Corporation will issue a not to exceed par amount of \$11,350,000 in lease revenue bonds in November 2016, the proceeds of which will be used to fund the District's new administration offices. The revenue bonds will be secured by payments from a long term lease with the District that will be coterminous with the bond debt service schedule .

The District is currently evaluating the potential issuance of Maintenance Tax Notes in an approximate amount of \$5,000,000 for stadium renovations. No plan of finance or list of projects have been approved at this time, but the District expects this transaction will take place within the next 6 months.”

**TABLE 11 - OTHER OBLIGATIONS**

The District leases office equipment under operating (noncapitalized) lease agreements. Total costs for such leases were \$173,273 for the year ended August 31, 2015. The future minimum payments for these leases are as follows:

Years Ended August 31,	
2016	\$ 296,052
2017	295,919
2018	265,665
2019	252,348
2020	37,161
2021 and Thereafter	<u>-</u>
Total Minimum Rentals	<u>\$ 1,147,145</u>

**PENSION FUND AND OTHER BENEFITS . . .** Pension funds for employees of Texas school districts, and any employee in public education in Texas, are administered by the Teacher Retirement System of Texas (the “System”). The individual employees contribute a fixed amount of their salary to the System, currently 7.7%, and the State of Texas contributes funds to the System based on statutory required minimum salary for certified personnel, except any District personnel paid by Federally funded programs. (For more detailed information concerning the retirement plan, see Appendix B, “Excerpts from the District’s Annual Financial Report” - Note #16).

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## FINANCIAL INFORMATION

**TABLE 12 - CHANGES IN NET ASSETS**

Fiscal Years Ended August 31,

	2015	2014	2013	2012	2011
<u>Program Revenues:</u>					
Charges for Services	\$ 1,290,003	\$ 1,368,871	\$ 1,210,951	\$ 1,369,087	\$ 1,511,526
Operating Grants & Contributions	37,974,385	35,627,739	37,564,166	40,201,175	42,056,305
Capital Grants & Contributions	6,698,719	6,512,032	8,711,278	8,478,812	8,799,626
Property Taxes	23,395,871	22,495,616	21,311,290	21,280,329	21,189,652
State Aid - Formula	103,850,801	102,152,554	97,111,309	91,189,590	91,400,815
Investment Earnings	217,162	264,940	354,687	292,487	576,094
Other	1,464,715	608,044	567,522	1,751,066	478,650
Total Revenues	<u>\$ 174,891,656</u>	<u>\$ 169,029,796</u>	<u>\$ 166,831,203</u>	<u>\$ 164,562,546</u>	<u>\$ 166,012,668</u>
<u>Expenses:</u>					
Instruction	\$ 90,366,706	\$ 85,578,810	\$ 84,553,409	\$ 78,066,375	\$ 81,744,130
Instructional Resources & Media Services	2,775,395	2,611,316	2,555,812	2,343,252	2,988,511
Curriculum & Staff Development	5,003,662	3,585,064	3,737,781	3,037,585	2,792,763
Instructional Leadership	2,130,255	2,052,365	1,567,172	2,032,451	2,537,330
School Leadership	9,123,552	8,534,652	8,000,894	7,602,471	7,836,316
Guidance, Counseling & Evaluation Services	7,538,151	7,344,485	7,186,791	7,095,173	8,173,098
Social Work Services	238,387	270,912	503,633	589,869	309,337
Health Services	1,710,648	1,760,042	1,651,295	1,607,518	1,917,213
Student Transportation (Pupil)	3,685,484	3,629,536	3,393,879	3,116,335	3,270,299
Food Services	11,786,702	10,798,984	10,014,917	9,432,760	9,327,792
Curricular/Extracurricular Activities	7,704,638	7,260,644	6,203,908	5,746,095	6,021,625
General Administration	4,155,751	3,488,920	3,222,693	3,096,151	3,058,742
Facilities Maintenance & Operations	16,584,956	15,978,912	15,115,632	14,725,018	14,332,658
Security & Monitoring Services	1,495,324	1,384,134	1,245,510	1,182,003	1,087,054
Data Processing Services	2,195,027	1,672,715	1,561,994	1,599,602	1,515,741
Community Services	1,122,532	1,062,053	1,074,919	1,007,531	1,132,220
Interest on Long-Term Debt	5,568,647	6,887,918	7,194,887	7,706,695 <sup>(1)</sup>	7,433,754
Facilities Acquisition and Construction	8,278	8,741	10,363	9,777	14,391
Bond Issuance Cost and Fees	-	-	-	-	84,740
Payments to Juvenile Justice Alternative Ed. Prog.	5,332	10,664	6,004	2,528	6,715
Other Intergovernmental Charges	239,668	200,236	203,472	199,090	198,159
Total Expenses	<u>\$ 173,439,095</u>	<u>\$ 164,121,103</u>	<u>\$ 159,004,965</u>	<u>\$ 150,198,279</u>	<u>\$ 155,782,588</u>
Increase (Decrease) in Net Assets	\$ 1,452,561	\$ 4,908,693	\$ 7,826,238	\$ 14,364,267	\$ 10,230,080
Beginning Net Assets	138,763,944	153,710,262	145,884,024	131,519,760	121,289,679
Prior Period Adjustment	-	(19,855,010)	-	-	-
Ending Net Assets	<u>\$ 140,216,505</u>	<u>\$ 138,763,944</u>	<u>\$ 153,710,262</u>	<u>\$ 145,884,024</u>	<u>\$ 131,519,760</u>

(1) Restated.

**TABLE 12A - GENERAL FUND REVENUES AND EXPENDITURE HISTORY**

	Fiscal Years Ended August 31,				
	2015	2014	2013	2012	2011
<b>Revenues:</b>					
Local and Intermediate Sources	\$ 22,520,396	\$ 21,663,196	\$ 20,403,290	\$ 20,311,211	\$ 18,090,748
State Sources	110,685,013	108,549,052	103,369,575	97,339,875	96,809,953
Federal Sources	13,900,236	14,093,696	13,900,316	12,818,567	12,996,210
Total Revenues	<u>\$ 147,105,645</u>	<u>\$ 144,305,944</u>	<u>\$ 137,673,181</u>	<u>\$ 130,469,653</u>	<u>\$ 127,896,911</u>
<b>Expenditures:</b>					
Instruction	\$ 76,335,997	\$ 71,234,604	\$ 70,031,485	\$ 59,341,128	\$ 62,075,500
Instructional Resources and Media	2,469,658	2,360,176	2,334,487	2,107,688	2,484,575
Curriculum/Personnel Development	3,370,391	2,095,944	1,663,376	1,207,394	1,065,525
Instruction Administration	1,896,047	1,580,678	1,342,306	1,409,506	1,790,839
School Administration	8,871,624	8,095,475	7,552,711	7,070,834	7,279,585
Guidance and Counseling	4,752,026	4,235,240	4,196,972	4,147,903	4,633,660
Attendance and Social Work Services	241,281	238,729	227,618	225,906	170,900
Health Services	1,328,254	1,437,326	1,328,951	1,238,931	1,500,809
Pupil Transportation	3,686,481	3,490,006	3,751,530	3,741,079	2,865,105
Food Services	11,774,954	10,109,340	9,827,976	9,429,408	9,173,596
Co-Curricular Activities	5,930,447	5,946,726	4,708,738	4,236,021	4,528,522
General Administration	4,140,895	3,426,918	3,172,306	3,048,512	3,012,599
Facilities Maintenance and Operations	16,194,995	15,295,520	14,910,677	14,252,188	13,917,408
Security and Monitoring System	1,377,795	2,207,835	1,376,233	1,118,981	969,868
Data Processing Services	2,559,464	1,532,055	1,461,974	1,393,776	1,331,050
Community Services	241,442	219,214	232,438	161,832	82,761
Interest on Long-term Debt	129,608	129,543	109,392	-	-
Bond Interest Costs and Fees	-	-	74,320	-	-
Facilities Acquisition and Construction	13,007,511	7,481,958	2,518,555	251,559	1,690,113
Payment to Fiscal Agent	239,668	200,236	203,472	199,090	198,159
Payment to Juvenile Justice Alternative	5,332	10,664	6,004	2,528	6,715
Total Expenditures	<u>\$ 158,553,870</u>	<u>\$ 141,328,187</u>	<u>\$ 131,031,521</u>	<u>\$ 114,584,264</u>	<u>\$ 118,777,289</u>
Other Resources and (Uses)	\$ (3,231,910)	\$ (3,739,098)	\$ (950,690)	\$ 1,229,608	\$ 16,598
Excess (Deficiency) of Revenues Over Expenditures	\$ (14,680,135)	\$ (761,341)	\$ 5,690,970	\$ 17,114,997	\$ 9,136,220
Beginning Fund Balance on September 1	<u>76,725,535</u>	<u>77,124,721</u>	<u>71,433,751</u> <sup>(1)</sup>	<u>54,318,756</u>	<u>45,182,536</u>
Prior Period Adjustment	<u>-</u>	<u>362,154</u>	<u>-</u>	<u>-</u>	<u>-</u>
Ending Fund Balance on August 31	<u>\$ 62,045,400</u>	<u>\$ 76,725,534</u>	<u>\$ 77,124,721</u>	<u>\$ 71,433,753</u>	<u>\$ 54,318,756</u>

(1) Restated.

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## FINANCIAL POLICIES

**Summary of Significant Accounting Policies** . . . The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide (FAR). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**Basis of Presentation** . . . *Government-wide financial statements* - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal Service fund activity is eliminated to avoid overstatement of revenues and expenses. The statements distinguish between governmental and business-type activities of the District.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore are clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. All taxes and revenues not classified as program revenues are presented as general revenues of the District.

**Fund Financial Statements** - Fund financial statements report detailed information about the District. Their focus is on major funds rather than reporting funds by type. Each major governmental aid fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

**Basis of Accounting** . . . Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

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 related to cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered *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 are generally recorded when a liability is incurred, as under accrual accounting.

Revenues from state and federal grants are recognized as earned when the related program expenditures are incurred. Revenues from local sources consist primarily of property taxes. Property tax revenues are recognized under the susceptible to accrual concept. Funds received but unearned are reflected as deferred revenues, and funds expended but not yet received are shown as receivables. For state entitlements, the District has adopted a budgetary basis of accounting for Foundation School Program revenues. Such entitlements are recorded as received.

Interest revenue and building rentals are recorded when earned since they are measurable and available. Other revenues such as fees, tuition, local food service revenue, and miscellaneous revenues are accounted for on the cash basis.

Expenditures are recognized in the accounting period in which the fund liability is incurred when measurable, except expenditures for debt service including unmatured interest on long-term debt. Expenditures for principal and interest on long-term debt are recognized when due.

**Budgetary Data** . . . Budgets are presented on the modified accrual basis of accounting for the General and Debt Service funds. The budget is prepared and controlled at the function level.

The official school budget is prepared for adoption for required governmental funds prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The Board formally adopts the budget at a public meeting held at least ten days after public notice has been given. Once adopted, the budget can be amended by subsequent Board action. The Board properly amended the budget throughout the year.

Such amendments are before the fact and are reflected in the official minutes of the Board.

## INVESTMENTS

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

**LEGAL INVESTMENTS** . . . Under Texas law (Texas Public Funds Investment Act; Chapter 2256, Texas Government Code, as amended), the District is authorized to invest in the following:

(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 or insured by, or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent, (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit and share certificates, respectively, meeting the requirements of the Texas Public Funds Investment Act (a) that are issued, by or through an institution that has its main office or a branch office in Texas and are guaranteed, respectively, 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) above, or in any other manner and amount provided by law for District deposits; or (b) that are invested by the District through (i) a broker whose services are legally procured by the District that has its main office or a branch office in this state and is selected from a list of qualified brokers reviewed, revised and adopted at least annually by the District to undertake investment transactions with the entity, or (ii) a depository institution that has its main office or a branch office in the State of Texas and otherwise meets the requirements of the Public Funds Investment Act (Chapter 2256 of the Texas Government Code); and (c) the selected broker or the depository institution selected by the District (i) arranges for the deposit of funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (ii) the District appoints (A) a qualified depository, or (B) a qualified custodian which may include: (I) a state or national bank (II) that is designated by the State Comptroller as a state depository; (III) has its main office or a branch office in this state; and (IV) has a capital stock and permanent surplus of \$5 million or more; or (is has its main office or a branch office in this state; or (V) the Texas Treasury Safekeeping Trust Company; a Federal Reserve Bank or a branch of a Federal Reserve Bank; or federal home loan bank. (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) above 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 custodian selected and approved by the District and are placed through a primary government securities dealer, as defined by the Federal Reserve, or through a financial institution doing business in the State; (9) bankers' acceptances with the remaining term of 270 days or fewer from the date of issuance, which will be, in accordance with their terms, liquidated in full at maturity; are eligible collateral for borrowing from a Federal Reserve Bank, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with the remaining term of 270 days or less from the date of issuance that is rated at least A-1 or P-1 or the equivalent by at least (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 United States Securities and Exchange Commission that have a dollar weighted average portfolio 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 fund registered with the United States 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 clause, conform to certain requirements applicable to public funds investment pools 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; (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 and bonds issued, assumed or guaranteed by the State of Israel; (14) If specifically authorized in the Order or Resolution authorizing the issuance of bonds or other policies, bond proceeds may be invested in guaranteed investment contracts ("GICs") that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds under such contract, other than as prohibited as described under "Prohibited Investments". For GICs to be eligible as an authorized investment, (1) GICs must be specifically authorized by the governing body of the District in the order, or resolution authorizing the issuance of bonds; (2) the entity must receive bids from at least three separate providers with no material financial interest in the bonds from which proceeds were received; (3) the entity must purchase the highest yielding guaranteed investment contract for which a qualifying bid is received; (4) the price of the guaranteed investment contract must take into account the reasonably expected drawdown schedule for the bond proceeds to be invested; and (5) the provider must certify the administrative costs reasonably expected to be paid to third parties in connection with the guaranteed investment contract. (15) securities lending programs if (a) the value of the securities loaned under the program, including the accrued income thereon, are fully collateralized; a loan made under the program allows for termination at any time; and a loan made under the program is either secured by (i) obligations that are described in clauses (1) through (6) and clause (13) above, (ii) pledged 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 (iii) cash invested in obligations described in clauses (1) through (6) and clauses (9), (10) and (11) above, or an authorized investment pool; (b) securities held as collateral under a loan are pledged to the District or a third party designated by the District; (c) a loan made under the program is placed

through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (d) the agreement to lend securities has a term of one year or less.

**PROHIBITED INVESTMENTS . . .** 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 collateral 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 changes in a market index.

**INVESTMENT THROUGH AN INVESTMENT POOL . . .** The District may invest its funds and funds under its control through an eligible investment pool if the board of trustees of the District by rule, order or resolution, as appropriate, authorizes investment in the particular pool. To be eligible, an investment pool must invest the funds it receives from the District in authorized investments permitted by the Act, including mutual funds and must furnish to the District's investment officer or other authorized representative of the District an offering circular or other similar disclosure instrument that contains, at a minimum, the following information: the types of investments in which money is allowed to be invested; the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool; the maximum stated maturity date any investment security within the portfolio has; the objectives of the pool; the size of the pool; the names of the members of the advisory board of the pool and the dates their terms expire; the custodian bank that will safe keep the pool's assets; whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation; whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment; the name and address of the independent auditor of the pool; the requirements to be satisfied for a District to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the District to invest funds in and withdraw funds from the pool; and the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios; In order to maintain eligibility to receive funds from and invest funds on behalf of the District, an investment pool must disclose to the District's investment officer in its offering circular or other disclosure report, and, on its internet site if it operates an internet site, the information required to be disclosed under the previous paragraph hereof; and also furnish to the investment officer or other authorized representative of the District: investment transaction confirmations; and a monthly report that contains, at a minimum, the following information: (A) the types and percentage breakdown of securities in which the pool is invested; (B) the current average dollar-weighted maturity, based on the stated maturity date, of the pool; (C) the current percentage of the pool's portfolio in investments that have stated maturities of more than one year; (D) the book value versus the market value of the pool's portfolio, using amortized cost valuation; (E) the size of the pool; (F) the number of participants in the pool; (G) the custodian bank that is safekeeping the assets of the pool; (H) a listing of daily transaction activity of the District participating in the pool; (I) the yield and expense ratio of the pool (yield, and how yield is calculated, must be reported to pool investors in accordance with regulations of the federal Securities and Exchange Commission applicable to reporting by money market funds.); (J) the portfolio managers of the pool; and (K) any changes or addenda to the offering circular; (k) an annual audited financial statement of the investment pool in which the District has funds; (L); if the pool in its advertising offers fee breakpoints based on fund balances invested, to include either all levels of return based on the breakpoints provided or state the lowest possible level of return based on the smallest level of funds invested.

The District may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.

A public funds investment pool created to function as a money market mutual fund must: mark its portfolio to market daily, and, to the extent reasonably possible, stabilize at a \$1 net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005; must have an advisory board composed: (A) equally of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for a public funds investment pool managed by a state agency; or (B) of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for other investment pools.

**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 includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment owned by the District and the maximum average dollar-weighted maturity allowed for pooled fund groups and methods to monitor the market price of investments acquired with public funds and the liquidation of such investments consistent with the requirement that investments not retaining a minimum rating do not qualify as an authorized investment and should be liquidated;. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, 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 Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt a rule, order, ordinance 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, ordinance 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 Treasurer, Chief Financial Officer and investment officers; (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 no load 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 August 31, 2016, the investable funds of the District were invested as follows:

Type of Investment	Percent	Market Value
Checking Account	80.83%	\$ 67,137,763
Certificates of Deposit	0.04%	31,000
Investment Pools	19.13%	15,889,427
Totals	100.00%	\$ 83,058,191

**TAX MATTERS**

**TAX EXEMPTION . . .** In the opinion of The J. Ramirez Firm, McAllen, Texas, Bond Counsel, interest on the Bonds is (1) excludable from gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (2) is not includable in the alternative minimum taxable income of individuals and, except as described below, corporations.

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

In rendering its opinions, Bond Counsel has assumed continuing compliance by the District with certain covenants of the Order and has relied on the report of Grant Thornton, LLP, and representations by the District with respect to matters solely within the knowledge of the District, which Bond Counsel has not independently verified. The covenants and representations relate to, among other things, the use of the proceeds of the Bond and the Refunded Bonds and any facilities financed therewith, the source of repayment of the Bonds, the investment of the Bond proceeds and certain other amounts prior to expenditure, and requirements that excess arbitrage earned on the investment of Bond proceeds and certain other amounts be paid periodically to the United States and that the District file an information report with the Internal Revenue Service (the “Service”). If the District should fail to comply with the covenants in the Order, or if its representations relating to the Bonds that are contained in the Order should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

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

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

Bond Counsel’s opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Service with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel’s opinion is not binding on the Service.



The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Refunding Bonds is commenced, under current procedures the Service is likely to treat the District as the “taxpayer,” and the owners of the Refunding Bonds may have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Refunding Bonds, the District may have different or conflicting interests from the owners of the Refunding Bonds. Public awareness of any future audit of the Refunding Bonds could adversely affect the value and liquidity of the Refunding Bonds during the pendency of the audit, regardless of its ultimate outcome.

### **Proposed Tax Legislation**

Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or state income taxation, or otherwise prevent the beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. For example, future legislation to resolve certain federal budgetary issues may significantly reduce the benefit of, or otherwise affect, the exclusion from gross income for federal income tax purposes of interest on all state and local obligations, including the Bonds. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and its impact on their individual situations, as to which Bond Counsel expresses no opinion.

### **Tax Accounting Treatment of Discount Bonds**

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

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

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

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

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

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

### **Tax Accounting Treatment of Premium Bonds**

Some of the Bonds may be offered at an initial offering price which exceeds the stated redemption price payable at the maturity of such Bonds. If a substantial amount of any maturity of the Bonds is sold to members of the public (which for this purpose excludes bond houses, brokers and similar persons or entities acting in the capacity of wholesalers or Underwriters) at such initial offering price, each of the Bonds

of such maturity ("Premium Bonds") will be considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis for federal income tax purposes of a Premium Bond in the hands of an initial purchaser who purchases such Bond in the initial offering must be reduced each year and upon the sale or other taxable disposition of the Bond by the amount of amortizable bond premium. This reduction in basis will increase the amount of any gain (or decrease the amount of any loss) recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Bond by the initial purchaser. Generally, no corresponding deduction is allowed for federal income tax purposes, for the reduction in basis resulting from amortizable bond premium with respect to the Refunding Bonds. The amount of bond premium on a Premium Bond which is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined under special tax accounting rules which use a constant yield throughout the term of the Premium Bond based on the initial purchaser's original basis in such Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition by an owner of Bonds that are not purchased in the initial offering or which are purchased at an amount representing a price other than the initial offering prices for the Bonds of the same maturity may be determined according to rules which differ from those described above. Moreover, all prospective purchasers of Bonds should consult their tax advisors with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of Premium Bonds.

### **Collateral Federal Income Tax Consequences**

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing law, which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Interest on the Bonds will be includable as an adjustment for "adjusted current earnings" to calculate the alternative minimum tax imposed on corporations by section 55 of the Code. Section 55 of the Code imposes a tax equal to 20 percent for corporations, or 26 percent for noncorporate taxpayers (28 percent for taxable income exceeding \$175,000), of the taxpayer's "alternative minimum taxable income," if the amount of such alternative minimum tax is greater than the taxpayer's regular income tax for the taxable year.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

### **State, Local and Foreign Taxes**

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

## CONTINUING DISCLOSURE OF INFORMATION

The District's obligation to provide information for the benefit of the holders of the Bonds is required by Section (b)(5)(i) of Securities and Exchange Commission (the "SEC") Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (17 CFR part 240, §240.15c2-12; the "Rule"). The District is an "obligated person" within the meaning of the Rule, and as such undertakes to provide the following information to the MSRB on or before 6 months from the end of the District's fiscal year (the "Report Date"), beginning in the year 2017. 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 must notify the MSRB of the change

### Annual Financial Information:

(1) "Annual Financial Information" means the financial information (which shall be based on financial statements prepared in accordance with generally accepted accounting principles ("GAAP") for governmental units as prescribed by the Governmental Accounting Standards Board ("GASB") or operating data with respect to the District, provided at least annually, of the type included in those sections of the final official statement with respect to the Bonds contained in Tables 1 through 6 and 8 through 13 and Appendix B of the District's Official Statement.

(2) "Audited Financial Statements" means the Issuer's Annual financial statements, prepared in accordance with GAAP for governmental units as prescribed by GASB, which financial statements shall have been audited by such auditor as shall be then required or permitted by the laws of the State.

The District may adjust the Report Date if the District changes its fiscal year by providing written notice of the change of fiscal year and the new Report Date to the MSRB, provided that the new Report Date shall be no later than 6 months after the end of the new fiscal year and provided further that the period between the final Report Date relating to the former fiscal year and the initial Report Date relating to the new fiscal year shall not exceed one year in duration. It shall be sufficient if the District provides to the MSRB, the Annual Financial Information by specific reference to documents previously provided to the MSRB, or filed with the Securities and Exchange Commission and, if such a document is a final Official Statement within the meaning of the Rule, available from the MSRB.

If not provided as part of the Annual Financial Information, the District shall provide the Audited Financial Statements to the MSRB when and if available while any Bonds are Outstanding. If Audited Financial Statements are not available by the required time, the District will provide unaudited financial statements by the required time and Audited Financial Statements when and if such Audited Financial Statements become available.

### Certain Specified Events:

"Certain Specified Event" means any of the following events with respect to the Bonds:

(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-exempt 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 paying agent or trustee or the change of name of a paying agent or trustee, if material.

For these purposes, any event described in (12) above 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.

The District shall provide a Specified Event Notice in a timely manner not in excess of ten business days after the occurrence of the event. Each Specified Event Notice shall be so captioned and shall prominently state the date, title and CUSIP numbers of the Bonds.

The District shall provide in a timely manner to the MSRB notice of any failure by the District, while any Bonds are Outstanding, to provide Annual Financial Information on or before the Report Date.

The continuing obligation hereunder of the District to provide Annual Financial Information, Audited Financial Statements, if any, and Certain Specified Event Notices shall terminate immediately once the Bonds no longer are Outstanding. The District's obligation hereunder, or any provision hereof, shall be null and void in the event that the District delivers to the MSRB the proposed amendment and an opinion of nationally recognized bond counsel to the effect that such amendment, and giving effect thereto, will not adversely affect the compliance of this section and by the District with the Rule.

Any failure by the District to perform in accordance with this Section shall not constitute an event of default under the Order.

UNDER NO CIRCUMSTANCES SHALL THE DISTRICT BE LIABLE TO THE HOLDER OR BENEFICIAL OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR IN TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE DISTRICT, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS SECTION, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

(h) The SEC has adopted recent amendments to the Rule which approve the establishment by the MSRB of the Electronic Municipal Market Access ("EMMA") which, as of its implementation effective date of July 1, 2009, is the sole national municipal securities information repository. On and after July 1, 2009, all information and documentation filing required to be made by the District has been made and will be made with the MSRB in electronic format only, in accordance with MSRB guidelines. Access to such filings is provided, without charge to the general public, by the MSRB.

Nothing in this Section is intended, or shall act, to disclaim, waive, or otherwise limit the duties of the District under federal and state securities laws.

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

The District may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (i) the agreement, as amended, would have permitted an Underwriters 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 registered and beneficial owners 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 registered 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 Underwriters from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District so amends the continuing disclosure 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 the Rule. However, in connection with its Unlimited Tax Refunding Bonds, Series 2011 Bonds, the District erroneously stated in the respective official statements that it would update Tables 1 through 5 and 7 through 12; and for its Unlimited Tax Refunding Bonds, Series 2014A and Unlimited Tax Refunding Bonds, Series 2014B Bonds, the District erroneously stated that it would update Tables 1 through 4 and 6 through 10. The covenant should have been that the District would update Tables 1 through 6 and 8 through 13 for these three series of bonds and a correction will be made going forward.

## OTHER INFORMATION

### RATINGS

The Refunding Bonds have been rated "A1" by Moody's Investors Service, Inc. ("Moody's") and "TBD" by Standard and Poor's Global Ratings ("S&P") without regard to credit enhancement and "Aaa" by Moody's and "AAA" by S&P through by virtue of the guarantee of the corpus of the Permanent School Fund of the State of Texas (see "PERMANENT SCHOOL FUND GUARANTEE PROGRAM"). An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the respective view of such organization and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment such company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Refunding 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 Refunding 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 Refunding Bonds or that affects the payment and security of the Refunding Bonds or in any other manner questioning the issuance, sale or delivery of the Refunding Bonds.

### REGISTRATION AND QUALIFICATION OF REFUNDING BONDS FOR SALE

The sale of the Refunding Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Refunding Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Refunding Bonds been qualified under the securities acts of any jurisdiction. The District assumes no responsibility for qualification of the Refunding Bonds under the securities laws of any jurisdiction in which the Refunding Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Refunding 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 Refunding Bonds are negotiable instruments, investment securities 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. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Refunding Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. In accordance with the Public Funds Investment Act, Chapter 2256, Texas Government Code, the Refunding Bonds must be rated not less than "A" or its equivalent as to investment quality by a national rating agency in order for most municipalities or other political subdivisions or public agencies of the State of Texas to be authorized to invest in the Refunding Bonds, except for purchases for interest and sinking funds of such entities. See "OTHER INFORMATION - Ratings" herein. Moreover, municipalities or other political subdivisions or public agencies of the State of Texas that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act may have other, more stringent requirements for purchasing securities, including the Refunding Bonds. The Refunding 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.

The District has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Refunding Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Refunding Bonds for such purposes. The District has made no review of laws in other states to determine whether the Refunding Bonds are legal investments for various institutions in those states.

### LEGAL MATTERS

The District will furnish the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Refunding Bonds, including the unqualified approving legal opinion of the Attorney General of Texas to the effect that the Refunding Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel in substantially the form attached as Appendix C hereto. Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Refunding Bonds, Bond Counsel has been engaged by and only represents the District in connection with the issuance of the Refunding Bonds. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, Bond Counsel has reviewed the information under the captions "PLAN OF FINANCING" (excluding the subcaption "Sources and Uses of Proceeds"), "THE REFUNDING BONDS"

(except the subsections captioned “Permanent School Fund Guarantee,” “Book-Entry-Only System,” and “Bondholders’ Remedies” as to which no opinion is expressed), and “CONTINUING DISCLOSURE OF INFORMATION” (except for the information under the sub-caption “Compliance With Prior Undertakings,” as to which no opinion is expressed), to ensure that the statements and information contained therein fairly and accurately reflect the provisions of the Order; further, Bond Counsel has reviewed the statements and information contained in the Official Statement under the captions and sub-captions “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS” (except for the information under “Possible Effects of Litigation and Changes in Law on District Obligations,” as to which no opinion is expressed “CURRENT PUBLIC SCHOOL FINANCE SYSTEM,” “TAX MATTERS,” TAX INFORMATION - Tax Rate Limitations” (first paragraph only), and “OTHER INFORMATION— Registration and Qualification of Refunding Bonds for Sale,” “OTHER INFORMATION— Legal Investments in Texas” and “OTHER INFORMATION -- Legal Matters,” and Bond Counsel is of the opinion that the statements and information contained therein are correct as to matters of law. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Refunding Bonds is contingent upon the sale and delivery of the Refunding Bonds. Certain legal matters will be passed upon for the Underwriters by Winstead PC, San Antonio, Texas, Counsel to the Underwriters, whose legal fees are contingent upon the sale and delivery of the Refunding Bonds.

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

#### **FINANCIAL ADVISOR**

FirstSouthwest, a Division of Hilltop Securities Inc. is employed as Financial Advisor to the District in connection with the issuance of the Refunding Bonds. The Financial Advisor’s fee for services rendered with respect to the sale of the Refunding Bonds is contingent upon the issuance and delivery of the Refunding Bonds. FirstSouthwest, a Division of Hilltop Securities Inc., 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 Refunding Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the District has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of their respective 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 MATHEMATICAL COMPUTATIONS**

Grant Thornton LLP, a firm of independent public accountants, will deliver to the District, on or before the settlement date of the Bonds, its verification 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, if any, of the Refunded Bonds 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 Grant Thornton LLP will be solely based upon data, information and documents provided to Grant Thornton LLP by First Southwest Company on behalf of the District. Grant Thornton LLP has restricted its procedures to recalculating the computations provided by First Southwest Company on behalf of the District 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 Refunding Bonds from the District, at a price equal to the initial offering prices to the public, as shown on page 2 hereof, less an underwriting discount of \$\_\_\_\_\_. The Underwriters will be obligated to purchase all of the Refunding Bonds if any Refunding Bonds are purchased. The Refunding Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Refunding Bonds into investment trusts) at prices lower than the public offering prices of such Refunding Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

RBC Capital Markets, LLC (“RBCCM”), has provided the following information for inclusion in this Official Statement: RBCCM and its respective affiliates are full-service financial institutions engaged in various activities, that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, RBCCM and its respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). RBCCM and its respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the District. RBCCM and its respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the District. RBCCM and its respective affiliates may make a market in credit default swaps with respect to municipal securities in the future.

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

**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 orders contained in this Official Statement are made subject to all of the provisions of such statutes, documents and orders. These summaries do not purport to be complete statements of such provisions and reference is made to such statutes, documents and orders for further information. Reference is made to original documents in all respects.

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

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President, Board of Trustees  
Mission Consolidated Independent School District

ATTEST:

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Secretary, Board of Trustees  
Mission Consolidated Independent School District

**SCHEDULE I**

**SCHEDULE OF REFUNDED BONDS\***

**Unlimited Tax School Building Bonds, Series 2008**

<u>Original Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount</u>	<u>Call Date</u>
8/15/2008	2/15/2019	5.250%	\$1,430,000	2/15/2018
	2/15/2020	5.250%	1,510,000	2/15/2018
	2/15/2021	5.250%	1,590,000	2/15/2018
	2/15/2022	5.250%	1,675,000	2/15/2018
	2/15/2023	5.250%	1,765,000	2/15/2018
	2/15/2024	4.375%	1,850,000	2/15/2018
	2/15/2025	4.500%	1,935,000	2/15/2018
	2/15/2026	4.500%	2,025,000	2/15/2018
	2/15/2027	4.500%	2,120,000	2/15/2018
	2/15/2028 <sup>(1)</sup>	5.000%	2,220,000	2/15/2018
	2/15/2029 <sup>(1)</sup>	5.000%	2,335,000	2/15/2018
	2/15/2030 <sup>(1)</sup>	5.000%	2,455,000	2/15/2018
	2/15/2031 <sup>(2)</sup>	5.000%	2,580,000	2/15/2018
	2/15/2032 <sup>(2)</sup>	5.000%	2,715,000	2/15/2018
	2/15/2033 <sup>(2)</sup>	5.000%	2,855,000	2/15/2018
	2/15/2034 <sup>(2)</sup>	5.000%	3,000,000	2/15/2018
	2/15/2035 <sup>(3)</sup>	5.000%	3,155,000	2/15/2018
	2/15/2036 <sup>(3)</sup>	5.000%	3,315,000	2/15/2018
	2/15/2037 <sup>(3)</sup>	5.000%	3,485,000	2/15/2018
	2/15/2038 <sup>(3)</sup>	5.000%	<u>3,665,000</u>	2/15/2018
			<u>\$47,680,000</u>	

(1) 2030 Term Bond with mandatory redemptions in 2028, and 2029.

(2) 2034 Term Bond with mandatory redemptions in 2031, 2032 and 2033.

(3) 2038 Term Bond with mandatory redemptions in 2034, 2035, 2036, and 2037.

\* Preliminary, subject to change.



**APPENDIX A**

GENERAL INFORMATION REGARDING THE DISTRICT

## THE DISTRICT

Mission Consolidated Independent School District is an intensively cultivated agricultural area, producing citrus fruit, vegetables, and cotton. Included in the District is the City of Mission, a commercial center located seven miles west of McAllen on U.S. Highway 83. Mission Consolidated Independent School District consists of roughly 41 square miles along the Texas/Mexico border in the Lower Rio Grande Valley of Texas. The District serves over 15,500 students in the City of Mission and the neighboring communities of Alton and Palmhurst.

The District has two 4A high schools, four junior high schools, 14 elementary schools and one alternative campus, Options Academy and Mission Collegiate High School.

## ENROLLMENT AND STAFF

For the 2016/2017 school year, the District employs a staff of approximately 2,274 employees, which include a professional staff of approximately 1,307. Educational status of the teachers and administrators is as follows:

Masters Degree	16.57%
Bachelor Degree	83.33%
Doctorate	.10%
No Degree	0%
Average Years of Classroom Experience per Teacher	11.76 Years

*Personnel distribution is as follows:*

Instructional Staff	1023
Instructional Support Staff	232
Campus Administration	56
Professional Staff	228
Non-Instructional Support Staff	735

*Historical Membership for the District*

<u>School Year</u>	<u>Membership</u>
1999/2000	12,077
2000/2001	12,233
2001/2002	12,481
2002/2003	13,127
2003/2004	13,761
2004/2005	14,520
2005/2006	14,810
2006/2007	15,376
2007/2008	15,511
2008/2009	15,493
2009/2010	15,591
2010/2011	15,842
2011/2012	15,680
2012/2013	15,569
2013/2014	15,372
2014/2015	15,383
2016/2017	15,799

## HIDALGO COUNTY

Hidalgo County was created in 1852 from Cameron and Starr Counties. The area economy is diversified by the tourist industry, agribusiness and international trade with Mexico. The Texas Almanac designates cotton, grain, vegetables, citrus and sugar cane a principal source of agricultural income. The County was the 4<sup>th</sup> leading producer of sorghum in 1998.

### LABOR FORCE STATISTICS FOR HIDALGO COUNTY<sup>(1)</sup>

	<u>2016<sup>(2)</sup></u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Civilian Labor Force	338,268	331,632	331,986	319,019	316,032
Total Employed	309,939	305,333	302,916	284,651	281,330
Total Unemployed	28,329	26,299	29,073	34,368	34,702
Unemployment Rate	8.4%	7.9%	8.8%	10.8%	11.0%

(1) Source: Texas Employment Commission.

(2) As of July, 2016.

**APPENDIX B**

EXCERPTS FROM THE  
MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT

For the Year Ended August 31, 2015

The information contained in this Appendix consists of excerpts from the Mission Consolidated Independent School District Annual Financial Report for the Year Ended August 31, 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.

## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Mission Consolidated Independent School District  
Mission, Texas 78572

### **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 the Mission Consolidated Independent School District (the District), as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 August 31, 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.

### ***Change in Accounting Principles***

As described in Note 2 to the financial statements, in 2015, the District adopted new accounting guidance, GASB Statement 68, Accounting and Financial Reporting for Pensions and GASB Statement 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Our opinion is not modified with respect to these matters.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 schedule of expenditures of federal awards, is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1 through J-2 and L-1. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated January 15, 2016 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.



LONG CHILTON, LLP  
Certified Public Accountants

McAllen, Texas  
January 15, 2016

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Mission Consolidated Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ending August 31, 2015. Please read it in conjunction with the District's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

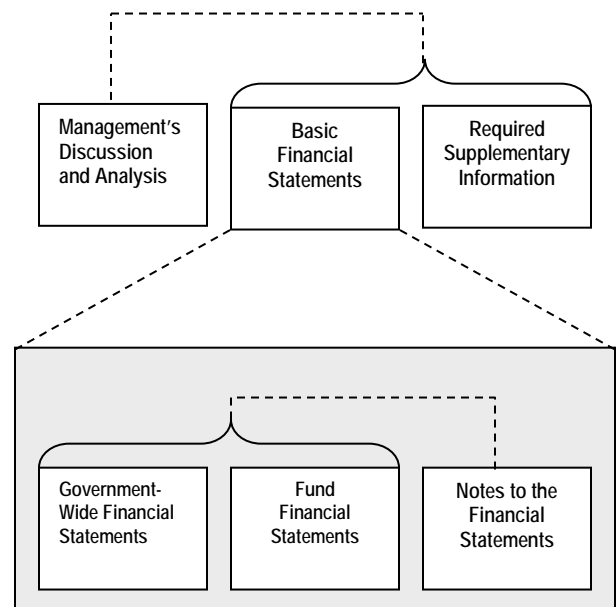
- The District's total combined net position was \$140,216,505 at August 31, 2015. This amounted to an increase of \$1,452,561 from last year's restated total net position of \$138,763,944. The restatement is due to the implementation of GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* (Refer to Table A-2 and Note 2).
- During the year, the District's revenues generated in taxes and other revenues for governmental activities were \$1,452,561 more than the expenses. Last year the revenues were \$4,908,693 more than the expenses.
- The total cost of the District's programs were \$173,439,095 an increase of 5.68% from last year's programs of 164,121,103.
- The General Fund reported a fund balance this year of \$62,045,400 as compared to last year's fund balance of \$76,725,535 for a decrease of \$14,680,135. The Construction Fund 2008 had a fund balance of \$28,180,933. The majority of the expenditures from this bond will be paid out in the next few years.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements.
- The *governmental funds* statements tell how *general government services* were financed in the *short-term* as well as what remains for future spending.
- *Proprietary fund* statements offer *long-term* and *short-term* financial information about the activities the government operates *like businesses*. The District uses internal service funds to account for the worker's compensation and print shop funds.
- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

Figure A-1, Required Components of the District's Annual Financial Report



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explain and supports information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.



Figure A-2 summarizes the major features of the District's government-wide and fund financial statements, and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

**Figure A-2. Major Features of the District's Government-wide and Fund Financial Statements**

<i>Type of Statements</i>	<b>Government-wide</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
Scope	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the district that are not proprietary or fiduciary	Activities the district operates similar to private businesses: self worker's compensation insurance	Instance in which the district is the trustee or agent for someone else's resources
Required financial statements	<ul style="list-style-type: none"> <li>◆ Statement of net position</li> <li>◆ Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>◆ Balance sheet</li> <li>◆ Statement of revenues, expenditures &amp; changes in fund balance</li> </ul>	<ul style="list-style-type: none"> <li>◆ Statement of net position</li> <li>◆ Statement of revenues, expenditure and changes in fund net position</li> <li>◆ Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>◆ Statement of fiduciary net position</li> <li>◆ Statement of changes in fiduciary net position</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

**Government-wide Statements**

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net position, the difference between the District's assets and liabilities, is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional non-financial factors such as changes in the District's tax base.

The government-wide financial statements of the District include the *governmental activities*. Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services and general administration. Property taxes, State aid, and grants finance most of these activities.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the District's most significant *funds*, not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has the following kind of funds:

- *Governmental Funds* - Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.

- *Proprietary Funds* - Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. The District uses internal service funds to report activities that provide services for the District's modified self-funded workers' compensation program, self-funded health insurance program, and for the operations of the print shop.
- *Fiduciary Funds* - The District is the trustee, or fiduciary, for certain funds. It is also responsible for other assets that, because of a trust arrangement, can only be used for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purpose. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

**Net Position.** The District's combined net position increased by \$1,452,561 between fiscal year 2014 and 2015 to \$140,216,505 at August 31, 2015 (See table A-1).

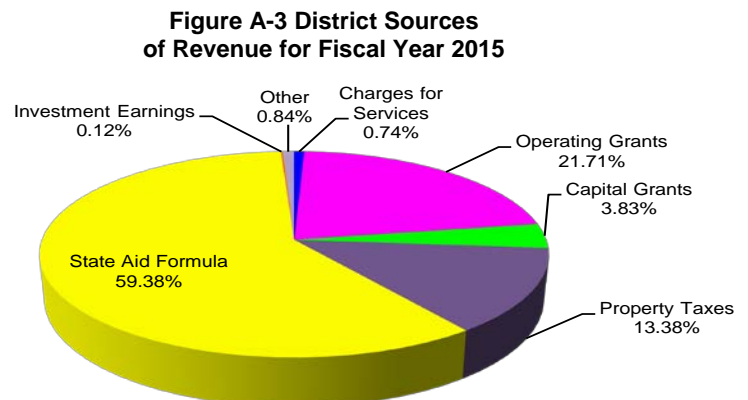
**Table A-1  
District's Net Position**

	<u>2015</u>	<u>2014</u>	<u>2014 - 2015</u>
Current and Other Assets	\$ 110,672,952	\$ 132,157,210	(16.26%)
Capital and Non-Current Assets	193,549,374	180,229,468	7.39%
<b>Total Assets</b>	<u>\$ 304,222,326</u>	<u>\$ 312,386,678</u>	<u>(2.61%)</u>
<b>Deferred Outflows of Resources</b>	<u>\$ 8,280,950</u>	<u>\$ 372,960</u>	<u>2120.33%</u>
Current Liabilities	\$ 10,764,044	\$ 12,169,838	(11.55%)
Long Term Liabilities	156,162,017	141,970,845	10.00%
<b>Total Liabilities</b>	<u>\$ 166,926,061</u>	<u>\$ 154,140,683</u>	<u>8.29%</u>
<b>Deferred Inflows of Resources</b>	<u>\$ 5,360,710</u>	<u>\$ -</u>	<u>100.00%</u>
Net Position:			
Net Investment in Capital Assets	\$ 88,223,581	\$ 75,742,761	16.48%
Restricted	7,855,354	10,241,400	(23.30%)
Unrestricted	44,137,570	72,634,794	(39.23%)
<b>Total Net Position</b>	<u>\$ 140,216,505</u>	<u>\$ 158,618,955</u>	<u>(11.60%)</u>
Prior Period Adjustment - GASB 68	\$ -	\$ (19,855,010)	(100.00%)
<b>Total Net Position - Restated</b>	<u>\$ 140,216,505</u>	<u>\$ 138,763,945</u>	<u>1.05%</u>

Net position of the District's governmental activities increased by 1.05% to \$140,216,505 from last year's restated total net position. However, 68.52% of net position is either restricted as to the purposes it can be used for or it is invested in capital assets. The unrestricted net position amounted to \$44,137,570 at the end of this year. The unrestricted net position balance has decreased by 39.23% from the prior year due to implementation of GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*.

**Changes in Net Position.** The District's total revenues increased by 3.47% to \$174,891,656. Local sources include 13.38% from property taxes plus 0.12% from other local sources, such as investment earnings (See Figure A-3). 59.38% comes from State program revenues.

The total cost of all programs and services was \$173,439,095; 81.90% of these costs are for instructional and student services.



## Governmental Activities

Property tax rates remained the same for maintenance and operations (M&O) at \$1.17 and increased from \$0.13 to \$0.16 for the debt service fund (I&S). Increases in property values resulted in an increase of \$900,255 in tax revenues.

In 2015, the District implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*. With GASB 68, the District must assume their proportionate share of the Net Pension Liability of the Teacher Retirement System of Texas. The implementation of this standard resulted in a prior period adjustment to net position of (\$19,855,010). The restated beginning net position is \$138,763,944.

**Table A-2**  
**Changes in District's Net position**

	Governmental Activities		Total Percentage Change
	2015	2014	2014 - 2015
<b>Program Revenues:</b>			
Charges for Services	\$ 1,290,003	\$ 1,368,871	(5.76%)
Operating Grants & Contributions	37,974,385	35,627,739	6.59%
Capital Grants & Contributions	6,698,719	6,512,032	2.87%
<i>General Revenues</i>			
Property Taxes	23,395,871	22,495,616	4.00%
State Aid-Formula	103,850,801	102,152,554	1.66%
Investment Earnings	217,162	264,940	(18.03%)
Other	1,464,715	608,044	140.89%
Total Revenues	<u>174,891,656</u>	<u>169,029,796</u>	<u>3.47%</u>
<b>Expenses:</b>			
Instruction	\$ 90,366,706	\$ 85,578,810	5.59%
Instructional Resources & Media Services	2,775,395	2,611,316	6.28%
Curriculum Dev. & Instructional Staff Dev.	5,003,662	3,585,064	39.57%
Instructional Leadership	2,130,255	2,052,365	3.80%
School Leadership	9,123,552	8,534,652	6.90%
Guidance, Counseling & Evaluation Services	7,538,151	7,344,485	2.64%
Social Work Services	238,387	270,912	(12.01%)
Health Services	1,710,648	1,760,042	(2.81%)
Student (Pupil) Transportation	3,685,484	3,629,536	1.54%
Food Services	11,786,702	10,798,984	9.15%
Curricular/Extracurricular Activities	7,704,638	7,260,644	6.12%
General Administration	4,155,751	3,488,920	19.11%
Facilities Maintenance & Operations	16,584,956	15,978,912	3.79%
Security & Monitoring Services	1,495,324	1,384,134	8.03%
Data Processing Services	2,195,027	1,672,715	31.23%
Community Services	1,122,532	1,062,053	5.69%
Interest on Long-Term Debt	5,568,647	6,887,918	(19.15%)
Facilities Acquisition & Construction	8,278	8,741	(5.30%)
Payments to JJAEP	5,332	10,664	(50.00%)
Other Intergovernmental Charges	239,668	200,236	19.69%
Total Expenses	<u>\$ 173,439,095</u>	<u>\$ 164,121,103</u>	<u>5.68%</u>
Increase (Decrease) in Net Position	\$ 1,452,561	\$ 4,908,693	(70.41%)
Beginning Net Position	138,763,944	153,710,262	(9.72%)
Prior Period Adjustment	\$ -	\$ (19,855,010)	100.00%
Ending Net Position - Restated	<u>\$ 140,216,505</u>	<u>\$ 138,763,944</u>	<u>1.05%</u>

Table A-3 represents the cost of each of the District's largest functions, as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by State revenues as well as local tax dollars.

- The cost of all *governmental activities* this year was \$173,439,095.
- However, the amount that our taxpayers paid for these activities through property taxes was \$23,395,871.
- Some of the cost was paid by those who directly benefited from the programs in the amount of \$1,290,003, by operating grants and contributions in the amount of \$37,974,385, and capital grants and contributions in the amount of \$6,698,719. State revenues were \$103,850,801.

**Table A-3  
Net Cost of Selected District Functions**

	Total Cost of Services			Net Cost of Services		
	2015	2014	% Change	2015	2014	% Change
Instruction	\$ 90,366,706	\$ 85,578,810	5.6%	\$ 74,492,761	\$ 71,187,069	4.6%
School Leadership	9,123,552	8,534,652	6.9%	8,031,973	7,606,686	5.6%
Guidance, Counseling, & Evaluation Services	7,538,151	7,344,485	2.6%	4,188,454	3,830,877	9.3%
Student Transportation	3,685,484	3,629,536	1.5%	2,804,340	2,852,462	(1.69%)
Food Service	11,786,702	10,798,984	9.1%	1,309,949	172,070	661%
Cocurricular/Extracurricular Activities	7,704,638	7,260,644	6.1%	6,604,745	6,183,004	6.8%
Facilities Maintenance & Operations	16,584,956	15,978,912	3.8%	14,796,039	14,494,087	2.1%
Debt Service - Interest on Long-Term Debt	5,568,647	6,887,918	(19.15%)	(1,130,072)	375,886	(400.64%)

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

**Governmental Funds.** The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Revenues from governmental fund types totaled \$173,635,739.

As of August 31, 2015, the District's governmental funds reported ending fund balances of \$93,260,660. Approximately 46.48% of the fund balance or \$43,354,335 is available for spending at the government's discretion (unassigned fund balance). The remainder of the fund balance is nonspendable, restricted or committed to indicate that it is not available for new spending as follows: (1) for bond construction \$28,180,933 (2) to pay debt service \$1,599,802, (3) for food service \$5,445,663, (4) for inventory \$1,410,656, (5) for prepaid items \$171,653, (6) for other \$1,929,525, and (7) committed for construction of \$11,168,093.

**General Fund.** The General Fund is the chief operating fund of the District. At the end of the fiscal year, fund balance of the General Fund was \$62,045,400 of which 69.87% or \$43,354,335 is unassigned. The remainder of fund balance is nonspendable, restricted or committed to indicate that it is not available for new spending as follows: (1) for food service \$5,445,663, (2) for inventory \$1,410,656 (3) for prepaid items \$171,653, (4) committed for construction of \$11,168,093, and (5) for retirement of long-term debt \$495,000. As a measure of the General Fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Fund balance represents 39.13% of the total fund expenditures. The District's General Fund balance decreased by \$14,680,135.

**Debt Service Fund.** This fund is used to account for resources accumulated and payments made for principal and interest on long-term debt of governmental funds. At August 31, 2015 the fund balance was \$1,104,802 all of which is reserved for retirement of long-term debt.

**Construction Fund 2008.** This fund is used for the construction of school buildings and improvements with the 2008 bond issue proceeds. At August 31, 2015 the fund balance was \$28,180,933 all of which is reserved for construction.

**Proprietary Funds.** The Proprietary funds are funds that are primarily self-supporting. The District maintains two Internal Service Funds. These funds are used to account for the administrative claims cost related to workers' compensation self-insurance, the self-funded health insurance program, and the operations of a print shop. The unrestricted net position at August 31, 2015 was \$2,294,136.

## General Fund Budgetary Highlights

Over the course of the year, the District revised its budget several times.

The District made the following amendments to budgeted revenues and other resources:

- Adjusted foundation revenues for the various Special Programs allocations to reflect final average daily attendance.
- Adjusted tax revenue for anticipated collections.
- Increased Teacher Retirement System On Behalf.

Actual revenues were \$799,564 more than final budgeted revenues. The main reason for this variance was due to the increase in state foundation revenues and in federal funds related to the School Health and Related Services (SHARS) program.

Following is a summary of amendments made to budgeted expenditures:

- Increased budgeted expenditures for carry over purchase orders encumbered in prior year.
- Increased budgeted expenditures for the purchase of cafeteria equipment and vehicles
- Increased budgeted expenditures for the purchase of safety and security equipment
- Increased budgeted expenditures related to the Ag Barn construction project.
- Reduced capital outlay budgeted expenditures for projects to be completed the following year.

The budgeted appropriations were more than the actual expenditures by \$13,500,181. General Fund encumbrances at year-end were \$7,466,509. These are purchase orders that will be carried over to the 2016 fiscal year for various departments and campuses. The excess budget was due to function 81 – capital outlay which had a positive variance of \$4,702,644 due to construction projects that were not completed during the year. Function 51– plant maintenance and operations had a positive variance of \$1,877,322 mainly due to excess balances in utilities. Function 11 – instruction expenditures had a positive variance of \$1,609,151 due to excess balances in supplies, and function 35 – food service expenditures had a positive variance of \$1,227,477 due to staff vacancies, purchases that were carried over to the next fiscal year, and cost efficiencies.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At August 31, 2015, the District had invested \$193,054,374 in a broad range of capital assets, including land, equipment, buildings, and vehicles (See Table A-4). In accordance with GASB 34, the District has recorded depreciation expense associated with all of its capital assets, including infrastructure.

**Table A-4**  
**District's Capital Assets**

	2015	2014	% Change
Land	\$ 5,414,822	\$ 5,414,822	0.0%
Infrastructure	3,392,489	3,392,489	0.0%
Buildings and improvements	239,006,996	233,502,722	2.4%
Construction in progress	21,673,480	8,861,458	144.6%
Vehicles	10,144,285	9,528,622	6.5%
Equipment	<u>27,451,920</u>	<u>23,973,140</u>	<u>14.5%</u>
Totals at historical cost	<u>307,083,992</u>	<u>284,673,253</u>	<u>7.9%</u>
Total accumulated depreciation	<u>(114,029,618)</u>	<u>(104,443,786)</u>	<u>9.2%</u>
Net capital assets	<u>\$ 193,054,374</u>	<u>\$ 180,229,467</u>	<u>7.1%</u>

## Long-Term Obligations

At August 31, 2015, the District had \$138,637,800 in long-term obligations as shown in Table A-5. More detailed information about the District's debt is presented in the notes to the financial statements.

<b>Bond Ratings</b>
The District's long-term debt obligations presently carry "AAA" ratings with underlying ratings as follows: Moody's Investor Services "A1" and Standard & Poor's "A+".

**Table A-5  
District's Long-Term Obligations**

	<u>2015</u>	<u>2014</u>	<u>% Change</u>
General Obligation Debt	\$ 135,311,515	\$ 138,682,600	(2.43%)
Maintenance Tax Notes	2,978,000	2,978,000	0.0%
Compensated Absences	348,285	310,245	12.3%
	<u>\$ 138,637,800</u>	<u>\$ 141,970,845</u>	<u>(2.35%)</u>

Due to the implementation of GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* as mentioned earlier, the District was required to recognize their proportionate share of the Net Pension Liability of the Teacher Retirement System of Texas. The liability at August 31, 2015 is \$17,524,216.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The freeze adjusted taxable value used for the 2016 budget preparation is up \$62,705,699, or 3.95% from \$1,587,219,734 to \$1,649,925,433.
- The M&O tax rate remained at \$1.17 and the I&S rate increased by 3.72 cents to \$0.1972. The Debt Service fund will require a contribution from Debt Service Fund Balance of \$360,265.
- General operating fund revenue per student increased in the 2016 budget from \$10,711 to \$11,282. This is a 5.33% increase.
- The District's 2016 refined average daily attendance was expected to be 14,134, but instead is 14,529.38, an increase of 2.79% as of November 20, 2015, the second six week reporting period.

These indicators were taken into account when adopting the General Fund budget for the 2015-2016 fiscal year. Amounts available for estimated revenues in the budget for 2016 are \$148,831,579 an increase of 3.89% over the 2015 budget of \$143,261,042. The increase is attributable to state revenue due to changes in funding formulas authorized by the 84<sup>th</sup> Texas Legislature.

Expenditures in 2015-2016 fiscal year are budgeted to decrease by 10.89% to \$148,847,469 from the original 2015 budget of \$167,035,707. This decrease is attributable to capital outlay construction budget for the Mission Collegiate High School campus which was completed in 2015.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Office of the Assistant Superintendent for Finance and Operations, Mission C.I.S.D., 1201 Bryce Drive, Mission, Texas 78572.

# **BASIC FINANCIAL STATEMENTS**

## MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

## STATEMENT OF NET POSITION

AUGUST 31, 2015

Data Control Codes	1
	Governmental Activities
<b>ASSETS:</b>	
1110 <i>Cash and Cash Equivalents</i>	\$ 76,266,535
1120 <i>Current Investments</i>	21,577,198
1225 <i>Property Taxes Receivable (Net)</i>	3,313,305
1240 <i>Due from Other Governments</i>	7,579,202
1250 <i>Accrued Interest</i>	296
1267 <i>Due from Fiduciary</i>	13,738
1290 <i>Other Receivables (Net)</i>	19,118
1300 <i>Inventories</i>	1,410,655
1410 <i>Unrealized Expenses</i>	171,653
1490 <i>Other Current Assets</i>	321,252
Capital Assets:	
1510 <i>Land</i>	5,414,824
1520 <i>Buildings and Improvements, Net</i>	149,753,623
1530 <i>Furniture and Equipment, Net</i>	14,336,301
1580 <i>Construction in Progress</i>	21,673,480
1590 <i>Infrastructure, Net</i>	1,876,146
1800 <i>Restricted Assets</i>	495,000
1000 <b>Total Assets</b>	<u>304,222,326</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>	
1701 <i>Deferred Charges on Refunding (net)</i>	3,895,977
1705 <i>Deferred Outflow Related to Pensions</i>	4,384,973
1700 <b>Total Deferred Outflows of Resources</b>	<u>8,280,950</u>
<b>LIABILITIES:</b>	
2110 <i>Accounts Payable</i>	4,273,530
2140 <i>Interest Payable</i>	258,538
2165 <i>Accrued Liabilities</i>	6,190,123
2177 <i>Due to Fiduciary</i>	752
2180 <i>Due to Other Governments</i>	2,343
2300 <i>Unearned Revenue</i>	38,758
Noncurrent Liabilities:	
2501 <i>Due Within One Year</i>	5,404,968
2502 <i>Due in More Than One Year</i>	133,232,833
2540 <i>Net Pension Liability</i>	17,524,216
2000 <b>Total Liabilities</b>	<u>166,926,061</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>	
2605 <i>Deferred Inflow Related to Pensions</i>	5,360,710
2600 <b>Total Deferred Inflows of Resources</b>	<u>5,360,710</u>
<b>NET POSITION:</b>	
3200 <b>Net Investment in Capital Assets</b>	88,223,581
Restricted For:	
3820 <i>State and Federal Programs</i>	5,977,800
3850 <i>Debt Service</i>	1,227,039
3870 <i>Campus Activities</i>	650,515
3900 <i>Unrestricted</i>	44,137,570
3000 <b>Total Net Position</b>	<u>\$ 140,216,505</u>

The accompanying notes are an integral part of this statement.



# MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes	Functions/Programs	1 Expenses	3 Charges for Services	4 Program Revenues		5 Capital Grants and Contributions
				Operating Grants and Contributions	Capital Grants and Contributions	
	Governmental Activities:					
11	<i>Instruction</i>	\$ 90,366,706	\$ 147,728	\$ 15,726,217	\$ --	
12	<i>Instructional Resources and Media Services</i>	2,775,395	6,647	265,178	--	
13	<i>Curriculum and Staff Development</i>	5,003,662	2,669	1,878,299	--	
21	<i>Instructional Leadership</i>	2,130,255	3,798	413,236	--	
23	<i>School Leadership</i>	9,123,552	22,608	1,068,971	--	
31	<i>Guidance, Counseling, &amp; Evaluation Services</i>	7,538,151	7,853	3,341,844	--	
32	<i>Social Work Services</i>	238,387	103	12,014	--	
33	<i>Health Services</i>	1,710,648	3,362	549,196	--	
34	<i>Student Transportation</i>	3,685,484	103	881,041	--	
35	<i>Food Service</i>	11,786,702	153,663	10,323,090	--	
36	<i>Cocurricular/Extracurricular Activities</i>	7,704,638	868,584	231,309	--	
41	<i>General Administration</i>	4,155,751	11,112	380,550	--	
51	<i>Facilities Maintenance and Operations</i>	16,584,956	51,782	1,737,135	--	
52	<i>Security and Monitoring Services</i>	1,495,324	5,808	95,341	--	
53	<i>Data Processing Services</i>	2,195,027	3,670	130,310	--	
61	<i>Community Services</i>	1,122,532	513	931,247	--	
72	<i>Interest on Long-term Debt</i>	4,852,834	--	--	--	6,698,719
73	<i>Bond Issuance Costs and Fees</i>	715,813	--	--	--	--
81	<i>Capital Outlay</i>	8,278	--	9,158	--	--
95	<i>Payments to Juvenile Justice Alternative Ed. Programs</i>	5,332	--	249	--	--
99	<i>Other Intergovernmental Charges</i>	239,668	--	--	--	--
TG	Total Governmental Activities	<u>173,439,095</u>	<u>1,290,003</u>	<u>37,974,385</u>		<u>6,698,719</u>
TP	Total Primary Government	<u>\$ 173,439,095</u>	<u>\$ 1,290,003</u>	<u>\$ 37,974,385</u>		<u>\$ 6,698,719</u>
	General Revenues:					
MT	<i>Property Taxes, Levied for General Purposes</i>					
DT	<i>Property Taxes, Levied for Debt Service</i>					
IE	<i>Investment Earnings</i>					
GC	<i>Grants and Contributions Not Restricted to Specific Programs</i>					
MI	<i>Miscellaneous</i>					
TR	Total General Revenues					
CN	Change in Net Position					
NB	Net Position - Beginning					
PA	Prior Period Adjustment					
	Net Position - Beginning, as Restated					
NE	Net Position - Ending					

The accompanying notes are an integral part of this statement.

Net (Expense)  
Revenue and  
Changes in  
Net Position

Governmental  
Activities

\$	(74,492,761)
	(2,503,570)
	(3,122,694)
	(1,713,221)
	(8,031,973)
	(4,188,454)
	(226,270)
	(1,158,090)
	(2,804,340)
	(1,309,949)
	(6,604,745)
	(3,764,089)
	(14,796,039)
	(1,394,175)
	(2,061,047)
	(190,772)
	1,845,885
	(715,813)
	880
	(5,083)
	(239,668)
	<u>(127,475,988)</u>
	<u>(127,475,988)</u>

	20,576,837
	2,819,034
	217,162
	103,850,801
	1,464,715
	<u>128,928,549</u>
	1,452,561
	158,618,954
	(19,855,010)
	138,763,944
\$	<u><u>140,216,505</u></u>

**MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**

*BALANCE SHEET - GOVERNMENTAL FUNDS*

*AUGUST 31, 2015*

Data Control Codes	10 General Fund	50 Debt Service Fund
<b>ASSETS:</b>		
1110 <i>Cash and Cash Equivalents</i>	\$ 46,077,636	\$ 716,041
1120 <i>Current Investments</i>	15,777,910	--
1225 <i>Taxes Receivable, Net</i>	2,905,715	407,590
1240 <i>Due from Other Governments</i>	4,862,392	361,946
1250 <i>Accrued Interest</i>	200	--
1260 <i>Due from Other Funds</i>	2,279,817	--
1290 <i>Other Receivables</i>	15,720	--
1300 <i>Inventories</i>	1,410,655	--
1410 <i>Unrealized Expenditures</i>	171,653	--
1490 <i>Other Current Assets</i>	76,500	--
1800 <i>Restricted Assets</i>	495,000	--
1000 <b>Total Assets</b>	<u>74,073,198</u>	<u>1,485,577</u>
<b>LIABILITIES:</b>		
Current Liabilities:		
2110 <i>Accounts Payable</i>	\$ 2,931,266	\$ --
2150 <i>Payroll Deductions &amp; Withholdings</i>	93,848	--
2160 <i>Accrued Wages Payable</i>	4,853,673	--
2170 <i>Due to Other Funds</i>	91,647	--
2180 <i>Due to Other Governments</i>	519	--
2300 <i>Unearned Revenue</i>	29,969	--
2000 <b>Total Liabilities</b>	<u>8,000,922</u>	<u>--</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
	<i>Deferred Revenue</i>	380,775
2600 <b>Total Deferred Inflows of Resources</b>	<u>4,026,876</u>	<u>380,775</u>
<b>FUND BALANCES:</b>		
Nonspendable Fund Balances:		
3410 <i>Inventories</i>	1,410,656	--
3430 <i>Prepaid Items</i>	171,653	--
Restricted Fund Balances:		
3450 <i>Federal/State Funds Grant Restrictions</i>	5,445,663	--
3480 <i>Retirement of Long-Term Debt</i>	495,000	1,104,802
3490 <i>Other Restrictions of Fund Balance</i>	--	--
Committed Fund Balances:		
3510 <i>Construction</i>	11,168,093	--
3545 <i>Other Committed Fund Balance</i>	--	--
3600 <i>Unassigned</i>	43,354,335	--
3000 <b>Total Fund Balances</b>	<u>62,045,400</u>	<u>1,104,802</u>
4000 <b>Total Liabilities, Deferred Inflow of Resources and Fund Balances</b>	<u>\$ 74,073,198</u>	<u>\$ 1,485,577</u>

The accompanying notes are an integral part of this statement.

EXHIBIT C-1

60 Construction Fund 2008	Other Governmental Funds	98 Total Governmental Funds
\$ 23,501,442	\$ 2,343,028	\$ 72,638,147
5,599,288	200,000	21,577,198
--	--	3,313,305
--	2,354,864	7,579,202
--	96	296
5,228	56,977	2,342,022
--	3,398	19,118
--	--	1,410,655
--	--	171,653
--	--	76,500
--	--	495,000
<u>29,105,958</u>	<u>4,958,363</u>	<u>109,623,096</u>
\$ 925,025	\$ 255,698	\$ 4,111,989
--	--	93,848
--	483,612	5,337,285
--	2,279,081	2,370,728
--	1,658	2,177
--	8,789	38,758
<u>925,025</u>	<u>3,028,838</u>	<u>11,954,785</u>
<u>--</u>	<u>--</u>	<u>4,407,651</u>
<u>--</u>	<u>--</u>	<u>4,407,651</u>
--	--	1,410,656
--	--	171,653
--	--	5,445,663
--	--	1,599,802
28,180,933	1,279,010	29,459,943
--	--	11,168,093
--	650,515	650,515
--	--	43,354,335
<u>28,180,933</u>	<u>1,929,525</u>	<u>93,260,660</u>
<u>\$ 29,105,958</u>	<u>\$ 4,958,363</u>	<u>\$ 109,623,096</u>

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**MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT***RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**TO THE STATEMENT OF NET POSITION**AUGUST 31, 2015*

Total fund balances - governmental funds balance sheet	\$ 93,260,660
Amounts reported for governmental activities in the Statement of Net Position ("SNP") are different because:	
Capital assets used in governmental activities are not reported in the funds.	193,054,373
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	3,086,630
The assets and liabilities of internal service funds are included in governmental activities in the SNP.	2,994,136
Payables for bond principal which are not due in the current period are not reported in the funds.	(128,861,025)
Payables for bond interest which are not due in the current period are not reported in the funds.	(258,538)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(348,285)
Deferred amount on refunding of debt issues not reported in the funds.	3,895,977
Revenues recognized for SHARS in the SOA are deferred inflows in the funds.	1,321,020
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(17,524,216)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(5,360,710)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	4,384,973
Bond premiums and discounts are amortized in the SNA but not in the funds.	(9,428,490)
Net position of governmental activities - Statement of Net Position	<u>\$ 140,216,505</u>

The accompanying notes are an integral part of this statement.

# MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

### IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes	10 General Fund	50 Debt Service Fund
<b>REVENUES:</b>		
5700 <i>Local and Intermediate Sources</i>	\$ 22,520,396	\$ 2,829,360
5800 <i>State Program Revenues</i>	110,685,013	6,698,719
5900 <i>Federal Program Revenues</i>	13,900,236	--
5020 <b>Total Revenues</b>	<u>147,105,645</u>	<u>9,528,079</u>
<b>EXPENDITURES:</b>		
Current:		
0011 <i>Instruction</i>	76,335,997	--
0012 <i>Instructional Resources and Media Services</i>	2,469,658	--
0013 <i>Curriculum and Staff Development</i>	3,370,391	--
0021 <i>Instructional Leadership</i>	1,896,047	--
0023 <i>School Leadership</i>	8,871,624	--
0031 <i>Guidance, Counseling, &amp; Evaluation Services</i>	4,752,026	--
0032 <i>Social Work Services</i>	241,281	--
0033 <i>Health Services</i>	1,328,254	--
0034 <i>Student Transportation</i>	3,686,481	--
0035 <i>Food Service</i>	11,774,954	--
0036 <i>Cocurricular/Extracurricular Activities</i>	5,930,447	--
0041 <i>General Administration</i>	4,140,895	--
0051 <i>Facilities Maintenance and Operations</i>	16,194,995	--
0052 <i>Security and Monitoring Services</i>	1,377,795	--
0053 <i>Data Processing Services</i>	2,559,464	--
0061 <i>Community Services</i>	241,442	--
0071 <i>Principal on Long-term Debt</i>	--	35,780,000
0072 <i>Interest on Long-term Debt</i>	129,608	5,647,954
0073 <i>Bond Issuance Costs and Fees</i>	--	763,595
0081 <i>Capital Outlay</i>	13,007,511	--
0095 <i>Payments to Juvenile Justice Alternative</i>		
0095 <i>Education Programs</i>	5,332	--
0099 <i>Other Intergovernmental Charges</i>	239,668	--
6030 <b>Total Expenditures</b>	<u>158,553,870</u>	<u>42,191,549</u>
1100 <b>Excess (Deficiency) of Revenues Over (Under)</b>		
1100 <b>Expenditures</b>	<u>(11,448,225)</u>	<u>(32,663,470)</u>
Other Financing Sources and (Uses):		
7901 <i>Refunding Bonds Issued</i>	--	69,255,000
7912 <i>Sale of Real or Personal Property</i>	57,614	--
7915 <i>Transfers In</i>	--	3,268,286
7916 <i>Premium or Discount on Issuance of Bonds</i>	--	9,276,712
8911 <i>Transfers Out</i>	(3,289,524)	--
8940 <i>Payment to Bond Refunding Escrow Agent</i>	--	(48,706,543)
7080 <b>Total Other Financing Sources and (Uses)</b>	<u>(3,231,910)</u>	<u>33,093,455</u>
1200 <b>Net Change in Fund Balances</b>	<u>(14,680,135)</u>	<u>429,985</u>
0100 <b>Fund Balances - Beginning</b>	<u>76,725,535</u>	<u>674,817</u>
3000 <b>Fund Balances - Ending</b>	<u>\$ 62,045,400</u>	<u>\$ 1,104,802</u>

The accompanying notes are an integral part of this statement.

EXHIBIT C-2

60 Construction Fund 2008	Other Governmental Funds	98 Total Governmental Funds
\$ 65,885	\$ 1,023,121	\$ 26,438,762
9,158	1,348,737	118,741,627
--	14,555,114	28,455,350
<u>75,043</u>	<u>16,926,972</u>	<u>173,635,739</u>
224,303	9,421,783	85,982,083
146,575	24,410	2,640,643
--	1,683,555	5,053,946
--	255,375	2,151,422
--	203,257	9,074,881
--	2,959,354	7,711,380
--	--	241,281
2,331	412,602	1,743,187
--	--	3,686,481
--	584	11,775,538
--	1,067,481	6,997,928
--	5,719	4,146,614
--	--	16,194,995
--	--	1,377,795
--	--	2,559,464
--	913,258	1,154,700
--	--	35,780,000
--	--	5,777,562
--	--	763,595
6,431,992	595,426	20,034,929
--	--	5,332
--	--	239,668
<u>6,805,201</u>	<u>17,542,804</u>	<u>225,093,424</u>
<u>(6,730,158)</u>	<u>(615,832)</u>	<u>(51,457,685)</u>
--	--	69,255,000
--	--	57,614
--	21,238	3,289,524
--	--	9,276,712
--	--	(3,289,524)
--	--	(48,706,543)
<u>--</u>	<u>21,238</u>	<u>29,882,783</u>
<u>(6,730,158)</u>	<u>(594,594)</u>	<u>(21,574,902)</u>
34,911,091	2,524,119	114,835,562
<u>\$ 28,180,933</u>	<u>\$ 1,929,525</u>	<u>\$ 93,260,660</u>



**MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2015*

Net change in fund balances - total governmental funds	\$ (21,574,902)
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	22,410,739
The depreciation of capital assets used in governmental activities is not reported in the funds.	(9,585,832)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(131,937)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	35,780,000
Deferred amount on refunding of debt issues amortized in the SOA, but not in the funds.	47,782
The accretion of interest on capital appreciation bonds is not reported in the funds.	(23,880)
(Increase) decrease in accrued interest from beginning of period to end of period.	33,240
The net revenue (expense) of internal service funds is reported with governmental activities.	769,117
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	(38,040)
Bond premiums and discounts amortized in the SOA, but not in the funds.	200,512
Revenues in the SOA not providing current financial resources are not reported in the funds.	1,321,020
Bond premium and discounts reported in the funds not on the SOA.	(9,276,712)
Proceeds of long-term debt is recognized as other financial resources in the funds but not revenue in the SOA.	(68,540,144)
Payment to bond refunding escrow agent recognized as other financing source in the funds.	48,706,543
Implementing GASB 68 required certain expenditures to be de-expended and recorded as deferred resource outflows.	2,974,861
The District's proportionate share of pension expense is recorded in the SOA but not in the funds.	<u>(1,619,804)</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ 1,452,561</u>

The accompanying notes are an integral part of this statement.

**MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**

## STATEMENT OF NET POSITION

## INTERNAL SERVICE FUNDS

AUGUST 31, 2015

Data Control Codes		Internal Service Funds
<b>ASSETS:</b>		
Current Assets:		
1110	Cash and Cash Equivalents	\$ 3,628,391
Receivables:		
1260	Due from Other Funds	43,903
1490	Other Current Assets	244,752
	Total Current Assets	<u>3,917,046</u>
1000	Total Assets	<u>3,917,046</u>
<b>LIABILITIES:</b>		
Current Liabilities:		
2110	Accounts Payable	\$ 161,541
2170	Due to Other Funds	2,213
2180	Due to Other Governments	166
2200	Accrued Expenses	758,990
	Total Current Liabilities	<u>922,910</u>
2000	Total Liabilities	<u>922,910</u>
<b>NET POSITION:</b>		
3900	Unrestricted	2,994,136
3000	Total Net Position	<u>\$ 2,994,136</u>

The accompanying notes are an integral part of this statement.

**MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
 IN FUND NET POSITION - INTERNAL SERVICE FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes		Internal Service Funds
<b>OPERATING REVENUES:</b>		
5700	<i>Local and Intermediate Sources</i>	\$ 12,337,487
5800	<i>State Program Revenues</i>	5,909
5020	Total Revenues	<u>12,343,396</u>
<b>OPERATING EXPENSES:</b>		
6100	<i>Payroll Costs</i>	11,119,527
6200	<i>Professional and Contracted Services</i>	84,098
6300	<i>Supplies and Materials</i>	103,356
6400	<i>Other Operating Costs</i>	257,175
6600	<i>Capital Outlay - Land, Buildings &amp; Equipment</i>	13,436
6030	Total Expenses	<u>11,577,592</u>
	Operating Income (Loss)	<u>765,804</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
7955	<i>Earnings from Temp. Deposits and Investments</i>	3,313
8030	Total Non-operating Revenues (Expenses)	<u>3,313</u>
1300	Change in Net Position	769,117
0100	Total Net Position - Beginning	2,225,019
3300	Total Net Position - Ending	<u>\$ 2,994,136</u>

The accompanying notes are an integral part of this statement.

**MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**

## STATEMENT OF CASH FLOWS

## INTERNAL SERVICE FUNDS

FOR THE YEAR ENDED AUGUST 31, 2015

	Total Internal Service Funds
<b>Cash Flows from Operating Activities:</b>	
<i>Cash received from other funds and customers</i>	\$ 12,297,046
<i>Cash payments to employees for services</i>	(95,573)
<i>Cash payments to other suppliers for goods and services</i>	(211,475)
<i>Cash payments for claims and administrative costs</i>	(10,530,494)
Net Cash Provided (Used) by Operating Activities	<u>1,459,504</u>
<b>Cash Flows from Non-capital Financing Activities:</b>	
<i>Transfers from (to) other funds</i>	--
Net Cash Provided (Used) by Non-capital Financing Activities	<u>--</u>
<b>Cash Flows from Investing Activities:</b>	
<i>Interest and dividends on investments</i>	3,313
Net Cash Provided (Used) for Investing Activities	<u>3,313</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,462,816
Cash and Cash Equivalents at Beginning of Year	2,165,575
Cash and Cash Equivalents at End of Year	<u>\$ 3,628,391</u>
<b>Reconciliation of Operating Income to Net Cash     Provided by Operating Activities:</b>	
Operating Income (Loss)	\$ 765,804
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Interfund Receivables</i>	(40,757)
<i>Decrease (Increase) in Other Current Assets</i>	50,190
<i>Increase (Decrease) in Accounts Payable</i>	143,844
<i>Increase (Decrease) in Accrued Liabilities</i>	538,209
<i>Increase (Decrease) in Interfund Payables</i>	2,213
Total Adjustments	<u>693,699</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,459,503</u>

The accompanying notes are an integral part of this statement.

**MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**

## STATEMENT OF FIDUCIARY NET POSITION

## FIDUCIARY FUNDS

AUGUST 31, 2015

Data Control Codes	Private-purpose Trust Funds	Agency Funds  Student Activity
<b>ASSETS:</b>		
1110 <i>Cash and Cash Equivalents</i>	\$ --	\$ 210,357
1250 <i>Accrued Interest</i>	36	--
1260 <i>Due from Other Funds</i>	2,750	--
1800 <i>Restricted Assets</i>	457,771	--
1000 Total Assets	<u>460,557</u>	<u>210,357</u>
<b>LIABILITIES:</b>		
Current Liabilities:		
2110 <i>Accounts Payable</i>	\$ 250	\$ 2,703
2170 <i>Due to Other Funds</i>	--	15,738
2180 <i>Due to Other Governments</i>	--	558
2190 <i>Due to Student Groups</i>	--	191,358
2400 <i>Payable from Restricted Assets</i>	99,825	--
2000 Total Liabilities	<u>100,075</u>	<u>210,357</u>
<b>NET POSITION:</b>		
3800 <i>Held in Trust</i>	360,482	--
3000 Total Net Position	<u>\$ 360,482</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

**MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT***STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**FIDUCIARY FUNDS**FOR THE YEAR ENDED AUGUST 31, 2015*

	Private- Purpose Trusts
<b>Additions:</b>	
Investment Income	\$ 719
Gifts and contributions	65,075
Total Additions	<u>65,794</u>
<b>Deductions:</b>	
Scholarship Awards	77,977
Total Deductions	<u>77,977</u>
<b>Change in Net Position</b>	(12,183)
Net Position-Beginning of the Year	372,665
Net Position-End of the Year	<u>\$ 360,482</u>

The accompanying notes are an integral part of this statement.

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MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
August 31, 2015

**NOTE 1 - REPORTING ENTITY**

Membership of Board - The Board of Trustees includes seven eligible members elected at large by the qualified voters of the Mission Consolidated Independent School District. The governing Board derives its powers from the statutes of the State of Texas and the rules and regulations of the Texas State Department of Education. The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined by GASB Statement No. 14 *The Financial Reporting Entity*. The District has no component units.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Mission Consolidated Independent School District's (the "District") basic financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide (the "Resource Guide"). The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles.

*A. 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 non-fiduciary activities of the primary government. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities.

Program revenues include:

- (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and
- (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Revenues that are not classified as program revenues, including all taxes, are presented 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



MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
August 31, 2015

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

*B. 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 financial statements. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The District reports the following major governmental funds:

**General Fund.** This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

**Debt Service Fund.** This fund is used by the District to account for resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

**Construction Fund 2008.** The District uses this fund to account for bond proceeds from the 2008 bond issue to be used for construction.

The District reports the following proprietary funds:

**Internal Service Funds.** The District uses these funds to account for claim payments and administrative costs paid for the modified self-funded workers compensation plan, the self-funded health insurance program and for the operations of a print shop.

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

Additionally, the District reports the following fiduciary funds:

**Private-Purpose Trust Funds.** These funds are used to report trust arrangements under which principal and income benefit individuals, private organizations, or other governments not reported in other fiduciary fund types.

**Agency Funds.** These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the

MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
August 31, 2015

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they become available and measurable. The District considers revenues as available if they are collected within the 60 days after year end. Revenues susceptible to accrual are property taxes, fiscal year state funding, and interest revenues. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

Unearned revenue is reported in the governmental funds when a potential revenue does not meet both the "measurable and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures.

In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for unearned revenue is removed and revenue is recognized.

*C. Cash and Cash Equivalents*

Investments are considered to be cash equivalents if they are highly liquid with maturity within three months or less.

*D. Investments*

Money market investments which are short-term, highly liquid debt instruments including commercial paper, bankers acceptances and U.S. Treasury and agency obligations are reported at amortized cost. Nonparticipating interest-earning investment contracts, including repurchase agreements, are reported using a cost-based measure. The term nonparticipating means that the investment's value does not vary with market interest rate changes. All other investments are reported at fair value.

MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 August 31, 2015

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*E. Inventory*

Inventory is valued at cost (average). The District accounts for school supply and food inventories by using the consumption method whereby expenditures are recognized only when inventory items are used. Maintenance supplies inventory is accounted for by using the purchase method whereby purchases of inventories are recognized as expenditures when the goods are received and the transaction is vouchered. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

*F. Other Current Assets*

Other current assets include prepaid items that are payments made for services that benefit periods beyond the current year.

*G. Capital Assets*

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used. Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Infrastructure	15
Buildings & Improvements	35
Vehicles	10
Furniture and Equipment	5-10

*H. Deferred Outflows/Inflows of Resources*

*Deferred outflows of resources* represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expenses/expenditures) until then. On the government-wide statement of net position, the District reports deferred outflows of resources for pensions and deferred amounts from refunding of debt which are amortized over the shorter of the life of the refunded or refunding debt.

*Deferred inflows of resources* represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Advances of revenue from imposed nonexchange transactions such as property taxes and transactions recorded as a receivable prior to the period when resources are required to be used or available, are reported as deferred inflows of resources at the fund level and are recognized as revenues at the government-wide level. Deferred inflows of resources for pensions are reported in the government-wide statement of net position.

MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
August 31, 2015

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (*Continued*)

*I. Interfund Activity*

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

*J. Long-term Obligations*

In government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are recorded and amortized over the term of the related debt using the straight-line method. Bond issuance cost are expensed in the current period.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received and OID discounts incurred on debt issuances are reported as other financing sources and uses. Issuance costs, whether or not withheld from debt proceeds, and underwriter's discounts are reported as debt service expenditures.

*K. Compensated Absences*

An estimate of the accrued sick leave is recorded in the government-wide financial statements. A liability for these amounts is reported in the fund financial statements only if they have matured, for example, as a result of employee retirement.

*L. Fund Balance Classifications*

In the fund financial statements, governmental funds report fund balance based on the following classifications: nonspendable, restricted, committed or unassigned. Nonspendable fund balances cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Restricted fund balances are amounts legally restricted by outside parties for use by a specific purpose. Commitments of fund balance require approval of the Board of Trustees through formal action. The Board of Trustees delegates the responsibility to assign fund balance to the Superintendent or his/her designee, when appropriate. Funds will be utilized in the following spending order: restricted, committed, assigned and unassigned.

MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
August 31, 2015

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

*M. Use of Estimates*

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

*N. Accounting System*

In accordance with the Resource Guide, the District has adopted and installed an accounting system which meets at least the minimum requirements prescribed by the State board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure prescribed by TEA in the Resource Guide. Mandatory codes are recorded in the order provided in that section.

*O. Data Control Codes*

Data Control Codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to insure accuracy in building a Statewide database for policy development and funding plans.

*P. Pension*

The District is a member employer of the Teacher Retirement System of Texas (TRS) and, therefore, records its proportionate share of the pension liability and related accounts in these financial statements. The fiduciary net position of the Teacher Retirement System of Texas (TRS) plan 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.

*Q. New Accounting Standards Adopted*

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

- Statement No. 67, *Financial Reporting for Pension Plans* - an amendment of GASB Statement No. 25.
- Statement No. 68, *Accounting and Financial Reporting for Pensions* - an amendment of GASB Statement No. 27
- Statement No. 69, *Government Combinations and Disposals of Government Operations*
- Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*

MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
August 31, 2015

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (*Continued*)

- Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68.*

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

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

For defined benefit pension plans, this Statement establishes standards of financial reporting for separately issued financial reports and presentation as pension trust funds in the financial statements of another government, and specifies the required approach to measuring the pension liability of employers and any nonemployer contributing entities for benefits provided through the pension plan (the net pension liability), about which certain information is required to be presented.

Distinctions are made regarding the particular presentation requirements depending upon the type pension plan administered. For defined contribution plans, the Statement provides specific note disclosure requirements. The adoption of Statement No. 67 has no impact on the District's financial statements.

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

The requirements of Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts or equivalent arrangements as described above, and to the financial statements of state and local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. Note

MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
August 31, 2015

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

disclosure and RSI requirements about pensions also are addressed. For defined benefit pension plans, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

The adoption of Statement No. 68 has no impact on the District's governmental fund financial statements, which continue to report expenditures in the contribution amount determined legislatively for the TRS plan. The calculation of pension contributions is unaffected by the change. However, the adoption has resulted in the restatement of the District's beginning net position of the government-wide financial statements to reflect the reporting of its proportionate shares of the collective (TRS) pension expense, collective (TRS) deferred outflows of resources and deferred inflows of resources related to pensions and a net pension liability for its qualified pension plan and the recognition of pension expense in accordance with the provisions of the Statement. The Statement requires numerous new pension disclosures in the notes to the financial statements and two new 10-year, pension-related charts as required supplementary information.

Statement No. 69 improves financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. The term "government combinations" is used to refer to a variety of arrangements including mergers and acquisitions. Mergers include combinations of legally separate entities without the exchange of significant consideration. Government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. Government combinations also include transfers of operations that do not constitute entire legally separate entities in which no significant consideration is exchanged. Transfers of operations may be present in shared service arrangements, reorganizations, redistricting, annexations, and arrangements in which an operation is transferred to a new government created to provide those services. There was no impact on the District's financial statements as a result of the implementation of Statement No. 69. Statement No. 70 was issued to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

The Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. The Statement requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. There was no impact on the District's financial statements as a result of the implementation of Statement No. 70.

MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 August 31, 2015

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**NOTE 3 – COMPLIANCE AND ACCOUNTABILITY**

*A. Finance-Related Legal and Contractual Provision*

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violations Reported</u>	<u>Actions Taken</u>
None	Not Applicable

*B. Deficit Fund Balance or Net Position of Individual Funds*

Following are funds having deficit fund balances or net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None Reported	Not applicable	Not applicable

**NOTE 4 - CASH AND INVESTMENTS**

Cash

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the School Depository Act. During the year, the District maintained either a letter of credit or the depository bank placed approved pledged securities with the District's agent bank to cover bank deposits as authorized by Chapter 2257 Collateral for Public Funds of the Government Code in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

At August 31, 2015, the carrying amount of the District's deposits (cash and certificates of deposit) was \$82,686,221 and the bank balance was \$85,472,907. Included in this balance are certificates of deposit of \$5,824,370. The District's cash deposits at August 31, 2015 and during the year ended August 31, 2015 were entirely covered by a letter of credit, FDIC insurance or by pledged collateral held in the District's name by a bank other than the pledging bank.



MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
August 31, 2015

**NOTE 4 - CASH AND INVESTMENTS (Continued)**

The District's cash deposits at August 31, 2015 are maintained primarily at BBVA Compass Bank with some certificates of deposit at Lone Star National Bank. These deposits were entirely covered FDIC insurance and pledged collateral held in the District's name by a bank other than the pledging bank.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Name of Banks: BBVA Compass Bank and Lone Star National Bank.
- b. Amount of letters of credit and market value of securities pledged as of the date of the highest combined balance on deposit was \$136,918,344.
- c. Largest combined balance of cash, money market savings and certificates of deposit amounted to \$120,509,417 and occurred during the month of January 2015.
- d. Total amount of FDIC coverage at the time of largest combined balance was \$500,000.

Additionally, a cumulative sinking fund money market account is held by Wilmington Trust to provide for the payment of the Qualified School Construction Maintenance Tax Notes, Series 2012. The highest cash balance of \$495,000 first occurred during the month of February 2015.

Investments

Statutes authorize the District to invest in obligations of the U.S. Treasury or the State of Texas, certain U.S. agencies, certificates of deposits, money market savings accounts, certain municipal securities, repurchase agreements, common trust funds and other investments specifically allowed by Chapter 2256 Public Funds Investment and Chapter 2257 Collateral for Public Funds of the Government Code.

The District's investment policies and types of investments are governed by the Public Funds Investment Act (PFIA). The District's management believes that it complied in all material respects with the requirements of the PFIA and the District's investment policies.

All investments are reported at fair value.

At August 31, 2015, the District's investments are summarized below:

	Weighted Average <u>Maturity</u>	Reported <u>Amount</u>	<u>Fair Value</u>
Texas CLASS Investment Pool	56 days average	\$ 7,104,651	\$ 7,104,651
TexSTAR Investment Pool	47 days average	2,094,031	2,094,031
Lone Star Investment Pool	37 days average	4,120,073	4,120,073
Texas DAILY Investment Pool	35 days average	<u>2,506,881</u>	<u>2,506,881</u>
		<u>\$ 15,825,636</u>	<u>\$ 15,825,636</u>

MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
August 31, 2015

**NOTE 4 - CASH AND INVESTMENTS (*Continued*)**

*Public Funds Investment Pools*

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"). Chapter 2258 of the Texas Government Code, in addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The District's investment in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

As of August 31, 2015, the four investment pools utilized by the District were all rated AAA or AAAM by Standard & Poor's Investor's Service.

*Credit Quality Ratings*

At August 31, 2015, the credit quality ratings for the District's investments and collateral of the repurchase agreement, excluding securities explicitly guaranteed by the U.S. government are as follows:

Credit Quality Distribution of Securities  
With Credit Exposure as a Percentage of Total Investments

<u>Investment or Investment Type</u>	<u>Rating</u>	<u>Exposure</u>
Texas CLASS Investment Pool	AAAM	45.0%
TexSTAR Investment Pool	AAAM	13.2%
Lone Star Investment Pool	AAA	26.1%
Texas DAILY Investment Pool	AAAM	15.8%

MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 August 31, 2015

**NOTE 4 - CASH AND INVESTMENTS (Continued)**

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. Portfolio diversification is employed in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific issuer, as a way to control the risk. Investments issued or explicitly guaranteed by the U.S. government, mutual funds and investment pools are excluded from this requirement.

Restricted Assets

As of August 31, 2015, restricted assets of the General Fund consist of \$495,000 held in a money market account for the future payment of the Qualified School Construction Maintenance Tax Notes, Series 2012. Restricted assets of the fiduciary funds as of August 31, 2015 consist of cash and certificates of deposit in the amount of \$457,725 for scholarships.

The following is a reconciliation of the District's total cash, investments, and restricted assets with the Statement of Net Position:

Cash	\$	76,861,851
Money Market		495,000
Certificates of deposit		5,824,370
Investments		<u>15,825,636</u>
Total of all funds		99,006,857
Less: Statement of Fiduciary Net Position		<u>(668,128)</u>
Statement of Net Position	\$	<u><u>98,338,729</u></u>

MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
August 31, 2015

**NOTE 5 - PROPERTY TAX**

Property taxes are levied by October 1 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 and those expected to be collected during a 60 day period after the close of the school fiscal year.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. The District's 2014 tax rate was \$1.17 for maintenance and \$.16 for debt service per \$100 assessed valuation. The 2014 assessed valuation was \$1,728,186,904. Allowances for uncollectibles within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

Taxes Receivable at August 31, 2015, was as follows:

	Total	Less:	Net
	<u>Receivable</u>	<u>Allowance for Uncollectible</u>	<u>Receivable</u>
General Fund	\$ 3,740,881	\$ (835,166)	\$ 2,905,715
Debt Service Fund	<u>517,453</u>	<u>(109,863)</u>	<u>407,590</u>
	<u>\$ 4,258,334</u>	<u>\$ (945,029)</u>	<u>\$ 3,313,305</u>

MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
August 31, 2015

**NOTE 6 – CAPITAL ASSETS**

Capital asset activity for the year ended August 31, 2015, was as follows:

<u>Governmental Activities</u>	<u>Balance 9/1/2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 8/31/2015</u>
Capital assets, not being depreciated:				
Land	\$ 5,310,655	\$ -	\$ -	\$ 5,310,655
Water Rights	104,167	-	-	104,167
Construction in Progress	8,861,458	18,661,897	5,849,875	21,673,480
	<u>14,276,280</u>	<u>18,661,897</u>	<u>5,849,875</u>	<u>27,088,302</u>
Capital assets being depreciated:				
Infrastructure	3,392,489	-	-	3,392,489
Buildings and Improvements	233,502,722	5,504,274	-	239,006,996
Furniture and Equipment	23,973,140	3,478,780	-	27,451,920
Vehicles	9,528,622	615,663	-	10,144,285
	<u>270,396,973</u>	<u>9,598,717</u>	<u>-</u>	<u>279,995,690</u>
Less accumulated depreciation for:				
Infrastructure	1,290,177	226,166	-	1,516,343
Buildings and Improvements	82,509,473	6,743,901	-	89,253,374
Furniture and Equipment	14,224,961	2,034,334	-	16,259,295
Vehicles	6,419,175	581,431	-	7,000,606
	<u>104,443,786</u>	<u>9,585,832</u>	<u>-</u>	<u>114,029,618</u>
Total Capital Assets being Depreciated (Net)	<u>165,953,187</u>	<u>12,885</u>	<u>-</u>	<u>165,966,072</u>
Governmental Activities Capital Assets (Net)	<u>\$ 180,229,467</u>	<u>\$ 18,674,782</u>	<u>\$ 5,849,875</u>	<u>\$ 193,054,374</u>

Depreciation was charged to the following functions:

11 – Instruction	\$ 5,764,313
12 –Instructional Resources and Media Services	176,945
13 – Curriculum and Staff Development	12,769
21 – Instructional Leadership	15,113
23 – School Leadership	260,664
31 – Guidance, Counseling, and Evaluation Services	1,031
34 – Student Transportation	486,447
35 – Food Service	816,562
36 – Cocurricular/Extracurricular Activities	873,138
41 – General Administration	51,602
51 – Plant Maintenance and Operations	635,159
52 – Security and Monitoring Services	184,198
53 – Data Processing Services	305,123
61 – Community Services	<u>2,768</u>
	<u>\$ 9,585,832</u>

MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
August 31, 2015

**NOTE 7 - DUE TO AND FROM OTHER GOVERNMENTS AND AGENCIES**

Amounts due to and from other governments and agencies are as follows:

	Due To	Due From
<u>General Fund</u>		
Texas Education Agency:		
Foundation Revenues	\$ -	\$ 1,473,228
National School Breakfast/Lunch	-	350,440
Summer Feeding Program	-	105,574
Medicaid Program (SHARS)	-	2,922,782
Texas State Comptroller	519	-
Hidalgo County	-	10,321
City of Mission	-	47
	519	4,862,392
 <u>Other Governmental Funds</u>		
Texas Education Agency:		
ESEA Title I, Part A	-	1,202,473
ESEA Title I, Priority and Focus Grant	-	4,346
ESEA Title I, Part C	-	145,506
ESEA Title III LEP	-	159,073
LEP Summer School Program	-	16,942
IDEA-B Formula	-	374,454
IDEA-B Preschool	-	1,076
Carl D. Perkins Basic Formula	-	27,749
ESEA Title II, Part A - TPTR	-	256,174
Region I ESC:		
Gear Up Program	-	48,311
Preschool Least Restrictive Environment	-	9,986
South Texas College	-	108,774
Texas State Comptroller	1,658	-
	1,658	2,354,864
 <u>Debt Service Fund</u>		
Texas Education Agency:		
Instructional Facilities Allotment/EDA	-	361,946
	-	361,946
 Total Due To/From Other Governments and Agencies	 \$ 2,177	 \$ 7,579,202

Due from the Texas Education Agency (TEA) for foundation revenues consists of a \$3,688,689 receivable for six instructional days in the month of August 2015 netted against a payable of \$2,215,461 as per TEA's Near Final Summary of Finances report.

MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
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**NOTE 8 - REVENUES FROM LOCAL AND INTERMEDIATE SOURCES**

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

	General	Debt Service	Construction	Other	
	Fund	Fund	Fund	Governmental	Total
			2008	Funds	
Property Taxes	\$ 19,968,045	\$ 2,723,264	\$ -	\$ -	\$ 22,691,309
Food Sales	160,396	-	-	-	160,396
Investment Income	138,132	5,320	65,885	4,511	213,848
Penalties and Interest on Taxes	735,724	100,776	-	-	836,500
Co-curricular Student Activities	171,650	-	-	701,333	872,983
Other	1,346,450	-	-	317,277	1,663,727
	<u>\$ 22,520,397</u>	<u>\$ 2,829,360</u>	<u>\$ 65,885</u>	<u>\$ 1,023,121</u>	<u>\$ 26,438,763</u>

**NOTE 9 - UNEARNED REVENUE**

Governmental funds report unearned revenue in connection with resources that have been received, but not yet earned. As of August 31, 2015, the various components of unearned revenue reported in the governmental funds were as follows:

	<u>Amount</u>
Athletics Season Tickets	\$ 7,469
Scoreboard Advertising	22,500
State and Local Grants	<u>8,789</u>
	<u>\$ 38,758</u>

Unearned revenues for state and local grants represent revenues received in excess of expenditures incurred for those programs for which the project period has not yet ended.

**NOTE 10 – DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES**

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. As of August 31, 2015, the governmental funds reported deferred inflows of resources for unavailable property taxes and unavailable SHARS revenues in the amounts of \$3,086,631 and \$1,321,020 respectively.

Deferred outflows of resources reported at the government-wide financial statement level include deferred charges on refunding of bonds and deferred outflows related to pensions. As of August 31, 2015, the amount of deferred charges on refunding of bonds reported as deferred outflows of resources was \$3,895,977 net of cumulative amortization of \$47,782. Deferred outflows of resources and deferred inflows of resources related to pensions is \$4,384,973 and \$5,360,710, respectively.

MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
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**NOTE 11 - GENERAL FUND FEDERAL SOURCE REVENUES**

<u>Programs or Source</u>	<u>CFDA Number</u>	<u>Amount</u>
JROTC	12.998	\$ 124,019
Medicaid Reimbursements	13.714	2,607,713
National School Lunch Program	10.555	6,571,372
Summer Feeding Program	10.555	172,606
School Breakfast Program	10.553	3,421,369
Commodity Supplemental Food Program	10.565	541,348
QSCB Interest Subsidy Program		120,151
Indirect Costs:		
ESEA Title I Part A	84.010A	200,356
ESEA Title I 1003(A) Priority and Focus	84.010A	1,917
ESEA Title I Part C	84.011	21,531
IDEA B Formula	84.027	68,698
IDEA B Preschool	84.173	682
Carl D. Perkins Basic Formula	84.048A	5,257
ESEA Title II Part A - TPTR	84.367A	27,441
ESEA Title III – LEP	84.365	<u>15,776</u>
		<u>\$ 13,900,236</u>

**NOTE 12 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

Interfund receivable and payable balances at August 31, 2015 were:

<u>Due to</u>	<u>Due From</u>	
General Fund	Non-Major Funds	\$ 2,266,792
General Fund	Fiduciary Funds	10,827
General Fund	Internal Service Fund	2,197
Construction Fund 2008	General Fund	5,228
Non-Major Funds	General Fund	56,977
Non-Major Funds	Internal Service Fund	1
Internal Service Fund	General Fund	29,188
Internal Service Fund	Internal Service Fund	15
Internal Service Fund	Non-Major Funds	11,789
Internal Service Fund	Fiduciary Funds	2,911
Fiduciary Funds	General Fund	250
Fiduciary Funds	Non-Major Funds	500
Fiduciary Funds	Fiduciary Funds	<u>2,000</u>
		<u>\$2,388,675</u>



MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
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**NOTE 12 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)**

The balances resulted from a routine lag between the dates that transactions, such as year-end payroll accruals and other liabilities, are recorded in the accounting system and payments between the funds are made. All amounts are scheduled to be repaid within one year.

In the fund financial statements, transfers out of the General Fund included \$3,268,286 to the Debt Service Fund for payments of bonded debt and \$21,238 to a Capital Projects Fund created for the construction of a new administration building.

**NOTE 13 – OTHER RECEIVABLES**

Other receivables at August 31, 2015 consisted of the following:

	General Fund	Other Governmental Funds	Total
Vendors, employees and parents	\$ 15,720	\$ 3,398	\$ 19,118
	\$ 15,720	\$ 3,398	\$ 19,118

**NOTE 14 - LONG-TERM OBLIGATIONS**

*General Obligation Bonds:*

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. The bonds are guaranteed by the corpus of the Permanent School Fund of the State of Texas in accordance with Article 7, Section 5 of the Texas Constitution, and Subchapter C of Chapter 45 of the Texas Education Code.

Bonds payable at August 31, 2015 are comprised of the following individual issues:

\$56,615,000 Unlimited Tax School Building Bonds Series 2006, originally payable in annual installments ranging from \$920,000 to \$3,475,000 through February 2036; interest at 4.00% to 5.25%; partially refunded in 2014.	1,330,000
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MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
August 31, 2015

**NOTE 14 - LONG-TERM OBLIGATIONS (Continued)**

\$59,000,000 Unlimited Tax School Building Bonds Series 2008 and \$145,000 capital appreciation bonds that matured February 2009; payable in annual installments ranging from \$855,000 to \$3,665,000 through February 2038; interest at 2.15% to 5.25%.	\$ 51,595,000
\$5,155,222 Unlimited Tax Refunding Bonds Series 2011, capital appreciation bonds with a maturity value of \$995,000; payable in annual installments ranging of \$2,460,222 and \$2,695,000 in February 2017 and 2018; interest at 3.25% and 3.50%.	5,155,222
\$25,685,000 Unlimited Tax Refunding Bonds Series 2014A, payable in annual installments ranging of \$675,000 to \$2,720,000; interest at 1.00% to 5.00%.	25,010,000
\$43,570,000 Unlimited Tax Refunding Bonds Series 2014B, payable in annual installments ranging of \$880,000 to \$3,500,000; interest at 1.00% to 5.00%.	<u>42,690,000</u>
<b>Total General Obligation Bonds</b>	<u><u>\$ 125,780,222</u></u>

Debt service requirements on long-term debt at August 31, 2015 are as follows:

Year Ending August 31,	Bonds Payable		Total
	Principal	Interest	Requirement
2016	5,295,000	5,662,075	10,957,075
2017	3,765,222	5,656,284	9,421,506
2018	4,060,000	5,383,188	9,443,188
2019	4,440,000	5,207,575	9,647,575
2020	4,645,000	5,007,500	9,652,500
2021-2025	26,615,000	21,634,494	48,249,494
2026-2030	33,490,000	14,740,538	48,230,538
2031-2035	29,505,000	7,065,375	36,570,375
2036-2038	13,965,000	863,625	14,828,625
	<u>\$ 125,780,222</u>	<u>\$ 71,220,653</u>	<u>\$ 197,000,876</u>

MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
August 31, 2015

**NOTE 14 - LONG-TERM OBLIGATIONS** *(Continued)*

*Advance and Current Refunding in the Current Year*

The District issued \$43,570,000 in Unlimited Tax Refunding Bonds Series 2014B to refund \$45,505,000 of the remaining outstanding balance of the Unlimited Tax School Building Bonds Series 2006. The net proceeds were used to purchase U.S. government, state and local securities that were placed in an escrow account to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the government-wide statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$2,760,378. This amount is shown as deferred outflows of resources and amortized over the remaining life of the refunded debt. This advance refunding was undertaken to reduce total debt service payments over the next 21 years by \$4,824,502 and resulted in an economic gain of \$4,180,079. At August 31, 2015, the amount of defeased debt outstanding was \$45,505,000.

In addition, the District issued \$25,685,000 in Unlimited Tax Refunding Bonds Series 2014A for a current refunding of \$28,280,000 of the Unlimited Tax Refunding Bonds Series 2005. The reacquisition price exceeded the net carrying amount of the old debt by \$1,086,803. This amount is shown as deferred outflows of resources and amortized over the remaining life of the refunded debt. The transaction resulted in an economic gain of \$3,874,474 and a reduction of \$4,138,817 in future debt service payments.

*Advance Refunding in Prior Years*

In a prior year, the District defeased the remaining balance of one bond issue. U.S. government, state and local government securities were purchased and placed in an escrow account to provide for all future debt service payments on the refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the government-wide statement of net position.

*Maintenance Tax Qualified School Construction Notes*

Maintenance tax notes payable as of August 31, 2015 are comprised of the following:

\$2,978,000 Maintenance Tax Qualified School Construction Notes Taxable Series 2012; principal due February 2030; interest at 4.35% due semi-annually through February 2030.	\$ 2,978,000
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MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 August 31, 2015

**NOTE 14 - LONG-TERM OBLIGATIONS (Continued)**

Maintenance tax note requirements are as follows:

Year Ending	Maintenance Tax Notes		Total
	<u>August 31,</u>	<u>Principal</u>	<u>Interest</u>
2016	-	129,543	129,543
2017	-	129,543	129,543
2018	-	129,543	129,543
2019	-	129,543	129,543
2020	-	129,543	129,543
2021-2025	-	647,715	647,715
2026-2030		<u>2,978,000</u>	<u>582,944</u>
		<u>\$ 2,978,000</u>	<u>\$ 1,878,374</u>
			<u>\$ 4,856,374</u>

The debt will be paid by the General Fund. A federal subsidy is available to the District to reimburse the District the majority of the interest requirement. The District is required to make annual deposits ranging from \$165,000 to \$166,000 into a cumulative sinking fund deposit account in order to pay the principal on the notes when they mature. The sinking fund deposits are recorded in the General Fund and restricted for that purpose.

MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
August 31, 2015

**NOTE 14 - LONG-TERM OBLIGATIONS (Continued)**

*Changes in Long-term Obligations:*

Changes in long-term obligations for the year ended August 31, 2015 are as follows:

<u>Governmental Activities</u>	<u>Beginning Balance 9/1/2014</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance 8/31/2015</u>	<u>Due Within One Year</u>
<b>General Obligation Bonds:</b>					
Unlimited Tax Bonds - Series 2008	\$ 52,790,000	\$ -	\$ 1,195,000	\$ 51,595,000	\$ 1,245,000
Unlimited Tax Bonds - Series 2006	48,105,000	-	46,775,000	1,330,000	1,330,000
Unlimited Tax Refunding Bonds - Series 2005	31,760,000	-	31,760,000	-	-
Unlimited Tax Refunding Bonds - Series 2011	5,155,222	-	-	5,155,222	-
Unlimited Tax Refunding Bonds - Series 2014A	-	25,685,000	675,000	25,010,000	2,720,000
Unlimited Tax Refunding Bonds - Series 2014B	-	43,570,000	880,000	42,690,000	-
Premiums and Discounts	793,454	9,276,712	641,677	9,428,489	-
Accretion of CAB's	<u>78,924</u>	<u>23,880</u>	<u>-</u>	<u>102,804</u>	<u>-</u>
Total General Obligation Bonds Payable	<u>138,682,600</u>	<u>78,555,592</u>	<u>81,926,677</u>	<u>135,311,515</u>	<u>5,295,000</u>
Maintenance Tax Qualified School Construction Notes	2,978,000	-	-	2,978,000	
<b>Compensated Absences:</b>					
Sick Leave	<u>310,245</u>	<u>115,245</u>	<u>77,205</u>	<u>348,285</u>	<u>109,968</u>
Total Governmental Activities:	<u>\$ 141,970,845</u>	<u>\$ 78,670,837</u>	<u>\$ 82,003,882</u>	<u>\$ 138,637,800</u>	<u>\$ 5,404,968</u>

Compensated absences are generally liquidated by the General fund.

**NOTE 15 - COMPENSATED ABSENCES**

It is the District's policy to allow employees to accumulate earned but unused state and local personal and sick leave days. Any employee who retires through the Teacher Retirement System of Texas and has worked at the District for the past 10 years, shall be entitled to a one-time payment of these days, with a limit of 100 days. Payment to professional employees is limited to

MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 15 - COMPENSATED ABSENCES** *(Continued)*

\$6,000 or 100 days at \$60 a day. Payment to paraprofessionals and auxiliary personnel is limited to a maximum of \$3,000 or 100 days at \$30 a day. The estimated liability at August 31, 2015 for accumulated sick leave was \$348,285.

**NOTE 16 - CONTINGENT LIABILITIES**

The District participates in a number of grant programs funded by State and Federal Agencies. These programs are subject to compliance audits by the grantor agencies or their representatives.

Audits of all of these programs for the year ended August 31, 2015 have not been conducted. Accordingly, the District's compliance with applicable grant requirements will be established at some future date. The amount, 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.

The District is involved in various legal proceedings arising from its operations. Management in consultation with its attorneys believes the outcome will not have a material effect on the District's financial position.

**NOTE 17 - PENSION PLAN OBLIGATIONS**

*A. 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.

*B. Pension Plan Fiduciary Net Position*

Detailed information about the Teacher Retirement System'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 <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 17 - PENSION PLAN OBLIGATIONS** *(Continued)*

*C. 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 in (A) above.

*D. 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 83<sup>rd</sup> 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 83<sup>rd</sup> Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015.

	<u>Contribution Rates</u>	
	<u>2014</u>	<u>2015</u>
Member	6.4%	6.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
2014 Employer Contributions		\$1,663,289
2014 Member Contributions		\$6,477,951
2014 NECE On-behalf Contributions		\$4,646,103

MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
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**NOTE 17 - PENSION PLAN OBLIGATIONS (Continued)**

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

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

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

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

*E. 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%



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**NOTE 17 - PENSION PLAN OBLIGATIONS** (*Continued*)

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.

*F. 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.

MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 17 - PENSION PLAN OBLIGATIONS (Continued)**

Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2014 are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
<b>Global Equity</b>			
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%
<b>Stable Value</b>			
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%
<b>Real Return</b>			
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%
<b>Risk Parity</b>			
Risk Parity	5%	8.9%	0.4%
Alpha			1.0%
<b>Total</b>	100%		8.7%

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

**G. Discount Rate Sensitivity Analysis**

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 2014 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:	\$31,314,712	\$17,524,216	\$7,211,494

MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
August 31, 2015

**NOTE 17 - PENSION PLAN OBLIGATIONS** *(Continued)*

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

At August 31, 2015, the District reported a liability of \$17,524,216 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	\$17,524,216
State's proportionate share that is associated with District	<u>\$49,055,199</u>
Total	<u>\$66,579,415</u>

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 thru August 31, 2014.

At August 31, 2014 the employer's proportion of the collective net pension liability was .0656058%. Since this is the first year of implementation, the District does not have the proportion measured as of August 31, 2013. The notes to the financial statements for August 31, 2014 for TRS stated that 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 Old Age Survivor and Disability Insurance (OASDI) on certain employees went into law effective September 1, 2014. The amount of the expected resultant change in the employer's proportion cannot be determined at this time.

For the year ended August 31, 2014, the District recognized pension expense of \$4,535,062 and revenue of \$4,535,062 for support provided by the State.

At August 31, 2015, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pension items at the August 31, 2014 measurement date, from the following sources:

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**NOTE 17 - PENSION PLAN OBLIGATIONS (Continued)**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 271,018	\$ -
Changes in actuarial assumptions	1,139,094	-
Difference between projected and actual investment earnings	-	5,356,116
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	-	4,594
Contributions paid to TRS subsequent to the measurement date	2,974,861	
Total	\$4,384,973	\$5,360,710

Contributions of \$2,974,861 paid to TRS subsequent to the measurement date are classified as deferred outflows of resources and will reduce pension liability in the next fiscal year. The remaining balance of deferred outflows and inflows of resources related to pensions noted above will be amortized and recognized in pension expense as follows:

Year ended August 31 <sup>st</sup> :	Pension Expense Amount
2016	\$(1,101,919)
2017	\$(1,101,919)
2018	\$(1,101,919)
2019	\$ 237,110
Thereafter	\$ 219,868

**NOTE 18 - RISK MANAGEMENT**

The District maintains insurance for all government functions it may be liable for claims. The more significant of these include \$1,000,000 of general liability insurance; property insurance covering District buildings and properties in an aggregate amount of approximately \$200,000,000; and \$1,000,000 in educators' legal liability. Employees were covered by a self-funded health and dental insurance plan and a modified self-funded workers' compensation plan during the fiscal year. There have been no significant reductions in insurance coverage and there have been no settlements exceeding insurance coverage for the past three fiscal years.

*A. Workers' Compensation Insurance*

The District contracted has contracted with Workers' Compensation Solutions (WCS) since September 2004 to provide workers' compensation insurances through a modified self-funded plan. The policies, underwritten by WCS, are retrospectively rated. The District accounts for this plan in an internal service fund. Interfund premiums are paid into the internal service fund by all other funds and are available to pay claims, claim reserves and administrative costs. As a

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NOTES TO FINANCIAL STATEMENTS  
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**NOTE 18 - RISK MANAGEMENT** *(Continued)*

participant in the WCS pool, the District is contractually obligated for the maximum loss fund less deposits already made with the pool. At August 31, 2015 this amount was \$1,259,932.

Unpaid claims represent an actuarially determined estimate of actual claims incurred and incurred but not reported claims. As a participant in the pool, the District has a maximum loss fund based upon payroll. The District also has specific stop loss insurance per occurrence of \$400,000. When claims of other pool participants exceed their respective maximum loss funds, the remaining pool participants will pro rata share in these excess claims to the extent of their maximum loss fund balances before the aggregate stop loss insurance will activate.

*B. Health, Life, and Dental Coverage*

Beginning October 1, 2014, District employees were covered by a health and dental self-funded insurance plan which is accounted for in an Internal Service Fund. The plan year runs from October 1st through September 30th. The District contributed \$347 monthly per each employee for health insurance premiums. Employees at their option, authorized payroll deductions to pay contributions for dental premiums and/or dependent health coverage.

The contract between the District and the third-party administrator is renewable each October 1<sup>st</sup> and the terms of coverage and contribution costs are included in the contractual provisions. In accordance with state statute, the District was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage carried through The BlueCross BlueShield of Texas, a division of Health Care Service Corporation, a mutual legal reserve company, and an independent licensee of the BlueCross and BlueShield Association. For the plan year, stop-loss coverage was in effect for individual claims exceeding \$250,000. Minimum aggregate retention was \$6,953,698 with an unlimited maximum aggregate benefit.

Prior to October 1, 2014, District employees were covered by a fully funded health and dental insurance plan.

*C. Claims Liabilities*

The claims liabilities at August 31, 2015 for workers compensation insurance and health/dental insurance of \$233,047 and \$525,943 reported in the internal service fund are based on the requirements of Governmental Accounting Standards Board 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 the loss can be reasonably estimated.

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**NOTE 18 - RISK MANAGEMENT (Continued)**

Changes in claims liabilities reported in the internal service fund during the past two fiscal years are as follows:

	Workers Compensation		Health and Dental	
	Year Ended 8/31/2015	Year Ended 8/31/2014	Year Ended 8/31/2015	Year Ended 8/31/2014
Claims liability at beginning of year	\$ 220,781	\$ 221,981	\$ -	\$ -
Incurred claims (including IBNRs) and adjustments	429,090	272,815	9,005,760	-
Claims payments	<u>(416,824)</u>	<u>(274,015)</u>	<u>(8,479,817)</u>	<u>-</u>
Claims liability at end of year	<u>\$ 233,047</u>	<u>\$ 220,781</u>	<u>\$ 525,943</u>	<u>\$ -</u>

**NOTE 19 - OPERATING LEASE COMMITMENTS**

The District leases office equipment under operating (noncapitalized) lease agreements. Total costs for such leases were \$173,273 for the year ended August 31, 2015. The future minimum payments for these leases are as follows:

Years Ended <u>August 31,</u>	
2016	\$ 296,052
2017	295,919
2018	265,665
2019	252,348
2020	37,161
2021 and Thereafter	<u>-</u>
Total Minimum Rentals	<u>\$ 1,147,455</u>

**NOTE 20 – 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 postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The 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](http://www.trs.state.tx.us), by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling 1-800-223-8778.

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**NOTE 20 – RETIREE HEALTH PLAN (Continued)**

*Funding Policy.* Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively.

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

Contribution Rates and Contribution Amounts

<u>Year</u>	<u>Active Member</u>		<u>State</u>		<u>District</u>	
	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>
2015	0.65%	\$ 628,457	1.0%	\$ 966,857	0.55%	\$ 531,771
2014	0.65%	\$ 597,481	1.0%	\$ 919,201	0.55%	\$ 505,560
2013	0.65%	\$ 576,256	0.5%	\$ 443,274	0.55%	\$ 487,601

*Medicare Part D.* The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants.

For the fiscal years ended August 31, 2015, 2014 and 2013, the subsidy payments received by TRS-Care on behalf of the District for Medicare Part D were \$326,406, \$275,937, and \$257,637 respectively.

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NOTES TO FINANCIAL STATEMENTS  
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**NOTE 21 - CONSTRUCTION COMMITMENTS**

At August 31, 2015, the District had the following construction commitments.

<u>Project Name</u>	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Remaining Commitment</u>
Mission High School Renovations	\$ 3,522,249	\$ 2,781,469	\$ 740,780
Mission Collegiate High School	13,992,650	13,044,037	948,613
Joe Correa Ag. Barn	37,000	29,600	7,400
Elementary School Tracks	888,900	819,654	69,246
Mission Jr. High Kitchen	151,200	98,280	52,920
New Administration Building	65,000	39,750	25,250
CNP Kitchen Expansion	1,849,372	1,709,630	139,742
Mission Jr. High Walkway	97,706	96,987	719
Alton Memorial Jr. High Walkway	80,468	79,749	719
Mission Jr. High Canopies	163,026	153,907	9,119
Alton Memorial Jr. High Canopies	249,800	204,681	45,119
Mission High School Ag. Barn	65,000	52,000	13,000
Veterans Memorial High School Ag. Barn	65,000	52,000	13,000
Tom Landry Stadium Restrooms	32,500	9,750	22,750
	<u>\$21,259,871</u>	<u>\$19,171,494</u>	<u>\$2,088,377</u>

**NOTE 22 – PRIOR PERIOD ADJUSTMENT**

In accordance with the adoption of GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* in fiscal year 2015, 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. The effect of this change in accounting principle resulted in a prior period adjustment of \$(19,855,010). The restated beginning net position is \$138,763,944.



**APPENDIX C**

FORM OF BOND COUNSEL'S OPINION

**THE J. RAMIREZ LAW FIRM**

*Attorney at Law*

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**700 N. Veterans Blvd.**

**San Juan, Texas 78589**

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**[Closing Date]**

**MISSION CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
UNLIMITED TAX REFUNDING BONDS, SERIES 2016  
IN THE AGGREGATE ORIGINAL PRINCIPAL  
AMOUNT OF \$44,900,000\***

WE HAVE ACTED as Bond Counsel for the Mission Consolidated Independent School District (the "District") in connection with the issuance of the captioned bonds (the "Bonds").

THE BONDS are being issued pursuant to an Order (the "Order") to provide funds to be used to refund a portion of the District's currently outstanding debt and to pay for costs of issuance of the Bonds.

WE HAVE ACTED as Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, the defeasance of the obligations being refunded and discharged with the proceeds of the Bonds, and with respect to the exclusion of interest on the Bonds from gross income of the owners thereof for federal income tax purposes. In such capacity we have examined the Constitution and laws of the State of Texas, federal income tax law that we deem applicable, and a transcript of certain certified proceedings pertaining to the issuance of the Bonds as described in the Order, including the escrow agreement (the "Escrow Agreement") between the District and U.S. Bank National Association, Dallas, Texas (the "Escrow Agent"), and a special report of Grant Thornton, LLP, certified public accountants. The transcript contains certified copies of certain proceedings of the District and certain certifications and representations and other material facts within the knowledge and control of the District, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds. We have also examined executed Bond No. T-1 and a specimen of Bonds to be authenticated and delivered in exchange for the Bonds.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

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\* Preliminary, subject to change.

BASED ON SUCH EXAMINATION, our opinion is as follows:

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; and the Bonds have been authorized and delivered in accordance with law and constitute valid and legally binding obligations of the District in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases;

(2) The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, within legal limits as to rate or amount, upon taxable property located within the District, which taxes have been pledged irrevocably to pay the principal of and the interest on the Bonds.

(3) The Escrow Agreement has been duly authorized, executed, and delivered by the District and, assuming due authorization, execution, and delivery thereof by the Escrow Agent, is a valid and binding obligation, enforceable in accordance with its terms (except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity), and that the outstanding obligations refunded, discharged, paid, and retired with the proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in trust with the Escrow Agent, pursuant to the Escrow Agreement and the order authorizing their issuance. In rendering this opinion, we have relied upon the verification by the Accountants of the sufficiency of cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

It is our further opinion that, subject to the restrictions hereinafter described, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes under existing law. Interest on the Bonds, however, owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a financial asset securitization investment trust, a Real Estate Investment Trust (REIT), or a Real Estate Mortgage Investment Conduit (REMIC). The opinion set forth in the first sentence of this paragraph is subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted in the Order to comply with each such requirement. Failure to comply with such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. The Code and the regulations, rulings and court decisions thereunder, upon which the foregoing opinions of Bond Counsel are based, are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof for federal income tax

purposes.

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

Very truly yours,