PRELIMINARY OFFICIAL STATEMENT

Dated October 5, 2016

Ratings:
Moody's: "Aaa"/"Aa1"
S&P: "AAA"/"AA+"
PSF Guarantee: "Conditional Approval Received"
(See "OTHER INFORMATION – Ratings" And "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations.

THE BONDS WILL **NOT** BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

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$47,345,000*
CARROLLTON-FARMERS BRANCH INDEPENDENT SCHOOL DISTRICT
(Dallas and Denton Counties, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2016

Dated: October 1, 2016 **Due: February 15, as shown below**
Interest Accrues from Delivery Date

PAYMENT TERMS . . . Interest on the $47,345,000* Carrollton-Farmers Branch Independent School District Unlimited Tax Refunding Bonds, Series 2016 (the "Bonds") will accrue from the date of initial delivery to the initial purchasers shown below (the "Underwriters"), will be payable February 15 and August 15 of each year commencing on February 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 the 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 and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Chapter 1207 of the Texas Government Code, as amended, and a bond order passed by the Board of Trustees of the District (the "Board") on September 1, 2016 (the "Bond Order"), in which the Board delegated pricing of the Bonds and certain other matters to a "Pricing Officer" who will approve a "Pricing Certificate" which will contain the final terms of sale and will complete the sale of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the "Order"). The Bonds are direct obligations of the District, payable from an ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District, as provided in the Order (see "THE BONDS - Authority for Issuance"). **An application has been filed and the District has received conditional approval for the payment of the Bonds to be guaranteed by the Permanent School Fund of Texas (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").**

PURPOSE . . . Proceeds from the sale of the Bonds will be used (i) to refund a portion of the District's outstanding debt described in Schedule I hereto for debt service savings and (ii) for the payment of the costs associated with the issuance of the Bonds.

MATURITY SCHEDULE* **CUSIP Prefix: 145628 (1)**

Principal Amount	Maturity (February 15)	Interest Rate	Initial Yield	CUSIP Suffix (1)	Principal Amount	Maturity (February 15)	Interest Rate	Initial Yield	CUSIP Suffix (1)
15,800,000	2018				$ 1,820,000	2023			
10,185,000	2019				825,000	2024			
5,705,000	2020				2,435,000	2026			
5,560,000	2021				705,000	2027			
4,310,000	2022								

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the District, the Financial Advisor nor the Underwriters take any responsibility for the selection or correctness of the CUSIP numbers set forth herein.

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

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinion of Norton Rose Fulbright US LLP, Dallas, Texas (see APPENDIX C, "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by their counsel, by McCall, Parkhurst & Horton L.L.P., Dallas, Texas

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on or about November 17, 2016 (the "Delivery Date").

BOK FINANCIAL SECURITIES, INC.

RAYMOND JAMES **RBC CAPITAL MARKETS**

* Preliminary, subject to change.

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, 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 are not guaranteed as to accuracy or completeness, and are 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 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 their respective responsibilities to investors under 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 ("DTC") 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 DTC 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 STATEMENT.

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

PRELIMINARY OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the 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 District is a political subdivision located in Dallas and Denton Counties, Texas. The District is approximately 53.42 square miles in area (see "INTRODUCTION - Description of the District" and "APPENDIX A – General Information Regarding the District").

THE BONDS.................................. The $47,345,000* Unlimited Tax Refunding Bonds, Series 2016 (the "Bonds" or "Bonds") are issued as serial bonds maturing on February 15 in the years 2018 through 2024 and 2026 through 2027 (see "THE BONDS - Description of the Bonds").

PAYMENT OF INTEREST .... Interest on the Bonds accrues from the Delivery Date and is due semi-annually on February 15 and August 15 of each year commencing on February 15, 2017 until maturity or prior redemption (see "THE BONDS - Description of the Bonds" and "THE BONDS – Optional Redemption").

AUTHORITY FOR ISSUANCE.......... The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including Chapter 1207 of the Texas Government Code, as amended, and a bond order passed by the Board of Trustees of the District (the "Board") on September 1, 2016, in which the Board delegated pricing of the Bonds and certain other matters to a "Pricing Officer" who will approve a "Pricing Certificate" which will contain the final terms of sale and will complete the sale of the Bonds (see "THE BONDS - Authority for Issuance").

SECURITY FOR THE BONDS...................................... The Bonds constitute direct obligations of the District, payable from a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, on all taxable property within the District (see "THE BONDS - Security and Source of Payment").

PERMANENT SCHOOL FUND GUARANTEE .... The District has applied for and 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 maturing on February 15, 2027, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2026 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS - Optional Redemption").

TAX EXEMPTION........................... In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations.

USE OF PROCEEDS .... Proceeds from the sale of the Bonds will be used (i) to refund a portion of the District's outstanding debt described in Schedule I hereto for debt service savings and (ii) for the payment of the costs associated with the issuance of the Bonds.

RATINGS .... The Bonds are expected to be rated "Aaa" and "AAA" by Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), respectively, by virtue of the guarantee of the Bonds by the Texas Permanent School Fund, as Moody's and S&P generally rate all bond issues guaranteed by the Permanent School Fund of the State of Texas "Aaa" and "AAA", respectively. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM." The District has also made application to Moody's and S&P for a rating on the Bonds without regard to credit enhancement and the Bonds have been assigned ratings of "Aa1" by Moody's and "AA+" by S&P (see "OTHER INFORMATION - Ratings" herein).

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* Preliminary, subject to change.

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

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

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 8/31	Estimated District Population [(1)]	Taxable Assessed Valuation [(2)]	Per Capita Taxable Assessed Valuation	Total Tax Supported Debt Outstanding at End of Year	Per Capita Tax Supported Debt	Ratio Tax Supported Debt to Taxable Assessed Valuation	% of Total Tax Collections
2013	178,638	$ 14,200,732,177	$ 79,494	$ 331,290,000	$ 1,855	2.33%	99.42%
2014	182,587	14,964,110,850	81,956	304,535,000	1,668	2.04%	99.52%
2015	182,046	16,079,853,331	88,329	276,240,000	1,517	1.72%	99.44%
2016	179,203	17,083,929,532	95,333	244,625,000	1,365	1.43%	99.45%
2017	184,339	18,432,923,622	99,995	210,700,000 [(3)]	1,143	1.14%	N/A

(1) Source: Fiscal Years Ended 2013, 2014, 2015, 2016 and 2017 are calculated using a factor number of 7.429 (which is based on the 2014 census population of 182,587 divided by 2014 ADA received from TEA) multiplied by the current year ADA as provided by the TEA.
(2) As reported by the Dallas and Denton Appraisal Districts on District's annual State Property Tax Reports; subject to change during the ensuing year.
(3) Projected, includes the Bonds. Excludes the Refunded Bonds. Preliminary, subject to change.

For additional information regarding the District, please contact:

Tonya Tillman, CPA		Laura Alexander
Associate Superintendent for Business Services		David K. Medanich
Carrollton-Farmers Branch Independent School District	or	FirstSouthwest, a Division of Hilltop Securities Inc.
1445 North Perry Road		777 Main Street, Suite 1200
Carrollton, Texas 75006		Fort Worth, Texas 76102
(972) 968-6112		(817) 332-9710

DISTRICT OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

Board of Trustees	Board Member Since	Term Expires
Frank Shor President	2007	May, 2019
John Mathews Vice President	2012	May, 2018
Guillermo William-Ramos Secretary	2016	May, 2019
Nancy Cline Assistant Secretary	2005	May, 2017
Richard Fleming Boardmember	2009	May, 2018
James Goode Boardmember	1999	May, 2017
Randy Schackmann Boardmember	1997	May, 2019

SELECTED ADMINISTRATIVE STAFF

Name	Position	Employed Since
Dr. Bobby C. Burns	Superintendent	September, 1988
Tonya Tillman, CPA	Associate Superintendent for Business Services	February, 2012
Scott Roderick	Chief Financial Officer	September, 2007

CONSULTANTS AND ADVISORS

Auditors .... Hankins, Eastup, Deaton, Tonn & Seay
A Professional Corporation
Denton, Texas

Bond Counsel .... Norton Rose Fulbright US LLP
Dallas, Texas

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

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PRELIMINARY OFFICIAL STATEMENT
RELATING TO

$47,345,000*
CARROLLTON-FARMERS BRANCH 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 $47,345,000* Unlimited Tax Refunding Bonds, Series 2016 (the "Bonds"). In the bond order authorizing the issuance of the Bonds (the "Bond Order"), the Board delegated pricing of the Bonds and certain other matters to a "Pricing Officer" who will approve a "Pricing Certificate" which will contain the final terms of sale and will complete the sale of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the "Order"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Order, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the Carrollton-Farmers Branch Independent School District (the "District") and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District's Financial Advisor, FirstSouthwest, a Division of Hilltop Securities Inc. ("FirstSouthwest"), Fort Worth, Texas.

DESCRIPTION OF THE DISTRICT . . . The District is a political subdivision located in Dallas and Denton Counties, 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 May of each year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. The District covers approximately 53.42 square miles. For additional information regarding the District, see "APPENDIX A – General Information Regarding the District."

PLAN OF FINANCING

PURPOSE . . . Proceeds from the sale of the Bonds will be used (i) to refund a portion of the District's outstanding debt described in Schedule I (the "Refunded Bonds") for debt service savings and (ii) for the payment of the costs associated with the issuance of the Bonds.

REFUNDED BONDS . . . The principal and interest due on the Refunded Bonds are to be paid on the interest payment dates and the respective redemption dates of such Refunded Bonds, from funds to be deposited pursuant to a Special Escrow Agreement (the "Escrow Agreement") between the District and The Bank of New York Mellon Trust Company, N.A. (the "Escrow Agent"). The Order provides that from the proceeds of the sale of the Bonds received from the Underwriters the District will deposit with the Escrow Agent an amount which, together with the Escrowed Securities (defined below) purchased with a portion of the Bond proceeds and the interest to be earned on such Escrowed Securities, will be sufficient to pay all amounts coming due on the Refunded Bonds on the interest payment dates and to accomplish the discharge and final payment of the Refunded Bonds on the redemption dates. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase (1) certain noncallable obligations of the United States of America including obligations unconditionally guaranteed by the United States of America, and/or (2) noncallable obligations of agencies or instrumentalities of the United States, including obligations that are unconditionally guaranteed by the agency or instrumentality and that are, on the date of their acquisition or purchase by the District, rated as to investment quality by a nationally recognized rating firm not less than "AAA" or its equivalent (the "Escrowed Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

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

By the deposit of the Escrowed Securities and cash, if necessary, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of all of the Refunded Bonds in accordance with State law. It is the opinion of Bond Counsel that as a result of such defeasance and in reliance upon the report of Grant Thornton LLP, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Escrowed Securities and any cash held for such purpose by the Escrow Agent and such Refunded Bonds 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 upon defeasance of the Refunded Bonds . The District will have no further responsibility with respect to amounts available in the Escrow Fund for the payment of the Refunded Bonds from time to time, including any insufficiency therein caused by the failure to receive payment when due on the Escrowed Securities. Furthermore, upon defeasance of the Refunded Bonds, the payment of the Refunded Bonds will no longer be guaranteed by the Texas Permanent School Fund Guarantee.

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* Preliminary, subject to change.

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 Bonds	$	-
Net Original Issue Premium		-
Total Sources of Funds	$	-
Uses of Funds		
Deposit to Escrow Fund	$	-
Costs of Issuance (1)		-
Total Uses of Funds	$	-

(1) Including Underwriters' Discount.

THE BONDS

Description of the Bonds . . . The Bonds will be dated October 1, 2016 and will mature on February 15 in each of the years and in the amounts shown on the cover page of this Official Statement. Interest will accrue on the Bonds from the date of their delivery to the Underwriters and will be computed on the basis of a 360-day year of twelve 30-day months. Such interest will be payable on February 15 and August 15 of each year, commencing on February 15, 2017, until maturity or prior redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein.

Authority for Issuance . . . The Bonds are 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 of the Texas Government Code, as amended, and the Order.

Security and Source of Payment . . . All taxable property within the District is subject to a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, sufficient to provide for the payment of principal of and interest on the Bonds.

Tax Rate Limitation . . . For debt service of unlimited tax debt: there is no limitation on the tax rate (Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended); provided, however, with respect to "new debt", the District must demonstrate to the Attorney General of Texas that it has the ability to pay the "new debt" and all outstanding unlimited tax debt with a debt service tax not to exceed $0.50 per $100 assessed valuation in compliance with Section 45.0031, Texas Education Code, as amended. The Bonds are issued as refunding bonds and therefore are not subject to the $0.50 threshold tax rate test. For a more detailed description of the $0.50 test and "new debt", see "TAX INFORMATION – Tax Rate Limitations" herein.

Optional Redemption . . . The District reserves the right, at its option, to redeem the Bonds maturing on 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 the Bonds 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, to be redeemed.

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

With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Order have been met and money sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption is conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the District will not redeem such Bonds, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that such Bonds have not been redeemed.

DEFEASANCE . . . The Bond 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 the Paying Agent/Registrar or an authorized escrow agent, in trust (1) money sufficient to make such payment or (2) Government Securities (defined herein), 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. The Bond Order provides that "Government Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America and (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 of their acquisition or purchaser by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities for the Government Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid and will cease to be outstanding obligations secured by the Order or treated as debt of the District for purposes of taxation or applying any limitation on the District's ability to issue debt or for any other purpose. Provided, however, 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 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. In addition, upon defeasance of the Bonds as described above, the payment of such defeased Bonds will no longer be guaranteed by the Permanent School Fund Guarantee.

AMENDMENTS . . . The District may amend the Order without the consent of or notice to any registered owner in any manner not detrimental to the interest of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Order; except that, without consent of the registered owners of all of the Bonds outstanding, no such amendment, addition or rescission may (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, 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.

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

The District cannot and does 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 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 is rated AA+ by Standard & Poor's. 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 and www.dtc.org.

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.

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, Bonds are required to be printed and delivered.

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

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, the 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 The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. In the Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a 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 earlier 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, all payments will be made as described under "The Bonds - Book-Entry-Only System" herein. If the date for any payment on the Bonds is a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, printed Bond certificates will be delivered to the 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. The Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "THE BONDS – Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the District nor the Paying Agent/Registrar 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 on 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 (which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Holder of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

BONDHOLDERS' REMEDIES . . . If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, 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. The Texas Supreme Court has 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 U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. 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 by general principles of equity which permit the exercise of judicial discretion.

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. Also see "THE BONDS - Book-Entry-Only System" herein for a description of the duties of DTC with regard to ownership of Bonds.

Initially, the only registered owner of the Bonds will be Cede & Co., as DTC's partnership nominee (see "THE BONDS - Book-Entry-Only System" herein).

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

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

HISTORY AND PURPOSE

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

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

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

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

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

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

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

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

THE TOTAL RETURN CONSTITUTIONAL AMENDMENT

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

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

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

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

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

With respect to the management of the Fund's financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE generally reviews the asset allocations during its summer meeting in even numbered years. The first asset allocation policy adopted by the SBOE following the Total Return Constitutional Amendment was in February 2004, and the policy was reviewed and modified or reaffirmed in the summers of 2006, 2008, 2010, 2012, 2014 and 2016. The Fund's investment policy provides for minimum and maximum ranges among the components of each of the asset classifications: equities, fixed income and alternative asset investments. The 2004 asset allocation policy decreased the fixed income target from 45% to 25% of Fund investment assets and increased the allocation for equities from 55% to 75% of investment assets. Subsequent asset allocation policies have continued to diversify Fund assets, and have added an alternative asset allocation to the fixed income and equity allocations. The alternative asset allocation category includes real estate, real return, absolute return and private equity components. Alternative asset classes diversify the SBOE-managed assets and are not as correlated to traditional asset classes, which is intended to increase investment returns over the long run while reducing risk and return volatility of the portfolio. The most recent asset allocation, from 2016, is as follows: (i) an equity allocation of 35% (consisting of U.S. large cap equities targeted at 13%, emerging and international equities at17% and U.S. small/mid cap equities at 5%), (ii) a fixed income allocation of 19% (consisting of a 12% allocation for core bonds and a 7% allocation for emerging market debt in local currency) and (iii) an alternative asset allocation of 46% (consisting of a private equity allocation of 13%, a real estate allocation of 10%, an absolute return allocation of 10%, a risk parity allocation of 7% and a real return allocation of 6%). The 2016 asset allocation decreased U.S. large cap equities and international equities by 3% and 2%, respectively, and increased the allocations for private equity and real estate by 3% and 2%, respectively.

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

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

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

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

MANAGEMENT AND ADMINISTRATION OF THE FUND

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

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

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

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

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

CAPACITY LIMITS FOR THE GUARANTEE PROGRAM

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

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

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

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

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

Since July 1991, when the SBOE amended the Guarantee Program Rules to broaden the range of bonds that are eligible for guarantee under the Guarantee Program to encompass most Texas school district bonds, the principal amount of bonds guaranteed under the Guarantee Program has increased sharply. In addition, in recent years a number of factors have caused an increase in the amount of bonds issued by school districts in the State. See the table "Permanent School Fund Guaranteed

Bonds" below. Effective September 1, 2009, the Act provides that the SBOE may annually establish a percentage of the cost value of the Fund to be reserved from use in guaranteeing bonds. The capacity of the Guarantee Program in excess of any reserved portion is referred to herein as the "Capacity Reserve." The SDBGP Rules provide for a minimum Capacity Reserve for the overall Guarantee Program of no less than 5%, and provide that the amount of the Capacity Reserve may be increased by a majority vote of the SBOE. The CDBGP Rules provide for an additional 5% reserve of CDBGP capacity. The Commissioner is authorized to change the Capacity Reserve, which decision must be ratified or rejected by the SBOE at its next meeting following any change made by the Commissioner. The current Capacity Reserve is noted in the monthly updates with respect to the capacity of the Guarantee Program on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/, which are also filed with the MSRB.

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

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

THE SCHOOL DISTRICT BOND GUARANTEE PROGRAM

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

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

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

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

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

THE CHARTER DISTRICT BOND GUARANTEE PROGRAM

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

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

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

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

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

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

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

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

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

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

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

CHARTER DISTRICT RISK FACTORS

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

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

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

As described above, the Act includes a funding "intercept" function that applies to both the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. However, school districts are viewed as the "educator of last resort" for students residing in the geographical territory of the district, which makes it unlikely that State funding for those school districts would be discontinued, although the TEA can require the dissolution and merger into another school district if necessary to ensure sound education and financial management of a school district. That is not the case with a charter district, however, and open-enrollment charter schools in the State have been dissolved by TEA from time to time. If a charter district that has bonds outstanding that are guaranteed by the Charter District Bond Guarantee Program should be dissolved, debt service on guaranteed bonds of the district would continue to be paid to bondholders in accordance with the Charter District Bond Guarantee Program, but there would be no funding available for reimbursement of the PSF by the Comptroller for such payments. As described under "The Charter District Bond Guarantee Program," the Act establishes a Charter District Reserve Fund, which could in the future be a significant reimbursement resource for the PSF. At July 31, 2016, the Charter District Reserve Fund contained $1,882,615.46.

RECENT CHARTER DISTRICT COMPLAINT

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

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

RATINGS OF BONDS GUARANTEED UNDER THE GUARANTEE PROGRAM

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

VALUATION OF THE PSF AND GUARANTEED BONDS

Permanent School Fund Valuations

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

(1) SLB managed assets are included in the market value and book value of the Fund. In determining the market value of the PSF from time to time during a fiscal year, the TEA uses current, unaudited values for TEA managed investment portfolios and cash held by the SLB. With respect to SLB managed assets shown in the table above, market values of land and mineral interests, internally managed real estate, investments in externally managed real estate funds and cash are based upon information reported to the PSF by the SLB. The SLB reports that information to the PSF on a quarterly basis. The valuation of such assets at any point in time is dependent upon a variety of factors, including economic conditions in the State and nation in general, and the values of these assets, and, in particular, the valuation of mineral holdings administered by the SLB, can be volatile and subject to material changes from period to period. At August 31, 2015, land, mineral assets, internally managed discretionary real estate, external discretionary real estate investments and cash managed by the SLB had book values of approximately $44.80 million, $13.42 million, $232.88 million, $1.91 billion and $2.60 billion, respectively, and market values of approximately $377.38 million, $2.14 billion, $242.84 million, $1.89 billion and $2.6 billion, respectively.
(2) At July 31, 2016, the PSF had a book value of $29,826,283,514 and a market value of $37,511,862,155 (July 31, 2016 values are based on unaudited data).

Permanent School Fund Guaranteed Bonds

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

(1) Represents original principal amount; does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount shown excludes bonds that have been refunded and released from the Guarantee Program. The TEA does not maintain records of the accreted value of capital appreciation bonds that are guaranteed under the Guarantee Program.
(2) As of August 31, 2015, the TEA expected that the principal and interest to be paid by school districts over the remaining life of the bonds guaranteed by the Guarantee Program is $103,722,905,410, of which $39,767,456,363 represents interest to be paid. At August 31, 2015, there were $63,955,449,047 of bonds guaranteed under the Guarantee Program and the capacity of the Guarantee Program was $87,256,574,142 based on the three times cost value multiplier approved by the SBOE on May 21, 2010. Such capacity figures include the Reserve Capacity for the Guarantee Program. As a result of the SBOE actions in November 2015 described above, the State Law Capacity increased effective February 1, 2016 from a cost value multiplier of 3 times to 3.25 times. Based on the cost value of the Fund at August 31, 2015, had such increase been effective at that date, it would have produced a State Law Capacity of $94,527,955,321.

Permanent School Fund Guaranteed Bonds by Category (1)

	School District Bonds		Charter District Bonds		Totals	
At 8/31	Number of Issues	Principal Amount Guaranteed	Number of Issues	Principal Amount Guaranteed	Number of Issues	Principal Amount Guaranteed
2014 (2)	2,869	$58,061,805,783	10	$302,545,000	2,879	$58,364,350,783
2015	3,089	63,197,514,047	28	757,935,500	3,117	63,955,449,547

(1) Represents original principal amount; does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount shown excludes bonds that have been refunded and released from the Guarantee Program.
(2) Fiscal 2014 was the first year of operation of the Charter District Bond Guarantee Program. At July 31, 2016 (based on unaudited data), there were $68,114,902,880 of bonds guaranteed under the Guarantee Program, representing 3,294 school district issues, aggregating $67,232,070,880 in principal amount and 32 charter district issues, aggregating $882,832,000 in principal amount. At July 31, 2016, the capacity of the Charter District Bond Guarantee Program was $1,121,971,382 (based on unaudited data).

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

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

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

The market value of the Fund's assets is directly impacted by the performance of the various financial markets in which the assets are invested. The most important factors affecting investment performance are the asset allocation decisions made by the SBOE and SLB. The current SBOE long term asset allocation policy allows for diversification of the PSF(SBOE) portfolio into alternative asset classes whose returns are not as positively correlated as traditional asset classes. The implementation of the long term asset allocation will occur over several fiscal years and is expected to provide incremental total return at reduced risk. As of August 31, 2015, the PSF(SBOE) portion of the Fund had diversified into emerging market large cap international equities, absolute return funds, real estate, private equity, risk parity, real return Treasury Inflation-Protected Securities, real return commodities, and emerging market debt. Emerging international equities securities will be strategically added commensurate with the economic environment and the goals and objectives of the SBOE. As of August 31, 2015, the SBOE had approved and the PSF(SBOE) made capital commitments to real estate investments in the amount of $2.32 billion and capital commitments to four private equity limited partnerships in the total amount of $2.35 billion. Unfunded commitments at August 31, 2015 were $801 million in real estate and $982 million in private equity.

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

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

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

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

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

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

2011 CONSTITUTIONAL AMENDMENT

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

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

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

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

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

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

OTHER EVENTS AND DISCLOSURES

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

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

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

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

PSF CONTINUING DISCLOSURE UNDERTAKING

The SBOE has adopted an investment policy rule (the "TEA Rule") pertaining to the PSF and the Guarantee Program. The TEA Rule is codified in Section I of the TEA Investment Procedure Manual, which relates to the Guarantee Program and is posted to the TEA web site at http://tea.texas.gov/Finance_and_Grants/Texas_Permanent_School_Fund/Texas_Permanent_School_Fund_Disclosure_Statement_-_Bond_Guarantee_Program/. The most recent amendment to the TEA Rule was adopted by the SBOE on November 19, 2010, and is summarized below. Through the adoption of the TEA Rule and its commitment to guarantee bonds, the SBOE has made the following agreement for the benefit of the issuers, holders and beneficial owners of guaranteed bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an "obligated person," within the meaning of Rule 15c2-12, with respect to guaranteed bonds. Nothing in the TEA Rule obligates the TEA to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the TEA under the TEA Rule pertain solely to the Guarantee Program. The issuer or an "obligated person" of the guaranteed bonds has assumed the applicable obligation under Rule 15c-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such undertakings. Under the TEA agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

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

ANNUAL REPORTS

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

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

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

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

MATERIAL EVENT NOTICES

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

AVAILABILITY OF INFORMATION

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

LIMITATIONS AND AMENDMENTS

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

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

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

COMPLIANCE WITH PRIOR UNDERTAKINGS

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

SEC EXEMPTIVE RELIEF

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

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

LITIGATION RELATING TO THE TEXAS PUBLIC SCHOOL FINANCE SYSTEM

On seven occasions in the last thirty years, the Texas Supreme Court (the "Court") has issued decisions assessing the constitutionality of the Texas public school finance system (the "Finance System"). The litigation has primarily focused on whether the Finance System, as amended by the Texas Legislature (the "Legislature") from time to time in response to the litigation, (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, which was styled 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 Legislature 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

While the Court's decision in Morath upheld the constitutionality of the Finance System, the Court noted deficiencies in the Finance System. In the future, the Legislature could enact additional changes to the Finance System that could benefit or be a detriment to a school district depending upon a variety of factors, including the financial strategies that the district implemented in light of past State funding systems. However, having found that the current Finance System was constitutional, the Court did not compel the Legislature to take any action. In its 1995 opinion in Edgewood Independent School District v. Meno, 917 S.W.2d 717 (Tex. 1995), the Supreme 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).

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.

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 running through 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 DISTRICT

The District’s wealth per student for the 2016-17 school year is more than the third equalized wealth value, but less than the first equalized wealth level. The District adopted a $1.17 maintenance and operation tax rate. When the Board of Trustees adopts a total tax rate for 2016 that exceeds the calculated 2016 rollback tax rate, the District must conduct a tax ratification election for the purpose of permitting the registered voters of the District to determine whether to approve the tax rate adopted by the Board of Trustees. The tax ratification election will be held on November 8, 2016 and if the election is approved the $1.17 maintenance and operation tax rate will require the District to make a recapture payment of approximately $5.8 million.

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

TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the District is the responsibility of the Dallas and Denton Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District are 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. State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the property's market value in the most recent year in which 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 year, (b) the appraised value of the property for the preceding tax year; and (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 each Appraisal District, consisting of members appointed by the Board of Directors of each respective Appraisal District. The Appraisal District are 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 (effective January 1, 2015); and an additional

$10,000 for those 65 years of age or older, or the disabled. A person over 65 and disabled may receive only one $10,000 exemption, and only one such exemption may be received per family, per residence homestead. State law also mandates a freeze on taxes paid on residence homesteads of persons 65 years of age or older which receive the $10,000 exemption. Such residence homesteads shall be appraised and taxes calculated as on any other property, but taxes shall never exceed the amount imposed in the first year in which the property received the $10,000 exemption. The freeze on ad valorem taxes on the homesteads of persons 65 years of age or older for general elementary and secondary public school purposes is also transferable to a different residence homestead. If improvements (other than 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. Effective January 1, 2004, the freeze on taxes paid on residence homesteads of persons 65 years of age and older was extended to include the resident homesteads of "disabled" persons, including the right to transfer the freeze to a different residence homestead. A "disabled" person is one who is "under a disability for purposes of payment of disability insurance benefits under the Federal Old Age, Survivors and Disability Insurance". Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as the property is the homestead of the surviving spouse and the spouse is at least 55 years of age at the time of the death of the individual's spouse. Pursuant to a constitutional amendment approved by the voters on May 12, 2007, legislation was enacted to reduce the school property tax limitation (commonly referred to as a "freeze" on ad valorem taxes) on residence homesteads of persons 65 years of age or over or of disabled persons to correspond to reductions in local school district tax rates from the 2005 tax year to the 2006 tax year and from the 2006 tax year to the 2007 tax year (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - General" herein). The school property tax limitation provided by the constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years.

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.

See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2015 Legislation" for (i) the constitutional amendment that increased the mandatory homestead exemption for school districts from $15,000 to $25,000, and requires that the tax limitation for taxpayers who are age 65 and older or disabled be reduced to reflect the additional exemption, and (ii) legislation that prohibits the reduction of the District's optional homestead exemption for five years.

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

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from $5,000 to a maximum of $12,000; provided, however, that a disabled veteran who receives from the 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. Subject to certain conditions, 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. In addition, a partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated at no cost by a charitable organization. Finally, the surviving spouse of a member of the armed forces who was killed in action is entitled to an exemption of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not re married since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption may be transferred to a subsequent residence homestead 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 l-d) and open-space land (Section l-d-l), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and 1-d-1.

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

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

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

A city or county may create a tax increment financing district ("TIF") within the city or county with defined boundaries and establish a base value of taxable property in the TIF at the time of its creation. Overlapping taxing units, including school districts, may agree with the city or county to contribute all or part of future ad valorem taxes levied and collected against the "incremental value" (taxable value in excess of the base value) of taxable real property in the TIF to pay or finance the costs of certain public improvements in the TIF, and such taxes levied and collected for and on behalf of the TIF are not available for general use by such contributing taxing units. Prior to September 1, 2001, school districts were allowed to enter into tax abatement agreements to encourage economic development. Under such agreements, a property owner agrees to construct certain improvements on its property. The school district in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. School districts have been prohibited from entering into new tax abatement agreements since September 1, 2001. 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 taxes subject to approval of a proposition submitted to district voters. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next two succeeding paragraphs. The maximum voted maintenance tax rate for the District is $1.50 per $100 of assessed valuation as approved by the voters at an election held on February 28, 1959 pursuant to the authority conferred by former Article 2784e-1, Vernon's Ann. Civ. Stat. ("Article 2784e-1").

Article 2784e-1 further limited the District's annual, local maintenance and operations tax levy based upon a comparison between the District's outstanding bonded indebtedness and the District's taxable assessed valuation 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 value 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 maintenance and operations tax levy 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). With the issuance of the Bonds, the District's ratio of bonded indebtedness to taxable assessed valuation is 1.31% (preliminary, subject to change). See "TAX INFORMATION - Table 1 Valuation, Exemptions and Tax Supported Debt" herein.

The maximum tax rate per $100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) $1.50, or such lower rate as described in the preceding paragraph, and (B) the sum of (1) the rate of $0.17, and (2) the product of the "State Compression Percentage" multiplied by $1.50. The State Compression Percentage has been set, and will remain, at 66.67% for fiscal year 2016–17. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For a more detailed description of the State Compression Percentage, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Local Funding for School Districts". Furthermore, a school district cannot annually increase its tax rate in excess of the district's "rollback tax rate" without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate. See "TAX INFORMATION - Public Hearing and Rollback Tax Rate."

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

Under current law, a district may demonstrate its ability to comply with the $0.50 threshold tax rate test by applying the $0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a district uses projected future taxable values to meet the $0.50 threshold tax rate test and subsequently imposes a tax at a rate greater than $0.50 per $100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Attorney General must find that the district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the $0.50 threshold tax rate test from a tax rate of $0.45 per $100 of valuation. The District has not used projected property values to satisfy this threshold test.

PUBLIC HEARING AND ROLLBACK TAX RATE . . . In setting its annual tax rate, the governing body of a school district generally cannot adopt a tax rate exceeding the district's "rollback tax rate" without approval by a majority of the voters voting at an election approving the higher rate. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures and (2) a rate for debt service. 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, as amended, 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, as amended, 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, as amended. Section 44.004(e) of the Texas Education Code, as amended, provides that a person who owns taxable property in a school district is entitled to an injunction restraining the collection of taxes by the district if the district has not complied with such notice requirements or the language and format requirements of such notice as set forth in Section 44.004(b), (c) and (d) and if such failure to comply was not in good faith. Section 44.004(e) further provides the action to enjoin the collection of taxes must be filed before the date the district delivers substantially all of its tax bills. A district may adopt its budget after adopting a tax rate for the tax year in which the fiscal year covered by the budget begins if the district elects to adopt its tax rate before receiving the certified appraisal roll. A district that adopts a tax rate before adopting its budget must hold a public hearing on the proposed tax rate followed by another public hearing on the proposed budget rather than holding a single hearing on the two items.

PROPERTY ASSESSMENT AND TAX PAYMENT . . . Property within the District is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of 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. Effective January 1, 2016, the valuation of assessment of oil and gas reserves will depend upon pricing information in either the standard edition of the Annual Energy Outlook or, if the most recently published edition of the Annual Energy Outlook was published before December 1 of the preceding calendar year, the Short-Term Energy Outlook report published in January of the current calendar year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first installment due on February 1 of each year and the final installment due on August 1.

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

Month	Cumulative Penalty[a]	Cumulative Interest[a]	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12[a]	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 an account is delinquent in July, an attorney's collection fee of up to 20% may be added to the total tax penalty and interest charge.

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

DISTRICT APPLICATION OF TAX CODE . . . The District does grant an exemption to the market value of the residence homestead of persons 65 years of age or older or the disabled.

The District has not granted any part of the additional exemption of up to 20% of the market value of residence homesteads; minimum exemption of $5,000.

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

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

The District does not tax nonbusiness personal property; and the District collects its own taxes.

The District does not permit split payments of taxes, and discounts for the early payment of taxes are not allowed.

The District does not tax freeport property.

The District does tax "goods-in-transit".

The District has not adopted a tax abatement policy.

TAX INCREMENT FINANCE ZONES. . . The District participates in the Farmers Branch Tax Increment Reinvestment Zone #1 ("Farmers Branch TIF #1). The tax increment base of the Farmers Branch TIF #1 established on January 1, 1998 was $42,008,044. For Tax Year 2016, the Farmers Branch TIF #1 Taxable Assessed Value was $206,540,921. For the Fiscal Year Ending 2016 the Tax Year 2014 Farmers Branch TIF #1 Taxable Assessed Value was $98,751,097 and was used for the April 2016 payment calculation. The District has agreed to pay to Farmers Branch TIF #1 the proceeds received from the District's property taxes pursuant to the District's total maintenance and operations tax rate plus the debt service tax rate as of tax year 2005 on the total incremental taxable assessed value located with TIF #1 (the "FB #1 Tax Increment Payments"). Under the terms of the tax increment reinvestment zone participation agreement (the "Farmers Branch TIF #1 Agreement"), the District is to receive a reimbursement of 65% of the FB #1 Tax Increment Payments actually received for the purpose of paying all or a portion of Zone School Project Costs in the TIF. The FB #1 Tax Increment Payments are due to be paid in April of each year. As of April 2016, the payments to date by the District into the Farmers Branch TIF #1 have been $12,526,200 and the return payments to the District have totaled $8,142,030. The Farmers Branch TIF #1 Agreement is scheduled to terminate on December 20, 2018. The current school Finance System, including the Reform Legislation, includes provisions that are designed to "hold harmless" districts that have entered into certain qualifying tax increment agreements, such as the Farmers Branch #1 Agreement. In addition, the Farmers Branch TIF #1 agreement includes provisions that release the District from its obligations to make payments to Farmers Branch TIF #1 should applicable law governing the District adversely affect the District financially as a result of its participation in the Farmers Branch TIF #1 Agreement.

The District participates in the Farmers Branch Tax Increment Reinvestment Zone #2 (Farmers Branch TIF #2"). The tax increment base for the Farmers Branch TIF #2 adopted on July 21, 1999 was $15,815,680. For Tax Year 2016, the Farmers Branch TIF #2 Taxable Assessed Valuation was $57,551,391. For the Fiscal Year Ending 2016 payment the Tax Year 2014 Farmers Branch TIF #2 Taxable Assessed Valuation was $39,135,404 and was used for the April 2016 payment calculation. The District has agreed to pay to Farmers Branch TIF #2 the proceeds received from the District's property taxes pursuant to the District's total maintenance and operations tax rate plus the debt service tax rate as of tax year 2005 on the total incremental taxable assessed value located with TIF #1 (the "FB #2 Tax Increment Payments"). Under the terms of the tax increment reinvestment zone participation agreement (the "Farmers Branch TIF #1 Agreement"), the District is to receive a reimbursement of 30% of the FB #2 Tax Increment Payments actually received for the purpose of paying all or a portion of Zone School Project Costs in the TIF. The FB #2 Tax Increment Payments are due to be paid in April of each year. As of April 2016, the payments to date by the District into the Farmers Branch TIF #2 have been $1,014,187 and the return payments to the District have totaled $304,257. The Farmers Branch TIF #2 Agreement is scheduled to terminate on July 20, 2019. The current school Finance System, including the Reform Legislation, includes provisions that are designed to "hold harmless" districts that have entered into certain qualifying tax increment agreements, such as the Farmers Branch #2 Agreement. In addition, the Farmers Branch TIF #2 agreement includes provisions that release the District from its obligations to make payments to Farmers Branch TIF #2 should applicable law governing the District adversely affect the District financially as a result of its participation in the Farmers Branch TIF #2 Agreement.

The District participates in the Irving Tax Increment Reinvestment Zone #1 ("Irving TIF #1"). The tax increment base for the Irving TIF #1 adopted on December 22, 1998 was $241,945,218. For Tax Year 2016, the Irving TIF #1 Taxable Assessed Valuation was $1,693,028,842. For the Fiscal Year Ending 2016 payment the Tax Year 2014 Irving TIF #1 Taxable Assessed Valuation was $1,410,591,194 and was used for the April 2016 payment calculation. The District has agreed to pay to Irving TIF #1 the proceeds received from the District's property taxes pursuant to the District's total maintenance and operations tax rate plus the debt service tax rate as of tax year 2005 on the total incremental taxable assessed value located with TIF #1 (the "Irving #1 Tax Increment Payments"). Under the terms of the tax increment reinvestment zone participation agreement (the "Irving TIF #1 Agreement"), the District is to receive a reimbursement of 67% of the Irving #1 Tax Increment Payments actually received for the purpose of paying all or a portion of Zone School Project Costs in the TIF. The Irving #1 Tax Increment Payments are due to be paid in April of each year. As of April 2016, the payments to date by the District into the Irving TIF #1 have been $145,202,540 and the return payments to the District have totaled $97,285,702. The Irving TIF #1 Agreement is scheduled to terminate on December 31, 2018. The current school Finance System, including the Reform Legislation, includes provisions that are designed to "hold harmless" districts that have entered into certain qualifying tax increment agreements, such as the Irving #1 Agreement. In addition, the Irving TIF #1 agreement includes provisions that release the District from its obligations to make payments to Irving TIF #1 should applicable law governing the District adversely affect the District financially as a result of its participation in the Farmers Branch TIF #1 Agreement..

TABLE 1 - VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT

2016/17 Market Valuation Established by Dallas and Denton Appraisal Districts		$21,177,439,831
Less Exemptions/Reductions at 100% Market Value:		
Residential Homestead Exemptions, Over 65 and Disabled (State Mandated)	$ 724,908,188	
Disabled Veterans	8,149,967	
Freeport	780,352,508	
Pollution Control	589,075	
Agricultural and Open-Space Land	73,744,117	
Mineral Rights	1,000	
Totally Exempt Property	1,129,508,233	
Capped Value Loss	111,095,445	2,828,348,533
2016/17 Taxable Assessed Valuation		$18,349,091,298
Debt Payable from Ad Valorem Taxes (as of 8/1/16)		
Unlimited Tax Bonds	$ 193,665,000 (1)	
The Bonds	47,345,000 (2)	
Debt Payable from Ad Valorem Taxes		$ 241,010,000
Interest and Sinking Fund Balance as of 8/1/16		$ 14,268,740
Ratio Total Tax Supported Debt to Taxable Assessed Valuation		1.31%

2017 Estimated Population - 184,339 (3)
Per Capita Taxable Assessed Valuation - $99,540
Per Capita Funded Debt - $1,307

(1) Excludes the Refunded Bonds. Preliminary, subject to change.
(2) Preliminary, subject to change.
(3) Source: Fiscal Years ended 2013, 2014, 2015 2016 and 2017 are calculated using a factor number of 7.429 (which is based on the 2014 census population of 182,587 divided by 2014 ADA received from TEA) multiplied by the current year ADA as proved by the TEA.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

	Taxable Appraised Value for Fiscal Year Ended August 31,					
	2017		2016		2015	
Category	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 7,259,023,369	34.28%	$ 6,631,376,913	33.56%	$ 6,156,399,697	33.76%
Real, Residential, Multi-Family	3,447,289,402	16.28%	3,193,602,068	16.16%	2,865,125,285	15.71%
Real, Vacant Lots/Tracts	430,014,611	2.03%	433,273,108	2.19%	448,556,724	2.46%
Real, Acreage (Land Only)	73,791,680	0.35%	54,895,030	0.28%	53,778,220	0.29%
Real, Farm and Ranch Improvements	3,457,819	0.02%	6,004,786	0.03%	2,977,515	0.02%
Real, Commercial	6,055,494,972	28.59%	5,666,646,932	28.68%	5,288,762,496	29.00%
Real, Industrial	159,269,280	0.75%	149,202,600	0.76%	138,174,420	0.76%
Minerals, Oil and Gas	13,960	0.00%	119,660	0.00%	48,540	0.00%
Real and Tangible Personal, Utilities	283,187,615	1.34%	284,966,053	1.44%	281,542,327	1.54%
Tangible Personal, Commercial	2,629,561,184	12.42%	2,510,099,185	12.70%	2,241,851,404	12.29%
Tangible Personal, Industrial	778,298,840	3.68%	783,212,153	3.96%	715,609,411	3.92%
Tangible Personal, Mobile Homes	583,060	0.00%	552,730	0.00%	606,320	0.00%
Real Property, Inventory	8,884,089	0.04%	4,667,970	0.02%	-	0.00%
Special Inventory	48,569,950	0.23%	42,001,300	0.21%	42,980,700	0.24%
Total Appraised Value Before Exemptions	$ 21,177,439,831	100.00%	$ 19,760,620,488	100.00%	$ 18,236,413,059	100.00%
Adjustments	-		-		13,572,179	
Plus: Protested Values	83,832,324		10,993,012		-	
Less: Total Exemptions/Reductions	(2,828,348,533)		(2,687,683,968)		(2,170,131,907)	
Taxable Assessed Value	$ 18,432,923,622		$ 17,083,929,532		$ 16,079,853,331	

	Taxable Appraised Value for Fiscal Year Ended August 31,			
	2014		2013	
Category	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 5,780,053,955	34.11%	$ 5,651,227,873	34.88%
Real, Residential, Multi-Family	2,475,207,156	14.61%	2,147,945,528	13.26%
Real, Vacant Lots/Tracts	428,084,784	2.53%	419,797,979	2.59%
Real, Acreage (Land Only)	53,033,858	0.31%	62,401,915	0.39%
Real, Farm and Ranch Improvements	1,530,050	0.01%	596,830	0.00%
Real, Commercial	4,904,111,273	28.94%	4,807,523,197	29.68%
Real, Industrial	133,441,320	0.79%	121,621,390	0.75%
Minerals, Oil and Gas	54,410	0.00%	209,770	0.00%
Real and Tangible Personal, Utilities	270,913,830	1.60%	282,735,678	1.75%
Tangible Personal, Commercial	2,134,950,832	12.60%	2,010,341,650	12.41%
Tangible Personal, Industrial	722,854,888	4.27%	660,893,457	4.08%
Tangible Personal, Mobile Homes	620,670	0.00%	627,330	0.00%
Real Property, Inventory	-	0.00%	-	0.00%
Special Inventory	39,098,470	0.23%	34,240,210	0.21%
Total Appraised Value Before Exemptions	$ 16,943,955,496	100.00%	$ 16,200,162,807	100.00%
Adjustments	298,826,162		292,328,152	
Plus: Protested Values	-		-	
Less: Total Exemptions/Reductions	(2,278,670,808)		(2,291,758,782)	
Taxable Assessed Value	$ 14,964,110,850		$ 14,200,732,177	

NOTE: Valuations shown are certified taxable assessed values reported by the Dallas and Denton Appraisal Districts to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal Districts update records.

TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY

Fiscal Year Ended 8/31	Estimated Population [(1)]	Taxable Assessed Valuation [(2)]	Taxable Assessed Valuation Per Capita	Total Tax Supported Debt Outstanding at End of Year	Ratio of Tax Supported Debt to Taxable Assessed Valuation	Tax Supported Debt Per Capita
2013	178,638	$ 14,200,732,177	$ 79,494	$ 331,290,000	2.33%	$ 1,855
2014	182,587	14,964,110,850	81,956	304,535,000	2.04%	1,668
2015	182,046	16,079,853,331	88,329	276,240,000	1.72%	1,517
2016	179,203	17,083,929,532	95,333	244,625,000	1.43%	1,365
2017	184,339	18,432,923,622	99,995	210,700,000 [(3)]	1.14%	1,143

(1) Source: Fiscal Years Ended 2013, 2014, 2015, 2016 and 2017 are calculated using a factor number of 7.429 (which is based on the 2014 census population of 182,587 divided by 2014 ADA received from TEA) multiplied by the current year ADA as provided by the TEA.
(2) As reported by the Dallas and Denton Appraisal Districts on District's annual State Property Tax Reports; subject to change during the ensuing year.
(3) Projected; includes the Bonds and excludes the Refunded Bonds. Preliminary, 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	$ 1.3306	$ 1.0400	$ 0.2906	$ 185,400,956	99.40%	99.42%
2014	1.3235	1.0400	0.2835	192,521,688	99.50%	99.52%
2015	1.3033	1.0400	0.2633	204,847,553	99.40%	99.44%
2016	1.2817	1.0400	0.2417	215,911,935	99.71%	99.45%
2017	1.3917	1.1700 [(1)]	0.2217	248,924,348	N/A	N/A

(1) The District is holding a Tax Ratification election on November 8, 2016.

TABLE 5 - TEN LARGEST TAXPAYERS [(1)]

Name of Taxpayer	Nature of Property	2016/17 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Piedmont Operating Partners	Rental Propery-Commercial	$ 152,064,840	0.83%
AT&T Mobility/AT&T Services Inc./Southwestern Bell/SWB Video	Telephone Utility / Internet Services	110,724,070	0.60%
Texas Utilities Electric Co./TXU Energy Retail Co./Oncor Delivery	Power Utility	109,611,434	0.60%
Walmart / Sams Club	Retail	109,532,546	0.60%
Wells Reit II / Wells Reit Las Colinas	Rental Propery-Commercial	96,200,000	0.52%
Citi Corp Credit Services	Rental Propery-Commercial	91,914,660	0.50%
Glazers Distributors of Texas	Wholesale Distributors	87,043,540	0.47%
Halliburton Energy Services	Fabrication	84,152,670	0.46%
Texas Proton Therapy Center	Medical Offices-Proton Therapy	82,101,510	0.45%
Fiori LLC	Rental Property-Apartments	77,600,000	0.42%
		$ 1,000,945,270	5.46%

(1) Source: Information Provided by District Staff.

TABLE 6 - TAX ADEQUACY (1)

2017 Principal and Interest Requirements	$ 39,844,323
$0.2194 Tax Rate at 99.00% Collection Produces	$ 39,855,327
Average Annual Principal and Interest Requirements, 2017 - 2033	$ 17,776,889
$0.0979 Tax Rate at 99.00% Collection Produces	$ 17,784,123
Maximum Principal and Interest Requirements, 2018	$ 41,206,424
$0.2269 Tax Rate at 99.00% Collection Produces	$ 41,217,747

(1) Projected; includes the Bonds and excludes the Refunded Bonds. Preliminary, subject to change.

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	2016/17 Taxable Assessed Value	2016/17 Tax Rate	Total Tax Supported Debt As Of 8-1-16	Estimated % Applicable	Tax Supported Debt As Of 8-1-16	Authorized But Unissued Debt As Of 8-1-16
Carrollton-Farmers Branch Independent School District	$ 18,349,091,298	$ 1.391700	$ 241,010,000 (1)	100.00%	$ 241,010,000 (1)	$ - (2)
Town of Addison	4,303,756,461	0.560472	98,030,000	5.98%	5,862,194	26,000,000
City of Carrollton	12,118,060,641	0.603700	165,015,000	53.13%	87,672,470	42,805,211
City of Coppell	6,732,500,680	0.579500	70,815,000	6.49%	4,595,894	24,868,610
City of Dallas	110,522,598,805	0.781200	1,774,890,086	1.09%	19,346,302	443,110,000
Dallas County	207,905,607,319	0.243100	227,980,000	6.54%	14,909,892	6,200,000
Dallas County Community College District	217,216,436,340	0.123650	294,050,000	6.54%	19,230,870	-
Dallas County Hospital District	208,729,393,540	0.286000	718,480,000	6.54%	46,988,592	-
Dallas County Utility and Reclamation District	3,739,977,763	1.590000	246,055,000	52.06%	128,096,233	-
Dallas County Schools	207,905,607,319	0.009457	50,405,000	6.54%	3,296,487	-
Denton County	78,259,024,841	0.248409	608,895,000	4.55%	27,704,723	118,408,296
City of Farmers Branch	4,858,001,398	0.602267	39,165,000	58.65%	22,970,273	9,000,000
City of Irving	23,014,632,948	0.594100	392,080,000	68.30%	267,790,640	263,760,000
Irving Flood Control District III	1,838,216,139	0.128000	785,000	26.11%	204,964	9,700,000
Northwest Dallas County Flood Control District	484,260,959	0.300000	15,835,000	65.00%	10,292,750	-
Valwood Improvement Authority	1,876,918,522	0.270000	16,852,391	94.56%	15,935,621	7,419,940
Total Direct and Overlapping Tax Supported Debt					$ 915,907,902	
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation					4.99%	
Per Capita Overlapping Total Tax Supported Debt					$ 4,968.61	

(1) Projected; includes the Bonds and excludes the Refunded Bonds. Preliminary, subject to change.

DEBT INFORMATION

TABLE 8 - TAX SUPPORTED DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 8/31	Outstanding Tax Debt (1) Principal	Interest	Total	The Bonds (2) Principal	Interest	Total	Total Outstanding Debt	% of Principal Retired
2017	$ 30,310,000	$ 7,719,169	$ 38,029,169	$ -	$ 1,815,154.70	$ 1,815,155	$ 39,844,323	
2018	16,640,000	6,735,006	23,375,006	15,800,000	2,031,418	17,831,418	41,206,424	
2019	16,440,000	6,012,450	22,452,450	10,185,000	1,362,304	11,547,304	33,999,754	
2020	14,975,000	5,365,325	20,340,325	5,705,000	953,136	6,658,136	26,998,461	
2021	11,995,000	4,777,681	16,772,681	5,560,000	663,063	6,223,063	22,995,744	50.64%
2022	10,115,000	4,264,175	14,379,175	4,310,000	408,910	4,718,910	19,098,085	
2023	10,600,000	3,777,422	14,377,422	1,820,000	251,063	2,071,063	16,448,484	
2024	11,125,000	3,263,681	14,388,681	825,000	182,954	1,007,954	15,396,635	
2025	11,640,000	2,739,231	14,379,231	-	161,710	161,710	14,540,941	
2026	8,570,000	2,291,353	10,861,353	2,435,000	99,009	2,534,009	13,395,362	77.43%
2027	8,950,000	1,925,844	10,875,844	705,000	18,154	723,154	11,598,997	
2028	9,315,000	1,567,141	10,882,141	-	-	-	10,882,141	
2029	9,720,000	1,174,606	10,894,606	-	-	-	10,894,606	
2030	7,105,000	810,075	7,915,075	-	-	-	7,915,075	
2031	7,405,000	516,094	7,921,094	-	-	-	7,921,094	96.37%
2032	5,580,000	247,003	5,827,003	-	-	-	5,827,003	
2033	3,180,000	63,975	3,243,975	-	-	-	3,243,975	100.00%
	$ 193,665,000	$ 53,250,231	$ 246,915,231	$ 47,345,000	$ 7,946,873	$ 55,291,873	$ 302,207,105	

(1) Excludes the Refunded Bonds. Preliminary, subject to change.
(2) Average life of the issue – 3.259 Years. Interest on the Bonds has been calculated at the rate of 1.42% for purposes of illustration. Preliminary, subject to change.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION (1)

Tax Supported Debt Service Requirements, Fiscal Year Ending 8/31/17		$ 39,844,323 (1)
Interest and Sinking Fund Balance as of 8/31/16	$ 8,300,109	
Interest and Sinking Fund Tax Levy	39,716,008	
State Hold Harmless	640,792	
Other Income	10,000	48,666,909
Estimated Balance, 8/31/17		$ 8,822,586

(1) Preliminary, subject to change.

TABLE 10 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

The District has no authorized but unissued bonds.

ANTICIPATED ISSUANCE OF ADDITIONAL UNLIMITED TAX DEBT . . . The District does not anticipate the issuance of any additional tax-supported debt within the next twelve months.

TABLE 11 - OTHER OBLIGATIONS

The District had no unfunded debt outstanding as of August 31, 2016.

PENSION FUND . . . The District contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy . . . Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83" 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' Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015.

	Contribution Rates	
	2014	2015
Member	6.4%	6.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%

District's 2014 Employer Contributions	$ 2,121,129
District's 2014 Member Contributions	$ 9,518,695
District's 2014 NECE On-Behalf Contributions	$ 8,075,991

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). (See Appendix B, "Excerpts from the District's Annual Financial Report," Note L.)

Employee Retiree Health Funding Policy . . . Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2015-2013.

Contribution Rates						
	Active Member		State		School District	
Year	Rate	Amount	Rate	Amount	Rate	Amount
2015	0.65%	$995,007	1.0%	$1,530,780	0.55%	$841,929
2014	0.65%	966,729	1.0%	1,487,275	0.55%	818,001
2013	0.65%	942,220	0.5%	724,785	0.55%	797,263

Medicare Part D . . . The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf of $450,249 recognized for the year ended August 31, 2015 as equal revenues and expenditures.

OTHER POST-EMPLOYMENT BENEFITS . . . As a result of its participation in the TRS System and the TRS-Care Retired Plan and having no other post-employment benefit plans, the District has no obligations for other post-employment benefits within the meaning of Governmental Accounting Standards Board Statement 45.

FINANCIAL INFORMATION

TABLE 12 - SCHEDULE OF CHANGES IN NET ASSETS

	Fiscal Year Ended August 31,				
Revenues:	2015	2014	2013	2012	2011
Program Revenues					
Charges for Services	$ 4,912,630	$ 4,642,336	$ 4,514,922	$ 6,114,259	$ 5,105,198
Operating Grants and Contributions	37,036,189	33,842,440	31,663,321	36,899,785	44,855,939
Capital Grants and Contributions	11,980,349	10,497,989	9,296,464	9,196,973	10,085,250
General Revenues					
Property Taxes	204,884,524	193,901,849	185,518,567	185,290,031	186,375,517
State Aid - Formula Grants	46,810,897	47,193,293	44,267,986	50,585,614	51,675,059
Grants and Contributions not Restricted	14,570	16,358	29,252	36,963	25,468
Investment Earnings	364,601	322,677	337,789	206,371	204,213
Other	564,194	382,556	180,356	1,311,059	423,408
Total Revenues	$306,567,954	$290,799,498	$275,808,657	$289,641,055	$298,750,052
Expenses:					
Instruction and Instructional Related	$158,317,609	$152,472,239	$142,791,164	$144,472,030	$152,835,946
Instructional Leadership/School Leadership	18,500,640	17,635,030	16,851,915	16,453,587	16,929,522
Guidance, Social Work, Health, Transportation	16,992,496	17,216,501	15,923,857	15,083,166	16,220,627
Food Services	12,626,501	12,121,742	12,267,870	11,961,743	12,365,226
Cocurricular/Extracurricular	6,282,594	6,813,429	6,086,152	6,012,638	6,179,751
General Administration	6,312,631	6,028,276	6,155,795	6,179,859	7,061,920
Plant Maintenance and Security	24,556,960	23,635,084	23,659,876	24,892,218	25,757,763
Data Processing Services	5,266,587	6,111,082	5,895,263	6,551,630	7,391,313
Community Services	450,639	430,814	518,660	505,980	651,173
Debt Service	10,882,592	13,296,146	12,259,879	14,179,573	16,205,265
Facilities Acquisition and Construction	-	-	-	-	1,191,981
Contracted Instructional Services Between Public Schools	-	-	-	75,536	-
Payments to Juvenile Justice Alternative Ed Programs	31,486	8,639	28,386	57,484	143,124
Payments to Tax Increment Fund	17,974,812	15,713,810	13,807,241	13,777,411	15,139,211
Other Intergovernmental Charges	899,649	889,432	886,812	898,662	937,593
Total Expenses	$279,095,196	$272,372,224	$257,132,870	$261,101,517	$279,010,415
Increase in Net Position	$ 27,472,758	$ 18,427,274	$ 18,675,787	$ 28,539,538	$ 19,739,637
Prior Period Adjustment	(25,320,316)	-	-	-	-
Beginning Net Position as Restated	274,082,006	255,654,732	236,978,945	210,267,680	190,528,043
Ending Net Position	$276,234,448	$274,082,006	$255,654,732	$238,807,218	$210,267,680

Source: District audited financial statements.

TABLE 12-A - SCHEDULE OF GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended August 31,				
Revenues:	2015	2014	2013	2012	2011
Local Sources	$ 165,134,178	$ 153,762,980	$ 147,260,340	$ 146,283,842	$ 145,570,204
State Sources	58,554,935	56,994,206	52,930,878	59,523,731	61,573,975
Federal Sources	3,090,236	2,354,735	1,984,463	1,291,612	1,593,507
Total Revenues	$ 226,779,349	$ 213,111,921	$ 202,175,681	$ 207,099,185	$ 208,737,686
Expenditures:					
Instruction and Instructional Related Services	$ 132,372,258	$ 128,244,330	$ 118,706,379	$ 115,715,119	$ 124,864,419
Instructional and School Leadership	17,423,929	16,588,898	15,815,904	13,467,085	15,706,303
Support Services - Student (Pupil)	20,896,641	21,212,401	19,818,735	18,894,155	19,463,290
Administrative Support Services	5,733,153	5,576,365	5,569,995	5,612,209	6,484,862
Support Services - Nonstudent Based	29,963,253	28,508,897	27,682,232	28,675,451	24,315,404
Ancillary Services	154,868	178,075	160,268	223,158	369,706
Capital Outlay	130,890	95,654	108,359	92,424	92,242
Intergovernmental Charges	18,905,947	16,611,881	14,722,439	14,809,093	16,219,928
Total Expenditures	$ 225,580,939	$ 217,016,501	$ 202,584,311	$ 197,488,694	$ 207,516,154
Excess of Revenue Over (Under) Expenditure:	$ 1,198,410	$ (3,904,580)	$ (408,630)	$ 9,610,491	$ 1,221,532
Other Resources:					
Sale of Property	$ -	$ -	$ -	$ -	$ 363,964
Transfer In	-	-	-	-	533,638
Transfers Out (Use)	-	-	-	-	-
Total Other Resources	$ -	$ -	$ -	$ -	$ 897,602
Net Change in Fund Balances	$ 1,198,410	$ (3,904,580)	$ (408,630)	$ 9,610,491	$ 2,119,134
Fund Balances, September 1	$ 78,247,613	$ 82,152,193	$ 82,560,823	$ 72,950,332	$ 70,831,198
Fund Balances, August 31	$ 79,446,023	$ 78,247,613	$ 82,152,193	$ 82,560,823	$ 72,950,332

Source: District audited financial statements.

FINANCIAL POLICIES

Basis of Accounting . . . The accounting policies of the District substantially comply with the rules prescribed in Texas Education Agency Financial Accountability System Resource Guide. These accounting policies conform to generally accepted accounting principles applicable to governments (see APPENDIX B - "Excerpts from the District's Annual Financial Report").

General Fund Balance . . . The District goal is to maintain surplus and unencumbered funds equal to at least two months of expenditures in the General Fund.

Budgetary Procedures . . . Prior to August 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget included proposed expenditures and the means of financing them. A meeting of the Board of Education is called for the purpose of adopting the proposed budget after ten days of public notice of the meeting has been given.

Prior to September 1, the budget is legally enacted through passage of a resolution by the Board of Education.

The budget must be filed with the Texas Education Agency on a designated date through the Public Education Information Management System ("PEIMS").

Fund Investments . . . The District investment policy parallels state law which governs investment of public funds.

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, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit and share certificates 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 (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3); (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (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.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAm or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution. The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

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.

INVESTMENT POLICIES . . . Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for District funds, the maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. 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, the ending market value and fully accrued interest during the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the 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 District to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Trustees; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the District's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

TABLE 13 - CURRENT INVESTMENTS

As of August 1, 2016, the District's investable funds were invested in the following categories:

Description	Percent	Book Value	Market Value
Pool-Texpool	66.15%	$ 130,826,360	$ 130,826,360
Pool-TexStar	0.55%	1,097,660	1,097,660
Pool-Lone Star	0.51%	1,004,325	1,004,325
Wells Fargo Bank	7.63%	15,088,944	15,088,944
LegacyTexas Bank	2.53%	5,006,189	5,006,189
CDARS	17.70%	35,000,000	35,000,000
CDs	0.38%	745,000	745,109
First Financial Equity Corp-MM	0.27%	537,313	537,313
Dallas Capital Bank-MM	0.10%	202,454	202,454
Morgan Stanley-MM	0.12%	235,498	235,498
Morgan Stanley Government Fund	4.06%	8,037,707	8,037,707

(1) A portion of the District's investments are invested in TexSTAR and TexPool, each of which is an investment pool that has an investment objective of achieving and maintaining a stable net asset value of $1.00 per share. Daily investment or redemption of funds is allowed by the participants. TexSTAR is a local government investment pool for which First Southwest Asset Management, Inc., a Hilltop Holdings Company, an affiliate of the District's financial advisor, provides customer service and marketing.

TAX MATTERS

TAX EXEMPTION . . . The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the "Code"), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. A form of Bond Counsel's opinion is reproduced as Appendix C. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

Interest on 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 qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust (FASIT). 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.

In rendering the foregoing opinions, Bond Counsel will rely 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 the provisions of the Order subsequent to the issuance of the Bonds. The Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance 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 Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the District as the "taxpayer," and the owners of the Bonds would 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.

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, 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, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, 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. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

TAX ACCOUNTING TREATMENT OF DISCOUNT AND PREMIUM ON CERTAIN BONDS . . . The initial public offering price of certain Bonds (the "Discount Bonds") may be less than the amount payable on such Bonds at maturity. 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 Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Bonds described above under "Tax Exemption." 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 the tax year.

However, such 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, life insurance companies, property and casualty insurance companies, S corporations with "subchapter C" earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for earned income tax credit, owners of an interest in a FASIT, 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. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner 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 of accrued original issue discount on Discount Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering price of certain Bonds (the "Premium Bonds") may be greater than the amount payable on such Bonds at maturity. 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 the amount payable 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. 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 the 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.

CONTINUING DISCLOSURE INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds pursuant to SEC Rule 15c2-12 (the "Rule"). The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for a description of the TEA's continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State, as the case may be, and to provide timely notice of certain specified events related to the guarantee, to the MSRB.

ANNUAL REPORTS . . . The District shall provide annually to the MSRB, (1) within six months after the end of each fiscal year of the District ending in or after 2016, financial information and operating data with respect to the District of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 13 and (2) if not provided as part such financial information and operating data, audited financial statements of the District, when and if available. Any financial statements to be provided shall be (i) prepared in accordance with the accounting principles described in Exhibit B hereto or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation, and in substantially the form included in the official statement, and (ii) audited, if the District commissions an audit of such financial statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available.

The District's current fiscal year end is August 31. Accordingly, the District must provide updated information included in the above-referenced tables by the last day of February in each year, and audited financial statements for the preceding fiscal year must be provided by August 31 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the District otherwise would be required to provide financial information and operating data pursuant to this Section.

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

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

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

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

The District may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the United States Securities and Exchange Commission (the "SEC") amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Format, Identifying Information, and Incorporation by Reference . . . All financial information, operating data, financial statements, and notices required to be provided to the MSRB shall be provided in an electronic format and be accompanied by identifying information prescribed by the MSRB.

Financial information and operating data to be provided as set forth above under the subcaption "Annual Reports" may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document) available to the public on the MSRB's Internet Web site or filed with the SEC.

Compliance With Prior Undertakings . . . During the last five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12.

OTHER INFORMATION

RATINGS

The Bonds are expected to be rated "Aaa" and "AAA" by Moody's and S&P, respectively, by virtue of the guarantee of the Bonds by the Texas Permanent School Fund, as Moody's and S&P generally rate all bond issues guaranteed by the Permanent School Fund of the State of Texas "Aaa" and "AAA", respectively. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM." The District has also made application to Moody's and S&P for a rating on the Bonds without regard to credit enhancement and the Bonds have been assigned ratings of "Aal" by Moody's and "AA+" by S&P. An explanation of the significance of any 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 either or both rating companies, if in the judgment either or both companies, circumstances so warrant. Due to the ongoing political uncertainty regarding the United States of America debt limit, obligations issued by State and local governments in the United States, such as the Bonds, could be subject to a rating downgrade. Additionally, if a significant default or other financial crisis should occur in the affairs of the United States of America or of any of its agencies or political subdivisions, then such event could also adversely affect the ratings of, market for, and market value of outstanding debt obligations, including the Bonds. 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, by, in or before 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 condition or operations 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 other 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, as amended, 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 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 delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limitation as to rate or amount, upon all taxable property in the District and the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "Tax Matters" herein, including the alternative minimum tax on corporations. The form of Bond Counsel's opinion is attached hereto as Appendix C. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System.

Bond Counsel was engaged by, and only represents, the District. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information in this Official Statement appearing under the captions and subcaptions "PLAN OF FINANCING – Refunded Bonds", "THE BONDS" (excluding the information under the subcaptions "Book-Entry-Only System" and "Bondholders' Remedies"), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" (excluding the information under "The School Finance System as Applied to the District"), "TAX INFORMATION – Tax Rate Limitations" (first paragraph only), "TAX MATTERS", "CONTINUING DISCLOSURE INFORMATION" (excluding the information under the subcaption "Compliance with Prior Undertakings"), and the subcaptions "Registration and Qualification of Bonds for Sale", "Legal Investments and Eligibility to Secure Public Funds in Texas", and "Legal Matters" (excluding the last three sentences of the second paragraph thereof) under the caption "OTHER INFORMATION", and such firm is of the opinion that the information contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel McCall, Parkhurst & Horton L.L.P., Dallas, Texas. The legal fee of such firm is contingent upon the sale and delivery of the Bonds.

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

FINANCIAL ADVISOR

FirstSouthwest, a Division of Hilltop Securities Inc. ("FirstSouthwest") is employed as Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. FirstSouthwest in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

Grant Thornton LLP, a firm of independent public accountants, 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 Escrowed 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. Such report will be relied upon by Bond Counsel in rendering its opinions with respect to the exclusion from gross income of interest on the Bonds for federal income tax purposes and with respect to defeasance of the Refunded Bonds.

The verification performed by Grant Thornton LLP will be solely based upon data, information and documents provided to Grant Thornton LLP by FirstSouthwest on behalf of the District. Grant Thornton LLP has restricted its procedures to recalculating the computations provided by FirstSouthwest on behalf of the District and has not evaluated or examined the assumptions or information used in the computations.

UNDERWRITING

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

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

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

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement pursuant to their respective 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.

In the Bond Order, the Board authorized (i) the Pricing Officer to approve, for and on behalf of the District, the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and (ii) the Underwriters' use of this Official Statement in connection with the public offering and the sale of the Bonds.

____

Pricing Officer
Carrollton-Farmers Branch Independent School District

SCHEDULE OF REFUNDED BONDS*

Unlimited Tax School Building & Refunding Bonds, Series 2007

Original Dated Date	Original Maturity	Interest Rate	Principal Amount Outstanding	Principal Amount Refunded
2/15/2007	2/15/2018	4.500%	$ 6,425,000	$ 6,425,000
	2/15/2019	4.500%	6,750,000	6,750,000
	2/15/2020	4.500%	3,945,000	3,945,000
	2/15/2021	4.250%	4,150,000	4,150,000
	2/15/2022	5.000%	900,000	900,000
	2/15/2023	5.000%	950,000	950,000
	2/15/2024	5.000%	995,000	995,000
	2/15/2025	5.000%	1,050,000	1,050,000
	2/15/2026	5.000%	1,100,000	1,100,000
	2/15/2027	5.000%	1,155,000	1,155,000
	2/15/2032 (1)	4.750%	6,695,000	6,695,000
			$34,115,000	$34,115,000

The 2018 - 2032 maturities will be redeemed prior to original maturity on February 15, 2017, at par.

(1) Represents a term bond maturing February 15, 2032.

Unlimited Tax School Building & Refunding Bonds, Series 2008

Original Dated Date	Original Maturity	Interest Rate	Principal Amount Outstanding	Principal Amount Refunded
5/1/2008	2/15/2019	4.000%	$ 1,085,000	$ 1,005,000
	2/15/2020	4.000%	900,000	835,000
	2/15/2021	4.125%	940,000	870,000
	2/15/2022	4.250%	980,000	910,000
	2/15/2023	4.375%	1,020,000	945,000
	2/15/2024	4.375%	1,065,000	985,000
	2/15/2025	4.500%	1,115,000	1,035,000
	2/15/2026	4.625%	1,165,000	1,080,000
	2/15/2027	4.625%	1,220,000	1,130,000
	2/15/2028	4.625%	1,275,000	1,180,000
	2/15/2029	4.625%	1,340,000	1,240,000
	2/15/2030	4.750%	1,410,000	1,305,000
	2/15/2031	4.625%	1,480,000	1,370,000
	2/15/2032	4.625%	1,555,000	1,440,000
	2/15/2033	4.625%	1,635,000	1,515,000
			$18,185,000	$16,845,000

The 2019 - 2033 maturities will be redeemed prior to original maturity on February 15, 2018, at par.

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* Preliminary, subject to change.

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APPENDIX A

GENERAL INFORMATION REGARDING THE DISTRICT

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THE DISTRICT . . . The Carrollton-Farmers Branch Independent School District (the "District") is located in northwest Dallas County with a small portion in southeast Denton County. The District covers an area of 53.42 square miles and overlaps small areas of the Town of Addison, Cities of Coppell and Dallas, a significant portion of the City of Irving, 70% of the City of Farmers Branch and essentially all of the City of Carrollton.

The District owns and operates 38 schools, an alternative high school, a special education center, an outdoor learning center, an administrative complex consisting of professional training center, service center and administration buildings, athletic stadium and in excess of 562.95 acres of land. The schools are as follows:

Elementary schools	24
Middle schools	6
Alternative Campus	3
High schools	5
	38

The District employs a staff of approximately 3,166 which includes 1,637 certified teachers distributed throughout the system. Teacher salaries are competitive with surrounding districts.

Pupil/teacher ratio for the 2016-17 year is:

Pre-kindergarten	14.1 to 1	Fifth grade	16.8 to 1
Kindergarten	16.5 to 1	Junior high (Grades 6-8)	21.3 to 1
First grade/second grade	15.7 to 1	High school (Grades 9-12)	20.1 to 1
Third/fourth grade	15.8 to 1	District-wide (Pre-K/12)	19.9 to 1

HISTORICAL ENROLLMENT AND AVERAGE ATTENDANCE

Fiscal Year Ended 8/31	Fall Enrollment	Average Daily Attendance
2012	26,423	24,640
2013	26,385	24,552
2014	26,347	24,576
2015	26,210	24,503
2016	25,796	24,067
2017 (1)	25,438	23,717

(1) Estimated.

GENERAL EDUCATION . . . A good public school system constantly evaluates and monitors its instructional program to be certain its students are mastering the skills necessary to become useful, informed citizens. Quality education for all is the primary objective of the District.

Toward that end, the District provides a fully comprehensive instructional program in grades K-12 with an expanding pre-kindergarten program.

In addition to the regular curriculum, the District provides a comprehensive vocational program. Vocational programs include seven main areas: agriculture and agribusiness education, health occupations education, marketing education, office education, trade and industrial education, consumer and economics education and vocational industrial arts.

The fine arts program includes choral music, band, orchestra, art, speech and drama, foreign languages and physical education.

Gifted and talented classes are available for eligible students.

TRANSPORTATION . . . Bus transportation is available to those children who live more than two miles from the school which they would normally attend or determination has been made that a hazardous route exists from the students residence to the campus in the dedicated attendance zone. Additionally, students who attend more than one school to participate in vocational or bilingual programs receive transportation between schools during school hours. Special education students are eligible for transportation services when need is established.

The District contracts with Dallas County Schools to provide transportation for approximately 4,000 students in excess of 1,208,000 miles annually.

HIGHER EDUCATION . . . Several major universities and colleges are located within a 40 mile radius of the District. Among these universities are:

Institution	Location
Austin College	Sherman, Texas
Collin County Community College District (2 campuses)	Collin County
Dallas Baptist University	Dallas, Texas
Dallas County Community College District (8 Campuses)	Dallas County
East Texas State University	Commerce, Texas
Southern Methodist University	Dallas, Texas
Texas Christian University	Fort Worth, Texas
Texas Weslyan College	Fort Worth, Texas
Texas Women's University	Denton, Texas
University of North Texas	Denton, Texas
University of Texas at Arlington	Arlington, Texas
University of Texas at Dallas	Dallas, Texas

ECONOMIC DATA . . . The location of the District along Interstate 35, Interstate 635 and the Dallas North Tollway together with its proximity to the Dallas-Fort Worth International Airport approximately eight miles from the District, has provided a major impetus for growth in the northwest quadrant of Dallas County.

The District includes all or a major portion of rapidly expanding areas where convenience to the airport has had a major financial impact upon its tax base.

Valwood Improvement Authority was created in 1974 as the Farmers Branch-Carrollton Flood Control District, thus extending the development of industrial land along the Trinity River flood plain as the largest planned industrial/business park in Dallas County. Wholly contained within the Cities of Carrollton and Farmers Branch, the Authority has major freeway access, rail and motor line services.

Valley Ranch, a mixed-use development of 2,400 acres, is located south of Belt Line Road and north of the LBJ Freeway. Approximately 1,800 acres of the development is located within the District and approximately 1,200 of the 1,800 acres will be devoted to residential property.

Las Colinas, a mixed-use development of some 12,000 acres, lies immediately east of the Dallas-Fort Worth International Airport. This master-planned community contains quality residential areas, business parks, shopping centers, green-belt areas, country clubs, an equestrian center, office parks, luxury hotels, a complete recording and sound studio for motion picture production and a community college. Some 4,300 acres of Las Colinas lie within the District.

SELECTED EMPLOYERS IN THE DISTRICT

Employer	Type of Business	Approximate Number of Employees
Carrollton-Farmers Branch ISD	Education	3,071
JP Morgan Investment Services	Financial Services	2,390
Maxim Integrated Products	Semiconductors	1,352
Halliburton Energy Services	Oil Field Products	1,300
GEICO	Insurance	1,200
McKesson Corporation	Pharmaceuticals	1,000
Tuesday Morning	Decorative/gift items	1,000
Televista	Telecommunications	950
AT&T	Telecommunications	830
TD Industries	Heating & Air Conditioning	811

FINANCIAL SERVICES . . . A number of banks serve the area of the District. Deposit information is not available because many banks are branches of major urban banks and do not maintain separate records of local deposits. Additionally, there are a number of savings and loan associations in the area.

APPENDIX B

EXCERPTS FROM THE

CARROLLTON-FARMERS BRANCH INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

For the Year Ended August 31, 2015

The information contained in this Appendix consists of excerpts from the Carrollton-Farmers Branch 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.

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Members:
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

HANKINS, EASTUP, DEATON, TONN & SEAY
A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

902 NORTH LOCUST
P.O. BOX 977
DENTON, TX 76202-0977
TEL. (940) 387-8563
FAX (940) 383-4746

Independent Auditors' Report

To the Board of Trustees
Carrollton-Farmers Branch Independent School District
Carrollton, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Carrollton-Farmers Branch Independent School District (the District), as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Carrollton-Farmers Branch Independent School District as of August 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 and 18 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board ("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*, as of August 31, 2015. 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* on pages 5 through 16, the *budgetary comparison information* on page 67, and the *pension schedules* on pages 68 through 69 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 Carrollton-Farmers Branch Independent School District's basic financial statements. The introductory section, other supplementary information (as described in the accompanying table of contents), required Texas Educational Agency schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is also not a required part of the basic financial statements.

The other supplementary information (as described in the accompanying table of contents), required Texas Education Agency schedules, 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, other supplementary information (as described in the accompanying table of contents), required Texas Education Agency schedules, 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 and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated December 11, 2015 on our consideration of Carrollton-Farmers Branch Independent School District's internal control over financial reporting and on our test 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 Carrollton-Farmers Branch Independent School District's internal control over financial reporting and compliance.

Hankins, Eastup, Deaton, Tonn & Seay

Hankins, Eastup, Deaton, Tonn & Seay, PC
Denton, Texas

December 11, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Carrollton-Farmers Branch 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 transmittal letter at the front of this report and the financial statements, which follow this section beginning on page 19.

FINANCIAL HIGHLIGHTS

- The District's total combined assets and deferred outflows of resources as presented on the government-wide Statement of Net Position exceeded liabilities and deferred inflows of resources by $281.6 million. The net position of the District increased by $3.0 million during the year ended August 31, 2015. This increase is net of a $25.3 million prior period adjustment related to new accounting standards implemented this year for the District's pension plan.
- The District's governmental funds financial statements reported combined ending fund balances of $176.0 million. Of this amount, $1.0 million is nonspendable fund balance, $6.0 million is committed fund balance, $6.9 million is assigned fund balance and $65.5 million is unassigned fund balance in the General Fund. The remaining Fund balance of $96.6 million is comprised of $0.6 million in nonspendable fund balance, $94.6 million in restricted fund balance and $1.4 million in committed fund balance.
- Two major construction projects as well as three HVAC projects were completed during fiscal year 2014-15. A large high school addition project is expected to be completed during 2015-16. The final projects of the original 2003 bond election are in the planning stages that will include additions to elementary schools and HVAC projects. Construction related to this bond program will continue through 2017. Technology projects will continue throughout the program.
- The District implemented GASB 68 during 2014-15; a pension liability of $22.3 million of was recorded in the government-wide financial statements for its proportionate share of the TRS's net position liability.
- The general fund reported a fund balance this year of $79.4 million, which is an increase of $1.2 million from the prior year fund balance of $78.2 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

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 sho*rt-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,* such as workers' compensation self-insurance.
    - *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 shown 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 federal financial assistance (federal awards) section includes the schedule of expenditures of federal awards, the independent auditor's reports on internal control and compliance and other related reports and schedules. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

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

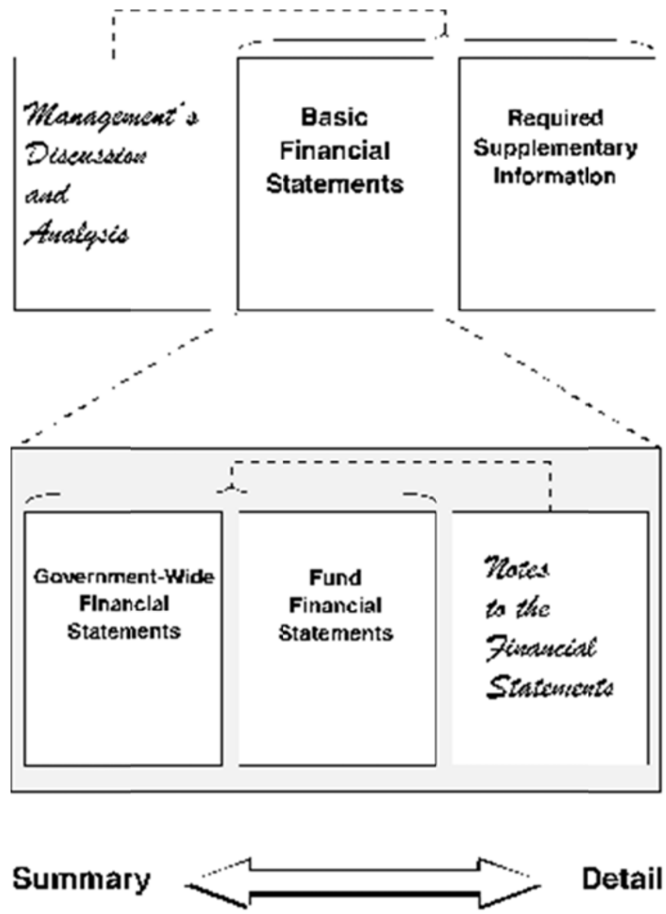


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of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

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

		Fund Statements		
Type of Statement	**Government-wide**	**Governmental Funds**	**Proprietary Funds**	**Fiduciary Funds**
Scope	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the district that are not proprietary or fiduciary	Activities the District operates similar to private business: self insurance	Instances in which the district is the trustee or agent for someone else's resources
Required financial statements	* Statement of net position	* Balance sheet	* Statement of net position	* Statement of fiduciary assets and liabilities
	* Statement of activities	* Statement of revenues, expenditures & changes in fund balances	* Statement of revenues, expenses and changes in fund net position	
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets, deferred outflows, liabilities and deferred inflows, both financial and capital, short-term and long-term	Only assets and deferred outflows expected to be used up and liabilities and deferred inflows that come due during the year or soon thereafter, no capital assets included	All assets, deferred outflows, liabilities and deferred inflows, both financial and capital, and short-term and long-term	All assets, deferred outflows, liabilities and deferred inflows, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	

Government-wide Statements

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

The two government-wide statements report the District's net position and how it has changed. Net position (the difference between the District's assets plus deferred outflows of resources minus liabilities minus deferred inflows of resources) is one-way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating, respectively.

- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's tax base and state funding structure.

The government-wide financial statements of the District include the category: *Governmental activities*-Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services, and general administration. Property taxes and grants finance most of these activities. Also included are business-type activities which include the District's after-school program.

Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.

- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has three kinds of funds:

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

- *Proprietary funds*-Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.

    - We use *internal service funds* to report activities that provide supplies and services for the District's other programs and activities-such as the District's Workers' Compensation Self-Insurance Fund.
    - We use *enterprise funds* to account for activities for which users are charged a fee for providing goods and services. The District's sole enterprise fund accounts for the After the Bell program which provides child care services.

- *Fiduciary funds*-The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that-because of a trust arrangement-can be used only for the trust beneficiaries. 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 assets and liabilities. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. As noted earlier, net position may serve over time as a useful indicator of the District's financial position. The District's combined net position increased between fiscal years 2014 and 2015 – increasing by $3.0 million or 1.1% to $281.7 million at August 31, 2015 (see Table A-1, Page 9).

Table A-1
The District's Net Position
(in millions of dollars)

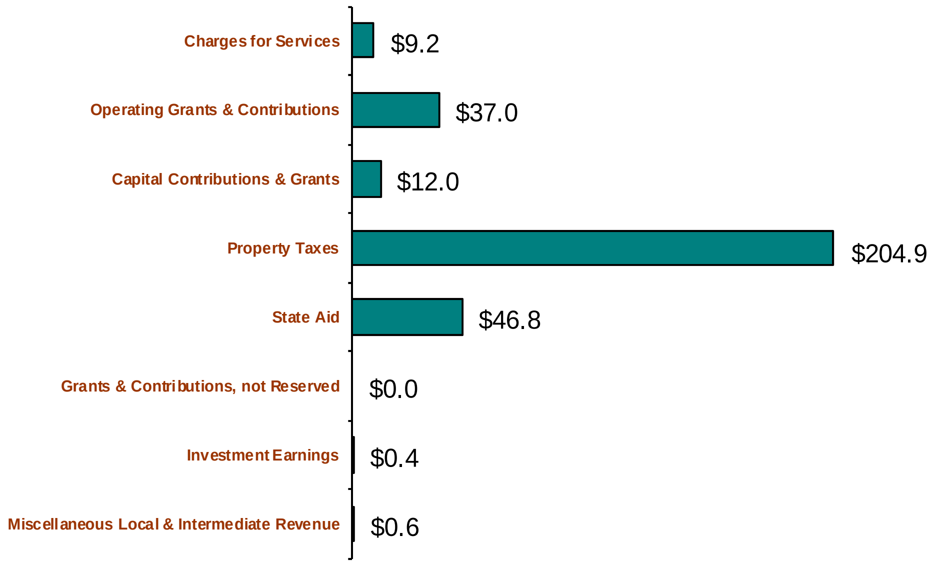
	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current & Other Assets	$ 205.9	$ 216.4	$ 5.6	$ 4.7	$ 211.5	$ 221.1
Capital Assets	411.7	402.0	-	-	411.7	402.0
Total Assets	$ 617.6	$ 618.4	$ 5.6	$ 4.7	$ 623.2	$ 623.1
Deferred Charge for Refunding	$ 5.9	$ 5.5	$ -	$ -	$ 5.9	$ 5.5
Deferred Outflow Related to TRS	6.0	-	-	-	6.0	-
Deferred Outflow of Resources	$ 11.9	$ 5.5	$ -	$ -	$ 11.9	$ 5.5
Current Liabilities	$ 19.3	$ 16.1	$ 0.1	$ 0.2	$ 19.4	$ 16.3
Long Term Liabilities	327.2	333.7	-	-	327.2	333.7
Total Liabilities	$ 346.5	$ 349.8	$ 0.1	$ 0.2	$ 346.6	$ 350.0
Deferred Inflow Related to TRS	$ 6.8	$ -	$ -	$ -	$ 6.8	$ -
Deferred Inflow of Resources	$ 6.8	$ -	$ -	$ -	$ 6.8	$ -
Net Position						
Net Investment in Capital Assets	$ 180.7	$ 148.0	$ -	$ -	$ 180.7	$ 148.0
Restricted	60.5	61.3	-	-	60.5	61.3
Unrestricted	35.0	64.8	5.5	4.5	40.5	69.3
Total Net Position	$ 276.2	$ 274.1	$ 5.5	$ 4.5	$ 281.7	$ 278.6

Portions of the net position are either restricted as to the purposes for which they can be used or they are net investment in capital assets. Unrestricted net position decreased by $28.8 million. Unrestricted net position may be used to fund District programs in the next fiscal year. However, this does not mean that the District has significant surplus resources available to pay its bills next year. Rather, it is the result of having *long-term commitments* that are less than currently available resources.

Changes in net position. The District's total revenues were $310.9 million representing an increase of $16.3 million or 5.53%. The majority of this increase relates to property taxes collected due to the rise of property values located within the district. The state distributed one-time Temporary Teacher Retirement System Contribution Assistance funds to provide relief from Senate Bill 1458 that requires districts to pay an additional 1.5% retirement contribution on TRS eligible salaries. The one-time funds account for $1.7 million of the $3.2 million increase in Operating Grants & Contributions. The District decreased the Debt Service tax rate by $.0202 to meet current requirements for principal and interest. A significant portion, 65.91%, of the District's revenue comes from taxes. (See Figure A-3, page 10.) Operating grants and contributions represent 11.90% while only 2.96% relates to charges for services.

The total cost of all programs and services was $282.5 million; an increase over the previous year of $7.1 million or 2.61%. Instructional and student services represent 56.02% of these costs, a $5.8 million increase from the previous year. A new compensation package for all employees and a new teacher retirement contribution of 1.5% increased costs in this area. Payments to the tax increment fund increased $2.3 million due to appreciation in property values in the Irving Tax Increment Zone. Major HVAC repairs and maintenance expenditures caused the plant maintenance & security functional area to increase $0.9 million. Debt services decreased $2.4 million as current and past bond refundings have reduced interest requirements.

Figure A-3 District Sources of Revenue for Fiscal Year 2015
(in millions of dollars)



Governmental Activities

- The District's tax rate consists of two separate components, a General Fund rate and a Debt Service rate. Taxes are calculated by dividing the assessed property value (less exemptions, if applicable) by 100 and multiplying the result by the tax rate. The Dallas Central Appraisal District and the Denton Central Appraisal District determine property values for the Carrollton-Farmers Branch ISD. The Debt Service rate is set to pay debt principal and interest for the fiscal year. The Debt Service rate decreased by $0.0202 per $100 assessed valuation. Property values increased 7.46%.

Table A-2
Changes in the District's Net Position
(in millions of dollars)

	Governmental Activities 2015	Governmental Activities 2014	Business-Type Activities 2015	Business-Type Activities 2014	Total 2015	Total 2014
Revenues						
Program Revenues						
Charges for Services	$ 4.9	$ 4.6	$ 4.3	$ 3.9	$ 9.2	$ 8.5
Operating Grants & Contributions	37.0	33.8	-	-	37.0	33.8
Capital Contributions & Grants	12.0	10.5	-	-	12.0	10.5
General Revenues						
Property Taxes	204.9	193.9	-	-	204.9	193.9
State aid - Formula Grants	46.8	47.2	-	-	46.8	47.2
Grants & Contributions Not Restricted	-	-	-	-	-	-
Investment Earnings	0.4	0.3	-	-	0.4	0.3
Miscellaneous Local & Intermediate Revenue	0.6	0.4	-	-	0.6	0.4
Total Revenues	$ 306.6	$ 290.7	$ 4.3	$ 3.9	$ 310.9	$ 294.6
Expenses						
Instruction & Instructional related	$ 158.3	$ 152.5	$ -	$ -	$ 158.3	$ 152.5
Instructional leadership & school leadership	18.5	17.6	-	-	18.5	17.6
Guidance, social work, health & transportation	17.0	17.2	-	-	17.0	17.2
Food services	12.6	12.1	-	-	12.6	12.1
Extracurricular	6.3	6.8	-	-	6.3	6.8
General administration	6.3	6.0	-	-	6.3	6.0
Plant maintenance & security	24.6	23.7	-	-	24.6	23.7
Data processing services	5.3	6.1	-	-	5.3	6.1
Community services	0.5	0.4	-	-	0.5	0.4
Debt services	10.9	13.3	-	-	10.9	13.3
Payments to juvenile justice alternative ed programs	-	-	-	-	-	-
Payments to tax increment fund	18.0	15.7	-	-	18.0	15.7
Other Intergovernmental Charges	0.9	0.9	-	-	0.9	0.9
After the Bell Child Care	-	-	3.3	3.1	3.3	3.1
Total Expenses	$ 279.2	$ 272.3	$ 3.3	$ 3.1	$ 282.5	$ 275.4
Increase/(Decrease) in net position	**$ 27.4**	**$ 18.4**	**$ 1.0**	**$ 0.8**	**$ 28.4**	**$ 19.2**
Beginning net position	**274.1**	**255.7**	**4.5**	**3.7**	**278.6**	**259.4**
Prior Period Adjustment	**(25.3)**	**-**	**-**	**-**	**(25.3)**	**-**
Ending net position	**$ 276.2**	**$ 274.1**	**$ 5.5**	**$ 4.5**	**$ 281.7**	**$ 278.6**

Table A-3 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 state revenues as well as local tax dollars funded.

- The cost of all District activities this year was $282.5 million, an increase of $7.2 million or 2.61% over the prior year. Most functional categories did not encounter significant changes from the prior year. The functional category attributed to Instruction and Instructional related increased $5.8 million. The District provided a 3.0% compensation adjustment to all employees and a $250 annual performance pay as well as a state legislative mandated 1.5% retirement contribution for TRS eligible salaries. The District continues its initiative to reduce costs in all functional areas such as requesting waivers to allow class sizes to exceed the 22 to 1 limit for grades K-4 to reduce staffing needs. The functional categories attributed to Plant Maintenance and Security increased $0.9 million due to major HVAC repairs and maintenance.

- The amount that our taxpayers paid for these activities through property taxes was $204.9 million.

- $9.2 million or 2.96% of total costs were paid by those who directly benefited from the programs.

- Operating grants and contributions totaled $37.0 million.

Table A-3
Net Cost of Selected District Functions
(in millions of dollars)

	Total Cost of Services		% Change	Net Cost of Services		% Change
	2015	2014		2015	2014	
Instruction	$ 146.4	$ 141.7	3.32%	$ 125.3	$ 121.7	2.96%
Instructional Resources & Media Services	5.0	4.5	11.11%	4.7	4.2	11.90%
Curriculum & Staff Development	6.9	6.3	9.52%	3.7	4.1	-9.76%
School Leadership	15.2	14.3	6.29%	14.2	13.5	5.19%
Food Service	12.6	12.1	4.13%	0.5	1.1	-54.55%
Plant maintenance and Operations	23.1	22.1	4.52%	21.8	21.0	3.81%

Financial Analysis of the District's Funds

Governmental Funds The District's accounting records for general governmental operations are maintained on a modified accrual basis as prescribed by the *Financial Accountability System Resource Guide*, Texas Education Agency, with the revenues being recorded when available and measurable to finance expenditures of the fiscal period. Expenditures are recorded when services or goods are received and the fund liabilities are incurred. The general governmental operations include the following major funds: General, City of Irving TIF #1, Debt Service, and Capital Projects Fund.

- Revenues from general governmental functions totaled $306.2 million, an increase of $15.5 million from the preceding year. Property taxes were the largest source of revenue received by the District. The District's total taxable values increased $1.1 billion or 7.46% which resulted in an increase of property tax revenue of $10.7 million or 5.54%. The Debt Service requirements for principal and interest decreased from the prior year and with the increase in property values in the District, the Debt Service tax rate decreased by $.0202. State aid formula grants increased $1.9 million due to the one-time Temporary Teacher Retirement System Contribution Assistance funds that provides relief from Senate Bill 1458 that requires districts to pay an additional 1.5% retirement contribution on TRS eligible salaries.

- Expenditures for general governmental operations totaled $319.5 million during fiscal year 2015. The total increase in expenditures was $17.6 million. The largest increase of $9.2 million was in the functional category of Facilities Acquisition and Construction where the District completed construction of a new elementary school and additions to a middle school and an elementary school. Construction was started on a major high school addition and is expected to be completed during the 2015-16 fiscal year. Plans are underway to provide additions for two elementary schools and a middle school. Instruction increased $3.2 million with the approved compensation package of 3.0% for all employees and an annual performance pay of $250. The mandated 1.5% retirement contribution increased payroll expenditures as well for the District. During the 2014-15 fiscal year, as part of a multiple phase technology initiative, the District addressed the need to upgrade the equipment in the network operations center. The technology upgrade increased Data Processing Services $0.9 million. Payments to the Tax Increment Fund increased $2.3 million to due to the appreciation of values in the Irving Tax Increment Zone. The largest decreases were in the following functional categories: Interest on Long-Term Debt decreased $2.0 million as current and past bond refundings have resulted in significant interest savings; Student (Pupil) Transportation incurred savings due to the lower transportation costs associated with the lower price of oil.

- In fiscal year 2004 voters approved a bond authorization of $300.165 million. The remaining outstanding bonds from the original authorization were issued during May 2013. The District completed six major projects that included a new elementary, school additions and HVAC projects. Construction has begun on additions to a high school and planning has started on multiple additions and repairs to middle and elementary schools.

- The governmental funds reported a combined fund balance of $176.0 million, a decrease of $13.3 million. The combined fund balance was comprised of a fund balance increase in the General Fund of $1.2 million and a fund balance increase in the Debt Service Fund of $0.2 million. The District continues to evaluate operations to be more efficient and to find cost savings without adversely affecting student performance. Reduction measures include energy savings programs and realignment of programs to reduce the need for additional personnel. A compensation package that included a 3.0% raise for all employees and an additional mandated 1.5% retirement contribution increased District expenditures. The City of Irving TIF # 1 (Tax Increment Fund) fund balance decreased $2.9 million due to ongoing construction for additions to a high school located within the tax increment zone. Increasing property values within the tax increment zone has continued to increase revenue to help offset construction costs. The Capital Projects Fund balance decreased $13.4 million. The Capital Projects Fund has the completed the addition to an elementary school, an addition to a middle school, a new elementary school in the western portion of the district and multiple HVAC projects. Out of the combined fund balances, $1.0 million constitutes nonspendable fund balance, $6.9 million constitutes assigned fund balance, $6.0 million has been committed in the general fund for building construction and repairs and technology capital replacement, and $65.5 million constitutes unassigned fund balance available for the general operations of the District. The remainders of the fund balances are either restricted or committed fund balances to indicate that it is not available for new spending because constraints have been placed on the funds due to bond projects, debt service and other obligations of the District.

General Fund Budgetary Highlights

- Over the course of the year, the District revised its budget several times. Actual expenditures were $6.8 million below final budget amounts. The most significant positive variance resulted in Facilities Maintenance and Operations where negotiation of new utility rates along with a departmental effort to reduce costs in all areas from personnel to contracted services were factors. Several factors contributed to the positive various in the Instruction functional area. In an effort to reduce positions, the District has made a concerted effort to reduce costs in all areas such as increased secondary class size and/or teaching load to 28 as well as consolidating personnel in areas where student performance would be least affected. A portion of the technology capital replacement initiative was temporarily delayed that contributed to the positive variance. This reduced the final amended budget from the adopted budget by $1.5 million. The District also obtained class size waivers for K-4 classes to exceed the 22 to 1 requirement to reduce the need for additional teaching units that exceed the limit.

- Function 34, Student (Pupil) Transportation experienced a positive variance due to the depressed oil and gas market. The reduced price was passed down to the end users in the form of cheaper fuel costs which more than offset any rise in other transportation costs. The reduced costs in this category allowed the District to reduce the final budget from the adopted by $0.3 million.

- Function 41, General Administration, experienced a positive variance even though the District experienced a rise in legal fees related to two significant lawsuits. The adopted budget over the final budget in this category increased $0.3 million.

- Revenues available were $5.7 million over the final budget amount. The District received a larger than anticipated reimbursement from School Health and Related Services. The over variance of state revenue is attributed to the one-time Temporary Teacher Retirement System Contribution Assistance funds.

- Data Processing Services actual expenditures were $0.5 million below final budget amounts. The District proceeded with the upgrade of the equipment for the network operating center. The network operating center upgrade increased the final budget from the adopted budget in this functional category by $2.2 million.

Capital Assets and Debt Administration

Capital Assets

At August 31, 2015, the District had invested $411.7 (net of depreciation) million in a broad range of capital assets, including land, equipment, and vehicles. (See Table A-4.) This amount represents a net increase (including additions and deductions) of $9.7 million or 2.41% over last year. Most of this increase was related to the costs of a high school addition, an elementary school project, additions to a middle and elementary school. Additional information regarding Capital Assets is available in the Notes to the Financial Statements, pages 49-50.

Table A-4
District's Capital Assets
(in millions of dollars)

	Governmental Activities		Total % Change
	2015	2014	
Land	$ 61.4	$ 61.4	0.00%
Buildings, building improvements & land improvements (net)	323.3	315.3	2.54%
Construction in progress	24.5	22.8	7.46%
Furniture and equipment (net)	2.5	2.5	0.00%
Totals at historical costs	$ 411.7	$ 402.0	2.41%

Debt Administration

Table A-5
District's Long Term Debt
(in millions of dollars)

	Governmental 2015	Governmental 2014	Total % Change
Bonds payable	$ 274.8	$ 304.5	-9.75%
Net Pension Liability	22.3	-	0.00%
Other Long Term Debt payable	30.1	29.2	3.08%
Sub-Total	$ 327.2	$ 333.7	-1.95%
Less Current Portion	(30.3)	(29.1)	4.12%
Total due in more than one year	**$ 296.9**	**$ 304.6**	-2.53%

At year-end the District had $274.8 million in bonds and notes outstanding due in more than one year. (See Table A-5.) More detailed information about the District's debt is presented in the Notes to the Financial Statements, pages 51-53.

In the State of Texas, Non-Chapter 41 school district bond sales are guaranteed by the Permanent School Fund (PSF). Chapter 41 school districts must purchase bond insurance independently if the state's permanent bond guarantee fund does not have the capacity to cover all issues. The two ratings that the district receives on bond sales are: one with the state permanent guarantee and one without (called underlying). The District's underlying bond rating is shown on the graph below. Under the PSF, the ratings are Aaa for Moody's Investors Service and AAA for Standard & Poor's Corporation.

Bond Ratings-Underlying

The District's bonds presently carry
Aa1 rating from Moody's Investors Services
AA from Standard & Poor's Corporation

Economic Factors and Next Year's Budgets and Rates

- Assessed values used for the 2016 budget preparation increased $1,004.1 million or 6.24% from 2015.

- General operating fund spending per student in the 2016 budget increases from $7,921 to $8,203 (excluding the Chapter 41 and Tax Increment Financing payments). This is a 3.57% increase.

- The District's enrollment in 2015 was 26,210, a decrease of 137.0 or -0.52% over 2014. The District is not anticipating significant student growth in 2016.

- The District's attendance rate decreased 0.2% from 95.9% for 2014 to 95.7% for 2015.

These indicators were taken into account when adopting the general fund budget for 2016. The state funding formulas have changed significantly with the passage of House Bill 1 (80th Legislature) and the target revenue concept. Although the 83rd Texas Legislature altered the some of the state funding formulas, the target revenue system remains in place. House Bill 1 funding mechanism is designed to keep the revenue per weighted average daily attendance flat from one year to the next; this is called a target revenue model. Although House Bill 3646 (passed in 2009) adjusted the target revenue amount by $120 per student, most of this increase was used for a mandated raise for teachers, librarians, counselors, nurses and speech pathologists. The passage of Senate Bill 1 by the 82nd Legislature reduced the basic regular allotment and target revenue to districts over two fiscal years by $4 billion, beginning in 2011-12. During the 2013 Legislative Session, the Legislature restored $3.2 billion of the $4 billion that was cut from the basic state aid during 2011. Changes in the District's assessed value – either increases or decreases do no harm nor benefit the District under the Target Revenue concept, up to a compressed tax rate. In general, as the tax revenues go up, the State Revenue goes down by a similar amount; hence although the relative value of the various funding sources may change the net bottom line will remain virtually the same. The target revenue design does not allow for inflation, program increases or raises for district employees. Basically, the only way to generate additional revenue is to ask local taxpayers for a tax increase absent the increase of the student population. Under SB1, the legislatures established the intent to eliminate target revenue by September 1, 2017. Under the current system, if a District's Tier I state aid plus local revenue at its compressed rate is more than the target level, the district gets to keep it all and is considered to be "formula" district. If a district's Tier I state aid plus local revenue at the compressed rate is less than the target level, the district continues to receive "Additional State Aid for Tax Reduction (ASATR)." During the 2013-14 fiscal year, the District became a "formula" district and has maintained that status for 2014-15. The increase in property values caused General Fund tax revenues budgeted to increase $7.5 million more than actual collections for fiscal year 2015. The amount of state revenue budgeted increased by $0.2 million for fiscal year 2015-16.

General Fund expenditures are budgeted to increase 2.74% to $238.0 million over the original 2015 budgeted amounts of $231.6 million. The District implemented a 3.0% employee raise for fiscal year 2015-16 and authorized hiring 21 teaching units and 4 support staff to eliminate the need for classroom size waivers. The District's will move forward with the technology initiative that will address mobile devices. The District continues to analyze all areas of operations to find savings without impacting student achievement.

If these estimates are realized, the District's budgetary general fund balance is expected to decrease by $6.9 million by the close of the 2016 fiscal year.

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 Director of Financial Reporting, Scott Roderick, at 1445 N. Perry Road, Carrollton, Texas 75011-5186, (972) 968-6116, e-mail rodericks@cfbisd.edu.

BASIC FINANCIAL STATEMENTS

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Carrollton-Farmers Branch ISD

CARROLLTON-FARMERS BRANCH ISD
STATEMENT OF NET POSITION
AUGUST 31, 2015

Data Control Codes		1 Primary Government Governmental Activities	2 Primary Government Business Type Activities	3 Primary Government Total
	ASSETS			
1110	Cash and Cash Equivalents	$ 197,673,015	$ 5,533,142	$ 203,206,157
1220	Property Taxes Receivable (Delinquent)	5,180,133	-	5,180,133
1230	Allowance for Uncollectible Taxes	(2,664,382)	-	(2,664,382)
1240	Due from Other Governments	4,048,129	-	4,048,129
1250	Accrued Interest	145,712	10,849	156,561
1260	Internal Balances	(46,709)	46,709	-
1290	Other Receivables, net	8,536	-	8,536
1300	Inventories	1,602,589	-	1,602,589
	Capital Assets:			
1510	Land	61,365,108	-	61,365,108
1520	Buildings, Net	323,291,966	-	323,291,966
1530	Furniture and Equipment, Net	2,541,084	-	2,541,084
1580	Construction in Progress	24,478,664	-	24,478,664
1000	Total Assets	617,623,845	5,590,700	623,214,545
	DEFERRED OUTFLOWS OF RESOURCES			
1701	Deferred Charge for Refunding	5,932,038	-	5,932,038
1705	Deferred Outflow Related to TRS	5,977,579	-	5,977,579
1700	Total Deferred Outflows of Resources	11,909,617	-	11,909,617
	LIABILITIES			
2110	Accounts Payable	7,265,133	5,806	7,270,939
2140	Interest Payable	495,853	-	495,853
2150	Payroll Deductions & Withholdings	272,726	-	272,726
2160	Accrued Wages Payable	9,074,518	134,211	9,208,729
2180	Due to Other Governments	1,877,964	-	1,877,964
2300	Unearned Revenue	303,144	-	303,144
	Noncurrent Liabilities			
2501	Due Within One Year	30,342,560	-	30,342,560
2502	Due in More Than One Year	274,482,868	-	274,482,868
2540	Net Pension Liability (District's Share)	22,347,945	-	22,347,945
2000	Total Liabilities	346,462,711	140,017	346,602,728
	DEFERRED INFLOWS OF RESOURCES			
2605	Deferred Inflow Related to TRS	6,836,303	-	6,836,303
2600	Total Deferred Inflows of Resources	6,836,303	-	6,836,303
	NET POSITION			
3200	Net Investment in Capital Assets	180,652,567	-	180,652,567
	Restricted:			
3820	Restricted for Federal and State Programs	1,853,920	-	1,853,920
3850	Restricted for Debt Service	8,305,109	-	8,305,109
3890	Restricted for Other Purposes	50,364,760	-	50,364,760
3900	Unrestricted	35,058,092	5,450,683	40,508,775
3000	Total Net Position	$ 276,234,448	$ 5,450,683	$ 281,685,131

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

CARROLLTON-FARMERS BRANCH ISD
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes		1 Expenses	Program Revenues: 3 Charges for Services	4 Operating Grants and Contributions	5 Capital Grants and Contributions
	Primary Government:				
	GOVERNMENTAL ACTIVITIES:				
11	Instruction	$ 146,417,736	$ 901,199	$ 20,215,153	$ -
12	Instructional Resources and Media Services	4,985,743	22,626	259,499	-
13	Curriculum and Staff Development	6,914,130	9,954	3,186,237	-
21	Instructional Leadership	3,337,331	-	246,362	-
23	School Leadership	15,163,309	71,639	921,359	-
31	Guidance, Counseling and Evaluation Services	10,147,756	100,377	788,766	-
32	Social Work Services	67,822	-	4,655	-
33	Health Services	2,644,044	167	178,482	-
34	Student (Pupil) Transportation	4,132,874	-	2,595	-
35	Food Services	12,626,501	2,584,412	9,528,720	-
36	Extracurricular Activities	6,282,594	704,642	20,052	-
41	General Administration	6,312,631	-	407,265	-
51	Facilities Maintenance and Operations	23,064,274	510,612	746,107	-
52	Security and Monitoring Services	1,492,686	5,465	61,031	-
53	Data Processing Services	5,266,587	1,537	172,054	-
61	Community Services	450,639	-	297,852	-
72	Debt Service - Interest on Long Term Debt	10,579,326	-	-	-
73	Debt Service - Bond Issuance Cost and Fees	303,266	-	-	-
95	Payments to Juvenile Justice Alternative Ed. Prg.	31,486	-	-	-
97	Payments to Tax Increment Fund	17,974,812	-	-	11,980,349
99	Other Intergovernmental Charges	899,649	-	-	-
	[TG] Total Governmental Activities:	279,095,196	4,912,630	37,036,189	11,980,349
	BUSINESS-TYPE ACTIVITIES:				
01	Enterprise Funds - After the Bell	3,398,042	4,292,661	-	-
	[TB] Total Business-Type Activities:	3,398,042	4,292,661	-	-
	[TP] TOTAL PRIMARY GOVERNMENT:	$ 282,493,238	$ 9,205,291	$ 37,036,189	$ 11,980,349

Data Control Codes	
	General Revenues:
	Taxes:
MT	Property Taxes, Levied for General Purposes
DT	Property Taxes, Levied for Debt Service
SF	State Aid - Formula Grants
GC	Grants and Contributions not Restricted
IE	Investment Earnings
MI	Miscellaneous Local and Intermediate Revenue
TR	Total General Revenues
CN	Change in Net Position
NB	Net Position - Beginning
PA	Prior Period Adjustment "Required by GASB 68"
NE	Net Position - Ending

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

Net (Expense) Revenue and Changes in Net Position		
6	7	8
Primary Government		
Governmental Activities	Business-type Activities	Total
$ (125,301,384)	$ -	$ (125,301,384)
(4,703,618)	-	(4,703,618)
(3,717,939)	-	(3,717,939)
(3,090,969)	-	(3,090,969)
(14,170,311)	-	(14,170,311)
(9,258,613)	-	(9,258,613)
(63,167)	-	(63,167)
(2,465,395)	-	(2,465,395)
(4,130,279)	-	(4,130,279)
(513,369)	-	(513,369)
(5,557,900)	-	(5,557,900)
(5,905,366)	-	(5,905,366)
(21,807,555)	-	(21,807,555)
(1,426,190)	-	(1,426,190)
(5,092,996)	-	(5,092,996)
(152,787)	-	(152,787)
(10,579,326)	-	(10,579,326)
(303,266)	-	(303,266)
(31,486)	-	(31,486)
(5,994,463)	-	(5,994,463)
(899,649)	-	(899,649)
(225,166,028)	-	(225,166,028)
-	894,619	894,619
-	894,619	894,619
(225,166,028)	894,619	(224,271,409)
163,516,686	-	163,516,686
41,367,838	-	41,367,838
46,810,897	-	46,810,897
14,570	-	14,570
364,601	11,149	375,750
564,194	-	564,194
252,638,786	11,149	252,649,935
27,472,758	905,768	28,378,526
274,082,006	4,544,915	278,626,921
(25,320,316)	-	(25,320,316)
$ 276,234,448	$ 5,450,683	$ 281,685,131

CARROLLTON-FARMERS BRANCH ISD
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2015

Data Control Codes		10 General Fund	City of Irving TIF #1	50 Debt Service Fund
	ASSETS			
1110	Cash and Cash Equivalents	$ 87,842,142	$ 44,573,052	$ 8,262,209
1220	Property Taxes - Delinquent	4,092,837	-	1,087,296
1230	Allowance for Uncollectible Taxes (Credit)	(2,126,120)	-	(538,262)
1240	Receivables from Other Governments	1,912,267	-	-
1250	Accrued Interest	72,466	1,644	-
1260	Due from Other Funds	1,430,858	-	-
1290	Other Receivables	1,636	-	-
1300	Inventories	1,022,819	-	-
1000	Total Assets	$ 94,248,905	$ 44,574,696	$ 8,811,243
	LIABILITIES			
2110	Accounts Payable	$ 2,413,074	$ 2,251,590	$ -
2150	Payroll Deductions and Withholdings Payable	272,726	-	-
2160	Accrued Wages Payable	8,417,304	-	-
2170	Due to Other Funds	637	-	6,043
2180	Due to Other Governments	1,877,964	-	-
2300	Unearned Revenues	26,896	-	4,238
2000	Total Liabilities	13,008,601	2,251,590	10,281
	DEFERRED INFLOWS OF RESOURCES			
2601	Unavailable Revenue - Property Taxes	1,794,281	-	500,853
2600	Total Deferred Inflows of Resources	1,794,281	-	500,853
	FUND BALANCES			
	Nonspendable Fund Balance:			
3410	Inventories	1,022,819	-	-
	Restricted Fund Balance:			
3450	Food Service	-	-	-
3470	Capital Acquisition and Contractural Obligation	-	-	-
3480	Retirement of Long-Term Debt	-	-	8,300,109
3490	Tax Increment Zone	-	42,323,106	-
	Committed Fund Balance:			
3545	Building Construction, Repairs & Renovation	3,000,000	-	-
3545	Technology Capital Replacement	3,000,000	-	-
3545	Campus Activity Funds	-	-	-
	Assigned Fund Balance:			
3590	Subsequent Year's Budget Deficit	6,947,034	-	-
3600	Unassigned Fund Balance	65,476,170	-	-
3000	Total Fund Balances	79,446,023	42,323,106	8,300,109
4000	Total Liabilities, Deferred Inflows & Fund Balances	$ 94,248,905	$ 44,574,696	$ 8,811,243

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

60 Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
$ 36,671,520	$ 11,455,093	$ 188,804,016
-	-	5,180,133
-	-	(2,664,382)
-	2,135,862	4,048,129
60,479	-	134,589
-	637	1,431,495
-	6,900	8,536
-	579,770	1,602,589
$ 36,731,999	$ 14,178,262	$ 198,545,105
$ 2,105,377	$ 484,832	$ 7,254,873
-	-	272,726
-	654,939	9,072,243
-	1,471,524	1,478,204
-	-	1,877,964
-	272,010	303,144
2,105,377	2,883,305	20,259,154
-	-	2,295,134
-	-	2,295,134
-	579,770	1,602,589
-	1,274,150	1,274,150
34,626,622	-	34,626,622
-	-	8,300,109
-	8,041,654	50,364,760
-	-	3,000,000
-	-	3,000,000
-	1,399,383	1,399,383
-	-	6,947,034
-	-	65,476,170
34,626,622	11,294,957	175,990,817
$ 36,731,999	$ 14,178,262	$ 198,545,105

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Carrollton-Farmers Branch ISD

CARROLLTON-FARMERS BRANCH ISD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AUGUST 31, 2015

	Total Fund Balances - Governmental Funds	$	175,990,817
1	The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase(decrease) net position.		7,491,020
2	Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds.		741,580,699
3	Accumulated depreciation has not been included in the governmental fund financial statements.		(329,903,877)
4	Bonds payable and contractual obligations have not been included in the governmental fund financial statements.		(274,820,000)
5	Premium on issuance of debt were not recognized on the balance sheet for governmental funds.		(26,219,194)
6	For debt refunding, the difference between the acquisition price and the net carrying amount of the debt has been deferred and amortized in the government-wide financial statements.		5,932,038
7	Deferred inflows reported as unavailable revenue in the governmental fund financials statements was recorded as revenue in the government-wide financial statements.		2,295,134
8	Interest accrued on outstanding debt in the government-wide financial statements, whereas in the governmental fund financial statements an interest expense is reported when due.		(495,853)
9	Compensated absences are accrued in the government-financial statements but not in the governmental funds.		(2,409,667)
10	Included in the items related to government-wide long-term debt is the recognition of the District's proportionate share of the net position liability required by GASB 68 in the amount of $22,347,945, Deferred Resource Inflows related to TRS in the amount of $6,836,303, and Deferred Resource Outflows related to TRS in the amount of $5,977,579. This results in a decrease in Net Position in the amount of $23,203,669.		(23,206,669)
19	**Net Position of Governmental Activities**	$	276,234,448

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

CARROLLTON-FARMERS BRANCH ISD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes		10 General Fund	City of Irving TIF #1	50 Debt Service Fund
	REVENUES:			
5700	Total Local and Intermediate Sources	$ 165,134,178	$ 11,539,467	$ 41,267,792
5800	State Program Revenues	58,554,935	-	-
5900	Federal Program Revenues	3,090,236	-	-
5020	Total Revenues	226,779,349	11,539,467	41,267,792
	EXPENDITURES:			
	Current:			
0011	Instruction	124,693,818	-	-
0012	Instructional Resources and Media Services	3,897,565	-	-
0013	Curriculum and Instructional Staff Development	3,780,875	-	-
0021	Instructional Leadership	3,228,172	-	-
0023	School Leadership	14,195,757	-	-
0031	Guidance, Counseling and Evaluation Services	9,719,307	-	-
0032	Social Work Services	68,002	-	-
0033	Health Services	2,564,320	-	-
0034	Student (Pupil) Transportation	4,098,670	-	-
0035	Food Services	81,151	-	-
0036	Extracurricular Activities	4,365,191	-	-
0041	General Administration	5,733,153	-	-
0051	Facilities Maintenance and Operations	21,816,848	-	-
0052	Security and Monitoring Services	1,477,867	-	-
0053	Data Processing Services	6,668,538	-	-
0061	Community Services	154,868	-	-
	Debt Service:			
0071	Principal on Long Term Debt	-	-	28,295,000
0072	Interest on Long Term Debt	-	-	12,446,881
0073	Bond Issuance Cost and Fees	-	-	303,266
	Capital Outlay:			
0081	Facilities Acquisition and Construction	130,890	14,449,376	-
	Intergovernmental:			
0095	Payments to Juvenile Justice Alternative Ed. Prg.	31,486	-	-
0097	Payments to Tax Increment Fund	17,974,812	-	-
0099	Other Intergovernmental Charges	899,649	-	-
6030	Total Expenditures	225,580,939	14,449,376	41,045,147
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	1,198,410	(2,909,909)	222,645
	OTHER FINANCING SOURCES (USES):			
7901	Refunding Bonds Issued	-	-	34,725,000
7916	Premium or Discount on Issuance of Bonds	-	-	2,642,857
8940	Payment to Bond Refunding Escrow Agent (Use)	-	-	(37,393,627)
7080	Total Other Financing Sources (Uses)	-	-	(25,770)
1200	Net Change in Fund Balances	1,198,410	(2,909,909)	196,875
0100	Fund Balance - September 1 (Beginning)	78,247,613	45,233,015	8,103,234
3000	Fund Balance - August 31 (Ending)	$ 79,446,023	$ 42,323,106	$ 8,300,109

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

60 Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
$ 91,065	$ 4,338,584	$ 222,371,086
-	2,753,626	61,308,561
-	19,438,711	22,528,947
91,065	26,530,921	306,208,594
-	9,709,181	134,402,999
-	79,457	3,977,022
-	3,001,278	6,782,153
-	80,806	3,308,978
-	74,174	14,269,931
-	288,468	10,007,775
-	-	68,002
-	189	2,564,509
-	2,020	4,100,690
-	10,817,100	10,898,251
-	476,025	4,841,216
-	105,551	5,838,704
-	1,280	21,818,128
-	5,339	1,483,206
-	-	6,668,538
-	270,583	425,451
-	-	28,295,000
-	-	12,446,881
-	-	303,266
13,515,297	2,000	28,097,563
-	-	31,486
-	-	17,974,812
-	-	899,649
13,515,297	24,913,451	319,504,210
(13,424,232)	1,617,470	(13,295,616)
-	-	34,725,000
-	-	2,642,857
-	-	(37,393,627)
-	-	(25,770)
(13,424,232)	1,617,470	(13,321,386)
48,050,854	9,677,487	189,312,203
$ 34,626,622	$ 11,294,957	$ 175,990,817

CARROLLTON-FARMERS BRANCH ISD
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

Total Net Change in Fund Balances - Governmental Funds	$	(13,321,386)
The District uses internal service funds to charge the costs of self-insurance to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net position.		(1,105,284)
Current year capital outlays are expenditures in the fund financial statements, but they are shown as increases in capital assets in the government-wide financial statements. The net effect of removing the 2014 capital outlays is to increase net position.		29,562,245
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.		(17,329,863)
Current year long-term debt principal payments on bonds payable are expenditures in the fund financial statements but are shown as reductions in long-term debt in the government-wide financial statements.		28,295,000
Current year bond proceeds are other financing sources in the fund financial statements, but are shown as an increase in the liabilities in the government-wide financial statements. The net proceeds of $37,367,857 include $34,725,000 par amount of bonds plus $2,642,857 of premium paid.		(37,367,857)
Current year payment to escrow agent for refunded debt are expenditures in the fund financial statements, but are shown as reductions in long-term debt in the government-government wide financial statements. The net payment of $37,393,627 included bonds of $32,216,108($36,145,000 par amount of bonds plus deferred charge on refunding of $1,071,108) plus accrued interest of $177,519.		37,216,108
Interest is accrued on outstanding debt in the governmenta-wide financial statements, whereas in the fund financial statements interest expenditures are reported when due.		73,836
The liability for accrued compensated absences is not recognized in the governmental funds. The effect of recording the current year's liability is to decrease net position.		(412,643)
Premiums on bonds issued are recognized in the fund financial statements as other financing sources, but they are amortized over the term of the bonds in the government-wide financial statements.		2,616,852
Amortization of deferred charge on bond refundings is not recognized in the governmental funds. The effect of recording current year's amortization is to decrease net position.		(645,614)
Revenue from property taxes is unavailable in the fund financial statements until they are		321,789

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

considered available to finance current expenditures, but such revenues are recognized when assessed net of allowance for uncollectible accounts in the government-wide statements.		
In the statement of activities, the loss on the asset disposals are reported, whereas in the governmental funds, the proceeds from the sale, increase financial resources. The change in net position differs from the change in fund balances by the cost of assets disposed.		(2,544,072)
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 8/31/2014 caused the change in the ending net position to increase in the amount of $4,179,320. Contributions made before the measurement were also dexpended and recorded as a reduction in the net pension liability for the district. These contributions were placed with the District's pension expense for the measurement year of $2,065,673, which results in a decrease in the change in net pension. The net effect of these is to increase the change in net position by $2,113,647.		2,113,647
Change in Net Position of Governmental Activities	$	27,472,758

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

CARROLLTON-FARMERS BRANCH ISD
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AUGUST 31, 2015

	Business-Type Activities - Total Enterprise Funds	Governmental Activities - Internal Service Fund
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 5,533,142	$ 8,868,999
Accrued Interest	10,849	11,123
Due from Other Funds	46,990	-
Total Assets	5,590,981	8,880,122
LIABILITIES		
Current Liabilities:		
Accounts Payable	5,806	10,260
Accrued Wages Payable	134,211	2,275
Due to Other Funds	281	-
Accrued Expenses	-	1,037,624
Total Current Liabilities	140,298	1,050,159
Noncurrent Liabilities:		
Bonds, Loans & Other Payable - Due Within One Year	-	338,943
Total Noncurrent Liabilities	-	338,943
Total Liabilities	140,298	1,389,102
NET POSITION		
Unrestricted Net Position	5,450,683	7,491,020
Total Net Position	$ 5,450,683	$ 7,491,020

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

EXHIBIT D-2

CARROLLTON-FARMERS BRANCH ISD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2015

	Business-Type Activities - Total Enterprise Funds	Governmental Activities - Internal Service Fund
OPERATING REVENUES:		
Local and Intermediate Sources	$ 4,292,661	$ 1,057,789
Total Operating Revenues	4,292,661	1,057,789
OPERATING EXPENSES:		
Payroll Costs	3,072,282	117,619
Professional and Contracted Services	85,672	48,000
Supplies and Materials	130,880	272
Other Operating Costs	109,208	2,034,753
Total Operating Expenses	3,398,042	2,200,644
Operating Income (Loss)	894,619	(1,142,855)
NONOPERATING REVENUES (EXPENSES):		
Earnings from Temporary Deposits & Investments	11,149	37,571
Total Nonoperating Revenues (Expenses)	11,149	37,571
Change in Net Position	905,768	(1,105,284)
Total Net Position - September 1 (Beginning)	4,544,915	8,596,304
Total Net Position - August 31 (Ending)	$ 5,450,683	$ 7,491,020

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

CARROLLTON-FARMERS BRANCH ISD
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2015

	Business-Type Activities	Governmental Activities -
	Total Enterprise Funds	Internal Service Fund
Cash Flows from Operating Activities:		
Cash Received from User Charges	$ 4,266,844	$ 1,057,789
Cash Payments to Employees for Services	(3,061,024)	(117,148)
Cash Payments for Insurance Claims	-	(1,681,890)
Cash Payments for Suppliers	(128,990)	(272)
Cash Payments for Other Operating Expenses	(194,880)	(43,515)
Net Cash Provided by (Used for) Operating Activities	881,950	(785,036)
Cash Flows from Investing Activities:		
Interest and Dividends on Investments	300	31,187
Net Increase (Decrease) in Cash and Cash Equivalents	882,250	(753,849)
Cash and Cash Equivalents at Beginning of Year	4,650,892	9,622,848
Cash and Cash Equivalents at End of Year	$ 5,533,142	$ 8,868,999
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:		
Operating Income (Loss):	$ 894,619	$ (1,142,855)
Effect of Increases and Decreases in Current Assets and Liabilities:		
Decrease (increase) in Receivables	(25,817)	-
Increase (decrease) in Accounts Payable	1,890	4,485
Increase (decrease) in Accrued Wages Payable	11,258	471
Increase (decrease) in Accrued Expenses	-	352,863
Net Cash Provided by (Used for) Operating Activities	$ 881,950	$ (785,036)

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

EXHIBIT E-1

CARROLLTON-FARMERS BRANCH ISD
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2015

	Agency Fund
ASSETS	
Cash and Cash Equivalents	$ 667,686
Other Receivables	1,470
Total Assets	$ 669,156
LIABILITIES	
Accounts Payable	$ 25,415
Due to Student Groups	643,741
Total Liabilities	$ 669,156

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Carrollton-Farmers Branch Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in the Statement on Auditing Standards No. 69 of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of Texas Education Agency's Financial Accountability System Resource Guide (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

Reporting Entity

The Board of Trustees (the "Board") is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity," as amended by GASB 39 "Determining Whether Certain Organizations Are Component Units." There are no component units included within the reporting entity.

Government-Wide and Fund Financial Statements

The statement of net position and the statement of activities are government-wide financial statements. They report information on all of the Carrollton-Farmers Branch Independent School District's nonfiduciary activities. Internal service fund activity is eliminated to avoid overstatement of revenues and expenses. Interfund services provided and used are not eliminated in the process of consolidation. *Governmental activities* include programs supported primarily by taxes, State Foundation funds, grants and other intergovernmental revenues. Business-type activities include operations that rely to a significant extent on fees and charges for support.

The statement of activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include tuition paid by students not residing in the district, school lunch charges, etc. The "grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under Elementary and Secondary Act. If a revenue is not a program revenue, it is a general revenue used to support all of the District's functions. Taxes are always general revenues.

Interfund activities between governmental funds and proprietary funds appear as due to/due from on the governmental fund balance sheet and proprietary fund statement of net position. All interfund transactions between governmental funds and internal service funds are eliminated on the government-wide statements. Interfund activities between governmental and fiduciary funds are included in the statement of net position as receivable or payable to external parties (consistent with the nature of the fiduciary fund).

The fund financial statements provide information on the financial condition and results of operations for three fund categories – governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide statements. The District considers some governmental funds major and reports their financial condition and results of operation in a separate column.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Government-Wide and Fund Financial Statements - continued

Propriety funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connections with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of goods and services, such as materials and labor and direct overhead. All other expenses are nonoperating.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The effect of interfund activity has been eliminated from the government-wide financial statements. Agency funds also use the accrual basis of accounting however, they have no measurement focus.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, deferred inflows of resources and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are due and payable. The District considers all revenues available if they are collectible within 60 days after year end.

The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefits terms. Investments are reported at fair value.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grants funds are considered to be earned to the extent of expenditures make under the provisions of the grant. Accordingly, when such funds received, they are recorded as unearned revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued

The Proprietary 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 net investment in capital assets, restricted net position, and unrestricted net position.

Fund Accounting

The District reports the following major governmental funds:

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

2. **City of Irving TIF #1** – The District accounts for property taxes collected for the City of Irving Tax Increment Finance #1 Zone (Local Special Revenue Fund) to pay for District projects identified in the project plan to be constructed in the zone for educational facilities and maintenance for operating such facilities.

3. **Debt Service Fund** – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

4. **Capital Projects Fund** – The proceeds from long-term financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

Additionally, the District reports the following fund type(s):

Governmental Funds:

1. **Nonmajor 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. Federal, State, and Local financial assistance is accounted for in a Federal, State, or Local Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Proprietary Funds:

2. **Enterprise Fund (After the Bell) –** Are utilized by the District to account for activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities. The District's sole enterprise fund accounts for the After the Bell program.

3. **Internal Service Funds (Workers Compensation Fund)** – Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an internal service fund. The District's sole internal service fund accounts for the Workers' Compensation Fund.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fiduciary Funds:

4. **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.

Implementation of New Standards

In the current fiscal year, the District implemented the following new standards:

GASB Statement 68, *Accounting and Financial Reporting for Pensions* ("GASB") establishes accounting and financial reporting standards for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts or similar arrangements that meet certain criteria. The Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Implementation is reflected in the financial statements, notes to the financial statements and required supplementary information.

GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* ("GASB 71") amends the transition provisions of GASB 68. GASB 71 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability. Implementation is reflected in the financial statements and the notes to the financial statements.

Cash and Cash Equivalents

For purpose of the statement of cash flows for proprietary and similar fund-types, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

Interfund Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which they are imposed. On January 31 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 (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year. The assessed value of the certified roll, upon which the levy for the 2015 fiscal year was based upon, was $16,079,853,331.

Taxes are due on October 1 and become delinquent by February 1 following the October 1 levy date. Current tax collections for the year ended August 31, 2015 were 99.44% of the tax levy.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Property Taxes - Continued

The tax rates assessed for the year ended August 31, 2015 to finance general fund operations and the payment of principal and interest on general obligation long-term debt were $1.04 and $0.2633 per $100 valuation, respectively, for a total of $1.3033 per $100 valuation.

Investments

The District's general policy is to report money market investments and short-term participating interest-earning investments contracts at amortized cost and to report nonparticipating interest-earning 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. 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 that the investment's value does not vary with market interest rate changes.

Inventories

The consumption method is used to account for inventories of instructional, technology, maintenance and other operating supplies. Under this method, these items are carried in an inventory account of the respective fund at average cost and are subsequently charged to expenditures when consumed. Although food commodities are received at no cost, their fair market value is supplied by the Texas Department of Agriculture and recorded as inventory. In the governmental funds, a non-spendable fund balance indicates that inventories are unavailable as current expendable financial resources.

Prepayments

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded using the consumption method in both government-wide and fund financial statements. The prepaid items have been identified as a non-spendable fund balance since it is not available for other subsequent expenditures.

Capital Assets

Capital assets, which include land, buildings, furniture and equipment are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of $5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements with total project cost of $100,000 or greater are capitalized as projects when constructed.

Land improvements, buildings, furniture and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets - Continued

Assets	Years
Land Improvements	20
Buildings	50
Buildings Improvements	20
Portable Classrooms	20
Vehicles	10
Furniture	10
Office Equipment	5
Computer Equipment	5
Music Equipment	10
Other Equipment	10

Liability for Compensated Absences

Employees are allowed to accrue five days of state personal leave and five days of local sick leave each year without limit. The District pays a portion of accrued sick leave to retiring personnel meeting state eligibility requirements for retirement. The payment is limited to state and local leave days accumulated while employed in the District at the approved substitute teacher pay rate up to a ceiling of $5,000. The District has accrued $2,409,667 for accumulated sick leave that is reflected in the government-wide financial statements.

Liability for Compensated Absences - Continued

Teachers and administrative personnel do not receive paid vacations but are paid only for the number of days they are required to work each year (187 days for teachers and 230 days for administrative personnel).

Maintenance employees are granted vacation leave in varying amounts. In the event of termination an employee is reimbursed for unused accumulated leave. The District has no liability for unused vacation pay since all vacation is used or lost if not taken each year. Vacation pay is charged to operations when taken by the employees of the District.

Long-Term Debt

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using effective interest method. Gains or losses on bond refundings are recorded as deferred outflows of resources and amortized over the lesser of the remaining life of the old debt or the life of the new debt using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Long-Term Debt - Continued

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures. Gains or losses on refunding are not recognized in these financial statements.

Net Position and Fund Balance

Government-Wide Financial Statements

When the District incurs an expense for which it may use either restricted or unrestricted net position, it uses restricted net position first unless unrestricted net position will have to be returned because they were not used. The Statement of Net Position includes the following:

Net Investment in Capital Assets – The component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unspent proceeds, that is directly attributable to the acquisition, construction or improvement of these capital assets.

Restricted for Food Service – The component of net position that reports the difference between assets and liabilities of the Food Service Activities that consists of assets with constraints placed on their use by the Department of Agriculture.

Restricted for Debt Service – The component of net position that reports the difference between assets and liabilities with constraints placed on their use by the bond covenants.

Restricted for Tax Increment Zone – The component of net position that reports the property taxes collected for the zone to pay for District projects identified in the project plan to be constructed in the zone for educational facilities and maintenance for operating such facilities.

Unrestricted – The portion of net position that is not reported in Net Investment in Capital Assets, Restricted for Food Service, Restricted for Debt Service, or Restricted for Tax Increment Zone.

Encumbrance Accounting

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas Law, appropriations lapse at August 31, and encumbrances outstanding at that time are to either canceled or appropriately provided for in the subsequent year's budget. Encumbrances outstanding at August 31, 2015 that were in the subsequent year's budget are:

General Fund	$	2,411,656
Special Revenue Fund-Food Service		304,477
Capital Projects Fund		5,427,983
Total	$	8,144,116

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Data Codes

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

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The amount of state foundation revenue a school district earns for a year can and does vary until the time when final values for each of the factors in the formula become available. Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that the foundation revenue estimates as of August 31, 2015 will change.

NOTE 2. FUND BALANCES

Beginning with the fiscal year ended August 31, 2011, the District implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent.

Fund Balance Classification – The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Non-spendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The District has classified inventories and prepaid items as being non-spendable as these items are not expected to be converted to cash.

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Debt service resources are to be used for future servicing of the District's bonded debt and are restricted through debt covenants. Capital projects fund resources are to be used for future construction and renovation projects and are restricted through bond orders and constitutional law. Food service and other Federal and State grant resources are restricted because their use is restricted pursuant to the mandates of the National School Lunch and Breakfast Program or other grant requirements.

NOTE 2. FUND BALANCES - CONTINUED

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action to the District's Board of Trustees. The Board of Trustees establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This can also be done through adoption and amendment of the budget. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Board of Trustees has committed resources as of August 31, 2015 for campus activities, maintenance and technology projects.

Assigned – This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Trustees delegating this responsibility to other individuals in the District. Under the District's adopted policy, only Board of Trustees may assign amounts for specific purposes. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The District has assigned fund balance of the General Fund as of August 31, 2015 for the District's 2016 fiscal year deficit budget as detailed below.

Unassigned – This classification includes all amounts not included in other spendable classifications, including the residual fund balance of the General Fund. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

When an expenditure is incurred for purposes 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 out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Trustees has provided otherwise in its commitment or assignment actions.

The details of the fund balances are included in the Governmental Funds Balance Sheet and are described below:

General Fund

Inventories of $1,022,819 in the General Fund are considered non-spendable fund balance. The Board of Trustees through board resolution committed $3,000,000 for building construction, repairs and renovations and $3,000,000 for technology replacement. The 2015-16 adopted deficit budget of $6,947,034 is considered assigned fund balance.

The General Fund has unassigned fund balance of $65,476,170 at August 31, 2015.

Other Major Funds

The Debt Service Fund has restricted funds of $8,300,109 at August 31, 2015 consisting primarily of property tax collections that are restricted for debt service payments on bonded debt. The Capital Projects Fund has restricted funds of $34,626,622 consisting of proceeds from long-term financing and revenues and expenditures related to construction and other capital asset acquisitions. The City of Irving Tax Increment Finance Zone Fund (Local Special Revenue Fund) has restricted funds of $42,323,106 consisting of property taxes collected for the zone to pay for District projects identified in the project plan to be constructed in the zone for educational facilities and maintenance for operating such facilities.

NOTE 2. FUND BALANCES - CONTINUED

Other Funds

Inventories of $579,770 in the National Breakfast and Lunch Program Fund are considered non-spendable fund balance. The fund balance of $1,399,386 of the Campus Activity Fund (a special revenue fund) is shown as committed due to a board resolution committing those funds to campus activities. The following special revenue funds are restricted by Federal or State grant restrictions or by contractual provisions:

National Breakfast and Lunch Program	$	1,274,150
City of Farmers Branch TIF #1		7,863,389
City of Farmers Branch TIF #2		178,265
Total	$	9,315,804

NOTE 3. CASH AND INVESTMENTS

The funds of the District must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At August 31, 2015, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing saving accounts included in temporary investments) was $107,675,934 and the bank balance was $110,552,681. The District's cash deposits at August 31, 2015 and during the year ended August 31, 2015 were covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name. Section 2257 of the Texas Government Code requires deposits of a public entity shall be secured by eligible securities. The total value of the eligible securities to secure a deposit of public funds must be an amount not less than the amount of the deposit of public funds, increased by the amount of any accrued interest and reduced to the extent that the United States or instrumentality of the United States insures the deposit. In certain circumstances, the total value of the eligible securities to insure a deposit of public funds of a school district must be an amount not less than 110% of the amount of the uninsured deposit. On August 18, 2015 and August 19, 2015, the required 110% collateral was $22,823,783 and $37,877,647 but the actual collateral pledged to the District had a market value of $21,009,308 or 101.25% and $35,110,232 or 101.96%.

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

a. Depository: Bank of America.

b. The market value of securities pledged as of the date of the highest combined balance on deposit was $123,640,583.

c. The highest combined balances of cash, savings, and time deposit accounts amounted to $108,572,901 and occurred during the month of January, 2015.

d. Total amount of FDIC coverage at the time of the highest combined balance was $250,000.

NOTE 3. CASH AND INVESTMENTS – CONTINUED

Legal and contractual provisions governing deposits and investments:

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District 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, (9) and bid solicitation preferences for certificates of deposit.

Statutes and the District's investment policy authorized the District to invest in the following investments as summarized in the table below:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	10 years	None	None
U.S. Agencies Securities	10 years	None	None
Letters of Credit	10 years	None	None
Certificates of Deposit	-	None	None
Repurchase Agreements	90 days	None	None
Securities Lending Program	1 year	None	None
Banker's Acceptance	270 days	None	None
Commercial Paper	270 days	None	None
No-Load Money Market Mutual Funds	90 days	None	None
No-Load Mutual Funds	2 years	None	None
Guaranteed Investment Contracts	5 years	None	None
Investment Pools	-	None	None

The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

Cash and investments as of August 31, 2015 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and Investments	$ 203,206,157
Fiduciary Funds:	
Cash and Investments	667,686
Total Cash and Investments	$ 203,873,843

NOTE 3. CASH AND INVESTMENTS – CONTINUED

Cash and investments as August 31, 2015 consist of the following:

Cash on Hand	$ 22,377
Savings and Checking Accounts	44,153,906
Certificates of Deposit	3,231,000
Certificates of Deposit Account Registry Service	45,000,000
Money Markets	15,291,027
Mutual Fund	8,032,240
Lone Star	1,002,028
Texpool	86,046,311
TexStar	1,094,954
Total Cash and Investments	$ 203,873,843

Disclosure relating to 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. The District's investment policy limits the maturity of certificates of deposit and other investments to no more than two years at the time of purchase. The District's practice is to hold all certificates of deposit until maturity. The District's investment policy has no specific maturity restrictions for public funds investment pools, however, the District manages its exposure to interest rate risk by investing mainly in investment pools which purchase a combination of shorter term investments with an average maturity of less than 60 days thus reducing the interest rate risk. The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The District has no specific limitations with respect to this metric.

As of August 31, 2015, the District had the following investments:

Investment Type	Amount	Weighted Average Maturity
Certificates of Deposit	$ 3,231,000	209 days
Certificates of Deposit Account Registry Service	45,000,000	117 days
Mutual Fund	8,032,240	12 days
Lone Star	1,002,028	27 days
Texpool	86,046,311	47 days
TexStar	1,094,954	47 days
Total	$ 144,406,533	

As of August 31, 2015, the District did not invest in any securities which are highly sensitive to interest rate fluctuations.

NOTE 3. CASH AND INVESTMENTS – CONTINUED

Disclosure relating to 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. All investments in certificates of deposit are fully covered by federal depository insurance. Presented below is the minimum rating required by (where applicable) the Public Funds Investment Act, the District's investment policy, or debt agreements, and the actual rating as of year end for each investment in public funds investment pools.

Investment Type	Amount	Minimum Legal Rating	Rating of Year End
Lone Star	$ 1,002,028	N/A	AAA
Texpool	86,046,311	N/A	AAAm
TexStar	1,094,954	N/A	AAAm
Total	$ 88,143,293		

Concentration of credit risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer. As of August 31, 2015, other than external investment pools, the District did not have 5% or more of its investments with one issuer.

Custodial credit risk

Custodial credit risk for deposits it 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 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 and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least the bank balance less FDIC insurance at all times.

As of August 31, 2015, the District deposits with financial institutions in excess of federal depository insurance limits were fully collateralized. All certificates of deposits are fully covered by federal depository insurance.

The District is a voluntary participant in Texpool and TexStar.

The State Comptroller of Public Accounts exercises oversight responsibility over the external pooled funds. The Pooled Funds operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The external pooled funds use amortized cost rather than fair value to report net assets to compute share price. Accordingly the fair value of the positions of the pooled funds is the same as the value of the external pool shares.

NOTE 4. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are prorated between maintenance and debt service on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on 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, the components of delinquent taxes receivables are as follows:

	General Fund	Debt Service Fund	Total
Delinquent Taxes	$ 2,692,504	$ 724,061	$ 3,416,565
Related Penalty and Interest	1,400,333	363,235	1,763,568
	$ 4,092,837	$ 1,087,296	$ 5,180,133

At August 31, 2015, an allowance for uncollectible taxes is provided for the following:

	General Fund	Debt Service Fund	Total
Personal Property	$ 2,085,450	$ 527,981	$ 2,613,431
Real Property	40,670	10,281	50,951
	$ 2,126,120	$ 538,262	$ 2,664,382

NOTE 5. RECEIVABLES FROM OTHER GOVERNMENTS

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2015, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Receivables from Other Governments. Furthermore, there are times whenever overpayment is received from a State Agency and money may be due to other governments.

	General Fund	Nonmajor Governmental Funds	Total
Federal Grants	$ 1,841,419	$ 2,135,862	$ 3,977,281
City of Farmers Branch	14,394	-	14,394
City of Irving	56,454	-	56,454
	$ 1,912,267	$ 2,135,862	$ 4,048,129

NOTE 6. OTHER RECEIVABLES

Other receivables as of August 31, 2015, for the District's individual major funds and nonmajor, and internal service in the aggregate are as follows:

	General Fund	Debt Service Funds	Nonmajor Governmental Funds	Total
NSF Checks	$ 1,636	$ -	$ 6,900	$ 8,536
	$ 1,636	$ -	$ 6,900	$ 8,536

NOTE 7. INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at August 31, 2015 consisted of the following individual fund receivables and payables:

	Receivables	Payables	Purpose
Major Funds:			
General Fund	$ 1,430,858	$ 637	Cash shortage and payroll transfers
Debt Service Fund	-	6,043	Tax revenue
Non-Major Funds:			
Federal Funds	637	1,470,253	Cash shortage and payroll transfers
Local Funds	-	1,271	Supplies purchased
Enterprise Fund	46,990	281	Supplies purchased
Total	$ 1,478,485	$ 1,478,485	

All amounts due are scheduled to be repaid within one year.

NOTE 8. CAPITAL ASSET ACTIVITY

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

Govermental Activities:	Primary Government				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Non-Depreciable Assets					
Land	$ 61,365,108	$ -	$ -	$ -	$ 61,365,108
Construction In Progress	22,794,447	28,388,016	-	(26,703,799)	24,478,664
Total Non-Depreciable Assets	84,159,555	28,388,016	-	(26,703,799)	85,843,772
Depreciable					
Land Improvements	1,482,396	22,125	-	-	1,504,521
Buildings and Improvements	609,082,708	273,465	(6,360,180)	26,703,799	629,699,792
Furniture and Equipment	23,822,632	878,639	(168,657)	-	24,532,614
Total Depreciable Assets	634,387,736	1,174,229	(6,528,837)	26,703,799	655,736,927
Less Accumulated Depreciation for:					
Land Improvements	666,402	75,226	-	-	741,628
Buildings and Improvements	294,578,485	16,408,342	(3,816,108)	-	307,170,719
Furniture and Equipment	21,313,892	846,295	(168,657)	-	21,991,530
Total Accumulated Depreciation	316,558,779	17,329,863	(3,984,765)	-	329,903,877
Total Capital Assets, Net	$ 401,988,512	$ 12,232,382	$ (2,544,072)	$ -	$ 411,676,822

NOTE 8. CAPITAL ASSET ACTIVITY – CONTINUED

Depreciation expense was charged to governmental functions as follows:

Governmental Function	Depreciation
Instruction	$ 10,545,730
Instructional Resources and Media Services	842,128
Curriculum and Instructional Staff Development	234,985
Instructional Leadership	43,335
School Leadership	822,551
Guidance, Counseling and Evaluation Services	162,026
Social Work Services	84
Health Services	66,489
Student (Pupil) Transportation	32,227
Food Services	1,470,953
Extracurricular Activities	1,403,102
General Administration	497,660
Facilities Maintenance and Operations	626,632
Security and Monitoring Service	6,796
Data Processing Services	575,165
Total Depreciation Expense	$ 17,329,863

NOTE 9. UNEARNED REVENUE

Unearned revenue at year end consisted of the following:

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
Other Receipts	$ 26,397	$ 4,238	$ 143,723	$ 174,358
Fitnessgram	499	-	-	499
Reading Recovery	-	-	2,360	2,360
State Textbook Fund	-	-	125,000	125,000
Mark McPhaul Full Time Full Tilt	-	-	3	3
Ralph Ellis Grant	-	-	924	924
	$ 26,896	$ 4,238	$ 272,010	$ 303,144

Resources that have been received, but not yet earned are recorded as unearned revenue.

NOTE 10. DEBT ISSUANCE AND DEFEASED DEBT

During the 2014-15 fiscal year, the District completed two advance refundings.

In October 2014, the District issued $11,070,000 (par value) in Unlimited Tax Refunding Bonds to advance refund $11,070,000 (par value) of outstanding bonds. The net proceeds of $11,006,462 ($11,070,000 par amount of the bonds less $63,538 of underwriting fees and issuance costs) and $185,000 of District funds were used to purchase U.S. and State and Local Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the entire outstanding bonds were repaid from the irrevocable trust when the bonds reached their call date in November 2014.

The refunding was undertaken to reduce the District's total debt service payments by approximately $731,728 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately $528,605.

In March 2015, the District issued $23,655,000 (par value) in Unlimited Tax Refunding Bonds to advance refund $25,075,000 (par value) of outstanding bonds. The net proceeds of $26,051,166 ($23,655,000 par amount of the bonds plus $2,642,857 of premium paid on the bonds less $246,691 of underwriting fees and issuance costs) and $151,000 of District funds were used to purchase U.S. and State and Local Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. The bonds will be fully repaid from the irrevocable trust when the bonds reach their call date in February 2016.

The refunding was undertaken to reduce the District's total debt service payments by approximately $3,960,690 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately $3,166,438.

On August 31, 2015, $25,075,000 of defeased bonds remains outstanding due to the March 2015 refunding.

NOTE 11. LONG-TERM DEBT

Unlimited Tax Bonds

The District issues unlimited tax bonds for the governmental activities to provide for the acquisition and construction of major capital facilities. Unlimited tax bonds are direct obligations and pledge the full faith and credit of the District. Bonded indebtedness of the District is reflected in the Statement of Net Position. Current requirements for principal and interest expenditures are payable solely from future revenues of the Debt Service Fund which consists principally of property taxes collected by the District and interest earnings.

Unlimited tax bonds outstanding as of August 31, 2015 are as follows:

Purpose and Lawful Authority	Maturity Year	Interest Rate	Original Amount	Amount Outstanding 09/01/14	Issued	Retired/ Refunded	Amount Outstanding 08/31/15
Unlimited Tax Refunding Bonds, Series 2004	2017	2.00% to 5.00%	23,740,000	$ 11,070,000	-	$ 11,070,000	-
Unlimited Tax School Building Bonds, Series 2005	2025	3.00% to 5.00%	54,810,000	2,330,000	-	2,330,000	-
Unlimited Tax School Building Bonds, Series 2006	2031	4.125% to 5.00%	41,220,000	27,335,000	-	26,180,000	1,155,000
Unlimited Tax School Building and Refunding Bonds, Series 2007	2032	4.00% to 5.00%	105,775,000	88,145,000	-	9,465,000	78,680,000
Unlimited Tax School Building and Refunding Bonds, Series 2008	2033	3.50% to 5.00%	57,435,000	22,135,000	-	935,000	21,200,000
Unlimited Tax Refunding Bonds, Series 2010	2020	3.00% to 5.00%	63,565,000	31,895,000	-	6,920,000	24,975,000
Unlimited Tax School Building and Refunding Bonds, Series 2012	2032	2.00% to 5.00%	54,965,000	52,630,000	-	2,270,000	50,360,000
Unlimited Tax School Building Bonds, Series 2013A	2033	2.00% to 5.00%	41,250,000	40,295,000	-	1,390,000	38,905,000
Unlimited Tax Refunding Bonds, Series 2013B	2025	2.00% to 5.00%	28,700,000	28,700,000	-	-	28,700,000
Unlimited Tax Refunding Bonds, Series 2014	2017	0.57% to 0.93%	11,070,000	-	11,070,000	3,880,000	7,190,000
Unlimited Tax Refunding Bonds, Series 2015	2031	2.00% to 5.00%	23,655,000	-	23,655,000	-	23,655,000
				$ 304,535,000	$ 34,725,000	$ 64,440,000	$ 274,820,000

NOTE 11. LONG-TERM DEBT - CONTINUED

Debt service requirement are as follows:

Year Ending August 31	General Obligation Principal	Interest	Total Requirement
2016	$ 29,095,000	$ 11,318,258	$ 40,413,258
2017	30,310,000	10,129,788	40,439,788
2018	23,140,000	9,010,563	32,150,563
2019	24,250,000	7,991,556	32,241,556
2020	19,790,000	7,083,694	26,873,694
2021-2025	68,440,000	25,230,253	93,670,253
2026-2030	56,140,000	11,279,738	67,419,738
2031-2033	23,655,000	1,303,731	24,958,731
	$ 274,820,000	$ 83,347,581	$ 358,167,581

There are a number of limitations and restrictions contained in the unlimited tax school building and refunding bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2015.

Changes in Long-Term Liabilities:

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	$ 304,535,000	$ 34,725,000	$ 64,440,000	$ 274,820,000	$ 29,095,000
Premium on Bonds	26,193,189	2,642,857	2,616,852	26,219,194	-
Workers' Compensation Claims Payable	1,023,704	2,034,753	1,681,890	1,376,567	1,037,624
Accrued Compensated Absences	1,997,024	546,013	133,370	2,409,667	209,936
Long-term Liabilities	$ 333,748,917	$ 39,948,623	$ 68,872,112	$ 304,825,428	$ 30,342,560

The accrued liabilities of the workers' compensation self-insurance plan and the accrued compensated absences are reflected in the long-term liabilities as part of the governmental activities. The internal service funds are used to liquidate the claims payable. The general fund and special revenue funds are used to liquidate accrued compensated balances.

NOTE 12. GENERAL FUND FEDERAL SOURCE REVENUES

During the current year, general fund federal source revenues consisted of the following:

Program or Source	CFDA Number	Amount
Direct Cost		
School Health and Related Services	N/A	$ 2,173,174
Indirect Cost Reimbursement	84.010A	87,825
Indirect Cost Reimbursement	84.027	68,854
Indirect Cost Reimbursement	84.173	1,200
Indirect Cost Reimbursement	84.365A	14,227
Indirect Cost Reimbursement	84.367A	9,455
		$ 2,354,735

NOTE 13. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

	General Fund	City of Irving TIF #1	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total
Property Taxes	$ 162,715,547	$ -	$ 41,116,671	$ -	$ -	$ 203,832,218
Penalties and Interest	580,830	-	149,687	-	-	730,517
Tax Increment Fund	-	11,453,606	-	-	526,743	11,980,349
Investment Earnings	143,968	85,861	1,434	91,065	4,702	327,030
Food Sales	-	-	-	-	2,573,975	2,573,975
Tuition from Patrons	339,189	-	-	-	-	339,189
Insurance Proceeds	7,533	-	-	-	-	7,533
Co-Curricular	253,648	-	-	-	1,066,882	1,320,530
Rent	501,948	-	-	-	-	501,948
Gifts and Bequest	14,570	-	-	-	106,962	121,532
Enterprising	-	-	-	-	45,319	45,319
Other	576,945	-	-	-	14,001	590,946
	$ 165,134,178	$ 11,539,467	$ 41,267,792	$ 91,065	$ 4,338,584	$ 222,371,086

NOTE 14. DEFINED BENEFIT PENSION PLAN

Plan Description

Carrollton-Farmers Branch ISD participates in a cost-sharing multiple employer defined benefit pension plan 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, Sec. 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 writeing to TRS at 1000 Red River Street, Austin, TX 78701-2698; or by calling (512) 542-6592. The information provided in the Notes to the Financial Statements in the 2014 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan fiduciary net position as of August 31, 2014.

Net Pension Liability	Total
Total Pension Liability	$ 159,496,075,886
Less: plan Fiduciary Net Position	(132,779,243,085)
Net Pension Liability	$ 26,716,832,801
Net Position as percentage of Total Pension Liability	83.25%

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, for whom the average of the three highest annual salaries are used. The normal service retirement is at the age of 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 the age of 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 COLAs can be granted by the Texas State legislature as noted in the plan description above.

NOTE 14. DEFINED BENEFIT PENSION PLAN - CONTINUED

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 rat of not less than 6% and not more than 10% of the aggregate annual compensation paid of members of the system during the fiscal year. Texas Government Code Section 821.006 prohibits benefits improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. It also added a 1.5% contribution for employers paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2015 as discussed in Note 1 of the TRS 2014 CAFR. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015.

Contribution Rates

	2014	2015
Member	6.4%	6.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Carrollton-Famres Branch ISD 2014 Employer Contibutions		$ 2,121,129
Carrollton-Famres Branch ISD 2014 Member Contibutions		$ 9,518,695
Carrollton-Famres Branch ISD 2014 NECE On-Behalf Contributions		$ 8,075,991

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).

As the non-employer contributing entity for public education, 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 the fiscal year reduced by the amounts described below which are paid by the employers. Employers including public 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 source or a privately sponsored source, from non-educational and general, or local funds.

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.

NOTE 14. 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 Normal	Individual Entry Age
Amortization Method of	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 expectation 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's plan 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.

NOTE 14. DEFINED BENEFIT PENSION PLAN - CONTINUED

Discount Rate - Continued

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

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

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

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%)	1% Decrease in Discount Rate (9.0%)
Carrollton-Farmers Branch ISD's proportionate share of the net pension liability.	$ 39,934,423	$ 22,347,945	$ 9,196,535

NOTE 14. DEFINED BENEFIT PENSION PLAN - CONTINUED

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

At August 31, 2015, Carrollton-Farmers Branch ISD reported a liability of $22,347,945 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Carrollton-Farmers Branch ISD. The amount recognized by Carrollton-Farmers Branch ISD 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 Carrollton-Farmers Branch ISD were as follows:

District's Proportionate share of the collective net pension liability	$ 22,347,945
State's Proportionate share that is associated with the District	85,269,172
Total	$ 107,617,117

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 0.000836645%. 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 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.

For the year ended August 31, 2015, Carrollton-Farmers Branch ISD recognized pension expense of $7,882,976 and revenue of $8,075,991 for support provided by the State.

NOTE 14. DEFINED BENEFIT PENSION PLAN – CONTINUED

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

At August 31, 2015, Carrollton-Farmers Branch ISD reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 345,618	$ -
Changes in actuarial assumptions	1,452,641	-
Differences between projected and actual investments earnings	-	6,830,445
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	-	5,858
Contributions paid to TRS subsequent to the measurement date	4,179,320	-
Total	$ 5,977,579	$ 6,836,303

$4,179,320 reported as deferred outflows of resources resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended August 31:	Pension Expense Amount
2016	$ (1,405,234)
2017	(1,405,234)
2018	(1,405,234)
2019	(1,405,234)
2020	302,378
2021	280,514

NOTE 15. SCHOOL DISTRICT RETIREE HEALTH PLAN

Plan Description

The Carrollton-Farmers Branch ISD contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The Teacher Retirement System of Texas issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS Web site at www.trs.state.tx.us under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701.

NOTE 15. SCHOOL DISTRICT RETIREE HEALTH PLAN - CONTINUED

Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2015-2013.

Contribution Rates

	Active Member		State		School District	
Year	Rate	Amount	Rate	Amount	Rate	Amount
2015	0.65%	995,007	1.0%	1,530,780	0.55%	841,929
2014	0.65%	966,729	1.0%	1,487,275	0.55%	818,001
2013	0.65%	942,220	0.5%	724,785	0.55%	797,263

Medicare Part D – On-Behalf Payments

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf of $450,249 recognized for the year ended August 31, 2015 as equal revenues and expenditures.

NOTE 16. RISK MANAGEMENT

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

Health Care Coverage

The employees of the District were covered by TRS Active Care. TRS Active Care is a statewide health coverage program for public education employees established by the 77th Texas Legislature. The District contributed $262 per month per employee to the plan, and employees, at their option, authorized payroll withholdings to pay employee contributions and additional premiums for dependents.

Workers' Compensation Coverage

Beginning September 1, 1993, the District established a self-insurance plan for workers' compensation benefits. Prior to this time, the District was a member of the Texas Association of School Boards Workers' Compensation Self-Insurance Fund ("Fund"). The Fund will continue to be liable for all claims before September 1, 1993.

NOTE 16. RISK MANAGEMENT – CONTINUED

Workers' Compensation Coverage - Continued

Claims are paid by a third party administrator acting on behalf of the District under the terms of a contractual agreement. Administrative fees are included within the provisions of that agreement. According to state statute, the District is protected against unanticipated catastrophic claims and aggregate loss by coverage carried through Midwest Employers Casualty Company, a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code.

Coverage was in effect for specific occurrences exceeding $600,000 and aggregate retention at $1,000,000.

The costs associated with these self-insurance plans are reported as interfund transaction to the extent of amounts actuarially determined. Accordingly, they are treated as operating revenues of the Internal Service Funds and operating expenditures of the General Fund and the Special Revenue Funds. The accrued liabilities of the workers' compensation self-insurance plan of $1,376,567 include incurred but not reported claims. The liability reported in the Fund at August 31, 2015 are based on the requirements of Governmental Accounting Standards Board No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The liability includes an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors. Workers' compensation liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time were computed by an actuary and are reported at their present value using expected future investment yield assumption of 3%. Changes in the workers' compensation claims liability amounts in fiscal 2015 and 2014 were:

Self-Insurance Liability	Beginning of Fiscal Year Liability	Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2014-Workers' Compensation	$ 1,195,784	$ 830,252	$ 1,002,332	$ 1,023,704
2015-Workers' Compensation	$ 1,023,704	$ 2,034,753	$ 1,681,890	$ 1,376,567

NOTE 17. COMMITMENTS AND CONTINGENCIES

Litigation

The District is the defendant in a number of lawsuits arising principally in the normal course of operations. In the opinion of the administration, the outcome of these lawsuits will not have a materially adverse effect on the accompanying combined financial statements and accordingly, no provision for losses has been recorded.

NOTE 17. COMMITMENTS AND CONTINGENCIES - CONTINUED

Grants Programs

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, refunds of any money received may be required and the collectability 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.

Future Construction

The funds in the Capital Projects Fund will be used for future school construction and renovation. Commitments on outstanding construction contracts for future school and renovations totaled approximately $5.4 million at August 31, 2015.

Arbitrage Rebate Liability

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury of investment income received at yields that exceed the issuer's tax-exempt borrowing rates. The U.S. Treasury requires payment for each issue every five years. The estimated liability is updated annually for any tax-exempt issuances or changes in yields until such time payment of the calculated liability is due. The District has no liability as of August 31, 2015.

NOTE 18. PRIOR PERIOD ADJUSTMENT

In fiscal year 2015, the District implemented 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. As such, the prior period adjustment was necessary to record the beginning pension liability of the District. The following illustrates the effect of the prior period adjustment:

Beginning Net Position - As Originally Presented	$ 274,082,006
Restatement due to:	
Net pension liability (measurement date as of August 31, 2013)	(27,441,445)
Deferred Outflows:	
District contributions made to TRS during the fiscal year	2,121,129
Beginning Net Position - As Restated	$ 248,761,690

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REQUIRED SUPPLEMENTARY INFORMATION

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CARROLLTON-FARMERS BRANCH ISD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	REVENUES:				
5700	Total Local and Intermediate Sources	$ 163,408,424	$ 163,424,726	$ 165,134,178	$ 1,709,452
5800	State Program Revenues	55,363,493	55,364,491	58,554,935	3,190,444
5900	Federal Program Revenues	2,250,000	2,250,000	3,090,236	840,236
5020	Total Revenues	221,021,917	221,039,217	226,779,349	5,740,132
	EXPENDITURES:				
	Current:				
0011	Instruction	127,375,104	125,857,629	124,693,818	1,163,811
0012	Instructional Resources and Media Services	3,685,908	3,950,776	3,897,565	53,211
0013	Curriculum and Instructional Staff Development	4,980,615	4,571,089	3,780,875	790,214
0021	Instructional Leadership	3,416,912	3,401,766	3,228,172	173,594
0023	School Leadership	13,835,521	14,460,760	14,195,757	265,003
0031	Guidance, Counseling and Evaluation Services	9,620,522	9,837,165	9,719,307	117,858
0032	Social Work Services	149,208	149,208	68,002	81,206
0033	Health Services	2,651,314	2,651,637	2,564,320	87,317
0034	Student (Pupil) Transportation	5,217,140	4,920,478	4,098,670	821,808
0035	Food Services	59,500	92,900	81,151	11,749
0036	Extracurricular Activities	4,548,733	4,737,811	4,365,191	372,620
0041	General Administration	6,149,461	6,404,032	5,733,153	670,879
0051	Facilities Maintenance and Operations	23,469,853	23,182,968	21,816,848	1,366,120
0052	Security and Monitoring Services	1,525,068	1,588,249	1,477,867	110,382
0053	Data Processing Services	4,965,858	7,215,713	6,668,538	547,175
0061	Community Services	176,958	193,745	154,868	38,877
	Capital Outlay:				
0081	Facilities Acquisition and Construction	98,781	173,296	130,890	42,406
	Intergovernmental:				
0095	Payments to Juvenile Justice Alternative Ed. Prg.	200,000	100,000	31,486	68,514
0097	Payments to Tax Increment Fund	18,544,302	17,974,813	17,974,812	1
0099	Other Intergovernmental Charges	973,652	923,652	899,649	24,003
6030	Total Expenditures	231,644,410	232,387,687	225,580,939	6,806,748
1200	Net Change in Fund Balances	(10,622,493)	(11,348,470)	1,198,410	12,546,880
0100	Fund Balance - September 1 (Beginning)	78,247,613	78,247,613	78,247,613	-
3000	Fund Balance - August 31 (Ending)	$ 67,625,120	$ 66,899,143	$ 79,446,023	$ 12,546,880

CARROLLTON-FARMERS BRANCH ISD

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

TEACHER RETIREMENT SYSTEM OF TEXAS

FOR THE YEAR ENDED AUGUST 31, 2015

		2015
District's Proportion of the Net Pension Liability (Asset)		0.000836645%
District's Proportionate Share of Net Pension Liability (Asset)	$	22,347,945
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District		85,269,172
Total	$	107,617,117
District's Covered-Employee Payroll	$	148,723,134
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its covered-Employee Payroll		15.03%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		83.25%

Note: GASB 68, 81,2,a requires that the information on this schedule be data from the period corresponding with the period covered as of the measurement date of August 31, 2014 - the period from September 1, 2013 - August 31, 2014.

Note: Only one year of data is presented in accordance with GASBS #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

EXHIBIT G-3

CARROLLTON-FARMERS BRANCH ISD
SCHEDULE OF DISTRICT CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR FISCAL YEAR 2015

		2015
Contractually Required Contribution	$	4,179,320
Contribution in Relation to the Contractually Required Contribution		(4,179,320)
Contribution Deficiency (Excess)	$	-0-
District's Covered-Employee Payroll	$	153,063,674
Contributions as a Percentage of Covered-Employee Payroll		2.73%

Note: GASB 68, Paragraph 81,2,b requires that the data in this schedule be presented as of the District's current fiscal year as opposed to the time period covered by the measurement date of September 1, 2013 - August 31, 2014.

Note: Only one year of data is presented in accordance with GASBS #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

NOTE 1. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

The Board of Education adopts an “appropriated budget” on a basis consistent with GAAP for the General Fund, Debt Service Fund and the Food Service Fund, a non-major Special Revenue Fund. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District is not legally required to adopt a budget for the City of Irving TIF #1 Fund.

The following procedures are followed in establishing the budgetary data:

1. Prior to August 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.

2. A meeting of the Board of Education is then called for the purpose of adopting the proposed budget after ten days public notice of the meeting has been given.

3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board of Education. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. Significant amendments were made to the following functional areas:

Function		Increase (Decrease)
Instruction	$	(1,517,475)
Curriculum and Instructional Staff Development		(409,526)
School Leadership		625,239
Student (Pupil) Transportation		(296,662)
Data Processing Services		2,249,855
Payments to Tax Increment Fund		(569,489)

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

5. The Texas Education Agency requires these budgets to be filed with the Texas Education Agency on a designated date through the Public Education Information Management System (“PEIMS”). The budget should not exceed in any functional expenditure category under the TEA requirements. The original and final amended versions of these budgets are used in this report.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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[Closing Date]

IN REGARD to the authorization and issuance of the "Carrollton-Farmers Branch Independent School District Unlimited Tax Refunding Bonds, Series 2016", dated October 1, 2016, in the aggregate principal amount of $_____________ (the "Bonds"), we have examined into their issuance by the Carrollton-Farmers Branch Independent School District (the "District") solely to express legal opinions as to the validity of the Bonds, the defeasance and discharge of the District's outstanding obligations being refunded by the Bonds and the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the District, the disclosure of any financial or statistical information or data pertaining to the District and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds.

THE BONDS are issued in fully registered form only and in denominations of $5,000 or any integral multiple thereof (within a maturity). The Bonds mature on February 15 in each of the years specified in the pricing certificate (the "Pricing Certificate") executed pursuant to an order adopted by the Board of Trustees of the District authorizing the issuance of the Bonds (the "Order" and, jointly with the Pricing Certificate, the "Bond Order"), unless redeemed prior to maturity in accordance with the terms stated on the Bonds. The Bonds accrue interest from the date, at the rates, and in the manner and interest is payable on the dates, all as provided in the Bond Order.

IN RENDERING THE OPINIONS herein we have examined and rely upon (i) original or certified copies of the proceedings relating to the issuance of the Bonds, including the Bond Order, a Special Escrow Agreement (the "Escrow Agreement") between the District and The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Escrow Agent"), a special report of Grant Thornton LLP, Certified Public Accountants (the "Accountants") and an examination of the initial Bonds executed and delivered by the District (which we found to be in due form and properly executed); (ii) certifications of officers of the District relating to the expected use and investment of proceeds of the sale of the Bonds and (iii) other documentation and such matters of law as we deem relevant. In the examination of the proceedings relating to the issuance of the Bonds, we have assumed 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 contained in such documents and certifications.

BASED ON OUR EXAMINATION, we are of the opinion that, under applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds have been duly authorized by the District and, when issued in compliance with the provisions of the Bond Order, are valid, legally binding, and enforceable obligations of the District, payable from the proceeds of an ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District, 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.

2. The Escrow Agreement has been duly authorized, executed and delivered and is a binding and enforceable agreement in accordance with its terms and the outstanding obligations refunded, discharged, paid and retired with the proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in a trust fund with the Escrow Agent, pursuant to the Escrow Agreement and in accordance with the provisions of Texas Government Code, Chapter 1207, as amended. In rendering this opinion, we have relied upon the special report of the Accountants as to the sufficiency of cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

3. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the District with the provisions of the Bond Order relating to sections 141 through 150 of the Code, interest on the Bonds for federal income tax purposes (a) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof, and (b) will not be included in computing the alternative minimum taxable income of individuals or, except as hereinafter described, corporations. Interest on 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 corporations, other than an S corporation, a qualified mutual fund, a real estate mortgage investment conduit, a real estate investment trust, or a financial asset securitization investment trust ("FASIT"). 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 interests 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.

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.

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