

**PRELIMINARY OFFICIAL STATEMENT**

**Dated October 5, 2016**

**Enhanced/Unenhanced Ratings:  
Moody's: "Aaa"/"A2"  
(See "OTHER INFORMATION -  
Ratings" and "THE PERMANENT  
SCHOOL FUND GUARANTEE  
PROGRAM" herein.)**

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

In the opinion of Bond Counsel (defined herein), assuming continuing compliance by the District (defined herein) after the date of initial delivery of the Bonds (defined herein) with certain covenants contained in the Order (defined herein) 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 initial 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. See "TAX MATTERS" herein.

THE DISTRICT WILL DESIGNATE THE BONDS AS "QUALIFIED TAX-EXEMPT OBLIGATIONS". SEE "TAX MATTERS – Qualified Tax-Exempt Obligations."

**\$8,310,000\***

**LA FERIA INDEPENDENT SCHOOL DISTRICT  
(A political subdivision of the State of Texas located in Cameron County, Texas)  
UNLIMITED TAX REFUNDING BONDS, SERIES 2016**

**Dated Date: October 1, 2016**

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

(Interest will accrue from Delivery Date as defined below.)

**PAYMENT TERMS** . . . Interest on the \$8,310,000\* La Feria Independent School District Unlimited Tax Refunding Bonds, Series 2016 (the "Bonds") will accrue from November 3, 2016 (the "Delivery Date") and will be payable on 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 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 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 Bonds may be acquired in authorized denominations thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. The principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System"). The initial Paying Agent/Registrar is Wilmington Trust, N.A., Dallas, Texas (see "THE BONDS - Paying Agent/Registrar").

**AUTHORITY FOR ISSUANCE** . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Chapter 1207, Texas Government Code, and an order (the "Order") to be adopted by the Board of Trustees (the "Board") of the La Feria Independent School District (the "District") on October 13, 2016. The 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 BONDS - Authority for Issuance"). **The District has received conditional approval for the payment of the 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 Bonds will be used (1) to refund a portion of the District's outstanding debt (the "Refunded Obligations") for debt service savings and (2) to pay the costs associated with the sale of the Bonds (see "PLAN OF FINANCING"; also see Schedule I for a detailed listing of the Refunded Obligations and their call date).

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**CUSIP PREFIX: 503012**

**Maturity Schedule, Interest Rates, Initial Yields & 9 Digit CUSIP**

**See Schedule on Page 2**

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**LEGALITY** . . . The Bonds are offered for delivery when, as and if issued and received by the initial purchasers shown below (collectively the "Underwriters") and subject to the approving opinion of the Attorney General of Texas and the legal opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel (see "OTHER INFORMATION – Legal Matters" herein for a discussion of Bond Counsel's opinion). Certain legal matters will be passed upon for the Underwriters by The Perez Law Firm, PLLC, Pharr, Texas, as legal counsel for the Underwriters.

**DELIVERY** . . . It is expected that the Bonds will be available for delivery through DTC on or about November 3, 2016.

**ESTRADA HINOJOSA & COMPANY, INC.**

**FROST BANK**

\* Preliminary, subject to change.

**MATURITY SCHEDULE\***

**CUSIP<sup>(1)</sup> Prefix: 503012**

<u>Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP Suffix<sup>(1)</sup></u>
\$ 300,000	8/15/2017			
240,000	2/15/2018			
245,000	2/15/2019			
260,000	2/15/2020			
270,000	2/15/2021			
290,000	2/15/2022			
35,000	2/15/2023			
35,000	2/15/2024			
35,000	2/15/2025			
40,000	2/15/2026			
40,000	2/15/2027			
40,000	2/15/2028			
540,000	2/15/2029			
560,000	2/15/2030			
585,000	2/15/2031			
605,000	2/15/2032			
630,000	2/15/2033			
655,000	2/15/2034			
685,000	2/15/2035			
710,000	2/15/2036			
740,000	2/15/2037			
770,000	2/15/2038			

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

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, managed by S&P Capital IQ 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. None of the District, the Financial Advisor, or the Underwriters take any responsibility for the accuracy of CUSIP numbers.

**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. Additionally, any Term Bonds (defined herein) will be subject to mandatory sinking fund redemption. (see "THE BONDS - Optional Redemption").

\* Preliminary, subject to change.

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

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

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 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 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 BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THE 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.

## OFFICIAL STATEMENT SUMMARY

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

- THE DISTRICT**..... The La Feria Independent School District (the “District”) is a political subdivision of the State of Texas (the “State”) located in Cameron County and encompasses approximately 37.6 square miles in area (see “INTRODUCTION - Description of the District”).
- THE BONDS**..... The \$8,310,000\* Unlimited Tax Refunding Bonds, Series 2016 (the “Bonds”) are issued as serial bonds maturing on August 15, 2017 and February 15 in the years 2018 through 2038 (see “THE BONDS - Description of the Bonds”).
- PAYMENT OF INTEREST** ..... Interest on the Bonds accrues from the Delivery Date and is payable on August 15, 2017 and each August 15 and February 15 thereafter until maturity or prior redemption (see “THE BONDS - Description of the Bonds”).
- AUTHORITY FOR ISSUANCE** ..... The 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 13, 2016. (see “THE BONDS - Authority for Issuance”).
- SECURITY FOR THE REFUNDING BONDS**..... The 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 Bonds to be guaranteed by the corpus of the Permanent School Fund of Texas (see “THE 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 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. Additionally, any Term Bonds (defined herein) will be subject to mandatory sinking fund redemption (see “THE BONDS - Optional Redemption”).
- TAX MATTERS**..... In the opinion of Bond Counsel, interest on the 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.
- QUALIFIED TAX-EXEMPT OBLIGATIONS** ..... The District will designate the Bonds as “Qualified Tax-Exempt Obligations” for financial institutions (see “TAX MATTERS – Qualified Tax-Exempt Obligations”).
- USE OF PROCEEDS** ..... Proceeds from the sale of the Bonds will be used (1) to refund a portion of the District’s outstanding debt (the “Refunded Obligations”) for debt service savings and (2) to pay the costs associated with the sale of the Bonds (see “PLAN OF FINANCING”; also see Schedule I for a detailed listing of the Refunded Obligations and their call date).

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\* Preliminary, subject to change.



**RATINGS** ..... The Bonds have been rated “A2” by Moody’s Investors Services, Inc. (“Moody’s”) without regard to credit enhancement and “Aaa” 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”).

**BOOK-ENTRY-ONLY SYSTEM** ..... The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “THE BONDS - Book-Entry-Only System”).

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

**SELECTED FINANCIAL INFORMATION**

Fiscal Year Ended 8/31	Estimated Population <sup>(1)</sup>	Taxable Assessed Valuation <sup>(2)</sup>	Taxable Assessed Valuation Per Capita	Net	Net	Total Net	Ratio of	Net Tax
				Unlimited Tax Outstanding at End of Year <sup>(3)</sup>	Limited Tax Outstanding at End of Year	Ad Valorem Tax Debt Outstanding at End of Year	Net Tax Supported to Taxable Assessed Valuation	Supported Net Debt Per Capita
2013	16,201	\$ 335,392,755	\$ 20,702	\$ 9,058,861	\$ 1,810,431	\$10,869,292	3.24%	671
2014	16,638	336,042,315	20,197	8,586,840	3,203,396	11,790,236	3.51%	709
2015	17,088	349,382,936	20,447	7,911,262	3,000,549	10,911,811	3.12%	639
2016	17,549	353,629,233	20,151	7,625,937	2,781,668	10,407,605	2.94%	593
2017	17,991	377,980,359	21,009	7,407,553 <sup>(4)</sup>	2,551,521 <sup>(4)</sup>	9,959,075 <sup>(4)</sup>	2.63% <sup>(4)</sup>	554 <sup>(4)</sup>

(1) Calculation derived from U.S. Census record data.

(2) As reported by the Cameron County Appraisal District.

(3) 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.

(4) Projected, subject to change.

For additional information regarding the District, please contact:

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 Director  
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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>
Alan Moore President	17 Years	Nov. 2016	Irrigation District
Juan Briones Vice President	10 Years	Nov. 2018	Physician Assistant
Gloria Casas Secretary-Treasurer	22 Years	Nov. 2016	Retired
Lisa Montalvo Board Member	2 Years	Nov. 2018	Student
Katie Johnson Board Member	2 Years	Nov. 2018	Administrative Assistant
Javier Loredo Board Member	6 Years	Nov. 2016	Construction
Eulalio "Lalo" Sosa Board Member	4 Years	Nov. 2016	Retired

**SELECTED ADMINISTRATIVE STAFF**

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>
Mr. Rey Villarreal	Superintendent	3 Years
Ramon Mendoza	Chief Financial Officer	13 Years

**CONSULTANTS AND ADVISORS**

Auditors .....	Long Chilton, LLP Harlingen, Texas
Bond Counsel .....	Norton Rose Fulbright US LLP San Antonio, Texas
Financial Advisor.....	FirstSouthwest, a Division of Hilltop Securities Inc. Pharr and Dallas, Texas

**PRELIMINARY OFFICIAL STATEMENT  
RELATING TO**

**\$8,310,000\***  
**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**UNLIMITED TAX REFUNDING BONDS, SERIES 2016**

**INTRODUCTION**

This Official Statement, which includes the Schedule and Appendices hereto, provides certain information regarding the issuance of \$8,310,000\* La Feria Independent School District Unlimited Tax Refunding Bonds, Series 2016 (the "Bonds"). The Official Statement speaks only as of its date and the information contained herein is subject to change. The Official Statement and Escrow Agreement (defined below) pertaining to the Bonds will be deposited with the Municipal Securities Rulemaking Board through its Electronic Municipal Market 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 Bonds (the "Order"), except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the La Feria Independent School District (the "District" or "Issuer") and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District's Financial Advisor, FirstSouthwest, a Division of Hilltop Securities Inc. ("FirstSouthwest"), Pharr, Texas by electronic mail or upon payment of any handling, mailing and delivery charges.

**DESCRIPTION OF THE DISTRICT** . . . The District is a political subdivision located in Cameron County, Texas. The District is governed by a seven-member Board of Trustees (the "Board") who serve staggered three-year terms with elections being held in November of each year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. The District covers approximately 37.6 square miles within Cameron County, Texas and includes the City of La Feria. For additional information regarding the District, see "APPENDIX A - General Information Regarding the District".

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\* Preliminary, subject to change.

**PLAN OF FINANCING**

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

**REFUNDED OBLIGATIONS** . . . The Refunded Obligations (as indicated in Schedule I hereto) and the interest due thereon are to be paid on the redemption date from funds to be deposited with Wilmington Trust, N.A., Dallas, Texas (the "Escrow Agent"), pursuant to an escrow and Trust Agreement dated as of October 13, 2016 (the "Escrow Agreement") between the District and the Escrow Agent.

The Order provides that from the proceeds of the sale of the Bonds received from the Underwriters and other available District funds, the District will deposit with the Escrow Agent the amount when invested that will be sufficient to pay all amounts coming due on the Refunded Obligations to their redemption date and to accomplish the discharge and final payment of the Refunded Obligations on their respective redemption dates. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase direct obligations of the United States of America or obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of the purchase thereof are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent (the "Escrow Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations.

Prior to, or simultaneously with, the issuance of the Bonds, the District will give irrevocable instructions to provide notice to the owners of the Refunded Obligations that the Refunded Obligations will be redeemed prior to stated maturity on which date money will be made available to redeem the Refunded Obligations from money held under the Escrow Agreement.

Grant Thornton LLP, a nationally recognized accounting firm, will issue its report (the “Report”) verifying at the time of delivery of the Bonds to the Underwriters thereof the mathematical accuracy of the schedules that demonstrate the Escrow Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Obligations. Such maturing principal of and interest on the Escrow Securities will not be available to pay the Bonds (see “OTHER INFORMATION – Verification of Mathematical Computations”).

By the deposit of the cash, if any, and investments with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of all of the Refunded Obligations in accordance with the law. It is the opinion of Bond Counsel that as a result of such defeasance and in reliance upon the report, the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Escrow Fund held for such purpose by the Escrow Agent and such Refunded Obligations will not be deemed as being outstanding obligations of the District payable from taxes nor for the purpose of applying any limitation on the issuance of debt.

The 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 pay the principal of and interest on the Refunded Obligations, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund be insufficient to make such payment.

Defeasance of the Refunded Obligations will cancel the Permanent School Fund Guarantee relating thereto.

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

**SOURCES OF FUNDS**

Par Amount of the Bonds	\$	-
Premium		-
<b>TOTAL SOURCES</b>	<b>\$</b>	<b>-</b>

**USES OF FUNDS**

Deposit to Escrow Fund	\$	-
Costs of Issuance		-
Underwriter's Discount		-
<b>TOTAL USES</b>	<b>\$</b>	<b>-</b>

**THE BONDS**

**DESCRIPTION OF THE BONDS . . .** The Bonds will be dated as of October 1, 2016 but interest on the Bonds will accrue from November 3, 2016 (the “Delivery Date”) and such interest is payable on February 15 and August 15 in each year, commencing on August 15, 2017 until maturity or prior redemption. The 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.

Interest on the 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 Wilmington Trust, N.A., Dallas, 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 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 Bonds, all payments will be made as described under “THE BONDS - Book-Entry-Only System” herein. If the date for the payment of the principal of or interest on the 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.

The 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 Bonds will be issued in denominations of \$5,000 of principal amount or any integral thereof within a maturity. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** The principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. (See “THE BONDS - Book-Entry-Only System” herein).

**AUTHORITY FOR ISSUANCE . . .** The Bonds are issued and the tax levied for their payment 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 Bonds. Additionally, the District has received conditional approval for the payment of the 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 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 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 Bonds will be absolutely and unconditionally guaranteed by the corpus of the Permanent School Fund of the State of Texas. In the event of default, registered owners will receive all payments due on the Bonds from the corpus of the Permanent School Fund.

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

**OPTIONAL REDEMPTION . . .** The District reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2027, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2026, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date. Additionally, the Underwriters may group one or more consecutive maturities of bonds into “term” bonds (the “Term Bonds”) and such Term Bonds would also be subject to mandatory sinking fund redemption.

**NOTICE OF REDEMPTION. . .** Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

**ANY NOTICE SO MAILED 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 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 THE BOND OR PORTION THEREOF WILL CEASE TO ACCRUE.**

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

**DEFEASANCE . . .** The Order provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment, (2) Government Obligations (defined below), certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, or (3) a combination of money and Government Obligations together so certified sufficient to make such payment; provided, however, that no certification by an independent accounting firm of the sufficiency of deposits shall be required in connection with a gross defeasance of Bonds. The District has additionally reserved the right in the Order, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Obligations for the Government Obligations originally deposited, to reinvest the uninvested money on deposit for such defeasance and to withdraw for the benefit of the District money in excess of the amount required for such defeasance.

The Order provides that “Government Obligations” means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the District adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, or (d) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. There is no assurance that the ratings for United States Treasury securities acquired to defease any Bonds, or those for any other Government Obligations, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds (“Defeasance Proceeds”), though the District has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Order does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the District to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under State law as permissible defeasance securities.

Upon such deposit as described above, such Bonds will no longer be regarded to be outstanding obligations for purposes of applying any limitation on indebtedness or for purposes of taxation. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that, the District’s right to redeem Bonds defeased to stated maturity is not extinguished if the District has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Bonds which have been defeased to their stated maturity date, if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes. **Upon defeasance, such defeased Bonds shall no longer be regarded to be outstanding or unpaid and such defeased 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 Bonds is to be transferred and how the principal, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company (“DTC”), New York, New York, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District, the Financial Advisor, and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

*The District, the Financial Advisor, and the Underwriters cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the 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 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 Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One

fully-registered Bond certificate will be issued for each maturity of the 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 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the 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 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 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable 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 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 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, 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 Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Order will be given only to DTC.

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, Financial Advisor, 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 Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under “THE BONDS - Transfer, Exchange and Registration” below.

**PAYING AGENT/REGISTRAR . . .** The initial Paying Agent/Registrar is Wilmington Trust, N.A., Dallas, Texas. In the Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid, and any successor Paying Agent/Registrar shall be a 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 Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

In the event the Book-Entry-Only System should be discontinued, interest on the 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 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 Bonds, payments of principal of the Bonds and interest on the Bonds will be made as described in “THE 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 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. Bonds may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 of principal for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See “THE BONDS - Book-Entry-Only System” herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the District nor the Paying Agent/Registrar 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 record date (“Record Date”) for the interest payable on the Bonds on any interest payment date means the close of business on the last business day of the preceding month.



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...** If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or Order and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. 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 Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the United States Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity that permit the exercise of judicial discretion.

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

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

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

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

## **HISTORY AND PURPOSE**

The PSF was created with a \$2,000,000 appropriation by the Texas Legislature (the “Legislature”) in 1854 expressly for the benefit of the public schools of Texas. The Constitution of 1876 stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the state, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U. S. Supreme Court on May 31, 1960, affirmed Texas’ historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund is established and administered, which occurred on September 13, 2003 (the “Total Return Constitutional Amendment”), and which is further described below, the PSF had as its main sources of revenues capital gains from securities transactions and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF. The State School Land Board (“SLB”) maintains the land endowment of the Fund on behalf of the Fund and is authorized to manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a three member board, the membership of which consists of the Commissioner of the Texas General Land Office (the “Land Commissioner”) and two citizen members, one appointed by the Governor and one by the Texas Attorney General (the “Attorney General”). As of August 31, 2015, the General Land Office (the “GLO”) managed approximately 20% of the PSF, as reflected in the fund balance of the PSF at that date.

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

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

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

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

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

The sole purpose of the PSF is to assist in the funding of public education for present and future generations. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividends produced by Fund investments flowed into the Available School Fund (the “ASF”), where they are distributed to local school districts and open-enrollment charter schools based on average daily attendance. Any net gains from investments of the Fund accrue to the corpus of the PSF. Prior to the approval by the voters of the State of the Total Return Constitutional Amendment, costs of administering the PSF were allocated to the ASF. With the approval of the Total Return Constitutional Amendment, the administrative costs of the Fund have shifted from the ASF to the

PSF. In fiscal year 2015, distributions to the ASF amounted to \$172.75 per student and the total amount distributed to the ASF was \$838.67 million.

Audited financial information for the PSF is provided annually through the PSF Comprehensive Annual Financial Report (the "Annual Report"), which is filed with the Municipal Securities Rulemaking Board ("MSRB"). The Annual Report includes the Message of the Executive Administrator of the Fund (the "Message") and the Management's Discussion and Analysis ("MD&A"). The Annual Report for the year ended August 31, 2015, as filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 ("Rule 15c2-12") of the federal Securities and Exchange Commission (the "SEC"), as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended August 31, 2015 is derived from the audited financial statements of the PSF, which are included in the Annual Report when it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2015 and for a description of the financial results of the PSF for the year ended August 31, 2015, the most recent year for which audited financial information regarding the Fund is available. The 2015 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2015 Annual Report or any other Annual Report. The TEA posts each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, the most recent disclosure for the Guarantee Program, the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (the "Investment Policy"), monthly updates with respect to the capacity of the Guarantee Program (collectively, the "Web Site Materials") on the TEA web site at [http://tea.texas.gov/Finance\\_and\\_Grants/Permanent\\_School\\_Fund/](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, Inc., S&P Global Ratings, and Fitch Ratings, Inc., rate bonds guaranteed by the PSF “Aaa,” “AAA” and “AAA,” respectively. Not all districts apply for multiple ratings on their bonds, however. See “OTHER INFORMATION - 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>	
<u>At 8/31</u>	<u>Principal Amount<sup>(1)</sup></u>
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 Finance System was "undeniably imperfect." While not compelled by the *Morath* decision to reform the Finance System, the Legislature could enact future changes to the Finance System. Any such changes could benefit or be a detriment to the District. If the Legislature enacts future changes to, or fails adequately to fund the Finance System, or if changes in circumstances otherwise provide grounds for a challenge, the Finance System could be challenged again in the future. In its 1995 opinion in *Edgewood Independent School District v. Meno*, 917 S.W.2d 717 (Tex. 1995), the Court stated that any future determination of unconstitutionality "would not, however, affect the district's authority to levy the taxes necessary to retire previously issued bonds, but would instead require the Legislature to cure the system's unconstitutionality in a way that is consistent with the Contract Clauses of the U.S. and Texas Constitutions" (collectively, the "Contract Clauses"), which prohibit the enactment of laws that impair prior obligations of contracts.

Although, as a matter of law, the Bonds, upon issuance and delivery, will be entitled to the protections afforded previously existing contractual obligations under the Contract Clauses, the District can make no representations or predictions concerning the effect of future legislation, or any litigation that may be associated with such legislation, on the District's financial condition, revenues or operations. While the enactment of future legislation to address school funding in Texas could adversely affect the financial condition, revenues or operations of the District, the District does not anticipate that the security for payment of the Bonds, specifically, the District's obligation to levy an unlimited debt service tax and any Permanent School Fund guarantee of the Bonds would be adversely affected by any such legislation. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM."

## **CURRENT PUBLIC SCHOOL FINANCE SYSTEM**

### **OVERVIEW**

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

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

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

### **LOCAL FUNDING FOR SCHOOL DISTRICTS**

The primary source of local funding for school districts is collections from ad valorem taxes levied against taxable property located in each school district. Prior to reform legislation that became effective during the 2006-2007 fiscal year (the "Reform Legislation"), the maximum M&O tax rate for most school districts was generally limited to \$1.50 per \$100 of taxable value. At the time the Reform Legislation was enacted, the majority of school districts were levying an M&O tax rate of \$1.50 per \$100 of taxable value. The Reform Legislation required each school district to "compress" its tax rate by an amount equal to the "State Compression Percentage." For fiscal years 2007-08 through 2015-16, the State Compression Percentage has been set at 66.67%, effectively setting the maximum compressed M&O tax rate for most school districts at \$1.00 per \$100 of taxable value. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. School districts are permitted, however, to generate additional local funds by raising their M&O tax rate by up to \$0.04 above the compressed tax rate without voter approval (for most districts, up to \$1.04 per \$100 of taxable value). In addition, if the voters approve a tax rate increase through a local referendum, districts may, in general, increase their M&O tax rate up to a maximum M&O tax rate of \$1.17 per \$100 of taxable value and receive State equalization funds for such taxing effort (see "TAX INFORMATION - Public Hearing and Rollback Tax Rate" herein). Elections authorizing the levy of M&O taxes held in certain school districts under older laws, however, may subject M&O tax rates in such districts to other limitations (See "TAX INFORMATION - Tax Rate Limitations" herein).

### **STATE FUNDING FOR SCHOOL DISTRICTS**

State funding for school districts is provided through the Foundation School Program, which provides each school district with a minimum level of funding (a "Basic Allotment") for each student in average daily attendance ("ADA"). The Basic Allotment is calculated for each school district using various weights and adjustments based on the number of students in average daily attendance and also varies depending on each district's compressed tax rate. This Basic Allotment formula determines most of the allotments making up a district's basic level of funding, referred to as "Tier One" of the Foundation School Program. The basic level of funding is then "enriched" with additional funds known as "Tier Two" of the Foundation School Program. Tier Two provides a guaranteed level of funding for each cent of local tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates above \$1.00 per \$100 of taxable value). The Finance System also provides an Existing Debt Allotment ("EDA") to subsidize debt service on eligible outstanding school district bonds and an Instructional Facilities Allotment ("IFA") to subsidize debt service on newly issued

bonds. IFA primarily addresses the debt service needs of property-poor school districts. A New Instructional Facilities Allotment ("NIFA") also is available to help pay operational expenses associated with the opening of a new instructional facility; however, NIFA awards were not funded by the Legislature for either the 2012–13 or the 2014-15 State fiscal biennium. In 2015, the 84th Texas Legislature did appropriate funds in the amount of \$1,445,100,000 for the 2016-17 State fiscal biennium for an increase in the Basic Allotment, EDA, IFA, and NIFA support, as further described below.

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

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

As described above, the cost of the basic program is based on an allotment per student known as the "Basic Allotment". For fiscal years 2015-16 and 2016-17, the Basic Allotment is \$5,140 for each student in average daily attendance. The Basic Allotment is then adjusted for all districts by several different weights to account for inherent differences between school districts. These weights consist of (i) a cost adjustment factor intended to address varying economic conditions that affect teacher hiring known as the "cost of education index", (ii) district-size adjustments for small and mid-size districts and (iii) an adjustment for the sparsity of the district's student population. The cost of education index and district-size adjustments applied to the Basic Allotment, create what is referred to as the "Adjusted Allotment". The Adjusted Allotment is used to compute a "regular program allotment," as well as various other allotments associated with educating students with other specified educational needs.

Tier Two supplements the basic funding of Tier One and provides two levels of enrichment with different guaranteed yields (i.e., guaranteed levels of funding by the State) depending on the district's local tax effort. The first six cents of tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates ranging from \$1.01 to \$1.06 per \$100 of taxable value) will, for most districts, generate a guaranteed yield of \$74.28 and \$77.53 per cent per weighted student in average daily attendance ("WADA") for the fiscal year 2015-16 and fiscal year 2016-17, respectively. The second level of Tier Two is generated by tax effort that exceeds the district's compressed tax rate plus six cents (for most districts eligible for this level of funding, M&O tax rates ranging from \$1.06 to \$1.17 per \$100 of taxable value) and has a guaranteed yield per cent per WADA of \$31.95 for fiscal years 2015-16 and 2016-17. Property-wealthy school districts that have an M&O tax rate that exceeds the district's compressed tax rate plus six cents are subject to recapture above this tax rate level at the equivalent wealth per student of \$319,500 (see "Wealth Transfer Provisions" below).

Because districts with compressed rates of less than \$1.00 have not been receiving the full Basic Allotment, the 84th Texas Legislature amended the Foundation School Program to enable some districts (known as "fractionally funded districts") to increase their Tier 1 participation by moving the district's local tax effort that would be equalized under Tier 2 at \$31.95 per penny to the Tier 1 Basic Allotment. The compressed tax rate of a school district that adopted a 2005 M&O Tax Rate below the maximum \$1.50 tax rate for the 2005 tax year can now include the portion of a district's current M&O tax rate in excess of the first six cents above the district's compressed tax rate until the district's compressed tax rate is equal to the state maximum compressed tax rate of \$1.00, thereby eliminating the penalty against the Basic Allotment. For these districts, each one cent of M&O tax levy above the district's compressed tax rate plus six cents, will have a guaranteed yield based on Tier One funding instead of the \$31.95 Tier Two yield for the fiscal year 2015-16 and fiscal year 2016-17. These conversions are optional for each applicable district in the 2015-16 and 2016-17 fiscal years and are automatic beginning in the 2017-18 fiscal year.

In addition to the operations funding components of the Foundation School Program discussed above, the Foundation School Program provides a facilities funding component consisting of the Instructional Facilities Allotment (IFA) program and the Existing Debt Allotment (EDA) program. These programs assist school districts in funding facilities by, generally, equalizing a district's I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the "IFA Guaranteed Yield") in State and local funds for each cent of tax effort to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The guaranteed yield per cent of local tax effort per student in ADA has been \$35 since this program first began in 1997. To receive an IFA award, a school district must apply to the Commissioner in accordance with rules adopted by the Commissioner before issuing the bonds to be paid with IFA state assistance. The total amount of debt service assistance over a biennium for which a district may be awarded is limited to the lesser of (1) the actual debt service payments made by the district in the biennium in which the bonds are issued; or (2) the greater of (a) \$100,000 or (b) \$250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not

be reduced below the level provided for the year in which the bonds were issued. For the fiscal years 2011-12 through 2015-16, no funds were appropriated for new IFA awards by the Texas Legislature, although all prior awards were funded throughout such periods. The 84th Texas Legislature appropriated funds in the amount of \$55,500,000 for new IFA awards to be made during the 2016-17 fiscal year only.

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

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

## **2006 LEGISLATION**

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

## **2015 LEGISLATION**

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

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

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

## **WEALTH TRANSFER PROVISIONS**

Some districts have sufficient property wealth per student in WADA ("wealth per student") to generate their statutory level of funding through collections of local property taxes alone. Districts whose wealth per student generates local property tax collections in excess of their statutory level of funding are referred to as "Chapter 41" districts because they are subject to the wealth equalization provisions

contained in Chapter 41 of the Texas Education Code. Chapter 41 districts may receive State funds for certain competitive grants and a few programs that remain outside the Foundation School Program, as well as receiving ASATR until their overall funding meets or exceeds their Target Revenue level of funding. Otherwise, Chapter 41 districts are not eligible to receive State funding. Furthermore, Chapter 41 districts must exercise certain options in order to reduce their wealth level to equalized wealth levels of funding, as determined by formulas set forth in the Reform Legislation. For most Chapter 41 districts, this equalization process entails paying the portion of the district's local taxes collected in excess of the equalized wealth levels of funding to the State (for redistribution to other school districts) or directly to other school districts with a wealth per student that does not generate local funds sufficient to meet the statutory level of funding, a process known as "recapture".

The equalized wealth levels that subject Chapter 41 districts to wealth equalization measures for fiscal year 2015–16 are set at (i) \$514,000 per student in WADA with respect to that portion of a district's M&O tax effort that does not exceed its compressed tax rate (for most districts, the first \$1.00 per \$100 of taxable value) and (ii) \$319,500 per WADA with respect to that portion of a district's M&O tax effort that is beyond its compressed rate plus \$.06 (for most districts, M&O taxes levied above \$1.06 per \$100 in taxable value). M&O taxes levied above \$1.00 but below \$1.07 per \$100 of taxable value are not subject to the wealth equalization provisions of Chapter 41. Chapter 41 districts with a wealth per student above the lower equalized wealth level but below the higher equalized wealth level must equalize their wealth only with respect to the portion of their M&O tax rate, if any, in excess of \$1.06 per \$100 of taxable value. Chapter 41 districts may be entitled to receive ASATR from the State in excess of their recapture liability of \$514,000 for the 2015-16 and 2016-17 school years, and certain of such districts may use their ASATR funds to offset their recapture liability.

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

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

#### **THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE LA FERIA INDEPENDENT SCHOOL DISTRICT**

The District's wealth per student for the current 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 has not in the past but may benefit in the future 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 equalized wealth level, the District must reduce its wealth per student by the 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 Cameron 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 of the State Constitution ("Article VIII") and State law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value, and the exemption of certain personal property from ad valorem taxation.

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

\$25,000 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. 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. On November 3, 2015, Texas voters approved an amendment to this law to provide for the exemption from ad valorem taxation for those surviving spouses of veterans who died before 2011, of which such amendment applies for the tax year beginning on or after January 1, 2016.

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 residences 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 on or after October 1 but before December 31 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 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 September 15, 1962 pursuant to Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended ("Article 2784e-1").

Article 2784e-1 limits the District's annual M&O tax rate based upon a comparison between the District's outstanding bonded indebtedness and the District's taxable assessed value per \$100 of assessed valuation. Article 2784e-1 provides for a reduction of \$0.10 for each one percent (1%) or major fraction thereof increase in bonded indebtedness beyond seven percent (7%) of assessed valuation of property in the District. This limitation is capped when the District's bonded indebtedness is ten percent (10%) (or greater) of the District's assessed valuation which would result in an annual M&O tax rate not to exceed \$1.20. Lastly, the Texas Attorney General in reviewing the District's transcript of proceedings will allow the District to reduce the amount of its outstanding bonded indebtedness by the amount of funds (on a percentage basis) that the District receives in State assistance for the repayment of this bonded indebtedness (for example, if the District anticipates that it will pay 75% of its bonded indebtedness from State assistance, for the purposes of Article 2784e-1, the Texas Attorney General will assume that only 25% of the District's bonded indebtedness is outstanding and payable from local ad valorem taxes). The bonded indebtedness of the District after the issuance of the Bonds will be approximately 7.34% 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 and (B) the sum of (1) the rate of \$0.17, and (2) the product of the "State Compression Percentage" multiplied by \$1.50 or such lower rate as described in the preceding paragraph. The State Compression Percentage has been set, and will remain, at 66.67% for fiscal years 2016-2017. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For a more detailed description of the State Compression Percentage, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Local Funding for School Districts." Furthermore, a school district cannot annually increase its tax rate in excess of the district's "rollback tax rate" without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate. See "TAX INFORMATION - Public Hearing and Rollback Tax Rate."

A school district is also authorized to issue bonds and levy taxes for payment of bonds subject to voter approval of 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 BONDS - Security and Source of Payment").

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



threshold tax rate test from a tax rate of \$0.45 per \$100 of valuation. The District has not used State assistance other than EDA or IFA allotment funding or projected property values to satisfy this threshold test.

**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 operations expenditures and (2) a rate for debt service. The rollback tax rate for a school district is the lesser of (A) the sum of (1) the product of the district's "State Compression Percentage" for that year multiplied by \$1.50, (2) the rate of \$0.04, (3) any rate increase above the rollback tax rate in prior years that were approved by voters, and (4) the district's current debt rate, or (B) the sum of (1) the district's effective maintenance and operations tax rate, (2) the product of the district's State Compression Percentage for that year multiplied by \$0.06; and (3) the district's current debt rate (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Local Funding for School Districts" for a description of the "State Compression Percentage"). If for the preceding tax year a district adopted an M&O tax rate that was less than its effective M&O tax rate for that preceding tax year, the district's rollback tax for the current year is calculated as if the district had adopted an M&O tax rate for the preceding tax year equal to its effective M&O tax rate for that preceding tax year.

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

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

**NOVEMBER 2013 TAX RATIFICATION ELECTION** . . .The District adopted a maintenance and operations tax rate of \$1.17 for the 2013-2014 fiscal year. Texas law requires a district to conduct an election for district voters' approval for the assessment of such a tax rate above \$1.04. The District held this required tax ratification election on November 5, 2013, in which District voters approved the increased tax rate by a vote of 368 "for" to 128 "against".

**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. Effective January 1, 2012 oil and gas reserves are assessed on the basis of a valuation process which uses pricing information contained in the most recently published Early Release Overview of the Annual Energy Outlook published by the United States Energy Information Administration, as well as appraisal formulas developed by the State Comptroller of Public Accounts. 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, the 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 penalty is to compensate the taxing unit for revenue lost because of the delinquency. In addition, if a business personal property account is delinquent on April 1, an attorney’s collection fee of up to 20% may be added to the total tax, penalty & interest charge. If a real property account is delinquent on July 1, 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. Except with respect to taxpayers who are 65 years of age or older, 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 District also grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$10,000 and the disabled are also granted an exemption of \$10,000.

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

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

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 tax nonbusiness personal property; and the District collects its own taxes.

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

The District does tax freeport property and has no tax abatements.

On November 29, 2011, the Board adopted a resolution to continue the District’s taxation of goods-in-transit for the 2012 tax year and beyond.

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

2016/17 Market Valuation Established by Cameron County Appraisal District (excluding totally exempt property)		\$ 559,845,138
Less Exemptions/Reductions at 100% Market Value:		
Residential Homestead Exemptions (State Mandated)	\$ 57,918,653	
Over 65/Disabled Exemptions	7,625,991	
Disabled Veterans	6,075,061	
Productivity Loss	70,781,852	
Freeport Loss	1,583	
Value Loss to 10% Residential Cap	12,677,589	
Value Loss to Freeze	26,631,511	
Transfer Adjustment	152,539	<u>181,864,779</u>
2016/17 Net Taxable Assessed Valuation		<u><u>\$ 377,980,359</u></u>
Debt Payable from Ad Valorem Taxes as of August 31, 2016		
Unlimited Tax Debt <sup>(1)(2)</sup>		16,485,000
The Bonds <sup>(2)</sup>		8,310,000
Limited Maintenance Tax Debt		<u>2,781,668</u>
Total Debt Payable from Ad Valorem Taxes <sup>(2)</sup>		<u><u>\$ 27,576,668</u></u>
Less: State Aid <sup>(3)</sup>		<u>\$ 17,017,304</u>
Net Debt Payable from Ad Valorem Taxes		\$ 10,559,364
Interest and Sinking Fund as of August 31, 2016		\$ 12,000
Ratio Tax Supported Debt to Taxable Assessed Valuation		7.30%

2017 Estimated Population - 17,991  
Per Capita Taxable Assessed Valuation - \$21,009  
Per Capita Debt Payable from Ad Valorem Taxes - \$1,533

(1) Excludes the Refunded Obligations.

(2) Preliminary, subject to change.

(3) Reported by the Texas Education Agency at 68.632% of the currently outstanding unlimited tax debt as of September 19, 2016; subject to change. The District receives Instructional Facilities Allotment and Existing Debt Allotment from the Texas Education Agency.

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

Category	Taxable Appraised Value for Fiscal Year Ended August 31,					
	2017		2016		2015	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 279,723,413	49.96%	\$ 253,763,579	48.95%	\$ 238,373,661	47.71%
Real, Residential, Multi-Family	9,165,577	1.64%	6,870,927	1.33%	6,839,868	1.37%
Real, Vacant Lots/Tracts	20,629,081	3.68%	22,185,954	4.28%	20,418,037	4.09%
Real, Acreage (Land Only)	76,312,681	13.63%	76,360,438	14.73%	84,996,713	17.01%
Real, Farm and Ranch Improvements	60,019,767	10.72%	51,633,983	9.96%	44,783,382	8.96%
Real, Commercial	52,860,411	9.44%	47,848,771	9.23%	46,113,218	9.23%
Real, Industrial	1,035,437	0.18%	1,043,846	0.20%	1,046,090	0.21%
Real, Oil, Gas and Other Mineral Reserves	2,535	0.00%	2,899	0.00%	562	0.00%
Real and Tangible Personal, Utilities	17,321,890	3.09%	16,908,013	3.26%	17,191,673	3.44%
Tangible Personal, Commercial	33,505,649	5.98%	23,444,405	4.52%	30,030,343	6.01%
Tangible Personal, Industrial	4,885,567	0.87%	13,884,253	2.68%	5,162,564	1.03%
Real Property Inventory	527,907	0.09%	1,084,143	0.21%	1,273,970	0.25%
Special Inventory	681,014	0.12%	454,621	0.09%	402,131	0.08%
Tangible Personal, Mobile Homes	3,174,209	0.57%	2,933,895	0.57%	2,982,319	0.60%
Total Appraised Value Before Exemptions	\$ 559,845,138	100.00%	\$ 518,419,727	100.00%	\$499,614,531	100.00%
Adjustment	-		-		(2,728,941)	
Less: Total Exemptions/Reductions	181,864,779		164,790,494		(147,502,654)	
Taxable Assessed Value	<u>\$ 377,980,359</u>		<u>\$ 353,629,233</u>		<u>\$349,382,936</u>	

Category	Taxable Appraised Value for Fiscal Year Ended August 31,			
	2014		2013	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 231,336,739	48.33%	\$ 228,484,974	48.31%
Real, Residential, Multi-Family	7,753,030	1.62%	4,795,174	1.01%
Real, Vacant Lots/Tracts	19,592,853	4.09%	20,360,715	4.30%
Real, Acreage (Land Only)	85,197,685	17.80%	85,556,372	18.09%
Real, Farm and Ranch Improvements	32,455,774	6.78%	31,947,626	6.75%
Real, Commercial	44,469,161	9.29%	41,565,329	8.79%
Real, Industrial	1,048,405	0.22%	1,443,014	0.31%
Real, Oil, Gas and Other Mineral Reserves	6,521	0.00%	26,502	0.01%
Real and Tangible Personal, Utilities	13,872,133	2.90%	12,693,493	2.68%
Tangible Personal, Commercial	31,781,238	6.64%	33,712,918	7.13%
Tangible Personal, Industrial	6,412,816	1.34%	5,986,516	1.27%
Real Property Inventory	1,215,148	0.25%	1,308,859	0.28%
Special Inventory	499,571	0.10%	2,253,525	0.48%
Tangible Personal, Mobile Homes	3,022,496	0.63%	2,865,221	0.61%
Total Appraised Value Before Exemptions	\$ 478,663,570	100.00%	\$ 473,000,238	100.00%
Adjustment	(5,395,034)		(91,967)	
Less: Total Exemptions/Reductions	137,226,221		137,515,516	
Taxable Assessed Value	<u>\$ 336,042,315</u>		<u>\$ 335,392,755</u>	

Note: Valuations are as provided by the District 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.

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

Fiscal Year Ended 8/31	Estimated Population <sup>(1)</sup>	Taxable Assessed Valuation <sup>(2)</sup>	Taxable Assessed Valuation Per Capita	Net Unlimited Tax Outstanding at End of Year <sup>(3)</sup>	Net Limited Tax Outstanding at End of Year <sup>(3)</sup>	Total Net Ad Valorem Tax Debt Outstanding at End of Year	Ratio of Net Tax Supported Net Debt to Taxable Assessed Valuation	Net Tax Supported Net Debt Per Capita
2013	16,201	\$ 335,392,755	\$ 20,702	\$ 9,058,861	\$ 1,810,431	\$10,869,292	3.24%	671
2014	16,638	336,042,315	20,197	8,586,840	3,203,396	11,790,236	3.51%	709
2015	17,088	349,382,936	20,447	7,911,262	3,000,549	10,911,811	3.12%	639
2016	17,549	353,629,233	20,151	7,625,937	2,781,668	10,407,605	2.94%	593
2017	17,991	377,980,359	21,009	7,407,553 <sup>(4)</sup>	2,551,521 <sup>(4)</sup>	9,959,075 <sup>(4)</sup>	2.63% <sup>(4)</sup>	554 <sup>(4)</sup>

(1) Calculation derived from U.S. Census record data.

(2) As reported by the Cameron County Appraisal District.

(3) 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.

(4) Projected, subject to change.

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

Fiscal Year Ended 8/31	Tax Rate	Local Maintenance	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2013	\$ 1.3360	\$ 1.0400	\$ 0.2960	\$ 4,578,815	92.70%	100.57%
2014	1.2991	1.1700	0.1291	4,658,092	92.49%	100.63%
2015	1.2991	1.1700	0.1291	4,835,123	93.41%	99.28%
2016	1.2991	1.1700	0.1291	4,781,928	96.24%	103.10%
2017	1.2991	1.1700	0.1291	4,910,343	NA	NA

**TABLE 5 - TEN LARGEST TAXPAYERS**

Name of Taxpayer	Nature of Property	2016/17 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
RWS Texas Leasing Company LLC	Real Estate	\$ 9,298,039	2.46 %
AEP Texas Central Co.	Electric Utility	6,983,160	1.85 %
Innovative Block of South Texas	Manufacturing	2,256,981	0.60 %
Frontier Communications	Telephone Utility	1,967,360	0.52 %
Sunrise Terrace LC	Real Estate	1,877,856	0.50 %
BS Properties	Real Estate	1,751,361	0.46 %
Dukes Highway LP	Real Estate	1,710,317	0.45 %
Camarillo Maria S	Individual	1,658,913	0.44 %
Allied Waste North America, Inc	Manufacturing	1,574,341	0.42 %
Pinnacle Propane LLC	Manufacturing	1,429,511	0.38 %
		<u>\$ 30,507,839</u>	<u>8.07 %</u>

**TABLE 6 - UNLIMITED TAX DEBT TAX ADEQUACY**

FYE 8/31/2017 Principal and Interest Requirements <sup>(1)</sup>	\$ 2,057,772
Less: Instructional Facilities Allotment <sup>(2)</sup>	1,535,086
Less: Existing Debt Allotment <sup>(2)</sup>	136,287
Less: FYE 2017 Budgeted Transfers	<u>500,000</u>
Net FYE 8/31/2017 Principal and Interest Requirements	\$ (113,601)
\$0.1291 Interest and Sinking Fund Tax Levy at 92% Collections <sup>(3)</sup>	\$ 451,841

(1) Projected, subject to change.

(2) As reported by the Texas Education Agency on September 19, 2016; subject to change.

(3) Based on \$377,980,359 Freeze Adjusted Taxable Assessed Valuation.

**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 Taxable Assessed Value	2015/2016 Tax Rate <sup>(2)</sup>	Total Tax Supported Debt	Estimated % Applicable	District's Overlapping Tax Supported Debt As of 9/30/2016
La Feria Independent School District	\$ 377,980,359	\$ 1.2991	\$ 27,576,668 <sup>(1)</sup>	100.00%	\$ 27,576,668 <sup>(1)</sup>
Harlingen, City of	3,032,594,863	0.5890	37,640,000	0.52%	195,728
Cameron County	17,676,273,532	0.3990	162,735,000	2.57%	4,182,290
La Feria, City of	218,458,662	0.7600	18,013,000	99.48%	<u>17,919,332</u>
Total Direct and Overlapping Tax Supported Debt					\$ 49,874,018
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation					13.19%
Per Capita Overlapping Tax Supported Debt					\$ 2,772

(1) Projected, includes the Bonds but excludes the Refunded Obligations, plus debt that is secured by or payable from the District's unlimited tax for bonded indebtedness.

(2) 2016/2017 Tax Rates not available at this time.

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**DEBT INFORMATION**

**TABLE 8A - LIMITED MAINTENANCE AND OPERATIONS TAX SUPPORTED DEBT SERVICE REQUIREMENTS**

Fiscal Year  Ending 8/31	Outstanding Limited Tax Debt			% of Principal Retired
	Principal	Interest	Total D/S	
2017	\$ 230,146	\$ 106,476	\$ 336,622	
2018	236,651	98,471	335,122	
2019	243,405	89,918	333,322	
2020	255,416	80,869	336,285	
2021	262,696	71,314	334,010	44.16%
2022	275,254	61,394	336,647	
2023	283,100	50,922	334,022	
2024	75,000	39,875	114,875	
2025	75,000	36,875	111,875	
2026	80,000	33,775	113,775	72.50%
2027	85,000	30,475	115,475	
2028	85,000	27,075	112,075	
2029	90,000	23,575	113,575	
2030	95,000	19,875	114,875	
2031	95,000	16,075	111,075	88.68%
2032	100,000	11,925	111,925	
2033	105,000	7,313	112,313	
2034	110,000	2,475	112,475	100.00%
	<u>\$ 2,781,668</u>	<u>\$ 808,675</u>	<u>\$ 3,590,343</u>	

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

Fiscal Year Ending 8/31	Outstanding Unlimited Tax Debt <sup>(1)</sup>			The Bonds <sup>(2)</sup>			TOTAL Unlimited Tax Debt Service	% of Principal Retired
	Principal	Interest	Total D/S	Principal	Interest	Total D/S		
	2017	\$ 880,000	\$ 638,150	\$ 1,518,150	\$ 300,000	\$ 239,622		
2018	885,000	609,100	1,494,100	240,000	297,500	537,500	2,031,600	
2019	910,000	579,275	1,489,275	245,000	292,650	537,650	2,026,925	
2020	945,000	548,525	1,493,525	260,000	287,600	547,600	2,041,125	
2021	975,000	515,063	1,490,063	270,000	280,950	550,950	2,041,013	23.84%
2022	875,000	479,175	1,354,175	290,000	272,550	562,550	1,916,725	
2023	940,000	442,288	1,382,288	35,000	267,500	302,500	1,684,788	
2024	975,000	402,900	1,377,900	35,000	266,100	301,100	1,679,000	
2025	900,000	363,875	1,263,875	35,000	264,700	299,700	1,563,575	
2026	950,000	325,250	1,275,250	40,000	263,200	303,200	1,578,450	44.30%
2027	990,000	284,625	1,274,625	40,000	261,600	301,600	1,576,225	
2028	945,000	243,575	1,188,575	40,000	260,000	300,000	1,488,575	
2029	500,000	202,600	702,600	540,000	248,400	788,400	1,491,000	
2030	520,000	182,200	702,200	560,000	226,400	786,400	1,488,600	
2031	540,000	161,000	701,000	585,000	203,500	788,500	1,489,500	65.52%
2032	565,000	138,900	703,900	605,000	179,700	784,700	1,488,600	
2033	590,000	115,800	705,800	630,000	155,000	785,000	1,490,800	
2034	610,000	91,800	701,800	655,000	129,300	784,300	1,486,100	
2035	635,000	66,900	701,900	685,000	102,500	787,500	1,489,400	
2036	665,000	40,900	705,900	710,000	74,600	784,600	1,490,500	91.13%
2037	690,000	13,800	703,800	740,000	45,600	785,600	1,489,400	
2038	-	-	-	770,000	15,400	785,400	785,400	100.00%
	<u>\$ 16,485,000</u>	<u>\$ 6,445,700</u>	<u>\$ 22,930,700</u>	<u>\$ 8,310,000</u>	<u>\$ 4,634,372</u>	<u>\$ 12,944,372</u>	<u>\$ 35,875,072</u>	

(1) Excludes the Refunded Obligations.

(2) Preliminary, subject to change.



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

Tax Supported Debt Service Requirements, Fiscal Year Ending 8/31/2017 <sup>(1)</sup>		\$ 2,057,772
Interest and Sinking Fund, 8/31/2016 <sup>(2)</sup>	\$ 12,000	
\$0.1291 Interest and Sinking Fund Tax Levy at 92% Collections <sup>(3)</sup>	451,841	
Estimated Instructional Facilities/Existing Debt Allotment (IFA/EDA) <sup>(4)</sup>	1,671,373	
Budgeted Transfers from General Fund	500,000	<u>\$ 2,635,214</u>
Estimated Balance, 8/31/2017		<u>\$ 577,442</u>

(1) Preliminary, subject to change.

(2) Unaudited.

(3) Based on \$377,980,359 Freeze Adjusted Taxable Assessed Valuation.

(4) As reported by the Texas Education Agency on September 19, 2016, subject to change.

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

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

**ANTICIPATED ISSUANCE OF ADDITIONAL UNLIMITED TAX DEBT . . .** The District does not anticipate the issuance of additional tax supported debt within the next 12 months except for the possible issuance of refunding bonds for debt service savings.

**TABLE 11 - OTHER OBLIGATIONS**

The District has no other obligations. Please note that the District previously issued its obligations designated as its Public Property Contractual Obligations, Series 2007, dated December 1, 2007, in the original principal amount of \$2,184,499 that are currently outstanding in the principal amount of \$1,336,667 and these obligations and the District’s previously issued Limited Maintenance Tax Notes, Series 2014 dated May 1, 2014, in the original and currently outstanding principal amount of \$1,445,000 are secured by the annual levy of the District’s maintenance and operations tax. See “DEBT INFORMATION – Limited Tax Debt” for the disclosure of these combined debt service requirements.

**PENSION FUND AND OTHER POST EMPLOYMENT RETIREMENT BENEFITS . . .** The District’s employees participate in a retirement plan (the “Plan”) with the State of Texas. The Plan is administered by the Teacher Retirement System of Texas (“TRS”). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. For the year ended August 31, 2013, the State contributed \$1,212,906 to TRS on behalf of the District’s employees and the District paid additional State contributions of \$270,746. Aside from the District’s contribution to the TRS, the District has no pension fund expenditures or liabilities, except for portions of salaries that exceed salary limits of the TRS. The District does not offer any post employment retirement benefits and has no liabilities for “Other Post Employment Retirement Benefits” as defined in GASB Statement No. 45. (For more detailed information concerning the TRS retirement plan, see the District’s Comprehensive Annual Financial Report - Note O.)

During the year ended August 31, 2013, employees of the District were covered by a fully-insured health insurance plan (the “Health Care Plan”). The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2013, 2012 and 2011.

Formal collective bargaining agreements relating directly to wages and other conditions of employment are prohibited by State law, as are strikes by teachers. There are various local, state and national organized employee groups who engage in efforts to better terms and conditions of employment of school employees. Some districts have adopted a policy to consult with employer groups with respect to certain terms and conditions of employment. Some examples of these groups are the Texas State Teachers Association, the Texas Classroom Teachers Association, the Association of Texas Professional Educators and the National Education Association.

**FINANCIAL INFORMATION**

**TABLE 12 - GENERAL FUND REVENUES AND EXPENDITURES HISTORY**

	Fiscal Years Ended August 31,				
	2015	2014	2013	2012	2011
<u>Revenues:</u>					
Local and Intermediate Sources	\$ 4,810,200	\$ 4,631,195	\$ 4,123,092	\$ 3,936,172	\$ 3,828,391
State Sources	25,782,899	25,953,136	22,808,816	22,332,925	22,311,477
Federal Sources	3,143,092	3,099,495	3,123,293	3,222,378	2,707,137
Total Revenues	<u>\$ 33,736,191</u>	<u>\$ 33,683,826</u>	<u>\$ 30,055,201</u>	<u>\$ 29,491,475</u>	<u>\$ 28,847,005</u>
<u>Expenditures:</u>					
Instruction	\$ 16,886,216	\$ 16,455,600	\$ 14,401,230	\$ 14,338,721	\$ 14,529,747
Instruction Leadership	582,244	511,231	451,631	297,322	255,333
Instructional Resources and Media	390,513	508,743	497,234	443,574	438,929
School Administration	2,079,870	1,933,303	1,826,118	1,769,788	1,821,521
Curriculum/Personal Development	448,291	355,645	242,190	297,804	221,248
Guidance and Counseling	745,921	742,845	814,215	877,255	884,539
Social Work Services	74,734	90,490	86,261	85,349	16,681
Health Services	385,977	394,465	364,698	364,261	377,140
Pupil Transportation	1,224,098	1,179,683	1,068,915	941,552	768,659
Co-Curricular Activities	1,656,427	1,485,221	1,242,387	1,235,407	1,424,150
Food Services	2,464,203	2,464,371	2,480,752	2,046,232	2,167,724
General Administration	1,072,881	1,065,555	1,045,846	952,665	1,001,945
Debt Services	334,240	291,313	221,247	221,247	228,695
Plant Maintenance and Operations	4,498,908	4,028,487	3,816,435	3,987,055	3,911,772
Security and Monitoring Services	45,457	51,005	38,440	36,794	44,791
Facilities Acquisition and Construction	302,684	1,292,066	-	-	-
Data Processing Services	714,438	504,898	264,315	352,236	236,739
Intergovernmental Charges	528,948	553,984	574,713	548,531	536,905
Community Services	1,133	7,324	4,470	7,300	1,907
Total Expenditures	<u>\$ 34,437,183</u>	<u>\$ 33,916,229</u>	<u>\$ 29,441,097</u>	<u>\$ 28,803,093</u>	<u>\$ 28,868,425</u>
Other Resources and (Uses)	\$ (650,000)	\$ 1,576,151	\$ -	\$ -	\$ -
Excess (Deficiency) of Revenues Over Expenditures	\$ (700,992)	\$ (232,403)	\$ 614,104	\$ 688,382	\$ (21,420)
Beginning Fund Balance on September 1	<u>6,583,571</u> <sup>(1)</sup>	<u>5,239,822</u>	<u>4,625,718</u>	<u>3,937,336</u>	<u>3,958,756</u>
Increase (Decreased) in Fund Balance	(1,350,992)	1,343,748	614,104	688,382	(21,420)
Ending Fund Balance on August 31	<u>\$ 5,232,579</u> <sup>(2)</sup>	<u>\$ 6,583,570</u>	<u>\$ 5,239,822</u>	<u>\$ 4,625,718</u>	<u>\$ 3,937,336</u>

(1) Restated

(2) The District's unaudited General Fund balance for the Fiscal Year ended August 31, 2016 is approximately \$5,200,000.

## INVESTMENTS

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

**LEGAL INVESTMENTS . . .** Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities including letters of credit, (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are 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; (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 meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (i) that are issued by or through an institution that has its main office or a branch office in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits; or (ii) where: (a) the funds are invested by the District through a broker or depository institution that has a main office or branch office in the State and that is selected by the District; (b) the broker or depository institution selected by the District arranges for the deposit of funds in one or more federally insured depository institutions, wherever located, for the account of the District; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; (d) the District appoints the depository institution or other legally permissible entity custodian for the District with respect to the certificates of deposit; and (e) at the same time that the certificates of deposit are issued, the depository institution selected by the District receives deposits from customers of other federally insured depository institutions, wherever located, that is equal to or greater than the funds invested by the District through the depository institution selected under clause (ii)(a) above, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. If specifically authorized in the authorizing document, bond proceeds may be invested in guaranteed investment contracts 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 invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

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

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution. The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized

mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

**INVESTMENT POLICIES . . .** Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All District funds must be invested consistent with a formally adopted “Investment Strategy Statement” that specifically addresses each funds’ investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

**ADDITIONAL PROVISIONS . . .** Under 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<sup>(1)</sup>**

As of August 31, 2016 the investable funds of the District were invested as follows:

Type of Investment	Percent of Portfolio	Fair Value
Lone Star Investment Pool	100.00%	\$ 3,972,794
Total	100.00%	\$ 3,972,794

(1) Unaudited

## TAX MATTERS

**TAX EXEMPTION** . . . The delivery of the Bonds is subject to the opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel, stating that 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 opinion 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. A form of Bond Counsel’s opinion appears in Appendix C hereto.

In rendering its opinion, Bond Counsel will rely upon the Report of Grant Thornton LLP (see **OTHER INFORMATION – Verification of Mathematical Computations**” herein) and upon representations and certifications of the District made in a certificate dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the District with certain covenants of the Order and has relied on 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 Bond proceeds and any facilities financed therewith, the source of repayment of the Bonds, the investment of 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 Bonds is commenced, under current procedures the Service is likely to treat the District as the “taxpayer,” and the owners of the 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 Bonds, the District may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Under the Code, taxpayers are required to provide information on their returns regarding the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to, among others, financial institutions (see “Qualified Tax-Exempt Obligations” herein), life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. Such prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

### **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**

The initial public offering price to be paid for certain Bonds may be less than the amount payable on such Bonds at maturity (the "Discount Bonds"). An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bonds. A portion of such original issue discount, allocable to the holding period of a Discount Bond by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the Bonds. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

However, such accrued interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions (see "Qualified Tax-Exempt Obligations" herein), property and casualty insurance companies, life insurance companies, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

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

The initial public offering price to be paid for certain Bonds may be greater than the stated redemption price on such Bonds at maturity (the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium with respect to the Premium Bonds. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

## **Qualified Tax-Exempt Obligations**

Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code completely disallows any deduction for interest expense which is incurred by "financial institutions" described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this rule for interest expense allocable to tax-exempt obligations (other than private activity bonds) which are designated by an issuer, such as the District, as "qualified tax-exempt obligations." An issuer may designate obligations as "qualified tax-exempt obligations" only if the amount of the issue of which they are a part, when added to the amount of all other tax-exempt obligations (other than private activity bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed \$10,000,000.

The District has designated the Bonds as "qualified tax-exempt obligations" and has certified its expectation that the above-described \$10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions which purchase the Bonds will not be subject to the one-hundred percent (100%) disallowance of interest expense allocable to interest on the Bonds under Section 265(b)

of the Code. However, twenty percent (20%) of the interest expense incurred by a financial institution which is allocable to the interest on the Bonds will not be deductible pursuant to section 291 of the Code.

### **CONTINUING DISCLOSURE OF INFORMATION**

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (“MSRB”) through its EMMA system, where it will be available to the general public, free of charge, at [www.emma.msrb.com](http://www.emma.msrb.com). For a description of the continuing disclosure obligations of the TEA, see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.”

#### **Annual Reports**

The District will provide this updated financial information and operating data to the MSRB annually in an electronic format as prescribed by the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement in Tables 1 through 6 and 8 through 13 and in Appendix B. The District will update and provide this information within six months after the end of each fiscal year ending in or after 2016.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule. The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements by the required time and will provide audited financial statements to such persons when and if the audit report becomes available. Any financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District’s current fiscal year end is August 31. Accordingly, it must make available updated information by the end of February in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

#### **Notice of Certain Events**

The District also will provide timely notices of any of the following events with respect to the Bonds (not in excess of ten (10) business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other materials 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 the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such 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 or change of name of the trustee, if material. Neither the Bonds nor the Order make any provision for liquidity enhancement, credit enhancement (except with respect to the Permanent School Fund guarantee), or require the funding of debt service reserves. In addition, the District will provide timely notice of any failure by the District to provide annual financial information, data or financial statements in accordance with its agreement described above under “Annual Reports.” The District will provide each notice described in this paragraph to the MSRB in an electronic format, as prescribed by the MSRB.

#### **Availability of Information**

Effective July 1, 2009 (the “EMMA Effective Date”), the SEC implemented amendments to the Rule which approved the establishment by the MSRB of EMMA, which is now the sole successor to the national municipal securities information repositories with respect to filings made in connection with undertakings made under the Rule after the EMMA Effective Date. Commencing with the EMMA Effective Date, all information and documentation filing required to be made by the District in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

With respect to debt of the District issued prior to the EMMA Effective Date, the District remains obligated to make annual required filings, as well as notices of material events, under its continuing disclosure obligations relating to those debt obligations (which includes a continuing obligation to make such filings with the Texas state information depository (the “SID”). Prior to the EMMA Effective Date, the Municipal Advisory Council of Texas (the “MAC”) had been designated by the State and approved by the SEC

staff as a qualified SID. Subsequent to the EMMA Effective Date, the MAC entered into a Subscription Agreement with the MSRB pursuant to which the MSRB makes available to the MAC, in electronic format, all Texas-issuer continuing disclosure documents and related information posted to EMMA's website simultaneously with such posting. Until the District receives notice of a change in this contractual agreement between the MAC and EMMA or of a failure of either party to perform as specified thereunder, the District has determined, in reliance on guidance from the MAC, that making its continuing disclosure filings solely with the MSRB will satisfy its obligations to make filings with the SID pursuant to its continuing disclosure agreements entered into prior to the EMMA Effective Date.

### **Limitations and Amendments**

The District has agreed to update information and to provide notices of 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 has been provided except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the District to comply with its agreement. Nothing in this paragraph is intended or shall act to disclaim, waive or limit the District's duties under federal or state securities laws.

The District may amend its continuing disclosure agreement 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, but only if, (1) the agreement, as so amended, would have permitted underwriters to purchase or sell Bonds in the initial primary offering 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 (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent or (b) any qualified person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. If the District amends its agreement, it has agreed to include with the financial information and operating data next 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 information and operating data so provided.

### **Compliance with Prior Undertakings**

During the last five (5) years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

## **OTHER INFORMATION**

### **RATINGS**

The Bonds have been rated "A2" by Moody's Investors Services, Inc. ("Moody's") without regard to credit enhancement and "Aaa" 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 Bonds.

### **LITIGATION**

The District is not a party to any litigation or other proceeding pending or, to its knowledge, threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to the District, would have a material adverse effect on the financial statements of the District. At the time of the initial delivery of the Bonds, the District will provide the Underwriters with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Bonds or that affects the payment and security of the Bonds or in any other manner questioning the issuance, sale or delivery of the Bonds.

### **REGISTRATION AND QUALIFICATION OF BONDS FOR SALE**

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



disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

#### **LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS**

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments, 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 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 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 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 Bonds. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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 Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The District has made no review of laws in other states to determine whether the 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 Bonds, including the unqualified approving legal opinion of the Attorney General of Texas to the effect that the 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 Bonds, Bond Counsel has been engaged by and only represents the District in connection with the issuance of the 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 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 Changes in Law on District Bonds," 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 Bonds for Sale," "OTHER INFORMATION - Legal Investments and Eligibility to Secure Funds 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 Bonds is contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriters The Perez Law Firm, PLLC, as Legal Counsel to the Underwriters, whose legal fees are contingent upon the sale and delivery of the Bonds.

The legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of 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 Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. FirstSouthwest, a Division of Hilltop Securities Inc., in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the District has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of its 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 Escrow 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.

#### **UNDERWRITING FOR THE BONDS**

The Underwriters have agreed, subject to certain conditions, to purchase the 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 Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

The Underwriters have 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.

References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or links contained therein are not incorporated onto, and are not part of, this Official Statement for purposes of, and as that term is defined in, SEC Rule 15c2-12.

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 Bonds by the Underwriters.

/s/

\_\_\_\_\_  
President, Board of Trustees  
La Feria Independent School District

ATTEST:

/s/

\_\_\_\_\_  
Secretary, Board of Trustees  
La Feria Independent School District

**SCHEDULE I**

**SCHEDULE OF REFUNDED OBLIGATIONS\***

**Unlimited Tax Refunding Bonds, Series 2006**

<u>Original Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount Refunded</u>	<u>Redemption Date</u>
3/15/06	2/15/17	4.000%	\$ 400,000	11/22/16
	2/15/18	4.000%	420,000	11/22/16
	2/15/19	4.000%	435,000	11/22/16
	2/15/20	4.000%	465,000	11/22/16
	2/15/21	4.100%	485,000	11/22/16
	2/15/22	4.100%	515,000	11/22/16
			<u>\$ 2,720,000</u>	

**La Feria Independent School District**

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

<u>Original Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount Refunded</u>	<u>Redemption Date</u>
9/1/08	8/15/29 <sup>(1)</sup>	5.000%	\$ 485,000	8/15/18
	8/15/30 <sup>(1)</sup>	5.000%	510,000	8/15/18
	8/15/31 <sup>(1)</sup>	5.000%	535,000	8/15/18
	8/15/32 <sup>(1)</sup>	5.000%	560,000	8/15/18
	8/15/33 <sup>(1)</sup>	5.000%	590,000	8/15/18
	8/15/34 <sup>(2)</sup>	5.000%	615,000	8/15/18
	8/15/35 <sup>(2)</sup>	5.000%	650,000	8/15/18
	8/15/36 <sup>(2)</sup>	5.000%	680,000	8/15/18
	8/15/37 <sup>(2)</sup>	5.000%	715,000	8/15/18
	8/15/38 <sup>(2)</sup>	5.000%	750,000	8/15/18
			<u>\$ 6,090,000</u>	

(1) 2033 Term Bond with mandatory redemptions in 2029, 2030, 2031 and 2032.

(2) 2038 Term Bond with mandatory redemptions in 2034, 2035, 2036, and 2037.

\* Preliminary, subject to change.

**APPENDIX A**

GENERAL INFORMATION REGARDING THE DISTRICT

## THE CITY

The City of La Feria, Texas (the “City”) is located eight miles west of Harlingen on U.S. Highway 83 and serves as a commercial center for a highly cultivated agricultural area in the center of the Lower Rio Grande Valley. The area is served by the U.S. interstate highway system, with Expressway 83 (east and west along the Rio Grande Valley) connecting with U.S. 77 (north and south along the eastern area of the Valley) and U.S. 281 (north and south along the western area of the Valley). The Harlingen International Airport is located 10 miles east of the City. The City has an estimated 2012 population of 7,325.

The City is governed by a City Commission consisting of a Mayor and five Commissioners, all elected at large. The Commission appoints a City Manager who is the chief administrative and executive officer of the City. On November 7, 1989 the City adopted a Home Rule Charter. The City currently employs 61 people.

## THE SCHOOL DISTRICT

The La Feria Independent School District is a political subdivision of the State of Texas created in 1923. The District encompasses approximately 35.53 square miles and is located near the Gulf of Mexico in Cameron County in the southwest corner of Texas. The District serves primarily the City of La Feria and is located eight miles west of the City of Harlingen on U.S. Highway 83.

## CAMERON COUNTY

Cameron County is the southernmost Texas County and is traversed by U.S. Highways 77, 83 and 281 and State Highways 4, 48, 100, 107 and 345. The County had an estimated 2013 population of 417,216. The County’s economy is based on agriculture, manufacturing, tourism, shipping and seafood processing. Wholesale nursery plants, vegetables, sugar cane, grain sorghum, cow-calf operations and cotton are major sources of agriculture. Sources of mineral production are oil and natural gas.

## LABOR FORCE STATISTICS FOR CAMERON 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	169,233	164,295	166,343	164,830	163,319
Total Employed	156,329	152,603	152,494	148,102	146,108
Total Unemployed	12,904	11,692	13,849	16,728	17,211
Unemployment Rate	7.6%	7.1%	8.3%	10.1%	10.5%

(1) Source: Texas Workforce Commission.

(2) As of August 2016.

**APPENDIX B**

EXCERPTS FROM THE  
LA FERIA INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT

For the Year Ended August 31, 2015

The information contained in this Appendix consists of excerpts from the La Feria 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 AUDITORS' REPORT

To the Board of Trustees  
La Feria Independent School District

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the La Feria Independent School 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.

### *Auditors' Responsibility*

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

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

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



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## ***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 La Feria Independent School District, as of August 31, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Change in Accounting Principle***

As described in Note B to the financial statements, in 2015, the District adopted new accounting guidance, *GASB Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and net pension liability and pension contribution information on pages 17–25 and 70-74 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 La Feria Independent School District's basic financial statements. The introductory section and other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2016, on our consideration of the La Feria Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering La Feria Independent School District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Long Chilton, LLP". The signature is written in a cursive, flowing style.

**LONG CHILTON, LLP**  
*Certified Public Accountants*

Harlingen, Texas  
January 11, 2016

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**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS*

This section of the La Feria Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended 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 \$17,940,900 at August 31, 2015.
- During the year, the District's expenses were \$39,342,221. Revenues generated in taxes and other revenues for governmental activities were \$38,877,513.
- The total cost of the District's programs increased \$656,532 from last year. This increase resulted from a planned salary increase for all full time staff members.
- In November 2014, the District refinanced Bonds Series 2005 that saved our district interest costs.
- The general fund reported a fund balance this year of \$5,232,579.
- The District received a "pass" rating for the Financial Integrity Reporting System of Texas (FIRST) for 2014. The Texas Administrative Code Rule 109.1001 "Financial Accountability Ratings" provides for only two ratings for 2014-2015: P for Pass if it scores within the acceptable range established by the Commissioners for a P rating or F for substandard achievement if it scores below the pass range. Effective for the 2015–2016 fiscal year, and all subsequent school years there will be an expanded rating system of A, B, C or F with the Commissioner establishing the applicable ranges for each rating. The FIRST rating evaluates quality of performance in the management of school district financial resources.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The Financial Section of this Annual Financial Report consists of four parts: (1) *management's discussion and analysis* (this section), (2) the *basic financial statements*, (3) *required supplementary information*, and (4) *other supplementary information*, which is the section that presents additional information required by the Texas Education Agency.

The Management's Discussion and Analysis section is intended to serve as an introduction to the District's Basic Financial Statements. The District's Basic Financial Statements comprise three components: (1) Government-Wide Financial Statements (2) Fund Financial Statements, and (3) Notes to the Basic Financial Statements.

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 *short- and long-term* financial information about the activities the government operates *like businesses*.
- *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.

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 explains and supports the information in the financial statements. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

#### ***Government-wide Statements***

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. All of the District's services are reported in the government-wide financial statements, including instructional, instructional leadership, student support services, general administration, support services, and debt services. Property taxes, state foundation funds and grants finance most of these activities.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED*

The *statement of net position* presents information on all of the District's assets and deferred outflows and liabilities and deferred inflows, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The *statement of activities* presents information showing how the government's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Accordingly, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The District has no business-type activities.

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

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

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

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

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

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED*

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

The adoption of Statement No. 68 has no impact on the District's governmental fund financial statements, which continue to report expenditures in the contribution amount determined by the state legislature for the TRS plan. The calculation of pension contributions is unaffected by the change. However, the adoption has resulted in the restatement of the District's beginning net position for the fiscal year 2014 government-wide financial statements to reflect the reporting of net pension liabilities and deferred inflows of resources and deferred outflows of resources for its qualified pension plan and the recognition of pension expense in accordance with the provisions of the Statement. Net position as of September 1, 2014 was decreased by \$3,411,251 to reflect the cumulative effect of adoption.

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

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

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

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

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

Statement No. 71 amends Statement No. 68 to require that, at transition, a government 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 is an increase in deferred outflow of resources and a decrease in net position.



**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED*

***Fund Financial Statements***

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related requirements. 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 to show that it is properly using taxes and grants.

The District has the following kinds of funds:

*Governmental funds:* Government funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year.

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 explain the relationship (or differences) between them.

The District maintains 18 governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and the debt service fund, which are considered to be major funds. Data from the other governmental funds are combined in a single, aggregated presentation. The District adopts an annual appropriated budget for its General Fund, National School Breakfast and Lunch Program Fund, and Debt Service Fund. A budgetary comparison schedule has been provided to demonstrate compliance with these budgets.

*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 currently does not utilize any proprietary fund types.

*Fiduciary funds:* The District is the trustee, or *fiduciary*, for certain funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of 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.

***Notes to Financial Statements***

The notes provide additional information that is essential to a complete understanding of the data provided in the government-wide and fund financial statements.

***Required Supplementary Information***

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The Required Supplementary Information relates to comparison of the original adopted budget, the final amended budget, and the actual results for the fiscal year ended. This is required supplementary information for the general fund. Also included in RSI is the Schedule of the District's Proportionate Share of the Net Pension Liability – Teacher Retirement System and the Schedule of the District Contributions – Teacher Retirement System.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED**

**Other Supplementary Information**

The Other Supplementary Information section contains information for the purpose of additional analysis and is not a required part of the basic financial statements. This section includes certain compliance schedules required by the Texas Education Agency.

**Government-Wide Financial Analysis**

Presented in Tables I and II below are summarized Statement of Net Position and Statement of Changes in Net Position for both current and prior-year data. Our analysis focuses on the current year and the comparison of prior-year amounts on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

**Net Position**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the year ended August 31, 2015, the District's assets and deferred outflows exceeded its liabilities and deferred inflows by \$17,940,900, which includes the \$3,411,251 adjustment for GASB 68.

**Table I**  
**Net Position Summary**

	Governmental Activities	
	2015	2014
Current and other assets	\$ 9,481,736	\$11,895,434
Capital assets	46,137,774	46,880,029
Total assets	55,619,510	58,775,463
Deferred outflows	1,075,456	79,236
Other liabilities	3,334,825	3,973,051
Long-term liabilities	34,498,228	33,064,789
Total liabilities	37,833,053	37,037,840
Deferred inflows	921,013	-
Net investment in capital assets	15,082,327	14,221,880
Restricted	1,012,982	1,291,190
Unrestricted	1,845,591	6,303,789
Total net position	\$17,940,900	\$21,816,859

As depicted in Table I, a significant portion of the District's net position, 84%, reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. Also, approximately 6% of the net position of the District represents resources that are subject to external restriction on how they may be used. The remaining 10% of net position are unrestricted and may be used to meet the District's ongoing obligations.

**Changes in Net Position**

The Net Position of the District decreased by \$3,875,959 for the year ended August 31, 2015, however \$3,411,251 of the total decrease is the result of the restatement of beginning net position from the implementation of GASB Statements No. 68 and 71. The total revenues from taxpayers, user service, grants and other sources for the District was \$38,877,513, a decrease over fiscal year 2014 of \$742,388. The revenue decrease is from the anticipated reduction in Existing Debt Allotment (EDA) and Instructional Facilities Allotment (IFA) funding from TEA resulting from the tax rollback election that moved .13 cents from debt service to maintenance and operations taxes in the prior fiscal year. Total expenses for the 2015 fiscal year were \$39,342,221, or \$656,532 more than the expenses for fiscal year 2014 and the increase was primarily the result of salary and wage increases for all employees.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED**

**Table II**  
**Changes in Net Position**

	Governmental Activities	
	2015	2014
<b>Program Revenues:</b>		
Charges for services	\$ 816,799	\$ 740,220
Operating grants and contributions	6,896,413	6,957,098
General Revenues:		
Property taxes	4,521,546	4,519,218
State and other grants	26,269,610	27,193,975
Investment earnings	6,263	4,445
Miscellaneous local intermediate	<u>366,882</u>	<u>204,945</u>
Total Revenues	38,877,513	39,619,901
<b>Program Expenses:</b>		
Instruction	19,874,993	19,439,107
Instructional resources and media services	422,139	551,108
Curriculum and instructional staff development	742,966	764,339
Instructional leadership	594,632	605,176
School leadership	2,247,571	2,117,794
Guidance, counseling and evaluation services	838,243	846,387
Social services	74,216	99,178
Health services	410,376	419,989
Student (pupil) transportation	1,212,734	1,156,079
Food services	2,549,546	2,530,788
Co-curricular/extracurricular activities	1,846,743	1,746,633
General administration	1,076,236	1,089,351
Plant maintenance and operations	4,543,051	4,332,258
Security and monitoring services	46,793	52,093
Data processing services	534,138	410,288
Community services	383,837	448,213
Debt service	1,415,059	1,522,924
Payments to fiscal agent/member districts of SSA	457,277	449,032
Payments to juvenile justice alternative education	15,802	55,118
Other governmental charges	<u>55,869</u>	<u>49,834</u>
Total Expenses	<u>39,342,221</u>	<u>38,685,689</u>
Increase (decrease) in net position	(464,708)	934,212
Beginning net position	21,816,859	20,882,647
Prior period adjustment – GASB 68 and 71 pensions	<u>(3,411,251)</u>	<u>-</u>
Ending net position	<u>\$17,940,900</u>	<u>\$21,816,859</u>

The District's total revenues were \$38,877,513. A significant portion, 85%, of the District's revenue comes from state aid – formula grants and operating grants. 12% comes from taxes, while only 2% relates to charges for services.

The decrease in net position for year is the result of a reduction in EDA and IFA funding from TEA which although anticipated was greater than the amount estimated on top of the cost to the District of providing a salary and wage increase to all employees.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED**

**Governmental Activities**

The District's property tax rate remained at \$1.2991 per \$100 of taxable property value as compared to last year's rate.

The total cost of all programs and services was \$39,342,221; 78% of these costs are for instructional and student services.

Table III presents 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 \$39,342,221.
- However, the amount that our taxpayers paid for these activities through property taxes was only \$4,521,546.
- The cost that was paid by those who directly benefited from the programs was \$816,799.
- The amount paid by operating grants and contributions was \$6,896,413.

**Table III**  
**Net Cost of Selected District Functions**

	Total Cost of Services		Net Cost of Services	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Instruction and instructional related	\$21,040,098	\$20,754,554	\$17,424,266	\$17,243,779
School leadership	2,247,571	2,117,794	2,115,586	1,999,480
Food services	2,549,546	2,530,788	(62,787)	(116,466)
Plant maintenance and operations	4,543,051	4,332,258	4,405,121	4,238,815

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements, bond covenants, and segregation for particular purposes.

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of a fiscal year.

As of August 31, 2015, the District's governmental funds reported a combined ending fund balance of \$5,322,408, a decrease of \$1,749,725 from last year. Of the total fund balance, \$4,149,608, or approximately 78 percent, constitutes unassigned fund balance. The remainder of fund balance is nonspendable, restricted, committed or assigned for particular purposes as follows:

**Table IV**  
**Governmental Funds – Fund Balances**

<b>Nonspendable</b>	
Inventories	\$ 147,453
Prepayments	165,854
<b>Restricted</b>	
Grant funds	769,664
Debt service	12,010
<b>Committed</b>	
Campus activity funds	77,819
<b>Unassigned</b>	
Unassigned	<u>4,149,608</u>
	<u>\$5,322,408</u>

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2015, the District had invested \$67,229,996 in a broad range of capital assets, including land, equipment, buildings, and vehicles. More detailed information about the District's capital assets is presented in the notes to the financial statements.

**Table V**  
**Capital Assets**

	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2014</u>
Land	\$ 2,887,027	\$ 2,887,027
Buildings and improvements	58,628,142	58,332,902
Furniture and equipment	<u>5,714,827</u>	<u>4,992,094</u>
Total assets at historical cost	67,229,996	66,212,023
Accumulated depreciation	<u>(21,092,222)</u>	<u>(19,331,994)</u>
Net capital assets	<u>\$46,137,774</u>	<u>\$46,880,029</u>

**Long-term Debt**

At year-end, the District had \$34,498,228 in bonds, related premiums/discounts and other long-term liabilities as shown in Table VI. More detailed information about the District's debt is presented in the notes to the financial statements.

**Bond Ratings**

The District's bonds presently carry "Aaa" ratings assigned by Moody's Investor Services.

**Table VI**  
**Long-term Debt**

	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2014</u>
Bonds payable	\$27,060,000	\$29,505,000
Issuance premiums	1,229,264	208,111
Issuance discounts	(989)	(5,424)
Maintenance tax notes	1,500,000	1,545,000
Maintenance tax notes premium	28,214	31,151
Property finance contract	1,500,549	1,658,396
Compensated absences	170,390	122,555
Net pension liability	<u>3,010,800</u>	<u>-</u>
	<u>\$34,498,228</u>	<u>\$33,064,789</u>

**Net Pension Liability**

The adoption of Statement No. 68 resulted in the District's reporting of net pension liabilities and deferred inflows of resources and deferred outflows of resources for each of its qualified pension plans and the recognition of pension expense in accordance with the provisions of the Statement. The decrease in the District's net pension liability (NPL) to \$3,010,800 at August 31, 2015 from \$3,411,251 at August 31, 2014 was the result of a significant increase in net investment income in the TRS plan during 2014.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED*

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

- Appraised value used for the 2016 budget preparation was \$374,614,351 which is a .5% decrease from last year's value.
- General operating fund spending per student in the 2016 budget is \$10,074 which is a decrease from the prior year average of \$10,459.
- The District's 2016 refined average daily attendance is expected to be 3,300 which is small increase from last year.

These indicators were taken into account when adopting the general fund budget for 2016. The District adopted a balanced budget and anticipates several budget amendments throughout the fiscal year to account for changes in enrollment and other variables. The District is closely monitoring all operating costs due to the uncertainties in future state funding.

Expenditures in the General Fund are expected to be \$33,245,652 which is a decrease of \$1,191,531. The District has added a 2% salary increase to all full time staff, a fine arts initiative and an instructional technology initiative to the 2016 budget.

If these estimates are realized, the District's budgetary general fund balance is not expected to change appreciably by the close of 2016.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and 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 District's Business Office.

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**BASIC**  
**FINANCIAL STATEMENTS**



LA FERIA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
AUGUST 31, 2015

EXHIBIT A-1

Data Control Codes	Primary Government
	Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 5,669,096
1220 Property Taxes Receivable (Delinquent)	1,023,707
1230 Allowance for Uncollectible Taxes	(30,711)
1240 Due from Other Governments	2,469,125
1290 Other Receivables, net	37,212
1300 Inventories	147,453
1410 Prepayments	165,854
Capital Assets:	
1510 Land	2,887,027
1520 Buildings, Net	41,080,032
1530 Furniture and Equipment, Net	2,170,715
1000 Total Assets	55,619,510
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
1701 Deferred Charge for Refunding	261,590
1705 Deferred Resource Outflows for Pensions	813,866
1700 Total Deferred Outflows of Resources	1,075,456
<b>LIABILITIES</b>	
2110 Accounts Payable	705,453
2140 Interest Payable	168,493
2150 Payroll Deductions & Withholdings	430,387
2160 Accrued Wages Payable	715,861
2180 Due to Other Governments	1,314,631
Noncurrent Liabilities	
2501 Due Within One Year	2,191,578
2502 Due in More Than One Year	29,295,850
2540 Net Pension Liability (District's Share)	3,010,800
2000 Total Liabilities	37,833,053
<b>DEFERRED INFLOWS OF RESOURCES</b>	
2603 Deferred Resource Inflows for Pensions	921,013
2600 Total Deferred Inflows of Resources	921,013
<b>NET POSITION</b>	
3200 Net Investment in Capital Assets	15,082,327
3820 Restricted for Federal and State Programs	769,664
3850 Restricted for Debt Service	165,499
3870 Restricted for Campus Activities	77,819
3900 Unrestricted	1,845,591
3000 Total Net Position	\$ 17,940,900

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

LA FERIA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2015

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
		Expenses	3 Charges for Services	4 Operating Grants and Contributions
<b>Primary Government:</b>				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 19,874,993	\$ 221,305	\$ 3,060,883	\$ (16,592,805)
12 Instructional Resources and Media Services	422,139	-	22,257	(399,882)
13 Curriculum and Staff Development	742,966	-	311,387	(431,579)
21 Instructional Leadership	594,632	-	44,333	(550,299)
23 School Leadership	2,247,571	-	131,985	(2,115,586)
31 Guidance, Counseling and Evaluation Services	838,243	-	124,087	(714,156)
32 Social Work Services	74,216	-	4,781	(69,435)
33 Health Services	410,376	-	19,726	(390,650)
34 Student (Pupil) Transportation	1,212,734	-	65,137	(1,147,597)
35 Food Services	2,549,546	138,594	2,473,739	62,787
36 Extracurricular Activities	1,846,743	456,900	49,555	(1,340,288)
41 General Administration	1,076,236	-	63,721	(1,012,515)
51 Facilities Maintenance and Operations	4,543,051	-	137,930	(4,405,121)
52 Security and Monitoring Services	46,793	-	2,173	(44,620)
53 Data Processing Services	534,138	-	12,224	(521,914)
61 Community Services	383,837	-	372,495	(11,342)
72 Debt Service - Interest on Long Term Debt	1,112,096	-	-	(1,112,096)
73 Debt Service - Bond Issuance Cost and Fees	302,963	-	-	(302,963)
93 Payments related to Shared Services Arrangements	457,277	-	-	(457,277)
95 Payments to Juvenile Justice Alternative Ed. Prg.	15,802	-	-	(15,802)
99 Other Intergovernmental Charges	55,869	-	-	(55,869)
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 39,342,221</u>	<u>\$ 816,799</u>	<u>\$ 6,896,413</u>	<u>\$ (31,629,009)</u>
Data Control Codes	General Revenues:			
	Taxes:			
MT	Property Taxes, Levied for General Purposes			4,086,657
DT	Property Taxes, Levied for Debt Service			434,889
SF	State Aid - Formula Grants			24,292,440
GC	Grants and Contributions not Restricted			1,977,170
IE	Investment Earnings			6,263
MI	Miscellaneous Local and Intermediate Revenue			366,882
TR	Total General Revenues			<u>31,164,301</u>
CN	Change in Net Position			(464,708)
NB	Net Position - Beginning			21,816,859
PA	Prior Period Adjustment - GASB 68 & 71 Pensions			(3,411,251)
NE	Net Position--Ending			<u>\$ 17,940,900</u>

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

LA FERIA INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2015

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>				
1110 Cash and Cash Equivalents	\$ 5,359,088	\$ 265,015	\$ 44,993	\$ 5,669,096
1220 Property Taxes - Delinquent	865,072	158,635	-	1,023,707
1230 Allowance for Uncollectible Taxes (Credit)	(25,952)	(4,759)	-	(30,711)
1240 Receivables from Other Governments	2,111,233	-	357,892	2,469,125
1260 Due from Other Funds	670,199	541,993	27,135	1,239,327
1290 Other Receivables	30,044	-	7,168	37,212
1300 Inventories	147,453	-	-	147,453
1410 Prepayments	165,854	-	-	165,854
1000 Total Assets	<u>\$ 9,322,991</u>	<u>\$ 960,884</u>	<u>\$ 437,188</u>	<u>\$ 10,721,063</u>
<b>LIABILITIES</b>				
2110 Accounts Payable	\$ 640,011	\$ -	\$ 65,442	\$ 705,453
2150 Payroll Deductions and Withholdings Payable	430,387	-	-	430,387
2160 Accrued Wages Payable	617,205	-	98,656	715,861
2170 Due to Other Funds	991,380	52,676	195,271	1,239,327
2180 Due to Other Governments	572,309	742,322	-	1,314,631
2000 Total Liabilities	<u>3,251,292</u>	<u>794,998</u>	<u>359,369</u>	<u>4,405,659</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
2601 Unavailable Revenue - Property Taxes	839,120	153,876	-	992,996
2600 Total Deferred Inflows of Resources	<u>839,120</u>	<u>153,876</u>	<u>-</u>	<u>992,996</u>
<b>FUND BALANCES</b>				
Nonspendable Fund Balance:				
3410 Inventories	147,453	-	-	147,453
3430 Prepaid Items	165,854	-	-	165,854
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	769,664	-	-	769,664
3480 Retirement of Long-Term Debt	-	12,010	-	12,010
Committed Fund Balance:				
3545 Other Committed Fund Balance	-	-	77,819	77,819
3600 Unassigned Fund Balance	4,149,608	-	-	4,149,608
3000 Total Fund Balances	<u>5,232,579</u>	<u>12,010</u>	<u>77,819</u>	<u>5,322,408</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 9,322,991</u>	<u>\$ 960,884</u>	<u>\$ 437,188</u>	<u>\$ 10,721,063</u>

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

LA FERIA INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
AUGUST 31, 2015

<b>Total Fund Balances - Governmental Funds</b>	\$	5,322,408
<b>1</b> Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. the cost of these assets was \$67,229,997 and the accumulated depreciation was \$21,092,222.		46,137,775
<b>2</b> Long-term liabilities including bonds, tax maintenance notes, property finance contract payable and accrued interest on long-term liabilities are not due and payable in the current period and are not reported as liabilities in the funds.		(31,485,532)
<b>3</b> Long-term liabilities for compensated absences are not due and payable in the current period and therefore are not reported in the funds.		(170,390)
<b>4</b> Property taxes receivable that will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are unavailable in the funds.		992,996
<b>5</b> Gains/losses on defeasance of debt are recognized as deferred credits or charges and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, as an increase or (decrease) in net position. The District has deferred charges on refundings of \$261,590 from various debt refundings which are not reported in the funds.		261,590
<b>6</b> Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB Statement No. 68 in the amount of \$(3,010,800), a deferred resource outflow related to TRS in the amount of \$921,013, and a deferred resource inflow related to TRS in the amount of \$(813,866). This resulted in a decrease in net position of \$(3,117,947).		(3,117,947)
<b>19 Net Position of Governmental Activities</b>	<b>\$</b>	<b>17,940,900</b>

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

LA FERIA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2015

EXHIBIT C-3

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 4,810,200	\$ 507,334	\$ 388,959	\$ 5,706,493
5800 State Program Revenues	25,782,899	1,303,667	372,593	27,459,159
5900 Federal Program Revenues	3,143,092	-	2,563,771	5,706,863
5020 Total Revenues	<u>33,736,191</u>	<u>1,811,001</u>	<u>3,325,323</u>	<u>38,872,515</u>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
0011 Instruction	16,886,216	-	2,223,458	19,109,674
0012 Instructional Resources and Media Services	390,513	-	21,146	411,659
0013 Curriculum and Instructional Staff Development	448,291	-	296,931	745,222
0021 Instructional Leadership	582,244	-	7,089	589,333
0023 School Leadership	2,079,870	-	86,296	2,166,166
0031 Guidance, Counseling and Evaluation Services	745,921	-	76,130	822,051
0032 Social Work Services	74,734	-	-	74,734
0033 Health Services	385,977	-	-	385,977
0034 Student (Pupil) Transportation	1,224,098	-	-	1,224,098
0035 Food Services	2,464,203	-	-	2,464,203
0036 Extracurricular Activities	1,656,427	-	238,647	1,895,074
0041 General Administration	1,072,881	-	-	1,072,881
0051 Facilities Maintenance and Operations	4,498,908	-	5,242	4,504,150
0052 Security and Monitoring Services	45,457	-	-	45,457
0053 Data Processing Services	714,438	-	-	714,438
0061 Community Services	1,133	-	372,495	373,628
<b>Debt Service:</b>				
0071 Principal on Long Term Debt	202,847	1,875,000	-	2,077,847
0072 Interest on Long Term Debt	131,393	1,007,567	-	1,138,960
0073 Bond Issuance Cost and Fees	-	302,963	-	302,963
<b>Capital Outlay:</b>				
0081 Facilities Acquisition and Construction	302,684	-	-	302,684
<b>Intergovernmental:</b>				
0093 Payments to Fiscal Agent/Member Districts of SSA	457,277	-	-	457,277
0095 Payments to Juvenile Justice Alternative Ed. Prg.	15,802	-	-	15,802
0099 Other Intergovernmental Charges	55,869	-	-	55,869
6030 Total Expenditures	<u>34,437,183</u>	<u>3,185,530</u>	<u>3,327,434</u>	<u>40,950,147</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(700,992)</u>	<u>(1,374,529)</u>	<u>(2,111)</u>	<u>(2,077,632)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
7911 Capital Related Debt Issued (Regular Bonds)	-	12,490,000	-	12,490,000
7915 Transfers In	-	650,000	-	650,000
7916 Premium or Discount on Issuance of Bonds	-	1,197,313	-	1,197,313
8911 Transfers Out (Use)	(650,000)	-	-	(650,000)
8949 Other (Uses)	-	(13,359,406)	-	(13,359,406)
7080 Total Other Financing Sources (Uses)	<u>(650,000)</u>	<u>977,907</u>	<u>-</u>	<u>327,907</u>
1200 Net Change in Fund Balances	<u>(1,350,992)</u>	<u>(396,622)</u>	<u>(2,111)</u>	<u>(1,749,725)</u>
0100 Fund Balance - September 1 (Beginning)	<u>6,583,571</u>	<u>408,632</u>	<u>79,930</u>	<u>7,072,133</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 5,232,579</u>	<u>\$ 12,010</u>	<u>\$ 77,819</u>	<u>\$ 5,322,408</u>

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

LA FERIA INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2015

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	(1,749,725)
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets, \$1,760,228, is allocated over their useful lives as depreciation expense which totaled \$1,017,974 for the year. This is the amount of capital assets in excess of depreciation expense in the current period.		(742,254)
Because some property taxes will not be collected for several months after the District's fiscal year end, they are not considered "available" revenues in the governmental funds. This is the change in unearned tax revenues in the governmental funds.		4,998
Repayment of bond principal is an expenditure in the funds but is not an expense in the statement of activities.		2,077,847
The issuance of long-term debt provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. The District issued 2014A, 2014B and 2015 refunding bonds during the current fiscal year in the amount of \$12,490,000 and the bonds sold at premiums aggregating an additional \$1,197,313. This is the total amount of other financing resources eliminated from the governmental funds.		(13,687,313)
The payment to the fiscal agent (other financing use) used current financial resources in the governmental funds but in the statement of activities there was no such utilization. Instead new debt replaced existing debt. This is the amount of the payment to the escrow agent to defease the existing debt outstanding in the current fiscal year.		13,359,406
Governmental funds report the effect of premiums, discounts, gains and losses on debt transactions when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This is the net effect of the current period amortization of those items.		57,610
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. This is the change in accrued interest payable for the year.		(30,746)
Some expenses such as the effect of changes in compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		(47,835)
The implementation of GASB Statement No. 68 required that certain expenditures be de-expended and recorded as deferred resource inflows. These contributions made after the measurement date of August 31, 2014 caused the change in the ending net position to increase in the amount of \$571,598. The District's proportionate share of the TRS pension expense on the plan as a whole had to be recorded as an expense. The net pension expense decreased the change in net position by \$278,294. The result of these amounts is to increase the change in net position by \$293,304.		293,304
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>(464,708)</b>

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

LA FERIA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
AUGUST 31, 2015

	Private Purpose Trust Fund	Agency Funds
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 175,640	\$ 68,975
Other Receivables	723	2,228
Restricted Assets	-	1,305,559
Total Assets	<u>176,363</u>	<u>\$ 1,376,762</u>
<b>LIABILITIES</b>		
Accounts Payable	-	\$ 2,817
Due to Student Groups	14,577	68,386
Payable from Restricted Assets	-	1,305,559
Total Liabilities	<u>14,577</u>	<u>\$ 1,376,762</u>
<b>NET POSITION</b>		
Restricted for Scholarships	<u>161,786</u>	
Total Net Position	<u>\$ 161,786</u>	

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

## **NOTES TO FINANCIAL STATEMENTS**



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**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED AUGUST 31, 2015**

**NOTE A - REPORTING ENTITY**

The La Feria Independent School District (the "District") is an independent public education agency operating under applicable laws and regulations of the State of Texas. This report includes the financial statements of the funds required to account for those activities, organizations and functions, which are related to the District and which are controlled by or dependent upon the District's governing body, the Board of Trustees. The Board of Trustees (the Board), includes seven eligible members elected at large by the qualified voters of the La Feria Independent School District. The Board has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency (TEA) or to the State Board of Education are reserved for the Board, and TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board.

The District is considered an independent entity for financial reporting purposes and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared, based on considerations regarding the potential for inclusion of other entities, organizations, or functions, as part of the District's financial reporting entity. Based on these considerations, no other entities have been included in the District's financial reporting entity. The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other government or other type of reporting entity.

The criteria used to determine whether an organization is a component unit of the District includes: financial accountability of the District for the component unit, appointment of a voting majority, fiscal dependency, ability to impose the District's will on the component unit, and whether there is a financial benefit or burden to the District. The District has no component units based upon this criteria.

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

La Feria Independent School District's (the "District") basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America 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.

**1. *Government-Wide Statements and Fund Financial Statements***

The government-wide financial statements consist of the statement of net position and the statement of activities. These statements report information on all of the non-fiduciary activities of the District. The effect of the interfund activity has been removed from these statements. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Program revenues include charges to customers and grants used for operational requirements. Governmental activities are supported by tax revenues, state aid, charges for services, investment earnings and intergovernmental revenues such as grants.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED AUGUST 31, 2015**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred inflows of resources, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to, and accounted for the purpose of, carrying on specific activities in accordance with laws, regulations, or other appropriate requirements. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

**2. 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. 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 fund:

**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.** The District accounts for resources accumulated and payments made for principal and interest on long-term debt of governmental funds in a debt service fund.

In addition, the District reports the following fund types:

*Governmental Funds:*

**Special Revenue Funds:** The District accounts for resources restricted to, or designated for, a specific purpose by the District or a grantor in a special revenue fund. Most federal and some state financial award programs are accounted for in these funds and sometimes unused balances must be returned to the grantor at the close of specified project periods.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED AUGUST 31, 2015**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*Governmental Funds - Continued*

**Capital Projects Fund.** The District uses this fund to account for bond proceeds used for construction. The District has no capital projects fund, at the present time.

*Fiduciary Funds:*

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

**Private Purpose Trust Funds:** The District accounts for donations for which the donor stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District's Private Purpose Trust Fund is the Scholarship Fund.

**Agency Funds:** The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund is the Student Activity Fund, UIL Clearing Fund and the South Texas Health Cooperative.

Fiduciary Fund Types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into restricted net position (held in trust) and unrestricted net position. The agency funds record only assets and liabilities and use the accrual basis of accounting to recognize receivables and payables. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

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.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**YEAR ENDED AUGUST 31, 2015**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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.

**3. *New Accounting Standards Adopted***

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

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

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

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

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

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**YEAR ENDED AUGUST 31, 2015**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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

The adoption of Statement No. 68 has no impact on the District's governmental fund financial statements, which continue to report expenditures in the contribution amount determined legislatively for the TRS plan. The calculation of pension contributions is unaffected by the change. However, the adoption has resulted in the restatement of the District's beginning net position for the fiscal year 2014 government-wide financial statements to reflect the reporting of net pension liability and deferred inflows of resources and deferred outflows of resources for its qualified pension plan and the recognition of pension expense in accordance with the provisions of the Statement.

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.



**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**YEAR ENDED AUGUST 31, 2015**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

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

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

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

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

Statement No. 71 amends Statement No. 68 to require that, at transition, a government 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 was an increase in deferred outflow of resources and a decrease in net position.

**4. *Budgets***

The official school budget was prepared for adoption for required Governmental Fund types by August 31, 2014. The budget was formally adopted by the board of school trustees at a duly advertised public meeting prior to the expenditure of funds. The budget was amended by the board of school trustees throughout the year. Expenditures may not legally exceed budgeted appropriations at the function level.

**5. *Cash and Cash Equivalents***

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

**6. *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 fair value.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**YEAR ENDED AUGUST 31, 2015**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**7. *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 nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

**8. *Prepayments***

Prepayments are prepaid expenses that will benefit periods beyond August 31, 2015. The only prepaid expenses included are for unexpired insurance policy premiums paid by August 31, 2015, and which extend beyond that date. The reported prepaid insurance is equally offset by nonspendable fund balance, which indicates that they do not constitute "available expendable resources" even though they are a component of net current assets.

**9. *Capital Assets***

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital 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:

<u>Assets Class</u>	<u>Estimated Useful Lives</u>
Buildings and improvements	10 - 50
Vehicles	8
Furniture and equipment	5 - 20

**10. *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 position.



**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**YEAR ENDED AUGUST 31, 2015**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**11. *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 deferred charges and amortized over the term of the related debt.

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 discounts incurred on debt issuances are reported as other financing sources and uses. Issuance costs, whether or not withheld from debt proceeds, are reported as debt service expenditures.

**12. *Use of Estimates***

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Actual results could differ from those estimates.

**13. *Compensated Absences***

The District's policy allows employees with at least ten years of employment with the District to accumulate unused sick leave. When an employee retires, the District will pay out any accumulated leave based on a formula which is weighted for years of service to the District.

**14. *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.

**15. *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 State-wide database for policy development and funding plans.

**16. *Fund Balance Reporting***

The District's policy provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items and inventories. The District has prepaid items and inventories that are considered nonspendable. In addition to the nonspendable fund balance, the policy has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**YEAR ENDED AUGUST 31, 2015**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

- **Restricted:** fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- **Committed:** fund balances that contain self-imposed constraints of the government from its highest level of decision making authority. The responsibility to commit funds rests with the Board of Trustees. Committed amounts cannot be used for any other purpose unless the governing board changes or lifts the constraint taking the same formal action that imposed the constraint originally. The District establishes (and modifies or rescinds) fund balance commitments by passage of a resolution.
- **Assigned:** fund balances that contain self-imposed constraints of the government to be used for a particular purpose. The responsibility to assign funds rests with the Superintendent or the Assistant Superintendent for Business Services.
- **Unassigned:** fund balance of the general fund that is not constrained for any particular purpose.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, The District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

17. ***Encumbrance Accounting***

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at August 31<sup>st</sup> and encumbrances outstanding at that time are either cancelled or appropriately provided for in the subsequent year's budget.

Outstanding encumbrances that were provided for in the subsequent year's budget are presented below:

General Fund	\$60,825
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**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**YEAR ENDED AUGUST 31, 2015**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**18. *Deferred Outflows and Inflows of Resources***

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. The separate financial statement element, *deferred outflow of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. The first is the deferred charge on refunding which is reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter live of the refunded or refunding debt. The second is deferred outflows of resources for TRS pension which are also reported in the government-wide statement of net position. This deferred outflow results from pension plan contributions made after the measurement date of the net pension liability as well as the results of differences between expected and actuarial experiences and assumptions.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category. The first is unavailable revenue from property taxes which is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that they become available. The second is deferred inflows of resources for TRS pension which is reported in the government-wide statement of net position and results primarily from differences between projected and actual earnings on pension plan investments. These amounts will be amortized over a closed five year period.

**NOTE C – DEPOSITS AND INVESTMENTS**

*Investment Accounting Policy*

The District is required by Government Code Chapter 2256, The Public Funds Investment Act (the “Act”), to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Act requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies; the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The District’s general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**YEAR ENDED AUGUST 31, 2015**

**NOTE C – DEPOSITS AND INVESTMENTS - Continued**

The term “short-term” refers to investments which have a remaining term of one year or less at time of purchase. The term “nonparticipating” means the investment’s value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

The Act determines the types of investments, which are allowable for the District. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, the state of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The District’s policy authorizes all the State allowable investments.

The District’s management believes that it has complied in all material respects with the requirements of the Act and the District’s investment policies.

*Custodial Credit Risk*

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act, the District’s investment policy, and Government Code Chapter 2257 “Collateral For Public Funds” contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments.

To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public fund investment pool created to function as a money market mutual fund must mark its portfolio to market daily, and to the extent reasonable 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 .995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005.

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (“FDIC”) insurance.

*Cash Deposits*

At August 31, 2015, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$290,711, including fiduciary funds and the bank balance was \$533,633. The District's cash deposits at August 31, 2015 and during the year ended August 31, 2015 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District’s name. The District also had \$6,919,218 in Lone Star Investment Pool at August 31, 2015.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**YEAR ENDED AUGUST 31, 2015**

**NOTE C – DEPOSITS AND INVESTMENTS – Continued**

The District’s cash deposits at August 31, 2015 are maintained primarily at BBVA Compass Bank, La Feria, Texas. These deposits were entirely covered by FDIC insurance or by pledged collateral held by the District’s agent bank. The deposits were collateralized in accordance with Texas Law, and the Texas Education Agency maintains copies of all safekeeping receipts in the name of the District. Deposits were properly secured at all times.

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

- a. Depository: BBVA Compass Bank
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$1,602,504.
- c. The highest combined balances of cash, savings and time deposit accounts amounted to \$1,483,223 and occurred during the month of October 2014.
- d. Total amount of FDIC coverage at the time of largest combined balance was \$426,363.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. In accordance to the District’s local policy, the District uses final and weighted-average maturity limits and diversification. It manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The District’s policy in using final and weighted-average-maturity limits helps reduce exposure to changes in interest rates that could adversely affect the value of investments.

Information about the sensitivity of the fair values of the District’s investments to market interest rate fluctuations is provided by the following table that shows the specific investments and their maturity:

<u>Description</u>	<u>CUSIP</u>	<u>Amount</u>	<u>Maturity</u>	<u>Days</u>
Lone Star	N/A	<u>\$6,919,218</u>	N/A	Daily

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the District’s investment policy and the Texas Public Fund Investment Act and the actual rating as of year end for each investment.

<u>Description</u>	<u>Minimum Legal Rating</u>	<u>Amount</u>	<u>Rating</u>	<u>Percentage</u>
Lone Star	AAA	<u>\$6,919,218</u>	AAA	100%

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**YEAR ENDED AUGUST 31, 2015**

**NOTE C – DEPOSITS AND INVESTMENTS – Continued**

Concentration of Credit Risk

The Investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the Public Funds Investment Act (“PFIA”). There were no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments.

Public Funds Investment Pools

The First Public (Lone Star Investment Pool or Lone Star) is a public funds investment pool operated under Section 2256.016 of the Public Funds Investment Act, Texas Government Code, as amended (the “Act”). Lone Star is governed by trustees comprised of active participants in Lone Star. The Board of Trustees for Lone Star has the responsibility for adopting and monitoring compliance with the investment policy, of appointing investment officers, of overseeing the selection of an investment advisor, custodian, investment consultant, administrator and other service providers. Each Lone Star fund has earned Standard & Poor’s highest rating (AAA), which meets the standards set by the Public Funds Investment Act.

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.

**NOTE D - 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.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. The District’s 2015 tax rate was \$1.17 for maintenance and \$.1291 for debt service per \$100 assessed valuation. The 2015 assessed valuation was \$349,382,936. 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. At August 31, 2015 outstanding taxes in the general fund and debt service fund was \$865,072 and \$158,635 with a corresponding allowance for doubtful accounts of \$25,952 and \$4,759.



**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**YEAR ENDED AUGUST 31, 2015**

**NOTE E – DUE FROM AND TO OTHER GOVERNMENTS AND AGENCIES**

	<u>Due From</u>	<u>Due To</u>
<b><u>Governmental Funds:</u></b>		
<i>General Fund:</i>		
Texas Education Agency:		
Foundation revenues	\$1,507,777	\$ 540,561
National School Lunch and Breakfast Programs	79,209	-
Other government agencies	-	31,748
SHARS	<u>524,247</u>	<u>-</u>
	2,111,233	572,309
<i>Debt Service Fund:</i>		
Texas Education Agency – EDA	-	52,192
Texas Education Agency – IFA	<u>-</u>	<u>690,130</u>
	-	742,322
<i>Other Governmental Funds:</i>		
Texas Education Agency:		
ESEA, Title I, Part A – Improving Basic Programs	199,380	-
ESEA, Title I, Part C – Migratory Children	44,833	-
ESEA, Title II, Part A – Teacher/Principal Training	34,869	-
Title III, Part A English Language Acquisition	6,825	-
Career and Technical Basic Grant	14,991	-
State Textbook	24,692	-
Region One ESC:		
GEAR-UP	<u>32,302</u>	<u>-</u>
	<u>357,892</u>	<u>-</u>
Total	<u>\$2,469,125</u>	<u>\$1,314,631</u>

**NOTE F – DISAGGREGATION OF RECEIVABLES AND PAYABLES**

Receivables at August 31, 2015, were as follows:

	<u>Property Taxes, Net</u>	<u>Other Governments</u>	<u>Due from Other Funds</u>	<u>Other Receivables</u>	<u>Total Receivables</u>
<b>Governmental Activities:</b>					
General Fund	\$ 839,120	\$2,111,233	\$ 670,199	\$ 30,044	\$3,650,596
Debt Service Fund	153,876	-	541,993	-	695,869
Other Funds	<u>-</u>	<u>357,892</u>	<u>27,135</u>	<u>7,168</u>	<u>392,195</u>
Total Governmental Activities	<u>\$ 992,996</u>	<u>\$2,469,125</u>	<u>\$1,239,327</u>	<u>\$ 37,212</u>	<u>\$4,738,660</u>

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**YEAR ENDED AUGUST 31, 2015**

**NOTE F – DISAGGREGATION OF RECEIVABLES AND PAYABLES - Continued**

Payables at August 31, 2015, were as follows:

	<u>Accounts Payable</u>	<u>Salaries and Benefits</u>	<u>Due to Other Funds</u>	<u>Due to Other Governments</u>	<u>Total Payables</u>
<b>Governmental Activities:</b>					
General Fund	\$ 640,011	\$1,047,592	\$ 991,380	\$ 572,309	\$3,251,292
Debt Service Fund	-	-	52,676	742,322	794,998
Other Funds	<u>65,442</u>	<u>98,656</u>	<u>195,271</u>	-	<u>359,369</u>
Total Governmental Activities	<u>\$ 705,453</u>	<u>\$1,146,248</u>	<u>\$1,239,327</u>	<u>\$1,314,631</u>	<u>\$4,405,659</u>

**NOTE G – CAPITAL ASSETS**

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

	<u>General Capital Assets Sept. 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>General Capital Assets Aug. 31, 2015</u>
Governmental activities				
Capital assets not being depreciated				
Land and improvements	\$ 2,887,027	\$ -	\$ -	\$ 2,887,027
Total capital assets not being depreciated	2,887,027	-	-	2,887,027
Capital assets being depreciated				
Building and improvements	58,332,902	295,240	-	58,628,142
Furniture and equipment	4,992,094	722,733	-	5,714,827
Total capital assets being depreciated	63,324,996	1,017,973	-	64,342,969
Less accumulated depreciation:				
Building and improvements	16,200,637	1,347,473	-	17,548,110
Furniture and equipment	3,131,357	412,755	-	3,544,112
Total accumulated depreciation	19,331,994	1,760,228	-	21,092,222
Total capital assets being depreciated, net	43,993,002	(742,255)	-	43,250,747
Governmental activities capital assets, net	<u>\$46,880,029</u>	<u>\$ (742,255)</u>	<u>\$ -</u>	<u>\$46,137,774</u>



**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED AUGUST 31, 2015**

**NOTE G – CAPITAL ASSETS - Continued**

Depreciation was charged to the following functions:

**Governmental Activities:**

11 – Instruction	\$ 911,726
12 – Instructional Resources and Media Services	11,838
13 – Curriculum and Staff Development	4,714
21 – Instructional Leadership	9,429
23 – School Leadership	94,950
31 – Guidance, Counseling and Evaluation Services	23,749
33 – Health Services	27,363
34 – Student (Pupil) Transportation	206,483
35 – Food Services	169,144
36 – Cocurricular/Extracurricular Activities	13,873
41 – General Administration	7,967
51 – Plant Maintenance and Operations	249,946
52 – Security and Monitoring Services	1,571
53 – Data Processing Services	7,858
61 – Community Services	<u>19,617</u>
	<u>\$1,760,228</u>

**NOTE H – RESTRICTED ASSETS**

Restricted assets of \$1,305,559 at August 31, 2015, consisted of restricted cash balances relating to the South Texas Health Cooperative for which the District serves as fiscal agent.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED AUGUST 31, 2015**

**NOTE I - LONG-TERM OBLIGATIONS**

Long-term obligations include bonds payable, loans payable, compensated absences, and net pension liability. Changes in long-term obligations for the year ended August 31, 2015 are as follows:

<u>Governmental Activities</u>	<u>Beginning Balance Sept. 1, 2014</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance Aug. 31, 2015</u>	<u>Due Within One Year</u>
Unlimited Tax Refunding Bonds – Series 2005	\$ 5,125,000	\$ -	\$ 4,415,000	\$ 710,000	\$ 710,000
Unlimited Tax School Building Bonds – Series 2005	9,850,000	-	9,590,000	260,000	260,000
Unlimited Tax Refunding Bonds – Series 2006	3,465,000	-	365,000	3,100,000	380,000
Unlimited Tax School Building Bonds – Series 2008	11,065,000	-	275,000	10,790,000	280,000
Unlimited Tax Refunding Bonds – Series 2014A	-	3,595,000	75,000	3,520,000	40,000
Unlimited Tax Refunding Bonds – Series 2014B	-	3,585,000	80,000	3,505,000	35,000
Unlimited Tax Refunding Bonds – Series 2015	<u>-</u>	<u>5,310,000</u>	<u>135,000</u>	<u>5,175,000</u>	<u>60,000</u>
Total general obligation bonds	29,505,000	12,490,000	14,935,000	27,060,000	1,765,000
 Premium on issuance of bonds	 208,111	 1,197,313	 176,160	 1,229,264	 132,887
Discount on issuance of bonds	<u>(5,424)</u>	<u>-</u>	<u>(4,435)</u>	<u>(989)</u>	<u>(989)</u>
Subtotal on bonds	29,707,687	13,687,313	15,106,725	28,288,275	1,896,898
 Maintenance tax notes	 1,545,000	 -	 45,000	 1,500,000	 55,000
Premium on maintenance tax notes	31,151	-	2,937	28,214	2,442
Property finance contract	1,658,396	-	157,847	1,500,549	163,881
Compensated absences	122,555	52,677	4,842	170,390	73,357
Net pension liability	<u>3,692,993</u>	<u>-</u>	<u>682,193</u>	<u>3,010,800</u>	<u>-</u>
	<u>\$36,757,782</u>	<u>\$13,739,990</u>	<u>\$15,999,544</u>	<u>\$34,498,228</u>	<u>\$2,191,578</u>

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

The District's other non-current liabilities including compensated absences are liquidated in the fund where the liability was incurred. Thus, the general fund satisfies most liabilities for governmental activities.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED AUGUST 31, 2015**

**NOTE I - LONG-TERM OBLIGATIONS - Continued**

*General Obligation Bonds:*

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

<p>In June 2005, the District issued \$10,350,000 in refunding bonds to refund the balance outstanding on the 1992 school building bonds as well as all the lease revenue bonds issued by the La Feria Independent School District Public Facilities Corporation which had been issued to finance various construction projects. The refunding bonds carry interest ranging from 2.7% to 4.63% and principal payments from \$455,000 in 2006 to \$85,000 in 2027. During the current school year, the principal payments due from 2017 through 2027 were defeased by the issuance of the 2014A refunding bonds described below. The balance outstanding is the principal payment due during the school year ending August 31, 2016.</p>	<p>\$ 710,000</p>
<p>In June 2005, the District issued \$11,350,000 in school building bonds with interest rates ranging from 3.5% to 5.0% to construct additional facilities and to pay the costs of issuing the bonds. The principal payments on these bonds range from \$190,000 beginning in 2008 to the final installment of \$690,000 in 2037. During the school year, the principal payments due from 2017 through 2038 were defeased by the issuance of the 2014B and 2015 refunding bonds described below. The balance outstanding is the principal payment due during the school year ending August 31, 2016.</p>	<p>260,000</p>
<p>In March 2006, the District issued \$5,469,998 in refunding bonds with interest rates ranging from 3.5% to 4.1% to advance refund the 1997 school building bonds outstanding. The refunding bonds mature in 2022 with principal payments ranging from \$35,000 in 2007 to \$515,000 in 2022. The net proceeds of the refunding bonds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds and to pay for the costs of issuance of the bonds.</p>	<p>3,100,000</p>
<p>The District issued \$12,499,995 in school building bonds to purchase land, construct a new elementary school and fund various renovation projects as well as pay for the cost of issuing the bonds. The bonds carry interest ranging from 3.0% to 5.0% and have principal payments ranging from \$209,995 in 2009 to \$750,000 in 2038.</p>	<p>10,790,000</p>
<p>The District issued \$3,595,000 Series 2014A refunding bonds with interest ranging from 2% to 4% to advance refund \$3,720,000 of the 2005 refunding bonds outstanding. These bonds mature February 15, 2027.</p>	<p>3,520,000</p>
<p>The District issued \$3,585,000 Series 2014B refunding bonds with interest ranging from 2% to 4% to advance refund \$3,745,000 of the 2005 school building bonds outstanding. These bonds mature February 15, 2037.</p>	<p>3,505,000</p>
<p>The District issued \$5,310,000 Series 2015 refunding bonds with interest ranging from 2% to 4% to advance refund \$5,595,000 of the 2005 school building bonds outstanding. These bonds mature February 15, 2037.</p>	<p><u>5,175,000</u>  <u>\$27,060,000</u></p>

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED AUGUST 31, 2015**

**NOTE I - LONG-TERM OBLIGATIONS - Continued**

*Advance Refunding*

During the current school year, the Board approved and issued \$12,490,000 in Unlimited Tax Refunding Bonds, 2014A, 2014B and Series 2015 for the purpose of refunding a portion of the District's outstanding bonds Series 2005 and to provide resources to cover costs of issuance to purchase qualifying securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the accounts of the District. The refunding bonds were sold at premiums in the amount of \$1,197,313. The cost of issuance totaled \$301,256. Principal payments range from \$135,000 to \$690,000 plus interest and interest rates range from 2% to 4%.

The advance refunding was undertaken to reduce total debt service payments over the next 22 years by \$2,291,416 to obtain an economic gain (difference between the present value of the debt service payment of the refunded and refunding bonds) of \$1,787,538.

In prior years, the District defeased certain outstanding bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the respective trust account assets and related liabilities for the defeased bonds are not included in the District's financial statements. At August 31, 2015, the following outstanding bonds are considered defeased:

<u>Series</u>	<u>Ending Balance</u>
1997 Building	\$3,120,000
2005 Refunding	\$3,720,000
2005 Building	\$9,340,000
<u>Public Facilities Corporation</u>	
1999	\$ 835,000
2000	\$ 171,000
2001	\$2,795,000
2002	\$ 720,000

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

<u>Year Ending</u> <u>August 31,</u>	<u>General Obligation Bonds</u>		<u>Other Long-term Debt</u>		<u>Total Requirements</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 1,765,000	\$ 3,431,844	\$ 218,881	\$ 113,891	\$ 1,983,881	\$ 3,545,735
2017	1,280,000	2,284,463	230,146	106,476	1,510,146	2,390,939
2018	1,305,000	2,259,501	236,651	98,471	1,541,651	2,357,972
2019	1,345,000	2,248,124	243,405	89,917	1,588,405	2,338,041
2020	1,410,000	2,259,619	255,416	80,869	1,665,416	2,340,488
2021-2025	5,665,000	9,132,423	971,050	260,380	6,636,050	9,392,803
2026-2030	4,900,000	7,401,612	435,000	134,775	5,335,000	7,536,387
2031-2035	5,890,000	7,336,327	410,000	37,788	6,300,000	7,374,115
2036-2038	<u>3,500,000</u>	<u>3,762,357</u>	<u>-</u>	<u>-</u>	<u>3,500,000</u>	<u>3,762,357</u>
Total	<u>\$27,060,000</u>	<u>\$40,116,270</u>	<u>\$3,000,549</u>	<u>\$ 922,567</u>	<u>\$30,060,549</u>	<u>\$41,038,837</u>

There are a number of limitations and restrictions contained in the general obligation bond indentures. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2015.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED AUGUST 31, 2015**

**NOTE J - REVENUES FROM LOCAL AND INTERMEDIATE SOURCES**

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

	General Fund	Debt Service Funds	Other Funds	Total
Property taxes	\$4,226,399	\$ 482,459	\$ -	\$4,708,858
Food sales	138,425	-	169	138,594
Investment income	5,638	168	457	6,263
Penalties and interest	151,669	24,707	-	176,376
Co-curricular student activities	68,567	-	388,225	456,792
Shared service arrangement	206,445	-	-	206,445
Other	<u>13,057</u>	<u>-</u>	<u>108</u>	<u>13,165</u>
	<u>\$4,810,200</u>	<u>\$ 507,334</u>	<u>\$ 388,959</u>	<u>\$5,706,493</u>

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

Governmental funds report deferred inflows in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

	Statement of Net Position Governmental Activities	Balance Sheet - Governmental Funds	
		General Fund	Nonmajor Fund
Deferred outflows of resources:			
Deferred outflows from pension activities	\$ 813,866	\$ -	\$ -
Deferred charge for refunding	<u>261,590</u>	<u>-</u>	<u>-</u>
Total deferred outflows of resources	<u>\$1,075,456</u>	<u>\$ -</u>	<u>\$ -</u>
Deferred inflows of resources:			
Deferred inflows from pension activities	\$ 921,013	\$ -	\$ -
Unavailable property taxes	<u>-</u>	<u>839,120</u>	<u>153,876</u>
Total deferred inflows of resources	<u>\$ 921,013</u>	<u>\$839,120</u>	<u>\$153,876</u>

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED AUGUST 31, 2015**

**NOTE L – 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	Other Funds	\$ 27,135
General Fund	Debt Service Fund	541,993
General Fund	Funds within the general fund	<u>422,252</u>
		991,380
Debt Service Fund	Funds within the general fund	52,676
Other Funds	Funds within the general fund	1,565
Other Funds	General Fund	<u>193,706</u>
		<u>195,271</u>
		<u>\$1,239,327</u>
Transfers to Debt Service Fund from:		
General Fund		<u>\$ 650,000</u>

The remaining balances resulted from a routine lag between the dates that transactions such as year-end payroll accruals and worker’s compensation adjustment payments are made between the funds.

All amounts are scheduled to be repaid within one year.

**NOTE M - GENERAL FUND FEDERAL SOURCE REVENUES**

Federally financed programs are generally accounted for in the Other Governmental Funds of the District, except for indirect costs charged to federal programs which are accounted for in the General Fund as prescribed by the TEA and certain direct revenues. The District recognized in the General fund such revenues for the year ended August 31, 2015, from various federal sources as follows:

<u>Programs or Source</u>	<u>CFDA Number</u>	<u>Amount</u>
School Breakfast Program	10.553	\$ 789,064
National School Lunch Program	10.555	1,529,169
USDA – Donated Commodities	10.565	170,903
Indirect costs earned on federal programs:		
ESEA Title I, Part C Migrant	84.011	4,468
Career and Technical – Basic Grant	84.048	1,161
SHARS/Medicaid	-	626,666
Medicaid Administrative Claim	-	<u>21,661</u>
		<u>\$3,143,092</u>

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED AUGUST 31, 2015**

**NOTE N – 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</u>	<u>Action Taken</u>
Expenditures exceeded amended budget in the following functions:	
<b>GENERAL FUND</b>	
0011 Instruction	No prepaid instructional materials and supplies were recorded at 8/31/15 so expensing these costs in subsequent school year will not be overlooked.
0013 Curriculum and Instructional Staff Development, 0036 Extracurricular Activities, 0051 Facilities Maintenance and Operations, 0081 Facilities Acquisition and Construction	Client personnel will review year end payable support more carefully for date of service as opposed to invoice date.
0034 Student (Pupil) Transportation	Budget for TRS on behalf payments will be increased.

b. Deficit Fund Balance or Fund Net Position of Individual Funds

No deficit fund balances were reported in the current year.

**NOTE O - CONTINGENT LIABILITIES**

The District is a party to various legal actions, none of which is believed by administration to have a material effect on the financial condition of the District. Accordingly, no provision for losses has been recorded in the accompanying combined financial statements for such contingencies.

The District participates in numerous state and federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectibility of any related receivable at August 31, 2015 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED AUGUST 31, 2015**

**NOTE P – DEFINED BENEFIT PENSION PLAN**

**Plan Description**

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

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

**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.

**Benefits Provided**

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

**Contributions**

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.



**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED AUGUST 31, 2015**

**NOTE P – DEFINED BENEFIT PENSION PLAN - Continued**

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%
Employer	6.8%	6.8%

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA). Contributions as of the pension plan measurement date were as follows:

Employer Contributions	\$ 285,767
Member Contributions	\$1,300,097
Nonemployer contributing agency (state) Contributions	\$1,105,946

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.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED AUGUST 31, 2015**

**NOTE P – DEFINED BENEFIT PENSION PLAN - Continued**

**Actuarial Assumptions**

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

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

*\*Includes Inflation of 3%*

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

**Discount Rate**

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

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED AUGUST 31, 2015**

**NOTE P – DEFINED BENEFIT PENSION PLAN – Continued**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Return Geometric Basis</u>	<u>Long-term Expected Portfolio Real Rate of Return*</u>
<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	<u>-</u>		<u>1.0%</u>
<b>Total</b>	<u>100%</u>		<u>8.7%</u>

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

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED AUGUST 31, 2015**

**NOTE P – DEFINED BENEFIT PENSION PLAN – Continued**

**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	\$5,380,118	\$3,010,800	\$1,238,992

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

At August 31, 2014, the District reported a liability of \$3,010,800 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	\$ 3,010,800
State's proportionate share that is associated with the District	<u>11,676,975</u>
Total	<u>\$14,687,775</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 .0112716%. 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 09/01/2014. The amount of the expected resultant change in the employer's proportion cannot be determined at this time.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED AUGUST 31, 2015**

**NOTE P – DEFINED BENEFIT PENSION PLAN – Continued**

For the year ended August 31, 2015, the District recognized pension expense of \$1,079,515 and revenue of \$1,079,515 for support provided by the State.

At August 31, 2015, the District reports its proportionate share of the TRS’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 46,563	\$ -
Changes in actuarial assumptions	195,705	-
Difference between projected and actual investment earnings	-	920,224
Changes in proportion and difference between the employer’s contributions and the proportionate share of contributions	<u>-</u>	<u>789</u>
Total net amounts per August 31, 2014 measurement date	242,268	921,013
Contributions paid to TRS subsequent to the measurement date	<u>571,598</u>	<u>-</u>
Total	<u>\$813,866</u>	<u>\$921,013</u>

The \$571,598 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2016. The net amounts of the employer’s balances of deferred outflows and inflows of resources related to the other pension differences and changes described above will be recognized in pension expense as follows:

<u>Pension Plan Years Ended August 31:</u>	<u>Pension Expense Amount</u>
2015	\$(189,318)
2016	(189,318)
2017	(189,318)
2018	(189,318)
2019	40,737
Thereafter	37,790

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED AUGUST 31, 2015**

**NOTE Q – RETIREE HEALTH CARE 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 option 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 website at [www.trs.state.tx.us](http://www.trs.state.tx.us) under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701.

*Funding Policy.* Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203 and 204 establish state, active employee and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2014–2012.

Fiscal Year	Contribution Rates and Contribution Amounts						
	Member		State on-behalf		District		Covered Payroll
	Rate	Amount	Rate	Amount	Rate	Amount	
2015	6.500%	\$137,690	1.000%	\$211,832	0.550%	\$116,507	\$21,183,150
2014	6.500%	132,041	1.000%	203,140	0.550%	111,727	20,314,011
2013	6.500%	129,847	.500%	199,774	0.550%	109,876	19,977,399

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, TRS-Care receives retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. Subsidy payments received by TRS-Care on behalf of the District are shown in the table below for fiscal years 2015-2013.

Fiscal Year	Medicare Part D
2015	\$90,081
2014	55,901
2013	47,376

Contributions made by the State on behalf of the District have been recorded in the government-wide financial statements and in the fund financial statements of the General Fund as both state revenues and payroll expenditures.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED AUGUST 31, 2015**

**NOTE R - RISK MANAGEMENT**

The District is exposed to various risks of loss related to general and legal liability; auto liability and auto physical damage; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the District carries commercial insurance. In addition, the District is a member of the Texas association of School Boards Joint Account Self-Insurance Fund (Fund). The Fund was created to formulate, develop and administer a program of modified self-funding for the property and/or liability coverage for its membership, provide claims administration, and develop a comprehensive loss control program. The District pays contributions to the Fund for its workers compensation and unemployment compensation coverage. The District's agreement with the Fund provides that the Fund will be self-sustaining through member premiums and will provide, through commercial companies, reinsurance contracts. There were no significant reductions in coverage in the past fiscal year.

**Health Coverage**

The District provides the employees with a health insurance plan. The District paid premiums of \$346 per month per employee, and employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to South Texas Health Cooperative which was formed in 1999 by several school districts. The cooperative is governed by a board of directors composed of the superintendents of the member districts. Claims are processed by Maxor Administrative Services and reinsurance has been obtained for specific claims in excess of \$300,000 with no aggregate limit through American Alternative Insurance Corporation. If the cooperative ceases to exist or the District decides not to participate, the District will be responsible for any unpaid claims for its employees. The monthly premium per employee for the 2016 school year remains at \$346.

**NOTE S - JOINT VENTURE - SHARED SERVICE ARRANGEMENTS**

The District participates in the Mercedes ISD Special Education Cooperative to provide special education services. The District contributed \$457,277 to the cooperative for school year 2015 and the funds were expended for payroll costs, purchased and contracted services, supplies and materials, and miscellaneous operating expenses.



**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED AUGUST 31, 2015**

**NOTE T – FUND BALANCES**

**Committed for Campus Activity Funds** – the School Board has taken action to commit the fund balance in the campus activity fund to the respective campus. The purpose for this committed fund balance is to ensure the availability of these funds for each campus.

**Assigned** – the School Board has authorized the superintendent by board resolution to assign funds for specifically identified purposes.

**Unassigned** – the unassigned fund balance has no constraints.

	General Fund	Other Governmental Funds		Total Governmental Funds
		Debt Service	Other Funds	
Fund balances:				
Nonspendable:				
Inventories	\$ 147,453	\$ -	\$ -	\$ 147,453
Prepaid expenses	165,854	-	-	165,854
Restricted:				
Food service	769,664	-	-	769,664
Debt service	-	12,010	-	12,010
Committed:				
Campus activity funds	-	-	77,819	77,819
Unassigned:	<u>4,149,608</u>	<u>-</u>	<u>-</u>	<u>4,149,608</u>
	<u>\$5,232,579</u>	<u>\$ 12,010</u>	<u>\$ 77,819</u>	<u>\$5,322,408</u>

**NOTE U – PRIOR PERIOD ADJUSTMENT**

*Change in Accounting Principle*

During fiscal year 2015, the District adopted GASB Statement No. 68 for Accounting and 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. Adoption of GASB 68 required a prior period adjustment to report the effect of GASB 68 retroactively. The amount of the prior adjustment is \$(3,411,251). The restated beginning net position is \$18,405,608.

**NOTE V – SUBSEQUENT EVENT**

The District is working with their financial advisors and architects on plans to present to the voters of the district in May 2016 for renovations to C E Vail and campuses in an amount not to exceed \$14,000,000. The priorities for these campuses are the result of a District facilities committee assessment that was conducted during the current school year.



**APPENDIX C**

FORM OF BOND COUNSEL'S OPINION



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**DRAFT 8/26/16**

IN REGARD to the authorization and issuance of the “La Feria Independent School District Unlimited Tax Refunding Bonds, Series 2016” (the *Bonds*), dated October 1, 2016 in the aggregate principal amount of \$\_\_\_\_\_, we have reviewed the legality and validity of the issuance thereof by the Board of Trustees of the La Feria Independent School District (the *Issuer*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Bonds have Stated Maturities of February 15 in each of the years 2017 through 2038, unless redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the order (the *Order*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Order.

WE HAVE SERVED AS BOND COUNSEL for the Issuer solely to pass upon the legality and validity of the issuance of the Bonds under the laws of the State of Texas, the defeasance and discharge of the Issuer’s obligations being refunded by the Bonds, and with respect to the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes and for no other purpose. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Bonds. Our role in connection with the Issuer’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the Board of Trustees of the Issuer in connection with the issuance of the Bonds, including the Order, the Escrow and Trust Agreement (the *Escrow Agreement*) between the Issuer and Wilmington Trust, N.A., Dallas, Texas (the *Escrow Agent*), and a special report (the *Report*) of Grant Thornton, Minneapolis, Minnesota (the *Verification Agent*) concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Bonds and certain other funds of the Issuer, and to certain other facts solely within the knowledge and control of the Issuer; and (4) such other documentation, including an examination of the Bonds executed and delivered initially by the Issuer, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed

**Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of LA FERIA INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX REFUNDING BONDS, SERIES 2016**

the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Escrow Agreement has been duly authorized, executed, and delivered by the Issuer 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 certain 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, and in accordance with the provisions of Chapter 1207, as amended, Texas Government Code. In rendering this opinion, we have relied upon the Report of the Verification Agent concerning the sufficiency of the 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.

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that the Bonds have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Bonds are valid and legally binding obligations of the Issuer enforceable in accordance with the terms and conditions described therein, 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. The Bonds are payable from the proceeds of an ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the Issuer.

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that, assuming continuing compliance after the date hereof by the Issuer with the provisions of the Order and in reliance upon the Report of the Verification Agent concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement and upon the representations and certifications of the Issuer made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Bonds will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations.

WE CALL YOUR ATTENTION TO THE FACT that, with respect to our opinion in clause (2) above, interest on all tax-exempt obligations, such as the Bonds, 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 mutual fund, a financial asset securitization investment trust, a real estate mortgage investment

**Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of LA FERIA INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX REFUNDING BONDS, SERIES 2016**

conduit, or a real estate investment trust. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Norton Rose Fulbright US LLP