OFFICIAL STATEMENT
Dated: May 20, 2015

NEW ISSUE - Book-Entry-Only

Rating (PSF): S&P/Moody's: ....."AAA/Aaa"
Underlying: S&P/Moody's: ..... "A-/Baa1"
(See "OTHER INFORMATION – Ratings" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM")

In the opinion of Co-Bond Counsel, based on existing law and subject to conditions described in the section herein entitled "TAX MATTERS" interest on the Bonds (including any accrued "original issue discount" properly allocable to the owners of such Bonds) is excludable from the gross income of the owners of the Bonds for federal income tax purposes and interest on the Bonds is not treated as a preference item for purposes of the federal alternative minimum tax imposed on individuals and corporations; provided, however, that for purposes of the alternative minimum tax on corporations, interest on the Bonds is included in computing adjusted current earnings. See "TAX MATTERS" herein regarding certain tax considerations.

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

$103,095,000
FORNEY INDEPENDENT SCHOOL DISTRICT
(A Political Subdivision of the State of Texas Located in Kaufman County)
UNLIMITED TAX REFUNDING BONDS, SERIES 2015

Dated Date: June 1, 2015 **Due: August 15, as shown on the inside cover page**

PAYMENT TERMS . . . The Forney Independent School District is issuing its $103,095,000 Unlimited Tax Refunding Bonds, Series 2015 (the "Bonds"). Interest on Bonds will accrue from the date of their initial delivery to the initial purchasers identified below (the "Underwriters") and will be payable on August 15, 2015, and each February 15 and August 15 thereafter, 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 only in fully registered form in any integral multiple of $5,000 in principal amount for any one 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 denominations of $5,000 principal amount or integral multiples thereof. No physical delivery of the Bonds will be made to the owners thereof. Debt service on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System" herein). The initial Paying Agent/Registrar is BOKF, NA dba Bank of Texas, 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"), particularly Chapter 1207, Texas Government Code, and are direct obligations of the Forney Independent School District (the "District" or "Issuer"), 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 authorizing the Bonds (the "Bond Order"). In the Bond Order, the Board of Trustees delegated to certain officers of the District authority to complete the sale of Bonds through the execution of a pricing certificate (the "Pricing Certificate" and together with the Bond Order, the "Order"). **An application has been filed and conditional approval received for 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 to (i) refund a portion of the District's outstanding obligations for debt service savings (the "Refunded Bonds"); and (ii) pay the costs associated with the issuance of the Bonds (see "SCHEDULE I - SCHEDULE OF REFUNDED BONDS," and "PLAN OF FINANCING - Purpose").

MATURITY SCHEDULE - SEE INSIDE COVER

DELIVERY . . . 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 Co-Bond Counsel, Powell & Leon, LLP, Austin, Texas and McGuireWoods LLP, Houston, Texas (see APPENDIX C - "Form of Co-Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by their counsel, Andrews Kurth LLP, Houston, Texas. The Bonds are expected to be available for delivery through DTC on or about June 10, 2015 ("Date of Delivery").

WILLIAM BLAIR

RAYMOND JAMES **COASTAL SECURITIES, INC.** **OPPENHEIMER & CO.**

MATURITY SCHEDULE

$103,095,000 Unlimited Tax Refunding Bonds, Series 2015

Maturity (8/15)	Principal Amount	Interest Rate	Initial Reoffering Yield[(b)]	CUSIP Suffix[(a)] (CUSIP Prefix[(a)] 346424)
2015	$ 195,000	2.000%	0.500%	7H1
2016	2,670,000	2.000	0.450	7J7
2017	1,715,000	3.000	1.000	7K4
2018	1,915,000	3.000	1.400	7L2
2019	--	--	--	--
2020	--	--	--	--
2021	--	--	--	--
2022	--	--	--	--
2023	--	--	--	--
2024	3,105,000	4.000	1.550	7M0
2025	4,760,000	4.000	1.650	7N8
2026	5,000,000	5.000	2.960	7P3
2027	4,385,000	5.000	3.080	7Q1
2028	6,280,000	5.000	3.190	7R9
2029	7,090,000	5.000	3.270	7S7
2030	5,880,000	5.000	3.350	7T5
2031	7,345,000	5.000	3.410	7U2
2032	9,145,000	5.000	3.460	7V0
2033	9,290,000	5.000	3.500	7W8
2034	12,065,000	5.000	3.540	7X6
Total	$80,840,000			

$22,255,000 5.000% Term Bonds due August 15, 2037 Priced to Yield[(b)] 3.640% - CUSIP Suffix 7Y4[(a)]

(Interest to accrue from Date of Delivery)

(a) CUSIP numbers have been assigned to this issue by the CUSIP Global Services managed by Standard and Poor's Financial Services LLC on behalf of the American Bankers Association and are included solely for the convenience of the purchasers of the Bonds. Neither the District, the Financial Advisor, nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

(b) The initial yields and prices are established by, and are the sole responsibility of the Underwriters and may subsequently be changed.

OPTIONAL REDEMPTION . . . The District reserves the right, at its option, to redeem the Bonds having stated maturities from August 15, 2024 through August 15, 2025, each inclusive, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2018 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. The District further reserves the right, at its option, to redeem the Bonds having stated maturities on and after August 15, 2026, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2025 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS – Optional Redemption").

MANDATORY SINKING FUND REDEMPTION . . . The Bonds issued as term bonds are subject to mandatory sinking fund redemption prior to maturity on the dates and in the amounts described herein under "THE BONDS – Mandatory Sinking Fund Redemption."

USE OF INFORMATION IN THIS OFFICIAL STATEMENT

This Official Statement, which includes the cover page, Appendices, and Schedules, is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

THE BONDS ARE EXEMPTED 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 JURISDICTION IN WHICH THESE SECURITIES HAVE BEEN REGISTERED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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

Neither the District, the Underwriters, nor the Financial Advisor make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company or its Book-Entry-Only System or the affairs of the Texas Education Agency described under "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM".

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

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

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

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

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SCHEDULES

SCHEDULE I ..... SCHEDULE OF REFUNDED BONDS

APPENDICES

FINANCIAL INFORMATION REGARDING THE DISTRICT ..... A
FORNEY INDEPENDENT SCHOOL DISTRICT ANNUAL FINANCIAL REPORT ..... B
FORM OF CO-BOND COUNSEL'S OPINION C

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

OFFICIAL STATEMENT SUMMARY

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

The District.....	The District is a political subdivision and independent school district of the State of Texas (the "State") located in Kaufman County, Texas. The District is approximately 84.5 square miles in area (see "INTRODUCTION - Description of the District").
Authority For Issuance.....	The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1207, Texas Government Code and an order (the "Bond Order") adopted by the District's Board of Trustees. In the Bond Order, the Board of Trustees delegated to certain officers of the District the authority to complete the sale of Bonds through the execution of a pricing certificate (the "Pricing Certificate" and together with the Bond Order, the "Order").
The Bonds.....	The District's Unlimited Tax Refunding Bonds, Series 2015 (the "Bonds") shall mature on the dates and in the amounts set forth on the inside cover page of this Official Statement (see "THE BONDS – Description of the Bonds") (See "THE BONDS – Description of the Bonds" and "PLAN OF FINANCING").
Payment of Interest.....	Interest on the Bonds will accrue from the date of delivery and will be payable semiannually on February 15 and August 15 of each year, commencing August 15, 2015, until maturity or prior redemption. See "THE BONDS – Description of the Bonds."
Security For The Bonds.....	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. (See "THE BONDS – Security and Source of Payment"). In addition, the District has received conditional approval for payment of the Bonds to be guaranteed by the Permanent School Fund of the State of Texas (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").
Optional/Mandatory Redemption	The District reserves the right, at its option, to redeem the Bonds having stated maturities from August 15, 2024 through August 15, 2025, each inclusive, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2018 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. The District further reserves the right, at its option, to redeem the Bonds having stated maturities on and after August 15, 2026, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2025 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS – Optional Redemption"). The Term Bonds maturing on August 15, 2037 are subject to mandatory sinking fund redemption prior to maturity on the dates and in the amounts described herein under "THE BONDS – Mandatory Sinking Fund Redemption."
Tax Matters	In the opinion of Co-Bond Counsel, as of the date of issuance of the Bonds described herein, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date of issuance thereof, 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 to (i) refund a portion of the District's outstanding obligations for debt service savings (the "Refunded Bonds"); and (ii) pay the costs associated with the issuance of the Bonds (see "SCHEDULE I - SCHEDULE OF REFUNDED BONDS").

Book-Entry-Only System	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 denominations of $5,000 principal amount 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").
Ratings.....	Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and Moody's Investor Services, Inc. ("Moody's") have assigned municipal bond ratings of "AAA" and "Aaa", respectively, to the Bonds by virtue of the guarantee of the Permanent School Fund of the State of Texas of the Bonds. In addition, S&P has assigned its underlying unenhanced rating of "A-" to the Bonds and Moody's has assigned its underlying unenhanced rating of "Baa1" to the Bonds. An explanation of the significance of such ratings may be obtained from S&P and Moody's (See "OTHER INFORMATION – Ratings").
Payment Record.....	The District has never defaulted on the payment of its bonded indebtedness.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 6/30	Estimated Population[1]	Taxable Assessed Valuation[2]	Taxable Assessed Valuation Per Capita	Tax Supported Debt Outstanding	Ratio of Tax Supported Debt to Assessed Valuation	Tax Supported Debt Per Capita
2011	40,000	$2,268,190,493	$56,578	$261,319,642	11.55%	$6,533
2012	42,000	2,292,376,725	54,151	285,408,486	12.55%	6,795
2013	42,000	2,309,052,439	55,440	283,583,303	12.18%	6,752
2014	42,000	2,359,884,358	56,188	281,605,573	11.93%	6,705
2015	43,439	2,527,343,993[3]	58,181	279,150,572[4]	11.05%	6,426

(1) Source: The District
(2) As reported by the Kaufman County Appraisal District on the District's annual State Property Tax Reports and such values are subject to change during ensuing year.
(3) Uncertified, provided by Kaufman County Appraisal District.
(4) Includes the Bonds. Excludes the Refunded Bonds.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

For Fiscal Year Ended June 30,

	2014	2013	2012	2011	2010
Beginning Balance	$ 1,283,459	$ (3,450,795)	$ (4,015,102)	$ 6,061,565	$ 5,961,876
Total Revenue	59,131,369	57,573,350	56,997,322	54,650,270	55,523,208
Total Expenditures	55,843,653	53,813,216	56,382,034	60,136,472	55,592,487
Excess/(Deficiency) of Revenues	3,287,716	3,760,134	615,288	(5,486,202)	(69,279)
Net Transfers/Adjustments	184,712	974,120	(50,980)	(4,590,465)	168,967
Ending Balance	$ 4,755,887	$ 1,283,459	$ (3,450,794)	$ (4,015,102)[1]	$ 6,061,564

Source: The District's audited financial statements.
(1) The District has agreed to repay the TEA for certain over-payments received under the Foundation School Program. This amount reflects the effect of the requisite adjustments to the financial statements of the District. For a more complete discussion, see "DISTRICT OVERFUNDED BY APPROXIMATELY $17.4 MILLION - LIABILITY OWED TO TEA" herein.

For additional information regarding the District, please contact:

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DISTRICT OFFICIALS, STAFF, AND CONSULTANTS

Elected Officials*

Board of Trustees	Length of Service	Term Expires	Occupation
Keith Bell, President	17 Years	May, 2016	Electrical Contractor
Greg Pharris, Secretary	7 Years	May, 2017	Financial Advisor
David Walker, Board Member	17 Years	May, 2016	Engineer
Michael Joseph White, Board Member	3 Years	May, 2018	Chief Budget Manager
Kathy Hall, Board Member	2 Years	May, 2016	Accountant
Cheryl Mason, Board Member	1 Year	May, 2017	Legal Secretary
Barbara Jo Green, Board Member	> 1 Year	May, 2018	Teacher

*Barbara Jo Green won election to the Board on May 9, 2015, but has not been sworn in. The Board intends to swear in Trustee Green and reassign officer roles at its June 8, 2015 meeting.

Selected Administrative Staff

Name	Position	Length of Service Within District	Total Industry Experience
Suzanne McWilliams	Superintendent of Schools	5 Years	34 Years
Justin Terry	Chief Learning Officer	1 Year	15 Years
John G. Chase	Chief Financial Officer	> 1 Year	19 Years

Consultants and Advisors

Auditors ..... Whitley Penn LLP
Houston, Texas

Co-Bond Counsel ..... Powell & Leon LLP, Austin, Texas
McGuireWoods LLP, Houston, Texas

Financial Advisor ..... Government Capital Securities Corporation
Southlake, Texas

OFFICIAL STATEMENT

RELATING TO

$103,095,000
FORNEY INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX REFUNDING BONDS, SERIES 2015

INTRODUCTION

This Official Statement, which includes SCHEDULE I and APPENDICES A, B, and C hereto, provides certain information regarding the issuance of the $103,095,000 Forney Independent School District (the "District") Unlimited Tax Refunding Bonds, Series 2015 (the "Bonds"). The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (sometimes referred to herein as the "State" or "Texas"), particularly Chapter 1207, Texas Government Code and an order (the "Bond Order") adopted by the District's Board of Trustees. In the Bond Order, the Board of Trustees delegated to certain officers of the District the authority to complete the sale of Bonds through the execution of a pricing certificate (the "Pricing Certificate" and together with the Bond Order the "Order"). Except as otherwise indicated herein, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Order.

All financial and other information presented in this Official Statement has been provided by the District from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the District. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue or be repeated in the future (see "OTHER INFORMATION – Forward Looking Statements").

Included in this Official Statement are descriptions of the Bonds, the Order, and certain other information about 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 by writing the Forney Independent School District, 600 South Bois D'Arc Street, Forney, Texas 75126, Attention: Chief Financial Officer and, during the offering period, from the District's Financial Advisor, Government Capital Securities Corporation, 559 Silicon Drive, Suite 102, Southlake, Texas 76092, Attention: Ted Christensen, upon payment of reasonable copying, mailing, and handling charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the Official Statement will be deposited with the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314 and will be available through its Electronic Municipal Market Access ("EMMA") System. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

Description of the District

The District is a political subdivision of the State located in Kaufman County, Texas. The District is governed by a seven-member Board of Trustees (the "Board") who serve staggered three-year terms with elections being held in 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 84.5 square miles in Kaufman County, and fully encompasses the City of Forney, Texas.

DISTRICT OVERFUNDED BY APPROXIMATELY $17.4 MILLION - LIABILITY OWED TO TEA

In 2011, the District learned that it had been over funded by the Texas Education Agency (the "TEA") for several years based on the number of students that the State forecasted to have enrolled. This has resulted in the payment of approximately $13.6 million unearned dollars to the District's Maintenance and Operations Fund and approximately $3.8 million to the District's Debt Service Fund.

Each biennium the State and/or the District projects the number of students it expects to attend and the District receives funding from TEA based on those projections. If the District receives more money from the TEA than the actual student enrollment, the TEA generally adjusts the District's funding in the next school year.

Since 2011, the District has worked closely with its independent auditor and is taking steps to ensure that the money received from TEA is reported accurately.

The District has a 5-year equal repayment plan with the TEA for the $17.4 million. The first repayment was withheld in 2011-2012 and the final payment will be withheld in 2015-2016.

PLAN OF FINANCING

Purpose

Proceeds from the sale of the Bonds will be used to (i) refund a portion of the District's outstanding obligations for debt service savings (the "Refunded Bonds"); and (ii) pay the costs associated with the issuance of the Bonds (see "SCHEDULE I - SCHEDULE OF REFUNDED BONDS").

In connection with the District's issuance of its Unlimited Tax Refunding Bonds, Series 2014B, the District restructured a portion of its then outstanding unlimited ad valorem tax supported debt service payments to lower its annual debt service payments in years the fiscal years ending 2015 to 2018 to more closely correlate those payments with the recent and anticipated continuation of slowdown of taxable valuation growth within the District (see APPENDIX A - Table 2 – Valuation and Tax Supported Debt History). The issuance of the Bonds will further restructure the District's debt by reducing its annual debt service payments for the fiscal years ending 2020 to 2024 (see APPENDIX A - Table 7 – Tax Supported Debt Service Requirements).

In connection with its prior issuance of unlimited ad valorem tax supported indebtedness, the District covenanted to transfer to its Bond Fund certain Tier One (defined herein) funds received from the State, in an amount specified at the time of issuance of such obligations, prior to levying an interest and sinking ad valorem tax in excess of $0.50 per $100 of assessed valuation. The District levied a $0.50 interest and sinking fund tax for the fiscal year ending 2015. At this time, although the District does anticipate exceeding a $0.50 interest and sinking fund tax, the District does not anticipate the need to transfer any Tier One funds or other General Fund revenues for bond payments (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", "TAX RATE LIMITATIONS" and "TAX INFORMATION" herein for further descriptions of these matters).

After the issuance of the Bonds, the District anticipates that its debt structure may require additional adjustments in order to make debt service payments at a $0.50 debt service tax rate between the fiscal years ending 2019 to 2026. If the District's taxable values increase quicker than expected, debt restructuring may not be necessary. However, the District cannot make any assurances that such growth will occur or that debt restructuring will be possible. Even if the District is able to restructure its debt in the future, the District cannot guarantee that it will be able to maintain a $0.50 debt service tax rate.

Refunded Bonds

The Refunded Bonds and the interest due thereon are to be paid on their respective scheduled redemption date(s) and maturity date(s), as the case may be, from funds to be deposited with BOKF, NA dba Bank of Texas, Dallas, Texas (the "Escrow Agent") pursuant to an Escrow Agreement between the District and the Escrow Agent (the "Escrow Agreement").

The Order provides that from a portion of the proceeds of the sale of the Bonds to the underwriters listed on the cover page hereof (the "Underwriters"), the District will deposit with the Escrow Agent an amount, together with other lawfully available funds, if any, which, when added to the investment earnings thereon, will be sufficient to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in an escrow account (the "Escrow Fund") and used to purchase a portfolio of securities authorized by Section 1207.062, Texas Government Code, which authorized securities include direct noncallable obligations of the United States and noncallable obligations of an agency or instrumentality of the United States rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent and guaranteed by the full faith and credit of the United States of America (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds.

Grant Thornton LLP, Certified Public Accountants, will verify at the time of delivery of the Bonds to the Underwriters that the Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds on their respective scheduled redemption date(s) and maturity date(s). (See "OTHER INFORMATION – Verification of Mathematical Computations"). Such maturing principal of and interest on the Federal Securities will not be available to pay the debt service on the Bonds.

By the deposit of the Federal Securities and cash, if any, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of Chapter 1207, Texas Government Code, and the orders authorizing the issuance of the Refunded Bonds. It is the opinion of Co-Bond Counsel that, as a result of such deposit and in reliance upon the report of Grant Thornton LLP, firm banking arrangements will have been made for the discharge and final payment of the Refunded Bonds, and such Refunded Bonds will be deemed to be fully paid and no longer outstanding except for the purpose of being paid from funds provided therefor, in the Escrow Agreement. Upon defeasance of the Refunded Bonds, the payment of such Refunded Bonds will no longer be guaranteed by the Permanent School Fund.

Sources and Uses of Funds

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

Sources:	
Par Amount	$103,095,000.00
Premium	12,715,221.35
Debt Service Fund Contribution	1,724,405.83
	$117,534,627.18
Uses:	
Deposit to Escrow Fund	$116,541,900.86
Costs of Issuance[(1)]	354,845.00
Underwriters' Discount	636,963.53
Additional Proceeds	917.79
	$117,534,627.18

[(1)]Includes, among other things, counsel fees and other costs of issuing the Bonds.

THE BONDS

Description of the Bonds

The Bonds are dated June 1, 2015, and mature on August 15 in each of the years and in the amounts shown on the inside cover hereof. Interest on the Bonds will accrue from the Date of Delivery and will be payable on August 15, 2015, and each February 15 and August 15 thereafter, 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 only in fully registered form in any integral multiple of $5,000 in principal amount for any one 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 denominations of $5,000 principal amount or integral multiples thereof. No physical delivery of the Bonds will be made to the owners thereof. Debt service on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System" herein). The initial Paying Agent/Registrar is BOKF, NA dba Bank of Texas, Dallas, Texas (see "THE BONDS - Paying Agent/Registrar").

Authority For Issuance

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1207, Texas Government Code and the Order.

Security and Source of Payment

All taxable property within the District is subject to a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, sufficient to provide for the payment of principal of and interest on all Bonds. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM." Additionally, the payment of the Bonds is expected to be guaranteed by the corpus of the Permanent School Fund of Texas. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.

Legality

The Bonds are offered when, as, and if issued, and subject to the approval of legality by the Attorney General of the State of Texas and the opinion of Powell & Leon LLP, Austin, Texas, and McGuireWoods LLP, Houston, Texas, Co-Bond Counsel (see "OTHER INFORMATION – Legal Matters" and "APPENDIX C – FORM OF CO-BOND COUNSEL'S OPINION").

Permanent School Fund Guarantee

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

Mandatory Sinking Fund Redemption

The Bonds issued as term bonds (the "Term Bonds") are subject to mandatory sinking fund redemption and shall be redeemed by the District prior to their scheduled maturities on August 15 in the years and in the amounts set forth below at a redemption price equal to the principal amount redeemed plus accrued interest to the mandatory redemption date (the "Mandatory Redemption Dates"):

Term Bonds

$22,255,000 Term Bonds Maturing August 15, 2037

Mandatory Redemption Date	Principal Amount
08/15/2035	$7,390,000
08/15/2036	7,050,000
08/15/2037*	7,815,000

*Maturity

The particular Term Bonds to be redeemed shall be selected by the Registrar by lot or other customary random selection method, on or before July 1 of each year in which Term Bonds are to be mandatorily redeemed. The principal amount of Term Bonds to be mandatorily redeemed in each year shall be reduced by the principal amount of such Term Bonds that have been acquired by the District and delivered to the Registrar for cancellation or have been optionally redeemed and which have not been made the basis for a previous reduction.

Optional Redemption

The District reserves the right, at its option, to redeem the Bonds having stated maturities from August 15, 2024 through August 15, 2025, each inclusive, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2018 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. The District further reserves the right, at its option, to redeem the Bonds having stated maturities on and after August 15, 2026, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2025 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If a Bond or any portion of the principal sum thereof shall have been called for redemption and notice of such redemption shall have been given, such Bond or the principal amount thereof to be redeemed shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

Notice of Redemption

Not less than 30 days prior to a redemption date for the 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 PORTION THEREOF SHALL CEASE TO ACCRUE.

DTC Redemption Provisions

The Paying Agent/Registrar and the District, so long as a book-entry-only system is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Order or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC Participant, or of any Direct Participant (defined below) or Indirect Participant (defined below) to notify the beneficial owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action

premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Bonds held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds and such redemption will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC Participants, Indirect Participants or the persons for whom DTC Participants act as nominees with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or beneficial owners of the selection of portions of the Bonds for redemption. See "THE BONDS – Book-Entry-Only System" herein.

Defeasance

The Order provides that the Bonds may be discharged, defeased, redeemed or refunded in any manner now or hereafter permitted by law. The Permanent School Fund guarantee of the Bonds will be released upon the defeasance of the Bonds.

Book-Entry-Only System

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

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered Bonds in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered security certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.
Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, interest, and redemption payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest, and redemption payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

Amendments to the Order

In the Order, the District has reserved the right to amend the Order without the consent of any holder in any manner not detrimental to the interests of the holders, including the curing of any ambiguity, inconsistency, or formal defect or omission herein. In addition, the District has reserved the right, with the consent of holders who own in the aggregate 51% of the principal amount of the Bonds then Outstanding, to amend, add to, or rescind any of the provisions of the Order; provided that, without the consent of all holders of Outstanding Bonds, no such amendment, addition, or rescission shall (i) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (ii) give any preference to any Bond over any

other Bond, or (iii) reduce the aggregate principal amount of Bonds required to be held by holders for consent to any such amendment, addition, or rescission.

Paying Agent/Registrar

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

Record Date for Interest Payment

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

If interest on any Bond is not paid on any interest payment date and continues to be unpaid 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 or on behalf of the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date"), which Special Payment Date shall be fifteen (15) days after the Special Record Date, shall be sent at least five (5) 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.

Transfer, Exchange, and Registration

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 in principal amount for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Bondholders' Remedies

The Order does not provide for the appointment of a trustee to represent the interests of the Bondholders upon any failure of the District to perform in accordance with the terms of the Order or upon any other condition and, in the event of any such failure to perform, the registered owners would be responsible for the initiation and cost of any legal action to enforce performance of the Order. Furthermore, the Order does not establish specific events of default with respect to the Bonds and, under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the District to observe any covenant under the Order. A registered owner of Bonds could seek a judgment against the District if a default occurred in the payment of principal of or interest on any such Bonds; however, such judgment could not be satisfied by execution against any property of the District and a suit for monetary damages could be vulnerable to the defense of sovereign immunity. A registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the District to levy, assess, and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due or perform other material terms and covenants contained in the Order. In general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform legally imposed ministerial duties necessary for the performance of a valid contract, and Texas law provides that, following their approval by the Attorney General and issuance, the Bonds are valid and binding obligations for all purposes according to their terms. However, the enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. The District is also eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of

a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Co-Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

The information below concerning the State 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 should not be construed as a representation by the District or the Underwriters.

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

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

History and Purpose

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

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, Senate Bill 1 ("SB 1") was enacted by the Legislature. Among other provisions, SB 1 established the Charter District Bond Guarantee Program as a new component of the Guarantee Program, and 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 were published for public comment on December 20, 2013, approved on January 30, 2014 and 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 2014, distributions to the ASF amounted to $175.43 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 Annual 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, 2013, 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, 2013 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, 2013 and for a description of the financial results of the PSF for the year ended August 31, 2013, the most recent year for which audited financial information regarding the Fund is available. The 2013 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2013 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 endowment 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 making this determination, the SBOE takes into account various considerations, and relies particularly upon its external investment consultant, which undertakes a probability 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.

The SBOE established the Distribution Rate from the Fund to the ASF for fiscal years 2008 and 2009 at 3.5% and for fiscal years 2010 and 2011 at 2.5% of the average of the PSF market value during the respective Distribution Measurement Periods. The decision of the SBOE regarding the Distribution Rate for 2008 through 2011 took into account a commitment by the SLB to transfer at least $100 million per year in fiscal years 2008 through 2011. The SBOE set the Distribution Rate for the 2012-13 biennium at 4.2%, which rate was determined after the SLB authorized the release of a total of $500 million to the PSF in quarterly installments during the 2012-13 biennium. In November 2012, the SBOE set the Distribution Rate for the 2014-15 biennium at 3.3%, which is expected to produce an effective rate of 3.5% taking into account the broadening of the calculation base for the Fund that was effected by a 2011 State constitutional amendment, which amendment did not increase Fund revenues. That distribution rate represents $1.68 billion in transfers to the ASF during the current biennium. In September 2014, the SBOE adopted a 3.5% Distribution Rate for 2016 - 2017, which takes into account a commitment of the SLB to transfer $175 million and $200 million to the PSF in fiscal years 2016 and 2017, respectively. See "2011 Constitutional Amendment" below for a description of amendments made to the Texas Constitution on November 8, 2011 that permit the SLB to make transfers directly to the ASF up to the amount of $300 million in each fiscal year.

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 (as defined below) 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 and 2014. The Fund's investment policy provides for minimum and maximum ranges among the components of each of the three general 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. In July 2006, the SBOE modified its asset allocation to reduce the equity allocation, including both domestic and foreign equity portfolios, to a target of 53% of Fund assets, further reduced the fixed income allocation target to 19% and added an alternative asset allocation, which included real estate, real return, absolute return and private equity components, totaling 28% of the Fund's asset target. 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. In July 2010, the SBOE decreased the equity allocation to 50%, and the fixed income allocation to 15%, while increasing the alternative asset allocation (which may include equity and fixed income investments as part of a variety of alternative investment strategies) to 35%. In July 2012, the SBOE modified the asset allocation policy by decreasing the equity allocation to 46%, increasing the fixed income allocation to 17%, and increasing the alternative asset allocation (which may include equity and fixed income investments as part of a variety of alternative investment strategies) to 37%. The changes made to the asset allocation in 2012 decreased the target for large cap equity investments from 21% to 18%, replaced a 4% allocation for international small cap equities with a 3% allocation for emerging international equities, reduced core fixed income bond investments from 15% to 12%

and added a new 5% allocation for emerging market debt in the fixed income portfolio. The 2014 changes (i) decreased the equity allocation to 40% (by decreasing the target for large cap equities from 18% to 16%, the target for small/mid cap equities from 7% to 5% and the target for emerging and international large cap equities from 18% to 16%), (ii) increased the fixed income allocation from 17% to 19% (by increasing the 5% allocation for emerging market debt to 7%) and (iii) increased the alternative asset allocation from 37% to 41%, which included an increase in the private equity allocation of alternative assets from 6% to 10%.

For a variety of reasons, each change in asset allocation for the Fund, including the 2014 modifications, have been, and are being, implemented in phases. At August 31, 2014, the Fund's financial assets portfolio was invested as follows: 48.03% in public market equity investments; 14.95% in fixed income investments; 9.99% in absolute return assets; 3.48% in private equity assets; 4.14% in real estate assets; 6.73% in risk parity assets; 5.64% in real return assets; 6.91% in emerging market debt; and 0.13% in cash.

In July 2012 and April 2013, the SBOE also realigned the management of certain of the investment portfolios within the absolute return allocation of the alternative investments and its private equity asset class. These alignments in investment portfolios have created strategic relationships between the external manager and investment staff of the PSF, which has reduced administrative costs with respect to those portfolios. In response to a legal opinion request made by the Chair of the SBOE in October 2012, 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 2010 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 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) ("GA-0293"), 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 General Land Office ("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. The SBOE has established the Committee of Investment Advisors, which consists of independent investment experts each appointed by a member of the SBOE to closely advise the respective SBOE member on investment issues.

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 and 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. The capacity limitation included in the SDBGP Rules is incorporated into the proposed regulations for the Charter District Bond Guarantee Program that are described below.

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 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 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 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://info.sos.state.tx.us/pls/pub/readtac$ext.TacPage?sl=R&app=9&p_dir=&p_rloc=&p_tloc=&p_ploc=&pg=1&p_tac=&ti=19&pt=2&ch=33&rl=65.

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://info.sos.state.tx.us/pls/pub/readtac$ext.TacPage?sl=R&app=9&p_dir=&p_rloc=&p_tloc=&p_ploc=&pg=1&p_tac=&ti=19&pt=2&ch=33&rl=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.

Subject to clarifying advice that the TEA anticipates may be received from the Attorney General in accordance with the opinion request described below, 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 October 2013 (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 3.95%. As of January 1, 2015, there were 196 active open-enrollment charter schools in the State, and there were 619 charter school campuses operating under such charters. 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 September 16, 2014, the Commissioner submitted an opinion request to the Texas Attorney General regarding the manner that the capacity of the Charter District Bond Guarantee Program should be calculated. The opinion was requested in light of statutory language relating to the Charter District Bond Guarantee Program that is susceptible to different interpretations, which could substantially affect the amount of Charter District bonds that can be guaranteed, and to provide TEA staff with clarification with respect to the capacity of the Charter District Bond Guarantee Program. The request is available in its entirety at https://www.texasattorneygeneral.gov/opinions/opinions/50abbott/rq/2014/pdf/RQ1223GA.pdf. Based on the question presented to the Attorney General, the advice received could result in the capacity available for the Charter District Bond Guarantee Program substantially exceeding the relative percentage of the scholastic population of charter district students to the total public school scholastic population. The time line for receiving guidance from the Attorney General is uncertain.

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 10% (or such higher amount as may be determined by the Commissioner) of the savings to the charter district that result from the lower interest rate on the bond due to the guarantee by the PSF. The Commissioner has approved a rule governing the calculation and payment of savings into the Charter District Reserve Fund. That rule has been codified at 19 TAC 33.1001, and is available at http://info.sos.state.tx.us/pls/pub/readtac$ext.TacPage?sl=R&app=9&p_dir=&p_rloc=&p_tloc=&p_ploc=&pg=1&p_tac=&ti=19&pt=2&ch=33&rl=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 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.

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)]
2010	$23,653,185,489	$27,066,200,259
2011	24,701,156,685	29,643,439,794
2012	25,161,994,845	31,284,851,266
2013	25,596,193,826	33,131,028,540
2014	27,592,932,952[(2)]	38,441,759,636[(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. Beginning in fiscal year 2009, the SLB reported 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, 2014, land, mineral assets, internally managed discretionary real estate, external discretionary real estate investments and cash managed by the SLB had unaudited book values of approximately $47.3 million, $13.4 million, $307.0 million, $1.8 billion and $2.0 billion, respectively, and unaudited market values of approximately $372.5 million, $3.3 billion, $291.1 million, $1.8 billion and $2.0 billion, respectively.

[(2)] At December 31, 2014 the PSF had a book value of $28,139,931,725 and a market value of $38,006,038,025 (December 31, 2014 values based on unaudited data).

Permanent School Fund Guaranteed Bonds

At 8/31	Principal Amount[1]
2010	$49,301,683,338
2011	52,653,930,546
2012	53,634,455,141
2013	55,218,889,156
2014	58,364,350,783[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, 2014, 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 $96,019,918,371, of which $37,655,567,587 represents interest to be paid. At December 31, 2014, there were $60,200,918,309 of bonds guaranteed under the Guarantee Program and the capacity of the Guarantee Program was $84,419,795,175 based on the three times cost value multiplier approved by the SBOE on May 21, 2010. Such capacity figures include the Reserve Capacity.

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

[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 December 31, 2014, there were $60,200,918,309 of bonds guaranteed under the Guarantee Program, representing 3,002 school district issues, aggregating $59,754,415,309 in principal amount and 15 charter district issues, aggregating $446,503,000 in principal amount.

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2014

The following discussion is derived from the Annual Report for the year ended August 31, 2014, 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, 2014, 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 2014 SBOE 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 2014, the total Fund balance was $34.96 billion. Fund balance increased $4.35 billion from the prior year, primarily attributable to the increase in the fair value of the PSF(SBOE) equities and alternative investments, the PSF(SLB) real assets investments and the continued recovery of invested markets. During the year, the SBOE continued implementing its revised long term strategic asset allocation to diversify and strengthen the PSF(SBOE) investment assets of the Fund. The revised allocation is projected to increase returns over the long run while reducing risk and return volatility of the portfolio. The one year, three year, five year and ten year annualized total returns for the PSF(SBOE) assets were 15.94%, 11.81%, 11.30% and 7.77% 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 9.73%, 9.67%, and 7.00% 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 correlated to 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, 2014, 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, 2014, the SBOE had approved and the

PSF(SBOE) made capital commitments to real estate investments in the amount of $1.58 billion and capital commitments to four private equity limited partnerships in the total amount of $2.23 billion. Unfunded commitments at August 31, 2014 were $519.6 million in real estate and $1.27 billion 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, 2014, the remaining commitments totaled approximately $1.37 billion.

The PSF(SBOE)'s investment in public equity securities experienced a return of 22.2% during the fiscal year ended August 31, 2014. The PSF(SBOE)'s investment in fixed income securities produced a return of 5.9% during the fiscal year and absolute return investments yielded a return of 9.9%. The PSF(SBOE) real estate and private equity investments returned 12.3% and 22.5%, respectively. Risk parity assets produced a return of 18.1%, while real return assets yielded 2.5%. The emerging market debt asset class initiated during the year yielded a 3.5% return since inception. Combined, all PSF(SBOE) asset classes produced an investment return of 15.94% for the fiscal year ended August 31, 2014, overperforming the target index by approximately 57 basis points. All PSF(SLB) real assets (including cash) returned 9.73% for the fiscal year ending August 31, 2014.

For fiscal year 2014, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled $5.2 billion, an increase of $2.1 billion from fiscal year 2013 earnings of $3.2 billion. This increase reflects the performance of the securities markets in which the Fund was invested in fiscal year 2014. In fiscal year 2014, 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 12.2% for the fiscal year ending August 31, 2014. This increase is primarily attributable to the operational costs related to managing alternative investments due to diversification of the Fund.

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 2013 and 2014, the distribution from the SBOE to the ASF totaled $1.021 billion and $838.7 million, respectively. Additionally, the SLB provided $300 million to the ASF in fiscal year 2013.

At the end of the 2014 fiscal year, PSF assets guaranteed $58.364 billion in bonds issued by 821 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 5,603 school district and charter district bond issues totaling $120.7 billion in principal amount. During the 2014 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program increased by 90, or 3.2%. The dollar amount of guaranteed school and charter bond issues outstanding increased by $3.15 billion or 5.7%. The guarantee capacity of the Fund increased by $1.85 billion, or 2.4%, during fiscal year 2014 due to the investment performance of the Fund.

2011 Constitutional Amendment

During the Regular Session of the 82nd Legislature, which concluded May 30, 2011, a joint resolution ("HJR 109") was enacted proposing amendments to various sections of the Texas Constitution that pertain to the PSF. In accordance with HJR 109, a referendum was held in the State on November 8, 2011. At that referendum, voters of State approved non-substantive changes to the Texas Constitution to clarify references to the Fund, and, in addition, approved an amendment that effects an increase to the base amount used in calculating the Distribution Rate from the Fund to the ASF. The amendments approved at the referendum include 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 provides 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. As described under "The Total Return Constitutional Amendment" the SBOE approved a Distribution Rate of 4.2% in January 2011 based on a commitment of the SLB to transfer $500 million to the PSF during the biennium. In November 2012, the SBOE established a 3.3% Distribution Rate for the 2014-15 biennium.

The constitutional amendments approved on November 8, 2011 also provides authority to the GLO or other entity other than the SBOE that has responsibility for the management of land or other properties of the Fund to determine in its sole discretion whether to transfer each year from Fund assets to the ASF revenue derived from such land or properties, an amount not to exceed $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.

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, provided that there are no reductions in the percentage established biennially by the SBOE to be the Distribution Rate. For the 2012-13 biennium, the Distribution Rate has been set by the SBOE at 4.2%. Given the increase in the calculation base effected by the November 8, 2011 constitutional amendment, the effect on transfers made by the SBOE in 2012-13 will be an increase in the total return distribution by an estimated $73.7 million in each year of the biennium. 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, and the Distribution Rate for the 2014-15 biennium has been reduced to 3.3%, as described above. If the SBOE were to maintain a Distribution Rate in future years at the level set for 2012-13, prior to the enactment of the 2011 constitutional amendment, as the value of the real assets investments increase annually, distributions to the ASF would increase in the out years. The increased amounts distributed from the Fund will 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 will reduce the compounding interest in the Fund that would be derived from these assets remaining 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 it has had in the past, which could adversely affect the ability of the SBOE to optimally manage its portion of the PSF assets.

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 May 2010. 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/index.html.

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 for the administration of the PSF for each year of the 2014-15 biennium.

As of August 31, 2013, 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.

The SBOE is a named defendant in litigation described in the Official Statement pertaining to the Bonds that has been filed in State District Court that has challenged the constitutionality of the Texas public school finance system, and which, among other relief requested, seeks an injunction to prohibit the State and its officials from distributing any funds under the current finance system until a constitutional system is created. The TEA does not anticipate that the security for payment of bonds guaranteed under the Guarantee Program would be adversely affected by such litigation.

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/Permanent_School_Fund/. 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 April 9, 2001, four property wealthy districts filed suit in the 250th District Court of Travis County, Texas (the "District Court") against the Texas Education Agency, the Texas State Board of Education, the Texas Commissioner of Education (the "Commissioner") and the Texas Comptroller of Public Accounts in a case styled *West Orange-Cove Consolidated Independent School District, et al. v. Neeley, et al.* The plaintiffs alleged that the $1.50 maximum maintenance and operations ("M&O") tax rate had become in effect a state property tax, in violation of Article VIII, Section 1-e of the Texas Constitution, because it precluded them and other school districts from having meaningful discretion to tax at a lower rate. Forty school districts intervened alleging that the Texas public school finance system (the "Finance System") was inefficient, inadequate, and unsuitable, in violation of Article VII, Section 1 of the Texas Constitution, because the State of Texas (the "State") did not provide adequate funding. As described below, this case has twice reached the Texas Supreme Court (the "Supreme Court"), which rendered decisions in the case on May 29, 2003 ("West Orange-Cove I") and November 22, 2005 ("West Orange-Cove II"). After the remand by the Supreme Court back to the District Court in West Orange-Cove I, 285 other school districts were added as plaintiffs or intervenors. The plaintiffs joined the intervenors in their Article VII, Section 1 claims that the Finance System was inadequate and unsuitable, but not in their claims that the Finance System was inefficient.

On November 30, 2004, the final judgment of the District Court was released in connection with its reconsideration of the issues remanded to it by the Supreme Court in West Orange-Cove I. In that case, the District Court rendered judgment for the plaintiffs on all of their claims and for the intervenors on all but one of their claims, finding that (1) the Finance System was unconstitutional in that the Finance System violated Article VIII, Section 1-e of the Texas Constitution because the statutory limit of $1.50 per $100.00 of taxable assessed valuation on property taxes levied by school districts for maintenance and operation purposes had become both a floor and a ceiling, denying school districts meaningful discretion in setting their tax rates; (2) the constitutional mandate of adequacy set forth in Article VII, Section 1 of the Texas Constitution exceeded the maximum amount of funding available under the funding formulas administered by the State; and (3) the Finance System was financially inefficient, inadequate, and unsuitable in that it failed to provide sufficient access to revenue to provide for a general diffusion of knowledge as required by Article VII, Section 1, of the Texas Constitution.

The intervening school district groups contended that funding for school operations and facilities was inefficient in violation of Article VII, Section 1 of the Texas Constitution, because children in property-poor districts did not have substantially equal access to education revenue. All of the plaintiff and intervenor school districts asserted that the Finance System could not achieve "[a] general diffusion of knowledge" as required by Article VII, Section 1 of the Texas Constitution, because the Finance System was underfunded. The State, represented by the Texas Attorney General, made a number of arguments opposing the positions of the school districts, as well as asserting that school districts did not have standing to challenge the State in these matters.

In West Orange-Cove II, the Supreme Court's holding was twofold: (1) that the local M&O tax had become a state property tax in violation of Article VIII, Section 1-e of the Texas Constitution and (2) the deficiencies in the Finance System did not amount to a violation of Article VII, Section 1 of the Texas Constitution. In reaching its first holding, the Supreme Court relied on evidence presented in the District Court to conclude that school districts did not have meaningful discretion in levying the M&O tax. In reaching its second holding, the Supreme Court, using a test of arbitrariness determined that: the public education system was "adequate," since it is capable of accomplishing a general diffusion of knowledge; the Finance System was not "inefficient," because school districts have substantially equal access to similar revenues per pupil at similar levels of tax effort, and efficiency does not preclude supplementation of revenues with local funds by school districts; and the Finance System does not violate the constitutional requirement of "suitability," since the Finance System was suitable for adequately and efficiently providing a public education.

In reversing the District Court's holding that the Finance System was unconstitutional under Article VII, Section 1 of the Texas Constitution, the Supreme Court stated:

> Although the districts have offered evidence of deficiencies in the public school finance system, we conclude that those deficiencies do not amount to a violation of Article VII, Section 1. We remain convinced, however, as we were sixteen years ago, that defects in the structure of the public school finance system expose the system to constitutional challenge. Pouring more money into the system may forestall those challenges, but only for a time. They will repeat until the system is overhauled.

In response to the intervenor districts' contention that the Finance System was constitutionally inefficient, the West Orange-Cove II decision states that the Texas Constitution does not prevent the Finance System from being structured in a manner that results

in gaps between the amount of funding per student that is available to the richest districts as compared to the poorest district, but reiterated its statements in *Edgewood Independent School District v. Meno*, 917 S.W.2d 717 (Tex. 1995) ("Edgewood IV") that such funding variances may not be unreasonable. The Supreme Court further stated that "[t]he standards of Article VII, Section 1 - adequacy, efficiency, and suitability - do not dictate a particular structure that a system of free public schools must have." The Supreme Court also noted that "[e]fficiency requires only substantially equal access to revenue for facilities necessary for an adequate system," and the Supreme Court agreed with arguments put forth by the State that the plaintiffs had failed to present sufficient evidence to prove that there was an inability to provide for a "general diffusion of knowledge" without additional facilities.

Funding Changes in Response to West Orange-Cove II

In response to the decision in West Orange-Cove II, the Texas Legislature (the "Legislature") enacted House Bill 1 ("HB 1"), which made substantive changes in the way the Finance System is funded, as well as other legislation which, among other things, established a special fund in the State treasury to be used to collect new tax revenues that are dedicated under certain conditions for appropriation by the Legislature to reduce M&O tax rates, broadened the State business franchise tax, modified the procedures for assessing the State motor vehicle sales and use tax and increased the State tax on tobacco products (HB 1 and other described legislation are collectively referred to herein as the "Reform Legislation"). The Reform Legislation generally became effective at the beginning of the 2006–07 fiscal year of each district.

Possible Effects of Litigation and Changes in Law on District Bonds

The Reform Legislation and the changes made by the State Legislature to the Reform Legislation since its enactment did not alter the provisions of Chapter 45, Texas Education Code, that authorize districts to secure their bonds by pledging the receipts of an unlimited ad valorem debt service tax as security for payment of such bonds (including the Bonds). Reference is made, in particular, to the information under the heading "THE BONDS - Security and Source of Payment" in the Official Statement.

In the future, the Legislature could enact additional changes to the Finance System which could benefit or be a detriment to a school district depending upon a variety of factors, including the financial strategies that the district has implemented in light of past State funding systems. Among other possibilities, a district's boundaries could be redrawn, taxing powers restricted, State funding reallocated, or local ad valorem taxes replaced with State funding subject to biennial appropriation. In Edgewood IV, 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"). Consistent with the Contract Clauses, in the exercise of its police powers, the State may make such modifications in the terms and conditions of contractual covenants related to the payment of the Bonds as are reasonable and necessary for the attainment of important public purposes.

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 litigation, or how such legislation or future court orders may affect the District's financial condition, revenues or operations. While the disposition of any possible future litigation or the enactment of future legislation to address school funding in Texas could substantially adversely affect the financial condition, revenues or operations of the District, as noted herein, 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 the Permanent School Fund guarantee of the Bonds would be adversely affected by any such litigation or legislation. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM."

Current Litigation Related to the Texas Public School Finance System

As described below, during 2011 and 2012, several lawsuits were filed in District Courts of Travis County, Texas, which alleged that the Finance System, as modified by legislation enacted by the Legislature since the decision in West Orange Cove II, and in particular, as modified by Senate Bill 1 in 2011 (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - 2011 Legislation"), has resulted in a funding system that violates principles established in West Orange Cove I and West Orange Cove II, and prior decisions of the Supreme Court relating to the constitutionality of the Finance System, and several provisions of the Texas Constitution. In general, each suit presented the legal perspectives and arguments of the different coalitions of school districts represented, but as a general matter, each group challenged the adequacy of funding provided by the Legislature for the Finance System, and the plaintiffs in each suit sought to have an injunction issued to the State and its officials to prevent the distribution of any funds under the current Finance System until a constitutional system is created and sought a declaration that changes in funding for the Finance System since the enactment of HB 1 have effectively converted the local M&O tax into a State property tax in violation of the Texas Constitution. The defendants in the suits include State officials and the State Board of Education (the "State Defendants"). The first suit was filed on October 10, 2011, styled *The Texas Taxpayer & Student Fairness Coalition, et al. vs. Robert Scott, Commissioner of Education et al*. A second suit was filed on December 9, 2011, styled *Calhoun County Independent School District, et al. v Robert Scott, Commissioner of Education, et al*. A third suit was filed on December 13, 2011, styled *Edgewood Independent School District, et al. v. Robert Scott, Commissioner of Education, et al*. A fourth suit was

filed on December 23, 2011, styled *Fort Bend Independent School District, et al. v. Robert Scott, Commissioner of Education, et al*. (the "Fort Bend Suit"). The State Defendants filed an answer with respect to the each of the first four suits filed, denying the plaintiff's allegations, and all of such suits were assigned to the 250th District Court of Travis County. On February 24, 2012 a plea of intervention to the Fort Bend Suit was filed by seven parents and a group named "Texans for Real Efficiency and Equity in Education." The intervenors asserted that the Finance System is qualitatively inefficient, and that the Finance System is unconstitutional, in part based on arguments made by other plaintiffs. A fifth suit was filed on June 26, 2012 by individuals and the Texas Charter School Association, styled *Flores, et al. v. Robert Scott, Commissioner of Education, et al*. (the "Charter School Suit"). The petition for the Charter School Suit agreed with the arguments of the school districts in the first four suits filed that the Finance System is unconstitutional and also sought to have an injunction issued against the State Defendants in the same manner as the first four suits. The Charter School Suit added additional grounds that relate to the circumstances of charter schools as a basis for holding the Finance System unconstitutional, including that charter schools receive no funding for facilities and that the statutory cap on charter schools is unconstitutionally arbitrary. The State Defendants also filed a general denial in the Charter School Suit.

All five suits were consolidated by the 250th District Court of Travis County (the "District Court"), and the trial commenced on October 22, 2012. On February 4, 2013, the District Court rendered a preliminary ruling (the substance of which was ultimately included in a final judgment rendered by the District Court on August 28, 2014, as further described below), but withheld rendering a final judgment until the conclusion of the 83rd Regular Session of the Texas Legislature. The 83rd Regular Session of the Texas Legislature concluded on May 27, 2013, and on June 19, 2013, a hearing was held by the District Court at which the parties to the suits were directed to provide supplemental evidence to the District Court pertaining to new funding provided by the Legislature for the Finance System during the 83rd Regular Session. A trial to consider this evidence began on January 21, 2014 and concluded on February 7, 2014.

On August 28, 2014, the District Court rendered its final ruling, finding the current Finance System unconstitutional for the following reasons: (i) the Finance System effectively imposes a Statewide property tax in violation of the Texas Constitution because school districts lack "meaningful discretion" in the levy, assessment and disbursement of property taxes; (ii) the Finance System is structured, operated and funded in such a manner that prevents it from providing "a constitutionally adequate education for all Texas schoolchildren"; (iii) the Finance System "is constitutionally inadequate because it cannot accomplish, and has not accomplished, a general diffusion of knowledge for all students due to insufficient funding"; and (iv) the Finance System "is financially inefficient because all Texas students do not have substantially equal access to the educational funds necessary to accomplish a general diffusion of knowledge." In the final ruling, the District Court enjoined the State from (i) enforcing Chapters 41 and 42 and Section 12.106 of the Education Code and (ii) distributing any money under the current Finance System until the constitutional violations are remedied. However, the District Court stayed the injunction until July 1, 2015, to give the 84th Texas Legislature, which convened on January 13, 2015, an opportunity to cure the constitutional deficiencies in the Finance System. Pursuant to its terms, the injunction does not and will not impair the District's ability to levy, assess and collect ad valorem taxes, at the full rate and in the full amount authorized by law, necessary to make payments on the Bonds and, to the extent the District is entitled to receive State funding assistance for the payment of the Bonds under the current Finance System, the District will continue to be entitled to receive such State funding assistance. In addition, in response to arguments on behalf of the State's charter schools, the District Court held in its final ruling that it is within the discretion of the Legislature, and not unconstitutional, to fund charter schools differently from other public schools.

The State Defendants/Appellants filed a Notice of Direct Appeal to the Supreme Court on September 26, 2014. Notices of Cross-Direct Appeal were subsequently filed by four other parties. On January 6, 2015, the State Defendants/Appellants filed a Statement of Jurisdiction and Motion for Briefing Schedule requesting the Supreme Court note probable jurisdiction over the appeal and order the filing of appellate briefs in accordance with the proposed briefing schedule.

The Supreme Court noted probable jurisdiction on January 23, 2015 and set the following briefing schedule: Appellants' briefs were due April 13, 2015, Appellees' briefs are due July 2, 2015, and replies are due August 11, 2015. The Supreme Court will then set a date for oral arguments. It should be noted that the briefing schedule extends beyond the stayed injunction (set to expire on July 1, 2015).

The District can make no representations or predictions concerning the effect this litigation or the current ruling by the District Court, and any appeals, may have on the District's financial condition, revenues or operations. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS – Possible Effects of Litigation and Changes in Law on District Bonds."

2013 Legislative Session

The 83rd Texas Legislature concluded its regular session on May 27, 2013. During the session, the Legislature adopted a biennial budget that "restored" $3.2 billion of the $4 billion that was cut from basic state aid for the Finance System during the 2011 legislative session and some $100 million of the $1.3 billion cut from grant programs during the 2011 Legislative Session. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2011 Legislative Session." The revenues that were added back to the Finance System do not take into account growing student enrollments in the State. The Legislature did not materially change the Finance System during the session.

2015 Legislative Session

On January 13, 2015, the 84th Texas Legislature convened in general session, which is scheduled to end June 1, 2015. Thereafter, the Governor may call one or more special sessions. During this time, the Texas Legislature may enact laws that materially change current public school finance or ad valorem tax matters. The District can make no representation regarding the actions that the Texas Legislature may take.

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview

The following description of the Finance System is a summary of the Reform Legislation and the changes made by the State Legislature to the Reform Legislation since its enactment, including modifications made during the regular through third called sessions of the 79th Texas Legislature (collectively, the "2006 Legislative Session"), the regular session of the 81st Texas Legislature (the "2009 Legislative Session"), the regular and first called sessions of the 82nd Texas Legislature (collectively, the "2011 Legislative Session") and the regular and called sessions of the 83rd Texas Legislature (the "2013 Legislative Session"). 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 financing 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 its State funding. A similar equalization system exists 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 was not appropriated by the 83rd Texas Legislature for the 2014–15 State biennium.

Local funding is derived from collections of ad valorem taxes levied on property located within each district's boundaries. School districts are authorized to levy two types of property taxes: a limited maintenance and operations ("M&O") tax to pay current expenses and an unlimited interest and sinking fund ("I&S") tax to pay debt service on bonds. 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. 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 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.

The Reform Legislation, which generally became effective at the beginning of the 2006–07 fiscal year of each school district in the State, made substantive changes to the Finance System, which are summarized below. While each school district's funding entitlement was calculated based on the same formulas that were used prior to the 2006–07 fiscal year, the Reform Legislation made changes to local district funding by reducing each districts' 2005 M&O tax rate by one-third over two years through the introduction of the "State Compression Percentage," with M&O tax levies declining by approximately 11% in fiscal year 2006–07 and approximately another 22% in fiscal year 2007–08. (Prior to the Reform Legislation, the maximum M&O tax rate for most school districts was $1.50 per $100 of taxable assessed valuation. Because most school districts levied an M&O rate of $1.50 in 2005, the application of the Reform Legislation compression formula reduced the majority of school districts' M&O tax rates to $1.00). Subject to local referenda, a district may increase its local M&O tax levy up to $0.17 above the district's compressed tax rate. Based on the current State Compression Percentage, the maximum possible M&O tax rate is $1.17 per $100 of taxable value for most school districts (see "TAX RATE LIMITATIONS" herein).

Local Funding for School Districts

The primary source of local funding for school districts is collections from ad valorem taxes levied against the taxable property located in each school district. As noted above, prior to the Reform Legislation, the maximum M&O tax rate for most school districts was generally limited to $1.50 per $100 of taxable value, and the majority of school districts were levying an M&O tax rate of $1.50 per $100 of taxable value at the time the Reform Legislation was enacted. 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 2014–15, 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 $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 the tax rate increase, districts may, in general, increase their M&O tax rate by an additional two or more cents and receive State equalization funds for such taxing effort up to a maximum M&O tax rate of $1.17 per $100 of taxable value (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 RATE LIMITATIONS" herein).

State Funding for School Districts

State funding for school districts is provided through the Foundation School Program, which provides each school district with a minimum level of funding (a "Basic Allotment") for each student in average daily attendance ("ADA"). The Basic Allotment is calculated for each school district using various weights and adjustments based on the number of students in average daily attendance and also varies depending on each district's compressed tax rate. This Basic Allotment formula determines most of the allotments making up a district's Tier One entitlement. This basic level of funding is 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 bienniums. The 2013 Legislative Session did appropriate funds in the amount of $1,268,000,000 for the 2014-15 State fiscal biennium for continued EDA and IFA support.

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 Legislature. Since future-year IFA awards were not funded by the Legislature for the 2014–15 fiscal biennium, 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 2014-15 State biennium, prior awards for IFA debt support will continue to be made but the Legislature set aside no funds for new IFA awards. State funding allotments may be adjusted in certain circumstances to account for shortages in State appropriations or to allocate available funds in accordance with wealth equalization goals.

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

As described above, the cost of the basic program is based on an allotment per student known as the "Basic Allotment". For fiscal year 2013-14, the Basic Allotment is $4,950 and for fiscal year 2014-15, the Basic Allotment is $5,040 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 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 $59.97 and $61.86 per penny of tax effort per weighted student in average daily attendance ("WADA") for the fiscal year 2013-14 and fiscal year 2014-15, 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 $1.07 to $1.17 per $100 of taxable value) and has a guaranteed yield per cent per WADA of $31.95 for fiscal years 2013-14 and 2014-15. Property-wealthy school districts that have an M&O tax rate that exceeds the district's compressed tax rate plus six cent are

subject to recapture above this tax rate level at the equivalent wealth per student of $319,500 (see "Wealth Transfer Provisions" below).

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. 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 2014–15 State biennium, however, no funds are appropriated for new IFA awards, although all current obligations are funded through the biennium.

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 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.

Prior to the 2012–13 biennium, a district could also qualify for a NIFA allotment, which provided assistance to districts for operational expenses associated with opening new instructional facilities. As previously mentioned, this program was not funded for either the 2012–13 or 2014-15 State fiscal bienniums.

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. As noted above, 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.

2009 Legislation

During the 2009 Legislative Session, legislation was enacted that increased the Basic Allotment for the 2009–10 fiscal year from $3,218 to $4,765. In addition, each district's Target Revenue was increased by $120 per WADA. Target Revenue amounts were also adjusted to provide for mandatory employee pay raises and to account for changes in transportation and NIFA costs since the original Target Revenues were set. Overall, the Legislature allocated approximately $1.9 billion in new State aid for school districts.

2011 Legislation

During the 2011 Legislative Session, the Legislature enacted a budget that cut $4 billion from the Foundation School Program for the 2012–13 State fiscal biennium, as compared to the funding level school districts were entitled to under the current formulas, including Target Revenue, and also cut approximately $1.3 billion in various grants (i.e., pre-kindergarten grant program, student success initiative, etc.) that were previously available. Such cuts were made in light of a projected State deficit of up to $27 billion for the 2012–13 State fiscal biennium. In order to reduce formula funding, a Regular Program Adjustment Factor ("RPAF") was applied to the formula that determines a district's regular program allotment. RPAF is multiplied by a school district's count of students in ADA (not counting the time a student spends in special education and career & technology education) and its Adjusted Allotment, which is the $4,765 Basic Allotment adjusted for the cost of education index and the small- and mid-sized district adjustments. The RPAF is set at 0.9239 for the 2011–12 fiscal year and 0.98 for the 2012–13 fiscal year. In order to balance these reductions across the two years for formula funded districts, such districts had the option to request that an RPAF value of 0.95195 be applied for both the 2011–12 and 2012–13 fiscal years. In order to be granted the request by the Commissioner, the district must demonstrate that using the 0.9239 RPAF would have caused the district a financial hardship in 2011–12. By applying the RPAF only to the Adjusted Allotment, other Tier One allotments, such as special education, career and technology, gifted and talented, bilingual and compensatory education, were not affected. The State Board of Education however, was directed to decrease funding for these programs in proportion to the reductions to the Basic Allotment. The Legislature also established an RPAF value of 0.98 for the 2013–15 State fiscal biennium, subject to increases by subsequent legislative appropriation not to exceed an RPAF value of 1.0. The RPAF factor and its related provisions are scheduled to expire on September 1, 2015.

The RPAF was the primary mechanism for formula reductions in the 2011–12 fiscal year. However, the 2011 Legislation also created the hold harmless reduction percentage to school district entitlement through the application of ASATR. Because it only applies to ASATR, its impact is generally felt only by school districts for which the formula funding system does not provide the district with its Target Revenue. In the 2012–13 fiscal year, the RPAF of 0.98 is combined with a percentage reduction in each school district's hold harmless Target Revenue per WADA to 92.35% of its formula amount. For the 2013–14 and 2014-15 fiscal years, the percentage reduction of each district's hold harmless formula amount is 92.63%. With regard to this adjustment, the ASATR relief that funds the Target Revenue system is phased out between the 2013–14 and 2017–18 fiscal years.

2013 Legislative Session

No significant modifications were made to the underlying school finance structure during the 2013 Legislative Session. However, several of the revenue reduction formulas, notably the RPAF, were eliminated. As stated above, the 2011 Legislation created the RPAF as the primary mechanism for formula reductions in the 2012–13 State biennium. For the 2013–14 and 2014-15 fiscal years, the State Legislature set the RPAF to 1.00 which restores the regular program allotment funding at 100% of which each district is entitled. The RPAF expires at the end of fiscal year 2014-15. The 2013 Legislature also continued the reduction in each district's ASATR payment but changed the reduction from 92.35% to 92.63% of what the district would have received in hold harmless ASATR funding for the 2013-14 and 2014-15 school years. The 2013 Legislation also increased the Basic Allotment for the 2013-14 fiscal year to $4,950 and for the 2014-15 fiscal year to $5,040. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS – 2013 Legislative Session."

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 2013–14 are set at (i) $495,000 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). For the 2014-15 fiscal year, the first equalized wealth level increases from $495,000 to $504,000, however the second equalized wealth level remains at $319,500. 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, and 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 transferring district's voters; however, 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 FORNEY INDEPENDENT SCHOOL DISTRICT

The District's wealth per student for the 2014-15 school year is less than the equalized wealth value. Accordingly, the District has not been required to exercise one of the permitted wealth equalization options. As a district with wealth per student less than the equalized wealth value, the District may benefit by agreeing to accept taxable property or funding assistance from or agreeing to consolidate with a property-rich district to enable such district to reduce its wealth per student to the permitted level.

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

TAX RATE LIMITATIONS

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters under Section 45.003(d) of the Texas Education Code, as amended. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next succeeding paragraph. The maximum voted M&O tax rate for the District is $1.50 per $100 of assessed valuation as approved by the voters at an election held on November 14, 1972 under Chapter 20, Texas Education Code (now codified at Section 45.003, Texas Education Code).

The maximum tax rate per $100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) $1.50 and (B) the sum of (1) the rate of $0.17, and (2) the product of the "State Compression Percentage" multiplied by $1.50. The State Compression Percentage has been set, and will remain, at 66.67% for fiscal years 2007–08 through 2013–14. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For a more detailed description of the State Compression Percentage, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Local Funding for School Districts." Furthermore, a school district cannot annually increase its tax rate in excess of the district's "rollback tax rate" without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate. See "TAX INFORMATION - Public Hearing and Rollback Tax Rate."

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

Chapter 45 of the Texas Education Code, as amended, requires a district to demonstrate to the Texas Attorney General that it has the prospective ability to pay debt service on a proposed issue of bonds, together with debt service on other outstanding "new

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

TAX INFORMATION

Property Tax Code and County-Wide Appraisal District

The Texas Property Tax Code (the "Property Tax Code") provides for county-wide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board responsible for appraising property for all taxable units within the county. The Kaufman County Appraisal District (the "Appraisal District") is responsible for appraising property within the District, generally, as of January 1 of each year. The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board (the "Appraisal Review Board"), which is appointed by the Appraisal District. Such appraisal rolls, as approved by the Appraisal Review Board, are used by the District in establishing its tax roll and tax rate.

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real and certain tangible personal property with a tax situs in the District is subject to taxation by the District. Principal categories of exempt property (including certain exemptions which are subject to local option by the Board of Trustees) include property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain improvements to real property and certain tangible personal property located in designated reinvestment zones on which the District has agreed to abate ad valorem taxes; certain household goods, family supplies and personal effects; farm products owned by the producers; certain property of a nonprofit corporation used in scientific research and educational activities benefiting a college or university; and designated historic sites. Other principal categories of exempt property include tangible personal property not held or used for production of income; solar and windpowered energy devices; real or personal property that is used wholly or partly as a facility, device or method for the control of air, water or land pollution; most individually owned automobiles; $10,000 exemption to residential homesteads of disabled persons or persons ages 65 or over; an exemption from $5,000 to a maximum of $12,000 for real or personal property of disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; beginning in the 2009 tax year, the total appraised value of the residence homestead of a disabled veteran who receives 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability; effective January 1, 2014, an exemption of a percentage of the appraised value of the residence homestead of a partially disabled veteran or the surviving spouse of a partially disabled veteran 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; also effective January 1, 2014, an exemption for the total appraised value of the residence homestead of a surviving spouse of a member of the armed forces who was killed in action if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death, with such exemption transferrable 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; $15,000 in market value for all residential homesteads (see "Residential Homestead Exemption" below); and certain classes of intangible property. In addition, except for increases attributable to certain improvements, the District is prohibited by State law from increasing the total ad valorem tax of the residence homestead of persons who are 65 years of age or older and persons who are "disabled" above the amount of tax imposed in the year such residence qualified for an exemption based on age or disability of the owner. The freeze on ad valorem taxes on the homesteads of persons who are 65 years of age or older and persons who are disabled is also transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who is 65 years of age or older and qualifies for the freeze on ad valorem taxes based on such person's age 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. A "disabled" person is one who is "under a disability for purposes of payment of disability insurance benefits under the Federal Old Age, Survivors and Disability Insurance." Pursuant to a constitutional amendment approved by the

voters on May 12, 2007, legislation was enacted to reduce the school property tax limitation imposed by the freeze on taxes paid on residence homesteads of persons 65 years of age or over or of disabled persons to correspond to reductions in local school district tax rates from the 2005 tax year to the 2006 tax year and from the 2006 tax year to the 2007 tax year (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - General" herein). The school property tax limitation provided by the constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years.

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

Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax Freeport property may be reversed in the future. However, 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 a provision 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. The Tax Code provision 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 only receive either the freeport exemption or the "goods-in-transit" exemption for items of personal property.

See APPENDIX A - Table 1 – Valuation, Exemptions, and Tax Supported Debt and "TAX INFORMATION – District Application of Tax Code" below for a schedule of exemptions allowed by the District.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. 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, the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are based on one hundred percent (100%) of market value, except as described below, and no assessment ratio can be applied.

Effective January 1, 2010, State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the property's market value in the most recent tax year in which the market value was determined by the Appraisal District or (2) the sum of (a) 10% of the property's appraised value for the preceding tax year, (b) the appraised value of the property for the preceding tax year plus (c) the market value of all new improvements to the property.

The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. Landowners wishing to avail

themselves of the agricultural use designation must apply for the designation, and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes for previous years based on the new value, including three years for agricultural use and five years for agricultural open-space land and timberland prior to the loss of the designation.

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three years. The District, at its expense, has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraisal values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses to formally include such values on its appraisal roll.

Residential Homestead Exemption

Under Section 1-b, Article VIII of the Texas Constitution and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than $3,000 of 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. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) 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.

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

In addition to any other exemptions provided by the Property Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of $5,000.

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

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a petition for review in district court within 45 days after notice is received that a final order has been entered. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party, or through binding arbitration, if requested by the taxpayer. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

Public Hearing and Rollback Tax Rate

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

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

Section 26.05 of the Property Tax Code provides that the governing body of a taxing unit is required to adopt the annual tax rate for the unit before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit for the tax year to be the lower

of the effective tax rate calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. Before adopting its annual tax rate, a public meeting must be held for the purpose of adopting a budget for the succeeding year. A notice of public meeting to discuss budget and proposed tax rate must be published in the time, format and manner prescribed in Section 44.004 of the Texas Education Code. Section 44.004(e) of the Texas Education Code provides that a person who owns taxable property in a school district is entitled to an injunction restraining the collection of taxes by the district if the district has not complied with such notice requirements or the language and format requirements of such notice as set forth in Section 44.004(b), (c) and (d) and if such failure to comply was not in good faith. Section 44.004(e) further provides the action to enjoin the collection of taxes must be filed before the date the district delivers substantially all of its tax bills.

A district may adopt its budget after adopting a tax rate for the tax year in which the fiscal year covered by the budget begins if the district elects to adopt its tax rate before receiving the certified appraisal roll. A district that adopts a tax rate before adopting its budget must hold a public hearing on the proposed tax rate followed by another public hearing on the proposed budget rather than holding a single hearing on the two items.

Levy and Collection of Taxes

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Before the later of September 30 or the 60th day after the date that the certified appraisal role is received by the District, the rate of taxation must be set by the Board of Trustees of the District based upon the valuation of property within the District as of the preceding January 1 and the amount required to be raised for debt service, maintenance purpose and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty from six percent (6%) to twelve percent (12%) of the amount of the tax, depending on the time of payment, and accrues interest at the rate of one percent (1%) per month. If the tax is not paid by the following July 1, an additional penalty of up to twenty percent (20%) may under certain circumstances be imposed by the District. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property. The District has no lien for unpaid taxes on personal property but does have a lien for unpaid taxes upon real property, which lien is discharged upon payment. On January 1 of each year, such tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The District's tax lien is on a parity with the tax liens of other such taxing units. A tax lien on real property takes priority over the claims of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. The automatic stay in bankruptcy will prevent the automatic attachment of tax liens with respect to post-petition tax years unless relief is sought and granted by the bankruptcy judge. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

Except with respect to taxpayers who are 65 years of age or older, at any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights, or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer who is 65 years of age or older or is disabled may defer the collection of delinquent property taxes on his or her residence homestead and prevent the filing of a lawsuit to collect delinquent taxes until the 181st day after the taxpayer no longer owns and occupies the property as a residence homestead. However, taxes and interest continue to accrue against the property, and the delinquent taxes incur a penalty of 8% per annum with no additional penalties or interest assessed. The lien securing such taxes and interest remains in existence during the deferral or abatement period.

District Application of Tax Code

The District grants an exemption to the market value of the residence homestead of persons 65 years of age or older of $15,000; the disabled are also granted an exemption of $10,000. The District has granted an additional exemption of 5% of the market value of residence homesteads. See APPENDIX A - Table 1 for a listing of the amounts of the exemptions.

Tax Abatement Policy

The District has established a tax abatement program to encourage economic development. In order to be considered for tax abatement, a project must meet several criteria pertaining to job creation and property value enhancement. Generally, projects are eligible for a tax abatement of up to 100% for the first year, declining 24% on the second, fourth and sixth years, and ending on the eighth year. The value of property subject to abatement is shown in APPENDIX A - Table 1. In practice, the District required participants in the program to reimburse the District for the lesser of (i) lost State funding, or (ii) lost property taxes.

Collection of Taxes - Penalty and Interest Charges

The Board of Trustees has approved a resolution initiating an additional 20% penalty to defray attorney costs in the collection of delinquent taxes over and above the penalty automatically assessed under the Tax Code. Charges for penalties and interest on the unpaid balance of delinquent taxes are as follows:

Month	Cumulative Penalty	Cumulative Interest[(b)]	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	32[(a)]	6	38

[(a)] Includes additional penalty of 20% assessed after July 1 in order to defray attorney collection expenses.
[(b)] Taxes delinquent after July 1 incur an additional interest penalty of 20% of the sum of the delinquent taxes plus the penalties and interest to defray attorney collection fees.

Property within the District is assessed as of January 1 of each year (except business inventories which may be assessed as of September 1 and mineral values which are assessed on the basis of a twelve month average) taxes become due October 1 of the same year and become delinquent on February 1 of the following year. Split payments are not permitted. Discounts are not permitted.

EMPLOYEES' BENEFIT PLANS

The District's employees participate in a retirement plan (the "Plan") with the State of Texas. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRS, costs relating to employee salaries that exceed the statutory limit. (See "Appendix B - FORNEY INDEPENDENT SCHOOL DISTRICT ANNUAL FINANCIAL REPORT.") In addition to the TRS retirement plan, the District provides health care coverage for its employees.

INVESTMENTS

The District invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the Board. Both state law and the District's investment policies are subject to change. See APPENDIX A - Table 12 for a description of the District's investments as of April 1, 2015.

Legal Investments

Available District funds are invested as authorized by State law and in accordance with investment policies approved by the Board of Trustees. Both State law and the District's investment policies are subject to change. Under State 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 or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is unconditionally guaranteed or insured by or backed by the full faith and credit of, the State 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 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 that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less; (10) 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; (11) 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; (12) no-load money market mutual funds registered with and regulated by the United States 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, (13) no-load mutual funds registered with the United States Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies an d instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

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

Investment Objectives

Under State 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 fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under State law, the District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." At least quarterly the District's investment officers must submit an investment report to the Board of Trustees detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value and the fully accrued interest for 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 strategies and (b) State law. No person may invest District funds without express written authority from the Board of Trustees.

Under State law, the District is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt by written instrument 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.

TAX MATTERS

Opinion of Co-Bond Counsel – Federal Income Tax Status of Interest

Co-Bond Counsel's opinion will state that, under current law, (i) interest on the Bonds (including any accrued "original issue discount" properly allocable to the owners of such Bonds) is excludable from gross income for purposes of federal income taxation under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) interest on the Bonds is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; provided, however, for purposes of the alternative minimum tax imposed on corporations (as defined for federal income tax purposes under Section 56 of the Code), interest on the Bonds is included in computing adjusted current earnings.

Co-Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the Bonds.

Co-Bond Counsel's opinion speaks as of its date, is based on current legal authority and precedent, covers certain matters not directly addressed by such authority and precedent, and represents Co-Bond Counsel's judgment as to the proper treatment of interest on the Bonds for federal income tax purposes under Section 103 of the Code. Co-Bond Counsel's opinion does not contain or provide any opinion or assurance regarding the future activities of the District or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the Internal Revenue Service (the "IRS"). The District has covenanted, however, to comply with the requirements of the Code.

Reliance and Assumptions; Effect of Certain Changes

In delivering their opinion regarding the treatment of interest on the Bonds, Co-Bond Counsel is relying upon certifications of representatives of the District, the Underwriters, and other persons as to facts material to the opinion, which Co-Bond Counsel has not independently verified.

In addition, Co-Bond Counsel is assuming continuing compliance with the Covenants (as hereinafter defined) by the District. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the Bonds in order for interest on the Bonds to be and remain excludable from gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, restrictions on the use, expenditure and investment of the proceeds of the Bonds and the use of the property financed by such Bonds, limitations on the source of the payment of and the security for such Bonds and the obligation to rebate certain excess earnings on the gross proceeds of such Bonds to the United States Treasury. The tax compliance agreement to be entered into by the District with respect to the Bonds contains covenants (the "Covenants") under which the District has agreed to comply with such requirements. Failure by the District to comply with the Covenants could cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactively to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Bonds from becoming includable in gross income for federal income tax purposes.

Co-Bond Counsel has no responsibility to monitor compliance with the Covenants after the date of issue of the Bonds.

Certain requirements and procedures contained, incorporated or referred to in the tax compliance agreement, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Co-Bond Counsel expresses no opinion concerning any effect on the excludability of interest on the Bonds from gross income for federal income tax purposes of any such subsequent change or action that may be made, taken or omitted upon the advice or approval of counsel other than Co-Bond Counsel.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral federal income tax matters with respect to the Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner thereof. Prospective purchasers of the Bonds, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning or disposing of the Bonds.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers including, without limitation, financial institutions, certain insurance companies, certain corporations (including S corporations and foreign corporations), certain foreign corporations subject to the "branch profits tax," individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers attempting to qualify for the earned income tax credit.

In addition, prospective purchasers should be aware that the interest paid on, and the proceeds of the sale of, tax-exempt obligations, including the Bonds, are in many cases required to be reported to the IRS in a manner similar to interest paid on taxable obligations. Additionally, backup withholding may apply to any such payments to any Bond owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Bond owner who is notified by the IRS of a failure to report all interest and dividends required to be shown on federal income tax returns. The reporting and withholding requirements do not in and of themselves affect the excludability of such interest from gross income for federal tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

Original Issue Discount

The "original issue discount" ("OID") on any bond is the excess of such bond's stated redemption price at maturity (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of such bond. The "issue price" of a bond is the initial offering price to the public at which price a substantial amount of such Bonds of the same maturity was sold. The "public" does not include bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. The issue price for each maturity of the Bonds is expected to be the initial public offering price set forth on the inside front cover page of this Official Statement (or, in the case of Bonds sold on a yield basis, the initial offering price derived from such yield), but is subject to change based on actual sales. OID on the Bonds with OID (the "OID Bonds") represents interest that is excludable from gross income for purposes of federal income taxation. However, the portion of the OID that is deemed to have accrued to the owner of an OID Bond in each year may be included in determining the alternative minimum tax and the distribution requirements of certain investment companies and may result in some of the collateral federal income tax consequences mentioned in the preceding subsection. Therefore, owners of OID Bonds should be aware that the accrual of OID in each year may result in alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although the owner may not have received cash in such year.

Interest in the form of OID is treated under Section 1288 of the Code as accruing under a constant yield method that takes into account compounding on a semiannual or more frequent basis. If an OID Bond is sold or otherwise disposed of between

semiannual compounding dates, then the OID which would have accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

In the case of an original owner of an OID Bond, the amount of OID that is treated as having accrued on such OID Bond is added to the owner's cost basis in determining, for federal income tax purposes, gain or loss upon its disposition (including its sale, redemption or payment at maturity). The amounts received upon such disposition that are attributable to accrued OID will be excluded from the gross income of the recipients for federal income tax purposes. The accrual of OID and its effect on the redemption, sale or other disposition of OID Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above.

Prospective purchasers of OID Bonds should consult their own tax advisors with respect to the precise determination for federal income tax purposes of interest accrued upon sale or redemption of such OID Bonds and with respect to state and local tax consequences of owning OID Bonds.

Bond Premium

In general, if an owner acquires a bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond, determined based on constant yield principles. An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Prospective purchasers of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Possible Legislative or Regulatory Action

Legislation and regulations affecting tax-exempt bonds are continually being considered by the United States Congress, the United States Treasury Department (the "Treasury Department"), and the IRS. In addition, the IRS has established an expanded audit and enforcement program for tax-exempt bonds. There can be no assurance that legislation enacted or proposed after the date of issue of the Bonds or an audit initiated or other enforcement or regulatory action taken by the Treasury or the IRS involving the Bonds or other tax-exempt bonds will not have an adverse effect on the tax status or the market price of the Bonds or on the economic value of the tax-exempt status of the interest thereon.

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board ("MSRB"). This information will be available free of charge from the MSRB via Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for a description of the continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State of Texas, as the case may be, and to provide timely notice of specified material events related to the guarantee to certain information vendors.

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB annually in an electronic format as prescribed by the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included this Official Statement in APPENDIX A, in Tables numbered 1 through 5 and 7 through 12, and in APPENDIX B. The District will update and provide this information within six months after the end of each fiscal year.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by

the required time, the District will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's current fiscal year end is June 30. Accordingly, it must provide updated information by the last day of December in each year following the end of its fiscal year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Material Event Notices

The District will also provide timely notices of certain events to the MSRB (not in excess of ten (10) days after the occurrence of the event). The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax 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; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such 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. (Neither the Bonds nor the Order make any provision for debt service reserves, redemption provisions, liquidity enhancement, or credit enhancement, except for the Permanent School Fund Guarantee). In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports”.

All documents provided to the MSRB shall be accompanied by identifying information, as prescribed by the MSRB.

Limitations and Amendments

The District has agreed to update information and to provide notices of material 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.

This continuing disclosure agreement may be amended by the District 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, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the registered owners and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision 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 amends its agreement, it must include with the next financial information and opening 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 type of information and data provided. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision 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.

Compliance with Prior Undertakings

Over the last five years, the District has complied in all material respects with its previous continuing disclosure agreements made pursuant to the Rule including particularly the annual filing of financial information and operating data in a form substantively compliant with the requirements of the District's continuing disclosure agreement.

OTHER INFORMATION

Other Obligations

Between 2012 and 2014, the District entered into three capital leases. As of June 30, 2014, the total principal outstanding on such leases amounted to $798,559 and the total interest remaining was $115,638. For a yearly schedule of the principal and interest requirements for such capital leases, see APPENDIX A - Table 9 – Other Obligations.

The District has also issued certain notes secured by its maintenance tax revenues. As of June 30, 2014, the District had $780,000 in principal amount outstanding on such notes. For a yearly schedule of the principal and interest requirements for such notes, see APPENDIX A - Table 9 – Other Obligations.

After the fiscal year end, the District also entered into a seven year lease for technology network equipment at a total cost of approximately $1,600,000.

The District is not legally permitted to pay for any of the obligations described in this section out of the debt service tax revenues that provide security for the Bonds.

Gateway Marketplace Development

According to the Forney Economic Development Corporation, the "Gateway Bridge" over U.S. Interstate 80 ("I-80") was recently constructed within the District and connects approximately 600 acres of property north of I-80 to approximately 1400 acres south of I-80. Such bridge was constructed in connection with the development of approximately 2,000 acres within the District and, in turn, could result in an increase in the District's taxable values; however, the District cannot make any assurances that any such development or increase in taxable value will occur. Additionally, such development could result in the District incurring capital expenditures in order to serve the development. The District cannot make any assurances as to whether the development of this property will have a positive or negative impact on the District's financial condition or the security for the Bonds. Additional information may be obtained at http://www.forneytexasedc.org/gateway-development. NOTE: The District has not verified any information on this website, and cannot guarantee the accuracy or completeness of its contents.

Ratings

The District has received conditional approval for payment of the Bonds to be guaranteed by the Permanent School Fund of the State of Texas. Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), and Moody's Investor Services, Inc. ("Moody's") rate all bond issues (such as the Bonds) guaranteed by the Permanent School Fund of the State of Texas "AAA" and "Aaa", respectively. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein. In addition, S&P has assigned its underlying unenhanced rating of "A-" to the Bonds and Moody's has assigned its underlying unenhanced rating of "Baa1" to the Bonds. An explanation of the significance of such ratings may be obtained from S&P and Moody's, respectively. The ratings reflect only the views of S&P and Moody's, and the District makes no representation as to the appropriateness of such ratings.

The above ratings are not recommendations to buy, sell, or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of either or both ratings may have an adverse effect on the market price of the Bonds.

No Litigation Certificate

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

Legal Investments and Eligibility to Secure Public Funds in Texas

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

Registration and Qualification of Bonds for Sale

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

Legal Matters

The District will furnish a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the legal opinion of Powell & Leon LLP, Austin, Texas, and McGuireWoods LLP, Houston, Texas, Co-Bond Counsel, with respect to the Bonds being issued in compliance with the provisions of applicable law and the interest on the Bonds being excludable from gross income for purposes of federal income tax. The form of Co-Bond Counsel's opinion is attached hereto as APPENDIX C – Form of Co-Bond Counsel's Opinion.

Co-Bond Counsel was engaged by, and only represents, the District. Except as noted below, Co-Bond Counsel did not take part in the preparation of the Official Statement, and such firms have not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Co-Bond Counsel, such firms have reviewed the information appearing under captions or subcaptions, "PLAN OF FINANCING – Refunded Bonds" "THE BONDS" (except under the subcaptions "Permanent School Fund Guarantee", "DTC Redemption Provisions" and "Book-Entry-Only System"), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", "TAX RATE LIMITATIONS", "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Undertakings"), "OTHER INFORMATION – Legal Investments and Eligibility To Secure Public Funds in Texas", "OTHER INFORMATION – Registration and Qualification of Bonds For Sale", and "OTHER INFORMATION – Legal Matters (except for the last two sentences of the second paragraph)" and such firms are of the opinion that the information relating to the Bonds and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and such information conforms to the Order. The legal fee to be paid Co-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 Co-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. Certain legal matters will be passed upon for the Underwriters by their counsel, Andrews Kurth LLP, Houston, Texas. The legal fee of such firm is also 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

In its role as Financial Advisor, Government Capital Securities Corporation has relied on the District for certain information concerning the District and the Bonds. The fee of the Financial Advisor for services with respect to the Bonds is contingent upon

the issuance and sale of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

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.

Use of Audited Financial Statements

Whitley Penn LLP, Houston, Texas, the District's independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Whitley Penn LLP, Houston, Texas, also has not performed any procedures relating to this Official Statement.

Verification of Mathematical Computations

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

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

Underwriting

The Underwriters have agreed to purchase the Bonds from the District for $115,173,257.82 (being the principal amount of the Bonds, plus a premium of $12,715,221.35 less an Underwriters' discount of $636,963.53).

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

Forward Looking Statements

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. It is important to note that the District's actual results could differ materially from those in such forward looking statements.

The forward looking statements 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 would 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 that 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 documents for further information. Reference is made to original documents in all respects.

/s/ Keith Bell
President, Board of Trustees
Forney Independent School District

ATTEST:

/s/ Greg Pharris
Secretary, Board of Trustees
Forney Independent School District

SCHEDULE I

Refunded Bonds

Forney Independent School District

Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
Series 2005 U/L Tax Ref Bds, 2005:					
SERIAL	8/15/2016	4.000%	$ 1,185,000.00	8/15/2015	100.000
	8/15/2017	4.125%	600,000.00	8/15/2015	100.000
	8/15/2018	4.250%	630,000.00	8/15/2015	100.000
	8/15/2019	4.250%	650,000.00	8/15/2015	100.000
	8/15/2020	4.300%	675,000.00	8/15/2015	100.000
	8/15/2021	4.375%	340,000.00	8/15/2015	100.000
			$ 4,080,000.00		

Series 2005A U/L Tax Sch Bldg & Ref Bds, 2005A:

Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
SERIAL	8/15/2016	4.000%	$ 355,000.00	8/15/2015	100.000
	8/15/2017	5.000%	715,000.00	8/15/2015	100.000
	8/15/2018	4.150%	745,000.00	8/15/2015	100.000
	8/15/2019	4.000%	400,000.00	8/15/2015	100.000
	8/15/2020	4.100%	420,000.00	8/15/2015	100.000
	8/15/2021	4.125%	440,000.00	8/15/2015	100.000
	8/15/2022	4.200%	460,000.00	8/15/2015	100.000
	8/15/2023	4.250%	475,000.00	8/15/2015	100.000
	8/15/2024	4.250%	500,000.00	8/15/2015	100.000
	8/15/2025	4.350%	520,000.00	8/15/2015	100.000
TERM29	8/15/2026	5.000%	545,000.00	8/15/2015	100.000
	8/15/2027	5.000%	925,000.00	8/15/2015	100.000
	8/15/2028	5.000%	250,000.00	8/15/2015	100.000
	8/15/2029	5.000%	265,000.00	8/15/2015	100.000
TERM35	8/15/2030	4.500%	515,000.00	8/15/2015	100.000
	8/15/2031	4.500%	535,000.00	8/15/2015	100.000
	8/15/2032	4.500%	560,000.00	8/15/2015	100.000
	8/15/2033	4.500%	585,000.00	8/15/2015	100.000
	8/15/2034	4.500%	615,000.00	8/15/2015	100.000
	8/15/2035	4.500%	640,000.00	8/15/2015	100.000
			$ 10,465,000.00		

Series 2006 U/L Tax Sch Bldg Bds, 2006:

Bond	Maturity Date	Interest Rate		Par Amount	Call Date	Call Price
SERIAL	8/15/2025	4.375%	$	525,000.00	8/15/2015	100.000
	8/15/2026	4.400%		550,000.00	8/15/2015	100.000
TERM30	8/15/2028	4.500%		600,000.00	8/15/2015	100.000
	8/15/2029	4.500%		625,000.00	8/15/2015	100.000
	8/15/2030	4.500%		655,000.00	8/15/2015	100.000
			$	2,955,000.00		

Series 2006B U/L Tax Sch Bldg Bonds, 2006B:

Bond	Maturity Date	Interest Rate		Par Amount	Call Date	Call Price
SERIAL	8/15/2019	4.375%	$	310,000.00	8/15/2016	100.000
	8/15/2020	4.500%		325,000.00	8/15/2016	100.000
	8/15/2021	4.500%		340,000.00	8/15/2016	100.000
	8/15/2022	4.500%		355,000.00	8/15/2016	100.000
	8/15/2023	4.500%		370,000.00	8/15/2016	100.000
	8/15/2024	4.500%		390,000.00	8/15/2016	100.000
	8/15/2025	4.625%		405,000.00	8/15/2016	100.000
	8/15/2026	4.625%		425,000.00	8/15/2016	100.000
TERM31	8/15/2027	5.125%		445,000.00	8/15/2016	100.000
	8/15/2028	5.125%		465,000.00	8/15/2016	100.000
	8/15/2029	5.125%		495,000.00	8/15/2016	100.000
	8/15/2030	5.125%		520,000.00	8/15/2016	100.000
	8/15/2031	5.125%		545,000.00	8/15/2016	100.000
			$	5,390,000.00		

Series 2007 U/L Tax Sch Bldg Bonds, 2007:

Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
SERIAL	8/15/2019	4.000%	$ 300,000.00	8/15/2016	100.000
	8/15/2020	4.000%	310,000.00	8/15/2016	100.000
	8/15/2021	4.100%	325,000.00	8/15/2016	100.000
	8/15/2022	4.250%	340,000.00	8/15/2016	100.000
	8/15/2023	4.250%	355,000.00	8/15/2016	100.000
	8/15/2024	4.250%	365,000.00	8/15/2016	100.000
	8/15/2025	4.375%	385,000.00	8/15/2016	100.000
	8/15/2026	4.500%	400,000.00	8/15/2016	100.000
	8/15/2027	4.500%	420,000.00	8/15/2016	100.000
TERM31	8/15/2028	4.500%	435,000.00	8/15/2016	100.000
	8/15/2029	4.500%	455,000.00	8/15/2016	100.000
	8/15/2030	4.500%	475,000.00	8/15/2016	100.000
TERM36	8/15/2032	5.000%	520,000.00	8/15/2017	100.000
			$ 5,085,000.00		

Series 2007A U/L Tax Sch Bldg Bonds, 2007A:

Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
SERIAL	8/15/2019	5.000%	$ 2,220,000.00	8/15/2017	100.000
	8/15/2020	5.000%	2,100,000.00	8/15/2017	100.000
	8/15/2021	5.000%	2,125,000.00	8/15/2017	100.000
	8/15/2022	5.000%	2,080,000.00	8/15/2017	100.000
	8/15/2023	5.000%	1,065,000.00	8/15/2017	100.000
	8/15/2024	5.000%	1,125,000.00	8/15/2017	100.000
	8/15/2025	5.000%	2,185,000.00	8/15/2017	100.000
	8/15/2026	5.000%	2,345,000.00	8/15/2017	100.000
TERM29	8/15/2027	4.750%	1,815,000.00	8/15/2017	100.000
	8/15/2028	4.750%	2,295,000.00	8/15/2017	100.000
	8/15/2029	4.750%	2,545,000.00	8/15/2017	100.000
TERM371	8/15/2034	5.125%	1,500,000.00	8/15/2017	100.000
	8/15/2035	5.125%	1,500,000.00	8/15/2017	100.000
	8/15/2036	5.125%	1,500,000.00	8/15/2017	100.000
	8/15/2037	5.125%	1,500,000.00	8/15/2017	100.000
			$ 27,900,000.00		

Series 2008 U/L Tax Sch Bldg Bonds, 2008:

Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
TERM33	8/15/2031	5.000%	$ 2,135,000.00	8/15/2017	100.000
	8/15/2032	5.000%	3,830,000.00	8/15/2017	100.000
	8/15/2033	5.000%	4,035,000.00	8/15/2017	100.000
TERM38	8/15/2034	5.000%	4,995,000.00	8/15/2017	100.000
			$ 14,995,000.00		

Series 2008A U/L Tax Sch Bldg Bonds, 2008A:

Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
TERM33	8/15/2028	5.750%	$ 1,410,000.00	8/15/2018	100.000
	8/15/2029	5.750%	1,840,000.00	8/15/2018	100.000
	8/15/2030	5.750%	2,805,000.00	8/15/2018	100.000
	8/15/2031	5.750%	3,190,000.00	8/15/2018	100.000
	8/15/2032	5.750%	3,270,000.00	8/15/2018	100.000
	8/15/2033	5.750%	3,680,000.00	8/15/2018	100.000
TERM37	8/15/2034	6.000%	3,940,000.00	8/15/2018	100.000
	8/15/2035	6.000%	4,220,000.00	8/15/2018	100.000
	8/15/2036	6.000%	4,510,000.00	8/15/2018	100.000
	8/15/2037	6.000%	5,270,000.00	8/15/2018	100.000
			$ 34,135,000.00		

Total Par Amount of Refunded Bonds: $105,005,000

APPENDIX A

FINANCIAL INFORMATION REGARDING THE DISTRICT

The Tax Code as it Applies to the District

The District provides the state mandated exemption to the market value of residence homesteads of $15,000; the District grants an additional exemption to disabled persons and persons 65 years of age or older of $10,000.

The District has adopted the tax freeze for citizens who are disabled or are 65 years of age or older.

Ad valorem taxes are levied by the District against the exempt value of residence homesteads for the payment of debt.

The District does tax nonbusiness personal property.

Kaufman County Tax Assessor-Collector collects taxes for the District.

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

The District does not tax freeport property.

The District does tax goods in transit.

TAX ABATEMENT POLICY . . . On or after September 1, 2001, the District may not enter into a tax abatement agreement under Tax Code Chapter 312.

Table 1 - Valuation, Exemptions, and Tax Supported Debt

District Direct Debt

2015 Estimated Taxable Assessed Valuation[(1)] (100% of Estimated Market Value)	$2,527,343,993
2014 Certified Taxable Assessed Valuation (100% of Estimated Market Value)	$2,359,884,358
Outstanding Debt	281,060,572
Less: The Refunded Bonds	105,005,000
Plus: The Bonds	103,095,000
Total Direct Debt	$279,150,572
As a % of 2015 Estimated Taxable Assessed Valuation	11.05%
As a % of 2014 Certified Taxable Assessed Valuation	11.83%

(1) Provided by the District and Texas Comptroller of Public Accounts.

	Tax Year 2014[(1)]	Tax Year 2013	Tax Year 2012	Tax Year 2011	Tax Year 2010
Gross Value	$3,353,506,809	$3,175,282,720	$3,165,509,076	$3,170,194,643	$3,152,992,179
Less Exemptions	826,162,816	815,398,362	856,456,637	877,817,918	884,801,686
Net Taxable Value	$2,527,343,993	$2,359,884,358	$2,309,052,439	$2,292,376,725	$2,268,190,493

(1) Uncertified, provided by the District and Texas Comptroller of Public Accounts.

Table 2 - Valuation and Tax Supported Debt History

Fiscal Year Ended 6/30	Estimated Population[1]	Taxable Assessed Valuation[2]	Taxable Assessed Valuation Per Capita	Tax Supported Debt Outstanding	Ratio of Tax Supported Debt to Assessed Valuation	Tax Supported Debt Per Capita
2011	40,000	$2,268,190,493	$56,705	$261,319,642	11.52%	$6,533
2012	42,000	2,292,376,725	54,580	285,408,486	12.45%	6,795
2013	42,000	2,309,052,439	54,977	283,583,303	12.28%	6,752
2014	42,000	2,359,884,358	56,188	281,605,573	11.93%	6,705
2015	43,439	2,527,343,993	58,181	279,150,572[4]	11.05%	6,426

(1) Source: The District
(2) As reported by the District and Texas Comptroller of Public Accounts on the District's annual State Property Tax Reports and such values are subject to change during ensuing year.
(3) Uncertified, provided by the District and Texas Comptroller of Public Accounts.
(4) Includes the Bonds. Excludes the Refunded Bonds.

Table 3 – Tax Rate, Levy, and Collection History

Fiscal Year Ended 6/30	Tax Rate	Local Maintenance	Interest and Sinking Fund	Tax Levy[1]	Percent Collected	
					Current	Total
2011	$1.50	$1.04	$0.46	$33,946,811	98.11%	101.11%
2012	1.50	1.04	0.46	34,115,275	98.78%	100.83%
2013	1.54	1.04	0.50	35,536,540	98.91%	99.90%
2014	1.54	1.04	0.50	36,218,599	98.89%	100.37%
2015	1.54	1.04	0.50	38,740,949[2]	(In Process of Collection)	

(1) Excludes penalties and interest.
(2) Provided by The District.

Table 4 - Ten Largest Taxpayers

Taxpayers	Type of Property	2014 Net Taxable Assessed Valuation	% of Total 2014 Assessed Valuation
1. FPLE Forney L.P.	Power Plant	$381,555,590	16.17%
2. Oncor Electric Delivery Company	Electric Utility	25,525,220	1.08%
3. Orange County Container Group LLC	Retail	25,156,480	1.07%
4. Wal-Mart Real Estate Business Trust	Retail	18,160,760	0.77%
5. Steve Silver Company	Wholesale Furniture	17,800,630	0.75%
6. Orange County Container Group LLC	Retail	13,378,470	0.57%
7. Sealy SW Properties LP	Commercial Business Park	12,482,460	0.53%
8. WS-DDV Development LLC	Construction	11,425,690	0.48%
9. Orange County Container Group LLC	Retail	9,376,310	0.40%
10. Kroger Texas LP	Grocery Store	8,739,160	0.37%
Total		$523,600,770	22.19%

Table 5 - Tax Adequacy[(1)]

2015 Net Principal and Interest Requirements	$13,509,861
$0.5455 Tax Rate at 98% Collection of 2015 (Uncertified) TAV Produces	$13,510,928
Average Net Annual Principal and Interest Requirements, 2015-2053	$18,318,879
$0.7397 Tax Rate at 98% Collection of 2015 (Uncertified) TAV Produces	$18,320,868
Maximum Net Principal and Interest Requirements, 2037	$24,643,088
$0.9950 Tax Rate at 98% Collection of 2015 (Uncertified) TAV Produces	$24,644,131

(1) This table does not take into consideration the State Allotment to subsidize existing debt service as provided under the Tier III guidelines.

Table 6 - Estimated Overlapping Debt

Expenditures of the various taxing entities within the territory of the District are paid out of ad valorem taxes levied by such entities on properties within the District. Such entities are independent of the District and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax 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	As of	Total Debt	Estimated % Overlapping	Overlapping Debt
Forney, City of	09/01/2014	$ 43,584,497	100.00%	$ 43,584,497
Kaufman County	01/31/2015	41,578,850[(a)]	40.20%	16,714,698
Kaufman County FWSD # 1-B	01/31/2015	7,455,000[(a)]	100.00%	7,455,000
Kaufman County FWSD # 1-C	03/31/2013	13,300,122	100.00%	13,300,122
Kaufman County MUD # 2	09/24/2014	10,954,432	100.00%	10,954,432
Kaufman County MUD # 6	07/31/2013	8,634,667	100.00%	8,634,667
Kaufman County MUD # 7	07/31/2013	7,590,856	100.00%	7,590,856
Estimated (Net) Overlapping Debt				$108,234,272
The District[(b)]		$279,150,572	100.00%	279,150,572
Total Direct & Estimated Overlapping Debt				$387,384,844
As a % of 2015 Estimated Taxable Assessed Valuation				15.33%
As a % of 2014 Certified Taxable Assessed Valuation				16.42%

(a) Gross Debt.
(b) Includes the Bonds. Excludes the Refunded Bonds.

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Table 7 - Tax Supported Debt Service Requirements

		Debt Service Requirements Unlimited Tax Refunding Bonds, Series 2015				
30-Jun	Outstanding Debt Service Requirements	Less: Refunded Bonds	Principal	Interest	Total	Total Debt Service Requirements
2015	13,509,861	--	--	--	--	13,509,861
2016	14,133,661	5,398,140	195,000	3,344,716	3,539,716	12,275,237
2017	15,881,649	6,907,340	2,670,000	4,886,950	7,556,950	16,531,259
2018	16,145,511	6,621,290	1,715,000	4,834,525	6,549,525	16,073,746
2019	21,968,106	6,622,194	1,915,000	4,780,075	6,695,075	22,040,987
2020	22,937,614	9,008,254	--	4,751,350	4,751,350	18,680,710
2021	22,283,106	8,779,025	--	4,751,350	4,751,350	18,255,431
2022	21,603,659	8,345,940	--	4,751,350	4,751,350	18,009,069
2023	21,945,969	7,850,118	--	4,751,350	4,751,350	18,847,202
2024	22,155,662	6,750,658	--	4,751,350	4,751,350	20,156,355
2025	22,067,837	6,757,789	3,105,000	4,689,250	7,794,250	23,104,298
2026	21,371,011	8,247,301	4,760,000	4,531,950	9,291,950	22,415,660
2027	21,203,324	8,293,916	5,000,000	4,311,750	9,311,750	22,221,158
2028	21,024,513	7,443,653	4,385,000	4,077,125	8,462,125	22,042,985
2029	21,122,563	9,070,072	6,280,000	3,810,500	10,090,500	22,142,991
2030	21,545,919	9,546,622	7,090,000	3,476,250	10,566,250	22,565,547
2031	21,275,612	8,003,688	5,880,000	3,152,000	9,032,000	22,303,924
2032	20,592,813	9,136,616	7,345,000	2,821,375	10,166,375	21,622,572
2033	21,153,800	10,525,163	9,145,000	2,409,125	11,554,125	22,182,763
2034	21,741,325	10,209,963	9,290,000	1,948,250	11,238,250	22,769,613
2035	22,342,713	12,444,775	12,065,000	1,414,375	13,479,375	23,377,313
2036	22,958,587	7,279,988	7,390,000	928,000	8,318,000	23,996,600
2037	23,602,900	6,576,813	7,050,000	567,000	7,617,000	24,643,088
2038	20,575,625	6,966,538	7,815,000	195,375	8,010,375	20,575,625
2039	19,872,050	--	--	--	--	19,872,050
2040	19,230,175	--	--	--	--	19,230,175
2041	18,900,000	--	--	--	--	18,900,000
2042	18,075,000	--	--	--	--	18,075,000
2043	18,325,000	--	--	--	--	18,325,000
2044	12,998,771	--	--	--	--	12,998,771
2045	12,992,289	--	--	--	--	12,992,289
2046	12,985,968	--	--	--	--	12,985,968
2047	12,984,408	--	--	--	--	12,984,408
2048	12,979,457	--	--	--	--	12,979,457
2049	12,969,576	--	--	--	--	12,969,576
2050	12,959,584	--	--	--	--	12,959,584
2051	12,954,739	--	--	--	--	12,954,739
2052	12,960,270	--	--	--	--	12,960,270
2053	12,905,000	--	--	--	--	12,905,000
	$719,235,627	$186,785,850	$103,095,000	$79,935,341	$183,030,341	$714,436,280

Estimated Average Annual Debt Service Requirements	$18,318,879
Estimated Maximum Annual Debt Service Requirement	$24,643,088

Table 8 - Interest and Sinking Fund Budget Projection

Estimated Tax Supported Debt Service Requirements for Fiscal Year Ended 2015		$13,509,861
Interest and Sinking Fund Local Revenue	$13,140,756	
Debt Subsidy from Texas Education Agency	$ 2,712,789	
Transfers In/(Out)	$ -0-	
Net Increase/(Decrease) in Fund Balance		$ 2,343,684
Interest and Sinking Fund Balance, 7-1-14 (Beginning)		$ 6,570,042
Interest and Sinking Fund Balance, 6-30-15 (Ending)		$ 8,913,726

Table 9 - Other Obligations[1]

As of June 30, 2014, other obligations of the District included the following capital leases:

Capital Lease	Interest Rate	Date of Lease
American National Bank	3.75%	11/28/2012
City Bank	3.75%	11/28/2012
City Bank	3.25%	04/25/2014

Due June 30 of	Principal	Interest
2015	$ 117,031	$ 26,112
2016	113,541	23,953
2017	117,247	19,818
2018	116,597	15,478
2019	75,268	11,184
2020	78,027	8,466
2021	80,848	5,654
2022	32,000	2,730
2023	33,000	1,674
2024	35,000	569
Total	$ 798,559	$ 115,638

As of June 30, 2014, other obligations of the District included its Maintenance Tax Notes, Series 2002:

Maintenance Tax Notes, Series 2002

Period Ending June 30 of	Principal	Interest	Debt Service
2015	$ 260,000	$11,736	$ 271,736
2016	260,000	7,824	267,824
2017	260,000	3,912	263,912
Total	$ 780,000	$ 23,472	$ 803,472

[1]Source: The District's audited financial statements.

After the fiscal year end, the District also entered into a seven year lease for technology network equipment at a total cost of approximately $1,600,000.

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Table 10 – Schedule of General Fund Revenues and Expenditure History

For Fiscal Year Ended June 30,

	2014	2013	2012	2011	2010
REVENUES:					
Local, Intermediate and Out of State	$ 25,528,346	$ 27,690,644	$ 26,414,775	$ 24,875,747	$ 24,677,588
State Program Revenues	32,523,178	28,918,531	29,699,624	29,323,282	30,348,871
Federal Program Revenues	1,079,845	964,175	882,923	451,241	496,749
Total Revenues	$ 59,131,369	$ 57,573,350	$ 56,997,322	$ 54,650,270	$ 55,523,208
EXPENDITURES:					
Instruction	$ 32,147,987	$ 30,073,790	$ 30,523,964	$ 31,952,166	$ 30,496,134
Instructional Leadership	427,869	435,905	568,055	575,512	561,430
Instructional Resources & Media Services	621,832	632,076	641,453	686,792	603,572
School Leadership	3,873,082	3,623,445	4,078,259	4,184,630	4,034,447
Curriculum Dev. & Instructional Related Services	1,146,423	1,090,324	1,519,014	1,861,874	1,584,522
Guidance, Counseling & Evaluation Services	1,711,250	1,780,012	1,794,389	1,570,545	1,711,081
Social Work Services	-	-	-	-	-
Health Services	806,920	787,463	806,920	916,587	884,984
Student Transportation	2,134,581	1,788,724	1,801,264	2,319,644	2,026,982
Extracurricular Activities	1,947,941	1,785,021	1,913,196	2,583,017	2,242,319
Food Services	-	-	-	89,514	89,877
General Administration	2,023,817	1,922,216	2,170,684	2,292,223	2,928,076
Support Services – Nonstudent based	8,175,877	8,929,209	8,377,847	10,182,162	6,704,036
Ancillary Services	-	3,649	1,084,371	504,716	1,425,110
Principal on Long Term Debt	346,098	469,656	464,812	355,076	260,000
Interest on Long Term Debt	39,071	60,057	85,073	56,371	31,200
Other Intergovernmental	439,900	431,669	433,606	-	-
Debt Service Cost and Fees	1,005	-	35,495	8,643	8,717
Total Expenses	$ 55,843,653	$ 53,813,216	$ 56,382,034	$ 60,136,472	$ 55,592,487
Excess (Deficiency) of Revenues Over (Under) Expenditures	$ 3,287,716	$ 3,760,134	$ 615,288	$ (5,486,202)	$ (69,279)
Other Financing Sources and (Uses):					
Sale of Real or Personal Property	-	994,010	-	13,333	-
Issuance of Capital Leases	300,000	584,658	-	395,785	168,614
Transfers In	-	-	-	-	353
Transfers Out	-	-	(18,480)	-	-
Other Uses	(115,288)	(604,548)	(32,500)	32,015	-
Total Other Financing Sources and (Uses)	184,712	974,120	(50,980)	441,133	168,967
Net Change in Fund Balances	3,472,428	4,734,254	564,308	(5,045,069)	99,688
Fund Balances on July 1	1,283,459	(3,450,795)	(4,015,102)	6,061,565	5,961,876
Prior period adjustment	-	-	-	(5,031,598)	-
Fund Balances on June 30	**$ 4,755,887**	**$ 1,283,459**	**$ (3,450,794)**	**$ (4,015,102)**	**$ 6,061,564**

Source: The District's audited financial statements.

Table 11 - General Operating Fund Comparative Balance Sheet[(a)]

	Fiscal Year Ended June 30				
	2014	**2013**	**2012**	**2011**	**2010**
ASSETS:					
Cash & Cash Equivalents	$ 9,458,233	$ 9,636,516	$ 7,311,218	$ 5,402,255	$ 5,583,184
Taxes Receivable, Net	640,771	667,438	801,542	1,347,446	1,407,632
Allowance for uncollectible taxes (credit)	-	-	-	(348,700)	-
Receivables from Other Governments	7,702,560	5,962,137	6,663,173	8,489,191	5,265,918
Due from Other Funds	1,500	1,500	1,500	1,011,785	-
Other Receivables	382	3,381	790	153,092	215,117
Deferred Expenditures	-	-	205,778	242,209	71,160
Prepaid Items	182,313	121,541	-	-	-
Total Assets	$17,985,759	$16,392,513	$14,984,001	$16,297,278	$12,543,011
LIABILITIES:					
Current Liabilities:					
Accounts Payable	$ 281,226	$ 518,230	$ 1,056,212	$ 815,520	$ 455,505
Accrued Wages Payable	4,506,217	3,961,585	4,312,957	4,257,498	-
Due to Other Funds	-	-	-	50,308	4,327,736
Payable to other governments	-	-	-	13,651,360	-
Accrued expenditures	-	-	-	538,948	288,115
Unearned Revenues	7,801,658	10,629,239	13,065,626	998,746	1,410,091
Total Liabilities	$12,589,101	$15,109,054	$18,434,795	$20,312,380	$ 6,481,447
DEFERRED INFLOWS OF RESOURCES:					
Unavailable Revenue – Property Taxes	640,771	-	-	-	-
Total Deferred Inflows of Resources	640,771	-	-	-	-
FUND BALANCES:					
Nonspendable	182,313	121,541	205,778	242,209	396,051
Restricted	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	4,573,574	1,161,918	(3,656,572)	(4,257,31)	5,665,513
Total Fund Balances	$ 4,755,887	$ 1,283,459	$(3,450,794)	$(4,015,102)	$ 6,061,564
Total Liabilities, Deferred Inflow of Resources and Fund Balances	$17,985,759	$16,392,513	$14,984,001	$16,297,278	$12,543,011

[(a)] Source: District's audited financial reports. See "Appendix B – FORNEY INDEPENDENT SCHOOL DISTRICT ANNUAL FINANCIAL REPORT".

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Table 12 - Current Investments

As of April 1, 2015, the District's investable funds amounted to $18,740,577. The following summary itemizes the District's investment portfolio by type of security:

	Percent	Book Value	Market Value
Cash and Cash Equivalents	1.30%	$ 243,978	$ 243,978
Investment Pools	98.70%	$ 18,496,599	$ 18,496,599
Total	100.00%	$ 18,740,577	$ 18,740,577

(1) The investment pools in which the District invests were created for Texas governmental entities. Such investment pools operate as money market equivalents.

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APPENDIX B

FORNEY INDEPENDENT SCHOOL DISTRICT ANNUAL FINANCIAL REPORT

FORNEY
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2014

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Forney Independent School District
Annual Financial Report
For The Year Ended June 30, 2014

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Forney Independent School District
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Introductory Section

CERTIFICATE OF BOARD

Forney Independent School District	Kaufman	129-902
Name of School District	County	Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) ✓ approved ____ disapproved for the year ended June 30, 2014, at a meeting of the board of trustees of such school district on the 3rd day of November, 2014

Signature of Board Secretary

Signature of Board President

If the board of trustees disapproved of the auditor's report, the reason(s) for disapproving it is (are):
(attach list as necessary)

Financial Section

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Forney Independent School District
Forney, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Forney Independent School District (the "District") as of and for the year ended June 30, 2014, 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 ("GAAP"); 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 ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with GAAP.

Emphasis of Matter

As discussed in Note A to the financial statements, the District adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* as of June 30, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

GAAP require that the management's discussion and analysis and budgetary comparison information on pages 5 through 12 and 36 through 38 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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements, and the TEA required schedules, except for those marked "unaudited" for which we express no opinion or provide any assurance, 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 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 combining and individual nonmajor fund financial statements, the TEA required 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 GAAS. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

Whitley Penn LLP

Houston, Texas
October 31, 2014

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Management's Discussion and Analysis

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As management of the Forney Independent School District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014.

Financial Highlights

- The liabilities of the District exceeded its assets and deferred inflows of resources at the close of the most recent fiscal year by ($77,575,638) *(deficit net position).*
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of $13,855,135 an increase of $3,452,739 in comparison with the prior year. The increase in governmental fund balances was primarily due to the increase in the general fund balance of $3,472,428.
- At the end of the current fiscal year, unassigned fund balance for the general fund was $4,573,574 or 8.2 percent of total general fund expenditures.
- The District's total bonded debt decreased, net, by $1,977,727 during the current fiscal year.

Overview of the Financial Statements

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

Government-wide financial statements

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

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

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

The government-wide financial statements of the District are principally supported by taxes and intergovernmental revenues *(governmental activities).* The governmental activities of the District include Instruction, Instructional Resources and Media Services, Curriculum and Instructional Staff Development, Instructional Leadership, School Leadership, Guidance, Counseling, and Evaluation Services, Health Services, Student Transportation, Food Services, Co-curricular/Extracurricular Activities, General Administration, Plant Maintenance and Operations, Security and Monitoring Services, Data Processing Services, Community Services, Interest on Long-term Debt, Bond Issuance Costs and Fees, Facilities Acquisition and Construction, and Appraisal District Fees.

The government-wide financial statements can be found on pages 13 through 14 of this report.

Fund financial statements

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

Governmental funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains twenty-nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and the capital projects fund, all of which are considered to be major funds. Data from the other twenty-six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in the financial statements. The District adopts an annual appropriated budget for its general fund, debt service fund, and Child Nutrition Fund special revenue fund.

The basic governmental fund financial statements can be found on pages 15 through 20 of this report.

Fiduciary fund

The fiduciary fund is used to account for resources held for the benefit of students. The fiduciary fund is *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the District's own programs. The fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operation.

The basic fiduciary fund financial statements can be found on pages 19-20 of this report.

Notes to financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 through 35 of this report.

Required supplementary information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The required supplementary information relates to comparison of the original adopted budget, the final amended budget, and the actual amounts for the fiscal year. This is required supplementary information for the general fund and any major special revenue funds. The District did not have any major special revenue funds; therefore, only the general fund is presented as required supplementary information. The required supplementary information can be found on pages 36-38.

Other information

The combining and individual fund statements and schedules and other supplementary information are presented immediately following the required supplementary information and can be found on pages 39 through 56 of this report.

Government-wide Financial Analysis

As noted earlier, net position (deficit) may serve over time as a useful indicator of a District's financial position. In the case of the District, liabilities exceeded assets and deferred outflows of resources by ($77,575,638) at the close of the fiscal year.

The District's net investment in capital assets (e.g., land, buildings and improvements, furniture and equipment, construction in progress), less any outstanding related debt used to acquire those assets, amounted to ($75,215,023). FISD uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets cannot be used to liquidate these liabilities.

Forney Independent School District's Net Position

	Governmental Activities	
	2014	**2013**
Current and other assets	$ 31,843,712	$ 32,967,360
Capital and non current assets	221,584,868	227,952,494
Total Assets	253,428,580	260,919,854
Deferred outflows of resources	7,239,343	-
Current liabilities	21,534,515	24,439,553
Long term liabilities	317,007,046	307,336,666
Total Liabilities	338,543,561	331,776,219
Net Position		
Net investment in capital assets	(75,215,023)	(73,537,987)
Restricted for debt service	2,383,333	-
Unrestricted	(5,043,948)	2,681,622
Total Net Position	$ (77,875,638)	$(70,856,365)

Forney Independent School District's Changes in Net Position

	Governmental Activities	
	2014	**2013**
Program Revenues		
Charges for services	$ 3,041,052	$ 3,011,317
Operating grants	6,503,238	5,775,074
General Revenues		
Property taxes	36,597,813	35,904,304
State aid grants	32,641,830	28,538,995
Interest earnings	44,315	42,898
Miscellaneous	1,452,564	4,251,887
Total Revenues	80,280,812	77,524,475
Expenses		
Instruction	37,682,799	35,234,117
Instructional resources and media services	729,472	732,549
Curriculum and staff development	1,361,491	1,363,565
Instructional leadership	490,021	518,251
School leadership	4,420,790	3,935,092
Guidance, counseling, and evaluation services	1,989,220	2,214,617
Health services	972,778	890,439
Student transportation	2,114,854	2,012,260
Food service	3,811,991	3,910,541
Extracurricular activities	2,413,122	2,350,899
General administration	2,278,365	2,169,683
Facilities maintenance and operations	7,418,079	6,881,067
Security and monitoring services	632,341	502,891
Data processing services	1,362,420	1,366,444
Community services	2,074	4,558
Interest on long-term debt	14,088,983	12,193,389
Bond issuance costs and fees	2,701,954	165,594
Payments to shared services arrangements	29,746	49,901
Payments to juvenile justice alt. ed. programs	900	-
Payments to appraisal district	439,000	431,669
Total Expenses	84,940,400	76,906,439
Increase (Decrease) in Net Position	(4,659,588)	618,036
Beginning Net Position	(70,856,365)	(71,523,001)
Prior period adjustment	(2,359,684)	48,600
Ending Net Position	$ (77,875,638)	$(70,856,365)

Governmental activities

Governmental activities decreased the District's net position by $4,659,588. Key elements of this decrease are as follows:

Revenues are generated primarily from two sources – state aid grants and operating grants and contributions ($39,145,068) and property taxes ($36,597,813). The remaining sources include charges for services, investment earnings, and miscellaneous revenues ($4,537,931). Slightly higher property tax revenues were the result of the District's net assessed appraisal values increasing by two percent from the previous year.

The primary functional expense of the District is instruction ($37,682,799), which represents 44 percent of total expenses. Plant maintenance and operations ($7,418,079) represents nine percent of total expenses. Interest on long-term debt ($14,088,983) also represents 16.6 percent of total expenses of the District. The remaining individual functional categories of expenses are each less than five percent of total expenses.

Financial Analysis of the Government's Funds

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

Governmental funds

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of $13,855,135, an increase of $3,452,739 in comparison with the prior year. The increase in ending governmental fund balances is primarily due to the Board of Trustees and Superintendent leadership in reducing expenses while minimizing any impact on the classroom.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, fund balance of the general fund was $4,755,887. A balance of $4,573,574 is classified as unassigned fund balance and a balance of $182,313 is identified as non-spendable fund balance to reflect the prepaid items balance (see page 15).

The fund balance of the District's general fund increased by $3,472,428 during the current fiscal year primarily due to sound financial practices by the Board and management.

The debt service fund has a total fund balance of $6,570,042 all of which is restricted for the retirement of long-term debt. The net increase in the debt service fund balance during the current year of $513,120 was planned by management to ensure adequate reserves exist to meet August bond obligations.

The capital projects fund has a total, restricted fund balance of $2,002,943. The net decrease in fund balance during the current year of $557,904 was primarily due to the security project at North Forney High School.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget of the general fund can be briefly summarized as follows:

	Appropriations
Original	$ 59,700,000
Final	58,881,001
Total appropriations decrease	$ 818,999

The review of the final amended budget versus actual for the general fund reflected that revenues were slightly more than budgetary estimates ($250,368) and expenditures were less than budgetary estimates ($621,348). See pages 36-37 for Exhibit G-1 *Budgetary Comparison Schedule.*

Capital Assets and Long-term Liabilities

Capital assets

The District's investment in capital assets for its governmental type activities as of June 30, 2014, amounts to $221,584,868 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, and furniture and equipment. The total increase in the District's investment in capital assets for the current fiscal year was less than one percent.

	Balance June 30, 2013	Additions	Retirements and Transfers	Balance June 30, 2014
Land	$ 4,744,822	$	$	$ 4,744,822
Construction in progress				
	4,744,822	-	-	4,744,822
Buildings and improvements	278,028,806	68,316		278,097,122
Furniture and equipment	2,481,650	143,970		2,625,620
Capital leases	1,094,200	280,031		1,374,231
Vehicles	4,514,023	94,999		4,609,022
	286,118,679	587,316		286,705,995
Less accumulated depreciation for:				
Buildings and improvements	(56,455,279)	(6,569,058)		(63,024,337)
Furniture and equipment	(1,897,073)	(128,050)		(2,025,123)
Capital leases	(381,237)	(140,937)		(522,174)
Vehicles	(4,115,367)	(178,948)		(4,294,315)
	(62,848,956)	(7,016,993)		(69,865,949)
Governmental Capital Assets	$ 228,014,545	$ (6,429,677)	$	$ 221,584,868

Additional information on the District's capital assets can be found in note D on page 28 in the notes to the financial statements.

Long-term liabilities

At the end of the current fiscal year, the District had $281,605,577 in bonded debt outstanding, a net decrease of $1,977,727 over the previous year. The District's bonds are sold with a "AAA" rating and are guaranteed through the Texas Permanent School Fund Guarantee Program or by a municipal bond insurance policy. The underlying rating of the bonds from Standard and Poor's is "A- stable outlook" for general obligation debt.

Changes to long-term debt, for the year ended June 30, 2014, are as follows:

	Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014
General obligation bonds	$ 283,583,304	$ 20,423,858	$ (22,401,586)	$ 281,605,577
Loans payable	1,040,000		(260,000)	780,000
Capital lease payable	584,658	300,000	(86,099)	798,559
Issuance premiums/discounts	3,642,115	-	(209,587)	3,432,528
Accreted interest on premium compound interest bonds	22,402,255	8,944,948	(956,821)	30,390,382
	$ 311,252,333	$ 29,668,806	$ (23,914,093)	$ 317,007,046

Additional information on the District's long-term liabilities can be found in note G, on pages 29 through 32 of the notes to the financial statements.

Economic Factors and Next Year's Budgets and Tax Rates

The 2014-2015 general fund budget was largely affected by the 83rd Texas Legislative Session. The Legislature convened in its 83rd Regular Session (the "Regular Session") on January 8, 2013, and ending the Regular Session May 27, 2013. Three Special Sessions were called as well and ultimately the 2013 Legislative session concluded August 5, 2013. During the 83rd Session, the Legislature enacted a budget that added $3.4 billion to formula funding (keep in mind that the 82nd Session reduced public school state funding by approximately $5.2 billion for the 2011-2013 State fiscal biennium). The additional funding includes an increase in the basic allotment from $4,765 to $4,950 in 2013-14 and $5,040 in 2014-15. More school districts were moved to the formula system and away from the target revenue system. The additional funding was not provided back to the school districts in the manner it was taken away so some school districts received more than what was cut in the previous biennium and some school districts only received a fraction of what was taken from their classrooms.

Other bills of importance can primarily be narrowed down to Senate Bill 1458. This omnibus TRS bill was enacted to make the pension fund "actuarially" sound with a 31-year funding period to ensure the continuation of a defined benefit pension system and provide a Cost of Living Adjustment (COLA) retirees prior to 2004. Unfortunately, this will come at a cost to school districts and public education employees for years to come as the employee contribution rate will steadily increase from 6.4% to 7.7% over the next few years. In addition, a 1.5% penalty (on total salaries) now exists for school districts not contributing to Social Security. While this penalty does not become effective until 2014-15 (and is funded for that year), it is likely this penalty will impact Public Education greatly in the future.

As a result of the additional funding, the District made several minor changes to staffing, programs and services for 2014-2015. The most notable changes are listed below:

- State aid was increased by $1.1 million
- Prudent and efficient use of funds may result in less K-4 classroom waivers
- General Fund revenues are expected to be $62.2 million
- General Fund expenditures are expected to be $59.9 million

The District has seen an increase in enrollment from 8,700 to 9,000 students. The taxable base increased by seven percent and that combined tax rate remained constant at $1.54 ($1.04 for Maintenance and Operations and $0.50 for Interest and Sinking). Minor changes were made to the salary scales and a three percent pay raise was provided.

The District has a 5-year equal repayment plan with the Agency for prior overfunding resulting from the 2010-11 fiscal year. The first payment was spread throughout the 2011-12 fiscal year and the final payment will be spread throughout the 2015-16 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Lucas Janda, Chief Financial Officer, Forney Independent School District, 600 South Bois d'Arc, Forney, TX 75126.

Basic Financial Statements

FORNEY INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2014

Data Control Codes		1 Governmental Activities
	ASSETS:	
1110	*Cash and Cash Equivalents*	$ 22,452,126
1225	*Property Taxes Receivable (Net)*	932,065
1240	*Due from Other Governments*	8,092,959
1290	*Other Receivables (Net)*	382
1410	*Prepaid Items*	366,180
	Capital Assets:	
1510	*Land*	4,744,822
1520	*Buildings and Improvements, Net*	215,072,785
1530	*Furniture and Equipment, Net*	915,204
1550	*Capital Lease Assets, Net*	852,057
1000	Total Assets	253,428,580
	DEFERRED OUTFLOWS OF RESOURCES:	
	Deferred Charges on Refunding	7,239,343
1700	Total Deferred Outflows of Resources	7,726,728
	LIABILITIES:	
2110	*Accounts Payable*	626,710
2140	*Interest Payable*	4,478,003
2165	*Accrued Liabilities*	4,792,168
2300	*Unearned Revenue*	11,637,634
	Noncurrent Liabilities:	
2501	*Due Within One Year*	2,870,507
2502	*Due in More Than One Year*	314,136,539
2000	Total Liabilities	338,543,561
	NET POSITION	
3200	Net Investment in Capital Assets	(75,215,023)
	Restricted For:	
3850	Debt Service	2,383,333
3900	Unrestricted	(5,043,948)
3000	Total Net Position	$ (77,875,638)

The accompanying notes are an integral part of this statement.

FORNEY INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues: Charges for Services	4 Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
	Governmental Activities:				
11	*Instruction*	$ 37,682,799	$ 74,760	$ 3,645,644	$ (33,962,395)
12	*Instructional Resources and Media Services*	729,472	--	39,918	(689,554)
13	*Curriculum and Staff Development*	1,361,491	--	142,050	(1,219,441)
21	*Instructional Leadership*	490,021	--	38,850	(451,171)
23	*School Leadership*	4,420,790	--	254,741	(4,166,049)
31	*Guidance, Counseling, & Evaluation Services*	1,989,220	--	185,998	(1,803,222)
33	*Health Services*	972,778	--	121,913	(850,865)
34	*Student Transportation*	2,114,854	--	239,053	(1,875,801)
35	*Food Service*	3,811,991	2,392,268	1,010,603	(409,120)
36	*Cocurricular/Extracurricular Activities*	2,413,122	574,024	127,885	(1,711,213)
41	*General Administration*	2,278,365	--	132,880	(2,145,485)
51	*Facilities Maintenance and Operations*	7,418,079	--	428,634	(6,989,445)
52	*Security and Monitoring Services*	632,341	--	33,853	(598,488)
53	*Data Processing Services*	1,362,420	--	69,731	(1,292,689)
61	*Community Services*	2,074	--	1,680	(394)
72	*Interest on Long-term Debt*	14,088,983	--	--	(14,088,983)
73	*Bond Issuance Costs and Fees*	2,701,954	--	--	(2,701,954)
93	*Payments Related to Shared Services Arrangements*	29,746	--	29,746	--
95	*Payments to Juvenile Justice Alternative Ed. Programs*	900	--	59	(841)
99	*Other Intergovernmental Charges*	439,000	--	--	(439,000)
TG	Total Governmental Activities	84,940,400	3,041,052	6,503,238	(75,396,110)
TP	Total Primary Government	$ 84,940,400	$ 3,041,052	$ 6,503,238	(75,396,110)
	General Revenues:				
MT	*Property Taxes, Levied for General Purposes*				25,102,086
DT	*Property Taxes, Levied for Debt Service*				11,495,727
IE	*Investment Earnings*				44,315
GC	*Grants and Contributions Not Restricted to Specific Programs*				32,641,830
MI	*Miscellaneous*				1,452,564
TR	Total General Revenues				70,736,522
CN	Change in Net Position				(4,659,588)
NB	Net Position - Beginning				(70,856,366)
PA	Prior Period Adjustment				(2,359,684)
	Net Position - Beginning, as Restated				(73,216,050)
NE	Net Position - Ending				$ (77,875,638)

The accompanying notes are an integral part of this statement.

FORNEY INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014

Data Control Codes		10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
	ASSETS:				
1110	*Cash and Cash Equivalents*	$ 9,458,233	$ 9,994,071	$ 2,999,822	$ 22,452,126
1225	*Taxes Receivable, Net*	640,771	291,294	--	932,065
1240	*Due from Other Governments*	7,702,560	60,171	330,228	8,092,959
1260	*Due from Other Funds*	1,500	--	--	1,500
1290	*Other Receivables*	382	--	--	382
1410	*Prepaid Items*	182,313	--	183,867	366,180
1000	Total Assets	17,985,759	10,345,536	3,513,917	31,845,212
	LIABILITIES:				
	Current Liabilities:				
2110	*Accounts Payable*	$ 281,226	$ --	$ 345,234	$ 626,460
2160	*Accrued Wages Payable*	4,506,217	--	285,951	4,792,168
2170	*Due to Other Funds*	--	1,500	250	1,750
2300	*Unearned Revenue*	7,801,658	3,482,700	353,276	11,637,634
2000	Total Liabilities	12,589,101	3,484,200	984,711	17,058,012
	DEFERRED INFLOWS OF RESOURCES:				
	Unavailable Revenue - Property Taxes	640,771	291,294	--	932,065
2600	Total Deferred Inflows of Resources	640,771	291,294	--	932,065
	FUND BALANCES:				
	Nonspendable Fund Balances:				
3430	*Prepaid Items*	182,313	--	--	182,313
	Restricted Fund Balances:				
3450	*Federal/State Funds Grant Restrictions*	--	--	24,048	24,048
3470	*Capital Acquisitions & Contractual Obligations*	--	--	2,002,943	2,002,943
3480	*Retirement of Long-Term Debt*	--	6,570,042	--	6,570,042
	Committed Fund Balances:				
3545	*Other Committed Fund Balance*	--	--	502,215	502,215
3600	Unassigned	4,573,574	--	--	4,573,574
3000	Total Fund Balances	4,755,887	6,570,042	2,529,206	13,855,135
4000	Total Liabilities, Deferred Inflow of Resources and Fund Balances	$ 17,985,759	$ 10,345,536	$ 3,513,917	$ 31,845,212

The accompanying notes are an integral part of this statement.

FORNEY INDEPENDENT SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014

Total fund balances - governmental funds balance sheet	$	13,855,135
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not reported in the funds.		221,584,868
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.		932,065
Payables for bond principal which are not due in the current period are not reported in the funds.		(281,605,577)
Payables for capital leases which are not due in the current period are not reported in the funds.		(798,559)
Payables for bond interest which are not due in the current period are not reported in the funds.		(4,478,003)
Payables for notes which are not due in the current period are not reported in the funds.		(780,000)
Other long-term liabilities which are not due and payable in the current period are not reported in the funds.		(33,824,910)
Deferred outflow of resources are not available to pay for current expenses and are deferred in the funds.		7,239,343
Net position of governmental activities - Statement of Net Position	$	(77,875,638)

The accompanying notes are an integral part of this statement.

FORNEY INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

Data Control Codes		10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
	REVENUES:				
5700	*Local and Intermediate Sources*	$ 25,528,346	$ 11,878,662	$ 2,881,334	$ 40,288,342
5800	*State Program Revenues*	32,523,178	2,693,881	362,503	35,579,562
5900	*Federal Program Revenues*	1,079,845	--	2,485,661	3,565,506
5020	Total Revenues	59,131,369	14,572,543	5,729,498	79,433,410
	EXPENDITURES:				
	Current:				
0011	*Instruction*	32,147,987	--	1,673,478	33,821,465
0012	*Instructional Resources and Media Services*	621,832	--	32,951	654,783
0013	*Curriculum and Staff Development*	1,146,423	--	77,370	1,223,793
0021	*Instructional Leadership*	427,869	--	10,760	438,629
0023	*School Leadership*	3,873,082	--	82,507	3,955,589
0031	*Guidance, Counseling, & Evaluation Services*	1,711,250	--	72,430	1,783,680
0033	*Health Services*	806,920	--	68,938	875,858
0034	*Student Transportation*	2,134,581	--	98,916	2,233,497
0035	*Food Service*	--	--	3,403,225	3,403,225
0036	*Cocurricular/Extracurricular Activities*	1,947,941	--	242,158	2,190,099
0041	*General Administration*	2,023,817	--	11,465	2,035,282
0051	*Facilities Maintenance and Operations*	6,594,505	--	99,816	6,694,321
0052	*Security and Monitoring Services*	518,848	--	184,198	703,046
0053	*Data Processing Services*	1,062,151	--	172,693	1,234,844
0061	*Community Services*	373	--	1,656	2,029
0071	*Principal on Long-term Debt*	346,098	1,976,599	--	2,322,697
0072	*Interest on Long-term Debt*	39,071	11,763,587	--	11,802,658
0073	*Bond Issuance Costs and Fees*	1,005	1,312,413	--	1,313,418
0093	*Payments to Shared Service Arrangements*	--	--	29,746	29,746
0095	*Payments to Juvenile Justice Alternative*				
0095	*Education Programs*	900	--	--	900
0099	*Other Intergovernmental Charges*	439,000	--	--	439,000
6030	Total Expenditures	55,843,653	15,052,599	6,262,307	77,158,559
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	3,287,716	(480,056)	(532,809)	2,274,851
	Other Financing Sources and (Uses):				
7911	*Capital-Related Debt Issued (Regular Bonds)*	--	20,423,858	--	20,423,858
7913	*Issuance of Capital Leases*	300,000	--	--	300,000
7916	*Premium or Discount on Issuance of Bonds*	--	5,563,603	--	5,563,603
7949	*Other Resources*	--	9,877	--	9,877
8949	*Other Uses*	(115,288)	(25,004,162)	--	(25,119,450)
7080	Total Other Financing Sources and (Uses)	184,712	993,176	--	1,177,888
1200	Net Change in Fund Balances	3,472,428	513,120	(532,809)	3,452,739
0100	Fund Balances - Beginning	1,283,459	5,328,800	3,062,015	9,674,274
1300	Prior Period Adjustment	--	728,122	--	728,122
	Fund Balances - Beginning, as Restated	1,283,459	6,056,922	3,062,015	10,402,396
3000	Fund Balances - Ending	$ 4,755,887	$ 6,570,042	$ 2,529,206	$ 13,855,135

The accompanying notes are an integral part of this statement.

FORNEY INDEPENDENT SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2014

Net change in fund balances - total governmental funds	$	3,452,739
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:		
Capital outlays are not reported as expenses in the SOA.		587,316
The depreciation of capital assets used in governmental activities is not reported in the funds.		(7,016,993)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.		(30,486)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.		1,976,599
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.		86,098
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.		260,000
Deferred loss on refunding is an expenditure in the funds but is not an expense in the SOA.		3,740,850
The accretion of interest on capital appreciation bonds is not reported in the funds.		(7,988,127)
(Increase) decrease in accrued interest from beginning of period to end of period.		780,872
Proceeds from refunding bonds are recorded as other financing sources in the governmental funds. In the government-wide financial statements, proceeds are treated as an increase in long-term liabilities.		(20,423,859)
The District refunded $20,424,990 in bonds. This payment was made to the bond refunding escrow agent.		20,424,990
Bond premiums are reported in the funds but not in the SOA.		(209,587)
Proceeds of leases do not provide revenue in the SOA, but are reported as current resources in the funds.		(300,000)
Change in net position of governmental activities - Statement of Activities	$	(4,659,588)

The accompanying notes are an integral part of this statement.

FORNEY INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014

Data Control Codes		Private-purpose Trust Funds	Agency Funds Student Activity
	ASSETS:		
1110	*Cash and Cash Equivalents*	$ 9,807	$ 499,820
1260	*Due from Other Funds*	--	250
1410	*Unrealized Expenses*	625	8,736
1000	Total Assets	10,432	508,806
	LIABILITIES:		
	Current Liabilities:		
2110	*Accounts Payable*	$ --	$ 7,171
2190	*Due to Student Groups*	--	501,635
2000	Total Liabilities	--	508,806
	NET POSITION:		
3800	*Held in Trust*	10,432	--
3000	Total Net Position	$ 10,432	$ --

The accompanying notes are an integral part of this statement.

FORNEY INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Total Private Purpose Trust Funds
Additions:	
Donations	$ 13,629
Investment Income	--
Total Additions	13,629
Deductions:	
Scholarship Awards	8,000
Administrative Expenses	3,836
Total Deductions	11,836
Change in Net Position	1,793
Net Position-Beginning of the Year	8,639
Net Position-End of the Year	$ 10,432

The accompanying notes are an integral part of this statement.

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A. Summary of Significant Accounting Policies

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

1. Reporting Entity

The Board of School Trustees ("Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental reporting entity and there are no component units included within the District's reporting entity.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

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

Debt Service Fund: This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

In addition, the District reports the following fund types:

Capital Projects Fund: This fund is used to account for proceeds from sales of bonds and other revenues to be used for authorized construction and technology projects/enhancements.

Special Revenue Funds: These funds are used to account for resources restricted to, or designated for, specific purposes by a grantor including federally-funded and state-funded grants. These grants are awarded to the District for the purpose of accomplishing specific educational tasks as defined in the grant awards.

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

Agency Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

b. Measurement Focus, Basis of Accounting

Government-wide and Fiduciary Fund Financial Statements (except Agency Fund): These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. 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. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

3. Financial Statement Amounts

a. 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 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

b. Inventories and Prepaid Items

The District records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with the Resource Guide.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of $5,000 is used.

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

Asset Class	Estimated Useful Lives
Buildings and Improvements	15-50
Vehicles	5-10
Equipment	3-15

d. Deferred Outflows and Inflows of Resources

In addition to assets, the statements of financial position (the government-wide Statement of Net Position and governmental funds balance sheet) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

The District has one item that qualifies for reporting in this category the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunding or refunded debt. The amount of deferred outflows reported in the governmental activities for a deferred charge on refunding at June 30, 2014 was $7,239,343.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District reports property taxes that are unavailable as deferred inflows of resources on the fund financial statements.

e. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

f. Interfund Activity

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

g. Use of Estimates

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

h. Data Control Codes

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

i. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the District's Board of Trustees. Committed amounts cannot be used for any other purpose unless the Board of Trustees removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Board of Trustees. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board of Trustees or by an official or body to which the Board of Trustees delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

j. Net Position Flow Assumption

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

k. Fund Balance Flow Assumptions

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

l. Implementation of New Standard

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

GASB Statement 65, Items Previously Reported as Assets and Liabilities ("GASB 65"), establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Implementation of GASB 65 is reflected in the financial statements.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

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

Violation	Action Taken
None reported	Not applicable

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

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

Fund Name	Deficit Amount	Remarks
None reported	Not applicable	Not applicable

C. Deposits and Investments

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

1. Cash Deposits:

At June 30, 2014, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was $22,452,126 and the bank balance was $2,545,819. The District's cash deposits at June 30, 2014 and during the year ended June 30, 2014, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

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

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

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

The District's investments at June 30, 2014 are shown below.

Investment or Investment Type		Fair Value	WAM (Days)
LOGIC	$	6,027,449	57
Texas Class		7,264,929	50
Texpool		7,246,362	52
Total Investments	$	20,538,740	

3. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk as balances in LOGIC, MBIA/Texas Class, and Texpool, privately managed public funds investment pools, were rated AAAm by Standard & Poor's.

All credit ratings met acceptable levels required by legal guidelines prescribed in both the PFIA and the District's investment policy.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

Investment Accounting Policy

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

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

D. Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 4,744,822	$ --	$ --	$ 4,744,822
Total capital assets not being depreciated	4,744,822	--	--	4,744,822
Capital assets being depreciated:				
Buildings and improvements	278,028,806	68,316	--	278,097,122
Equipment	2,481,650	143,970	--	2,625,620
Capital leases	1,094,200	280,031	--	1,374,231
Vehicles	4,514,023	94,999	--	4,609,022
Total capital assets being depreciated	286,118,679	587,316	--	286,705,995
Less accumulated depreciation for:				
Buildings and improvements	(56,455,279)	(6,569,058)	--	(63,024,337)
Equipment	(1,897,073)	(128,050)	--	(2,025,123)
Capital leases	(381,237)	(140,937)	--	(522,174)
Vehicles *	(4,115,367)	(178,948)	--	(4,294,315)
Total accumulated depreciation	(62,848,956)	(7,016,993)	--	(69,865,949)
Total capital assets being depreciated, net	223,269,723	(6,429,677)	--	216,840,046
Governmental activities capital assets, net	$ 228,014,545	$ (6,429,677)	$ --	$ 221,584,868

* Includes prior period adjustment

Depreciation was charged to functions as follows:

Instruction	$ 3,861,334
Instructional Resources and Media Services	74,689
Curriculum and Staff Development	137,698
Instructional Leadership	51,392
School Leadership	465,201
Guidance, Counseling, & Evaluation Services	205,540
Health Services	96,920
Student Transportation	256,387
Food Services	408,766
Extracurricular Activities	233,969
General Administration	243,083
Plant Maintenance and Operations	792,074
Security and Monitoring Services	62,319
Data Processing Services	127,576
Community Services	45
	$ 7,016,993

E. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at June 30, 2014, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Debt Service Fund	$ 1,500	Incorrect coding of bond fees
Student Activity Fund	Other Governmental Funds	250	Incorrect transfer of funds

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

2. Transfers To and From Other Funds

There were no transfer to and from other funds during the fiscal year ending June 30, 2014.

F. Short-Term Debt Activity

The District accounts for short-term debts for maintenance purposes through the General Fund. The proceeds from loans are shown in the financial statements as Other Resources.

During the fiscal year ended June 30, 2014, there were no short-term debt issuances.

G. Long-Term Obligations

The District has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended June 30, 2014, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
General obligation bonds	$ 283,583,304	$ 20,423,858	$ 22,401,586	$ 281,605,577	$ 2,012,321
Capital leases	584,658	300,000	86,099	798,559	117,031
Notes	1,040,000	--	260,000	780,000	260,000
Issuance premiums / discounts	3,642,115	--	209,587	3,432,528	
Accreted interest on premium compound interest bonds	22,402,255	8,944,948	956,821	30,390,382	481,155
Total governmental activities	$ 311,252,332	$ 29,668,807	$ 23,914,093	$ 317,007,046	$ 2,870,507

2. Debt Service Requirements

Debt service requirements on long-term debt at June 30, 2014, are as follows:

	Governmental Activities		
Year Ending June 30,	Principal	Interest	Total
2015	$ 2,012,321	$ 11,605,000	$ 13,617,321
2016	1,930,577	11,664,388	13,594,965
2017	2,514,869	11,692,990	14,207,859
2018	3,693,851	12,245,958	15,939,809
2019	3,983,059	12,221,127	16,204,186
2020-2024	46,108,604	64,417,160	110,525,764
2025-2029	49,597,188	57,828,679	107,425,866
2030-2034	68,753,671	35,925,963	104,679,634
2035-2039	78,457,570	31,349,814	109,807,384
2040-2044	14,030,351	80,308,349	94,338,700
2045-2049	6,200,742	58,299,258	64,500,000
2050-2054	4,322,770	60,177,230	64,500,000
Totals	$ 281,605,573	$ 447,735,917	$ 729,341,490

A portion of the bonds sold in schoolhouse building series as well as several refunding series included capital appreciation bonds commonly referred to as "premium compound interest bonds". The District annually records the appreciation of bond principal for the accreted value of the bonds through maturity of the issue. The interest of these bond series will be paid upon maturity. The following table summarizes the key features of the individual bonds, by issue:

Bond Series	Accreted Value	Principal	Accreted Interest	Maturity Value	Maturity Dates
2000	$ 8,677,804	$ 3,289,945	$ 5,387,859	$ 14,175,000	2014-2025
2007A	1,198,131	574,993	623,138	1,260,000	2015
2008	4,151,296	1,394,973	2,756,323	7,650,000	2015-2030
2008A	6,338,373	519,859	5,818,514	10,435,000	2014-2027
2009	343,515	110,000	233,515	345,000	2014
2010	4,572,982	2,854,964	1,718,018	6,155,000	2017-2026
2011	18,039,548	15,199,003	2,840,545	18,030,000	2017-2041
2012	8,587,384	3,924,461	4,662,923	28,500,000	2032-2039
2013A	4,455,169	2,485,901	1,969,268	23,235,000	2038-2043
2013B	762,883	624,973	137,910	4,960,000	2038-2043
2014	19,700,987	15,767,323	3,933,665	160,305,000	2039-2053
2014A	1,854,366	1,545,662	308,704	19,615,000	2039-2053
Totals	$ 78,682,439	$ 48,292,057	$ 30,390,382	$ 294,665,000	

3. Capital Leases

The District is obligated under three capital leases for the purchase of school buses. The following schedule lists personal property leased:

Capital Lease Details	Interest Rate	Date of Agreement	Original Property Value
American National Bank	3.75%	11/28/2012	$ 564,399
City Bank	3.75%	11/28/2012	529,801
City Bank	3.25%	04/25/2014	280,032

The American National Bank capital lease requires annual payments on July 1st in the amount of $51,749 and the final installment is on July 1, 2020.

The 2012 City Bank capital lease requires annual payments on January 15th in the amount of $52,141 and the final installment of $46,711 is on January 15, 2018.

The 2014 City Bank capital lease requires semi-annual payments on February 15th (interest only) and on August 15th (principal and interest). The final payment is on August 15, 2023.

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of June 30, 2014, as follows:

Fiscal Year	Principal	Interest
2015	$ 117,031	$ 26,112
2016	113,541	23,953
2017	117,247	19,818
2018	116,597	15,478
2019	75,268	11,184
2020	78,027	8,466
2021	80,848	5,654
2022	32,000	2,730
2023	33,000	1,674
2024	35,000	569
	$ 798,559	$ 115,638

4. Loans Payable

As of June 30, 2014, the District's loan payable balance totaled $780,000. Series 2002, Maintenance Tax Notes were executed with City Bank on July 1, 2002 for the construction of a stadium. The following represents the annual payments due:

Fiscal Year	Principal	Interest
2015	$ 260,000	$ 11,736
2016	260,000	7,824
2017	260,000	3,912
	$ 780,000	$ 23,472

5. Advance Refunding of Debt

On August 23, 2013, the District issued Unlimited Refunding Bonds, Series 2013A in the amount of $2,485,901 with interest rates ranging from 6.13% to 6.28%. The bonds were issued as premium capital appreciation bonds. The $1,744,939 of proceeds were used to refund portions of the outstanding 2000, 2004A, 2006, 2006A, 2006B, 2006C, 2006D, 2007, 2007A, 2009 School Building, 2009 Refunding, 2010, and 2011 series. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, these refunded issuances are considered defeased and the liability for those bonds has been removed from the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt and is being netted against the new debt and amortized over the remaining life of the refunding debt. The refunding was undertaken to restructure the District's existing debt service payments and will not result in present value savings to the District.

On August 23, 2013, the District issued Unlimited Refunding Bonds, Series 2013B in the amount of $624,973 with interest rates ranging from 7.00% to 7.10%. The bonds were issued as premium capital appreciation bonds. The $94,474 of proceeds were used to refund portions of the outstanding 2000, 2004A, 2006, 2006A, 2006B, 2006C, 2006D, 2007, 2007A, 2009 School Building, 2009 Refunding, 2010, and 2011 series. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, these refunded issuances are considered defeased and the liability for those bonds has been removed from the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt and is being netted against the new debt and amortized over the remaining life of the refunding debt. The refunding was undertaken to restructure the District's existing debt service payments and will not result in present value savings to the District.

On February 13, 2014, the District issued Unlimited Refunding Bonds, Series 2014 in the amount of $15,767,323 with interest rates ranging from 6.25% to 7.00%. The bonds were issued as premium capital appreciation bonds. The $3,465,118 of proceeds were used to refund portions of the outstanding 2000, 2004A, 2006, 2006A, 2006B, 2006C, 2006D, 2007, 2007A, 2009 School Building, 2009 Refunding, 2010, and 2011 series. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, these refunded issuances are considered defeased and the liability for those bonds has been removed from the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt and is being netted against the new debt and amortized over the remaining life of the refunding debt. The refunding was undertaken to restructure the District's existing debt service payments and will not result in present value savings to the District.

On February 13, 2014, the District issued Unlimited Refunding Bonds, Series 2014A in the amount of $1,545,662 with interest rates ranging from 7.10% to 8.00%. The bonds were issued as premium capital appreciation bonds. The $259,073 of proceeds were used to refund portions of the outstanding 2000, 2006B, 2006C, 2006D, 2009 School Building, 2009 Refunding, and 2011 series. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, these refunded issuances are considered defeased and the liability for those bonds has been removed from the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt and is being netted against the new debt and amortized over the remaining life of the refunded debt. The refunding was undertaken to restructure the District's existing debt service and will not result in present value savings.

The proceeds from all four issuances were used to advance refund the aforementioned bonds with a total principal of $20,424,986 of which are considered defeased.

H. Commitments Under Noncapitalized Leases

Commitments under operating lease (noncapitalized) agreements for facilities and equipment are subject to fiscal funding clauses. As such, the agreements are cancelable and the District is therefore not obligated for minimum future rental payments as of June 30, 2014. The imputed interest on the leases is not readily determinable.

I. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2014, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

J. Pension Plan

1. Plan Description

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 downloading the report from the TRS internet website, 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 TRS Communications Department, 1000 Red River Street, Austin, Texas 78701.

2. 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 that 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 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. State law provides for a member contribution rate of 6.4% for fiscal years 2014, 2013 and 2012, and a state contribution rate of 6.4% (7/1/13 - 8/31/13) and 6.8% (9/1/13 - 6/30/14) for fiscal year 2014, 6.0% (7/1/12 - 8/31/12) and 6.4% (9/1/12 - 6/30/13) for fiscal year 2013, and 6.0% for fiscal year 2012. In certain instances the reporting district is required to make all or a portion of the State's contribution. State contributions to TRS made on behalf of the District's employees for the years ending June 30, 2014, 2013 and 2012 were $2,169,416, $2,001,533 and $2,025,998, respectively. The District paid additional state contributions for the years ending June 30, 2014, 2013 and 2012 in the amount of $829,554, $737,689 and $826,124, respectively, on portion of the employees' salaries that exceeded the statutory minimum.

K. Retiree Health Care Plans

1. TRS-Care

a. Plan Description

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

b. 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. The State of Texas contribution rates was 1% for fiscal year 2014, 0.5% for fiscal year 2013 and 1.0% for fiscal year 2012 and the active public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2014, 2013 and 2012. For the years ended June 30, 2014, 2013, and 2012, the State's contributions to TRS-Care were $371,379, $228,332, and $430,937, respectively, the active member contributions were $371,379, $262,216, and $280,109, respectively, and the District's contributions were $239,932, $229,490, and $237,016, respectively, which equaled the required contributions each year.

2. Medicare Part D Subsidies

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. For the fiscal years ended June 30, 2014, 2013, and 2012, the subsidy payments received by TRS-Care on behalf of the District were $112,949, $153,918, and $94,122, respectively.

L. Employee Health Care Coverage

During the year ended June 30, 2014, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of $225 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a third party administrator, acting on behalf of the licensed insurer. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

The contract between the District and the third party administrator is renewable September 1, 2014, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for TRS are available and have been filed with the Texas State Board of Insurance in Austin, Texas and are public records.

M. Commitments and Contingencies

1. Contingencies

The District participates in 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 collectibility of any related receivable 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 basic financial statements for such contingencies.

2. Litigation

No reportable litigation was pending against the District at June 30,2014.

N. Shared Services Arrangements

Shared Services Arrangement - Membership
The District participates in a shared services arrangement ("SSA") for a federal program with Mesquite ISD for deaf education services.

The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, school name, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the SSA.

O. Subsequent Events

On July 23, 2014, the District issued Unlimited Tax Refunding Bonds, Series 2014B in the amount of $20,445,000. The proceeds from the sale of the bonds will be used to refund bonds from 2004A, 2005A, 2006, and 2006A Series. The refunding will result in an economic gain.

P. Prior Period Adjustment

Beginning net assets as of July 1, 2013 have been restated to reflect adjustments made at the government-wide and governmental level. A formula error on the fixed asset worksheet in 2012/13 overstated depreciation expense for vehicles by $62,053. Under GASB 65, $3,149,859 in capitalized bond and other debt issuance costs was fully expensed. At the governmental level, an error related to the 2010/11 unearned revenue resulted in the 2012/13 audit being understated in debt service fund balance by $728,122.

Q. Arbitrage

In accordance with the provisions of Section 148(f) of the Internal Revenue Code of 1986, as amended, bonds must satisfy certain arbitrage rebate requirements. Positive arbitrage is the excess of (1) the amount earned on investments purchased with bond proceeds over (2) the amount that such investments would have earned had such investments been invested at a rate equal to the yield on the bond issue. In order to comply with the arbitrage rebate requirements, positive arbitrage must be paid to the U.S. Treasury at the end of each five year anniversary date of the bond issue. The District has estimated it does not have an arbitrage liability as of June 30, 2014.

R. Worker's Compensation

During the year ended June 30, 2014, employees of the District were covered by a Worker's Compensation plan (the "Plan"). The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreements.

The contract between the District and the third party administrator, Creative Risk Funding (CRF), acting on behalf of the self-funded pool, is renewable on September 1 and terms, as well as cost of coverage, are included in the contractual provisions.

In accordance with State statutes, the District was protected against unanticipated catastrophic individual or aggregate loss by reinsurance coverage carried through Safety National Casualty Corporation, a commercial insurer licensed or eligible to do business in the State of Texas in accordance with the Texas Insurance Code. The specific retention is $350,000, and the aggregate limit is $1,000,000. The aggregate stop loss coverage is $7,432,320. According to CRF, the unfunded claim benefit obligation included $97,011 in claims that were unpaid and $53,424 in estimtaed claims incurred, but not reported. Other school districts contributed to the self-funded pool which was operated under the contractual provisions of Article 4413(32c), Interlocal Cooperation Act.

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Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

FORNEY INDEPENDENT SCHOOL DISTRICT

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2014

EXHIBIT G-1

Data Control Codes		1 Budgeted Amounts Original	2 Budgeted Amounts Final	3 Actual	Variance with Final Budget Positive (Negative)
	REVENUES:				
5700	*Local and Intermediate Sources*	$ 25,076,000	$ 25,525,001	$ 25,528,346	$ 3,345
5800	*State Program Revenues*	33,824,000	32,450,000	32,523,178	73,178
5900	*Federal Program Revenues*	800,000	906,000	1,079,845	173,845
5020	Total Revenues	59,700,000	58,881,001	59,131,369	250,368
	EXPENDITURES:				
	Current:				
	Instruction & Instructional Related Services:				
0011	*Instruction*	31,900,000	32,053,000	32,147,987	(94,987)
0012	*Instructional Resources and Media Services*	800,000	625,000	621,832	3,168
0013	*Curriculum and Staff Development*	1,300,000	1,150,000	1,146,423	3,577
	Total Instruction & Instr. Related Services	34,000,000	33,828,000	33,916,242	(88,242)
	Instructional and School Leadership:				
0021	*Instructional Leadership*	435,000	435,000	427,869	7,131
0023	*School Leadership*	3,975,000	3,900,000	3,873,082	26,918
	Total Instructional & School Leadership	4,410,000	4,335,000	4,300,951	34,049
	Support Services - Student (Pupil):				
0031	*Guidance, Counseling and Evaluation Services*	1,925,000	1,775,000	1,711,250	63,750
0033	*Health Services*	875,000	825,000	806,920	18,080
0034	*Student (Pupil) Transportation*	1,925,000	2,200,000	2,134,581	65,419
0036	*Cocurricular/Extracurricular Activities*	1,990,000	1,950,000	1,947,941	2,059
	Total Support Services - Student (Pupil)	6,715,000	6,750,000	6,600,692	149,308
	Administrative Support Services:				
0041	*General Administration*	1,950,000	2,125,000	2,023,817	101,183
	Total Administrative Support Services	1,950,000	2,125,000	2,023,817	101,183
	Support Services - Nonstudent Based:				
0051	*Plant Maintenance and Operations*	7,025,000	6,950,001	6,594,505	355,496
0052	*Security and Monitoring Services*	500,000	525,000	518,848	6,152
0053	*Data Processing Services*	1,175,000	1,125,000	1,062,151	62,849
	Total Support Services - Nonstudent Based	8,700,000	8,600,001	8,175,504	424,497
	Ancillary Services:				
0061	*Community Services*	5,000	500	373	127
	Total Ancillary Services	5,000	500	373	127
	Debt Service:				
0071	*Principal on Long-Term Debt*	450,000	282,584	346,098	(63,514)
0072	*Interest on Long-Term Debt*	--	100,301	39,071	61,230
0073	*Bond Issuance Costs and Fees*	--	3,615	1,005	2,610
	Total Debt Service	450,000	386,500	386,174	326
	Intergovernmental Charges:				
0095	*Payments to Juvenile Justice Alternative Education Programs*	--	--	900	(900)
0099	*Other Intergovernmental Charges*	470,000	440,000	439,000	1,000
	Total Intergovernmental Charges	470,000	440,000	439,900	100
6030	Total Expenditures	56,700,000	56,465,001	55,843,653	621,348

FORNEY INDEPENDENT SCHOOL DISTRICT

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2014

Data Control Codes		1 Budgeted Amounts Original	2 Budgeted Amounts Final	3 Actual	Variance with Final Budget Positive (Negative)
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	3,000,000	2,416,000	3,287,716	871,716
	Other Financing Sources (Uses):				
7913	*Issuance of Capital Leases*	--	300,000	300,000	--
8949	*Other Uses*	--	(116,000)	(115,288)	712
7080	Total Other Financing Sources and (Uses)	--	184,000	184,712	712
1200	Net Change in Fund Balance	3,000,000	2,600,000	3,472,428	872,428
0100	Fund Balance - Beginning	1,283,459	1,283,459	1,283,459	--
3000	Fund Balance - Ending	$ 4,283,459	$ 3,883,459	$ 4,755,887	$ 872,428

Budget

The official budget was prepared for adoption for all Governmental Fund Types. The budget was prepared in accordance with accounting practices generally accepted in the United States of America. The following procedures are followed in establishihng the budgetary data reflected in the basic financial statements:

a. Prior to June 19 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.

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

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

Once a budget is approved, it can be amended at function and fund level only 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. Such amendments are made before the fact, are reflected in the official minutes of the Board and are not made after fiscal year end as required by law.

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

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at June 30, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget. There were no end-of-year outstanding encumbrances that were provided for in the subsequent year's budget.

Expenditures in Excess of Appropriations

All expenditures in the General Fund were within budgeted appropriations except for the following functional categories:

Instruction	$	94,987
Payments to Juvenile Justice Alternative Education Programs		900

The instruction category was overexpended due to an inadvertant error by the CFO with wage accrual calculations. The payments to JJAEP category was due to a late-in-the-year reclassification of expenses.

All expenditures in the Food Service Fund were within budgeted appropriations except for the following functional category:

Food Service	$	103,225

The food service category was overexpended due to an inadvertant error by the CFO with wage accrual calculations.

All expenditures in the Debt Service Fund were within budgeted appropriations except for the following functional category:

Debt Service	$	977,599

The debt service category was overexpended due to changes in bond issuance cost recognition under GASB 65.

Combining Statements and Budget Comparisons as Supplementary Information

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

FORNEY INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014

Data Control Codes		Special Revenue Funds	Capital Projects Fund	Total Nonmajor Governmental Funds (See Exhibit C-1)
	ASSETS:			
1110	*Cash and Cash Equivalents*	$ 1,109,676	$ 1,890,146	$ 2,999,822
1240	*Due from Other Governments*	330,228	--	330,228
1410	*Prepaid Items*	71,070	112,797	183,867
1000	Total Assets	1,510,974	2,002,943	3,513,917
	LIABILITIES:			
	Current Liabilities:			
2110	*Accounts Payable*	$ 345,234	$ --	$ 345,234
2160	*Accrued Wages Payable*	285,951	--	285,951
2170	*Due to Other Funds*	250	--	250
2300	*Unearned Revenue*	353,276	--	353,276
2000	Total Liabilities	984,711	--	984,711
	FUND BALANCES:			
	Restricted Fund Balances:			
3450	*Federal/State Funds Grant Restrictions*	24,048	--	24,048
3470	*Capital Acquisitions & Contractual Obligations*	--	2,002,943	2,002,943
	Committed Fund Balances:			
3545	*Other Committed Fund Balance*	502,215	--	502,215
3000	Total Fund Balances	526,263	2,002,943	2,529,206
4000	Total Liabilities and Fund Balances	$ 1,510,974	$ 2,002,943	$ 3,513,917

FORNEY INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

Data Control Codes		Special Revenue Funds	Capital Projects Fund	Total Nonmajor Governmental Funds (See Exhibit C-2)
	REVENUES:			
5700	*Local and Intermediate Sources*	$ 2,878,644	$ 2,690	$ 2,881,334
5800	*State Program Revenues*	362,503	--	362,503
5900	*Federal Program Revenues*	2,485,661	--	2,485,661
5020	Total Revenues	5,726,808	2,690	5,729,498
	EXPENDITURES:			
	Current:			
0011	*Instruction*	1,568,406	105,072	1,673,478
0012	*Instructional Resources and Media Services*	32,951	--	32,951
0013	*Curriculum and Staff Development*	77,370	--	77,370
0021	*Instructional Leadership*	10,760	--	10,760
0023	*School Leadership*	82,507	--	82,507
0031	*Guidance, Counseling, & Evaluation Services*	72,430	--	72,430
0033	*Health Services*	68,938	--	68,938
0034	*Student Transportation*	98,916	--	98,916
0035	*Food Service*	3,403,225	--	3,403,225
0036	*Cocurricular/Extracurricular Activities*	242,158	--	242,158
0041	*General Administration*	11,465	--	11,465
0051	*Facilities Maintenance and Operations*	341	99,475	99,816
0052	*Security and Monitoring Services*	844	183,354	184,198
0053	*Data Processing Services*	--	172,693	172,693
0061	*Community Services*	1,656	--	1,656
0093	*Payments to Shared Service Arrangements*	29,746	--	29,746
6030	Total Expenditures	5,701,713	560,594	6,262,307
1100	Excess (Deficiency) of Revenues Over (Under)			
1100	Expenditures	25,095	(557,904)	(532,809)
1200	Net Change in Fund Balances	25,095	(557,904)	(532,809)
0100	Fund Balances - Beginning	501,168	2,560,847	3,062,015
3000	Fund Balances - Ending	$ 526,263	$ 2,002,943	$ 2,529,206

FORNEY INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2014

Data Control Codes		204 ESEA Title IV SDFSC	205 Head Start	211 ESEA Title I Improving Basic Programs	224 IDEA-B Formula
	ASSETS:				
1110	*Cash and Cash Equivalents*	$ 105	$ --	$ --	$ 76,911
1240	*Due from Other Governments*	--	29,981	244,713	7,746
1410	*Prepaid Items*	--	--	--	--
1000	Total Assets	105	29,981	244,713	84,657
	LIABILITIES:				
	Current Liabilities:				
2110	*Accounts Payable*	$ 27	$ 18,926	$ 213,810	$ 9,201
2160	*Accrued Wages Payable*	--	11,055	30,903	75,456
2170	*Due to Other Funds*	--	--	--	--
2300	*Unearned Revenue*	--	--	--	--
2000	Total Liabilities	27	29,981	244,713	84,657
	FUND BALANCES:				
	Restricted Fund Balances:				
3450	*Federal/State Funds Grant Restrictions*	78	--	--	--
	Committed Fund Balances:				
3545	*Other Committed Fund Balance*	--	--	--	--
3000	Total Fund Balances	78	--	--	--
4000	Total Liabilities and Fund Balances	$ 105	$ 29,981	$ 244,713	$ 84,657

225 IDEA-B Preschool Grant	240 National School Breakfast/Lunch Program	244 Career and Tech Basic Grant	255 ESEA Title II Training & Recruiting	263 English Language Acquisition and Enhancement
$ --	$ 142,365	$ --	$ --	$ --
554	26,448	--	11,022	9,764
--	--	--	--	--
554	168,813	--	11,022	9,764
$ 554	$ 276	$ --	$ 11,022	$ 9,764
--	168,537	--	--	--
--	--	--	--	--
--	--	--	--	--
554	168,813	--	11,022	9,764
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
$ 554	$ 168,813	$ --	$ 11,022	$ 9,764

FORNEY INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2014

Data Control Codes		289 Summer School LEP	385 Supplemental Visually Impaired	397 Advanced Placement Incentives
	ASSETS:			
1110	*Cash and Cash Equivalents*	$ 4,398	$ 90	$ 6,012
1240	*Due from Other Governments*	--	--	--
1410	*Prepaid Items*	--	--	--
1000	Total Assets	4,398	90	6,012
	LIABILITIES:			
	Current Liabilities:			
2110	*Accounts Payable*	$ --	$ --	$ --
2160	*Accrued Wages Payable*	--	--	--
2170	*Due to Other Funds*	--	--	--
2300	*Unearned Revenue*	1,139	--	--
2000	Total Liabilities	1,139	--	--
	FUND BALANCES:			
	Restricted Fund Balances:			
3450	*Federal/State Funds Grant Restrictions*	3,259	90	6,012
	Committed Fund Balances:			
3545	*Other Committed Fund Balance*	--	--	--
3000	Total Fund Balances	3,259	90	6,012
4000	Total Liabilities and Fund Balances	$ 4,398	$ 90	$ 6,012

404 Student Success Initiative	410 Instructional Materials Allotment	414 Reading, Math and Science Initiative	425 Teacher Induction and Mentoring Program	427 State Funded Special Revenue Fund
$ --	$ 330,534	$ 9,680	$ 503	$ 1,107
--	--	--	--	--
--	65,313	--	--	--
--	395,847	9,680	503	1,107
$ --	$ 44,817	$ --	$ --	$ --
--	--	--	--	--
--	--	--	--	--
--	351,030	--	--	1,107
--	395,847	--	--	1,107
--	--	9,680	503	--
--	--	--	--	--
--	--	9,680	503	--
$ --	$ 395,847	$ 9,680	$ 503	$ 1,107

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FORNEY INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2014

Data Control Codes		429 Texas Educators' Excellence	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds (See Exhibit H-1)
	ASSETS:			
1110	*Cash and Cash Equivalents*	$ 4,426	$ 533,545	$ 1,109,676
1240	*Due from Other Governments*	--	--	330,228
1410	*Prepaid Items*	--	5,757	71,070
1000	Total Assets	4,426	539,302	1,510,974
	LIABILITIES:			
	Current Liabilities:			
2110	*Accounts Payable*	$ --	$ 36,837	$ 345,234
2160	*Accrued Wages Payable*	--	--	285,951
2170	*Due to Other Funds*	--	250	250
2300	*Unearned Revenue*	--	--	353,276
2000	Total Liabilities	--	37,087	984,711
	FUND BALANCES:			
	Restricted Fund Balances:			
3450	*Federal/State Funds Grant Restrictions*	4,426	--	24,048
	Committed Fund Balances:			
3545	*Other Committed Fund Balance*	--	502,215	502,215
3000	Total Fund Balances	4,426	502,215	526,263
4000	Total Liabilities and Fund Balances	$ 4,426	$ 539,302	$ 1,510,974

FORNEY INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

Data Control Codes		204 ESEA Title IV SDFSC	205 Head Start	211 ESEA Title I Improving Basic Programs	224 IDEA-B Formula
	REVENUES:				
5700	*Local and Intermediate Sources*	$ --	$ --	$ --	$ --
5800	*State Program Revenues*	--	--	--	--
5900	*Federal Program Revenues*	--	82,498	312,224	1,031,669
5020	Total Revenues	--	82,498	312,224	1,031,669
	EXPENDITURES:				
	Current:				
0011	*Instruction*	995	82,498	299,827	750,384
0012	*Instructional Resources and Media Services*	--	--	--	--
0013	*Curriculum and Staff Development*	--	--	7,786	6,130
0021	*Instructional Leadership*	--	--	2,941	7,819
0023	*School Leadership*	--	--	--	--
0031	*Guidance, Counseling, & Evaluation Services*	--	--	--	73,653
0033	*Health Services*	--	--	--	68,938
0034	*Student Transportation*	--	--	--	94,999
0035	*Food Service*	--	--	--	--
0036	*Cocurricular/Extracurricular Activities*	--	--	--	--
0041	*General Administration*	--	--	14	--
0051	*Facilities Maintenance and Operations*	--	--	--	--
0052	*Security and Monitoring Services*	--	--	--	--
0061	*Community Services*	--	--	1,656	--
0093	*Payments to Shared Service Arrangements*	--	--	--	29,746
6030	Total Expenditures	995	82,498	312,224	1,031,669
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	(995)	--	--	--
1200	Net Change in Fund Balances	(995)	--	--	--
0100	Fund Balances - Beginning	1,073	--	--	--
3000	Fund Balances - Ending	$ 78	$ --	$ --	$ --

225 IDEA-B Preschool Grant	240 National School Breakfast/Lunch Program	244 Career and Tech Basic Grant	255 ESEA Title II Training & Recruiting	263 English Language Acquisition and Enhancement
$ --	$ 2,392,622	$ --	$ --	$ --
--	91,079	--	--	--
5,485	919,524	34,407	46,954	50,695
5,485	3,403,225	34,407	46,954	50,695
4,300	--	34,407	15,970	37,695
--	--	--	--	--
1,185	--	--	30,984	12,531
--	--	--	--	--
--	--	--	--	469
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	3,403,225	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
5,485	3,403,225	34,407	46,954	50,695
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
$ --	$ --	$ --	$ --	$ --

FORNEY INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

Data Control Codes		289 Summer School LEP	385 Supplemental Visually Impaired	397 Advanced Placement Incentives
	REVENUES:			
5700	*Local and Intermediate Sources*	$ --	$ --	$ --
5800	*State Program Revenues*	--	2,240	3,550
5900	*Federal Program Revenues*	2,205	--	--
5020	Total Revenues	2,205	2,240	3,550
	EXPENDITURES:			
	Current:			
0011	*Instruction*	2,205	2,224	--
0012	*Instructional Resources and Media Services*	--	--	--
0013	*Curriculum and Staff Development*	--	--	225
0021	*Instructional Leadership*	--	--	--
0023	*School Leadership*	--	--	--
0031	*Guidance, Counseling, & Evaluation Services*	--	--	--
0033	*Health Services*	--	--	--
0034	*Student Transportation*	--	--	--
0035	*Food Service*	--	--	--
0036	*Cocurricular/Extracurricular Activities*	--	--	--
0041	*General Administration*	--	--	--
0051	*Facilities Maintenance and Operations*	--	--	--
0052	*Security and Monitoring Services*	--	--	--
0061	*Community Services*	--	--	--
0093	*Payments to Shared Service Arrangements*	--	--	--
6030	Total Expenditures	2,205	2,224	225
1100	Excess (Deficiency) of Revenues Over (Under)			
1100	Expenditures	--	16	3,325
1200	Net Change in Fund Balances	--	16	3,325
0100	Fund Balances - Beginning	3,259	74	2,687
3000	Fund Balances - Ending	$ 3,259	$ 90	$ 6,012

404 Student Success Initiative	410 Instructional Materials Allotment	414 Reading, Math and Science Initiative	425 Teacher Induction and Mentoring Program
$ --	$ --	$ --	$ --
19,520	235,027	9,680	--
--	--	--	--
19,520	235,027	9,680	--
15,603	230,407	--	--
--	--	--	--
--	4,620	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
3,917	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
19,520	235,027	--	--
--	--	9,680	--
--	--	9,680	--
--	--	--	503
$ --	$ --	$ 9,680	$ 503

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FORNEY INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

Data Control Codes		427 State Funded Special Revenue Fund	429 Texas Educators' Excellence	461 Campus Activity Funds
	REVENUES:			
5700	*Local and Intermediate Sources*	$ --	$ --	$ 486,022
5800	*State Program Revenues*	--	1,407	--
5900	*Federal Program Revenues*	--	--	--
5020	Total Revenues	--	1,407	486,022
	EXPENDITURES:			
	Current:			
0011	*Instruction*	--	--	91,891
0012	*Instructional Resources and Media Services*	--	--	32,951
0013	*Curriculum and Staff Development*	--	--	13,909
0021	*Instructional Leadership*	--	--	--
0023	*School Leadership*	--	--	82,038
0031	*Guidance, Counseling, & Evaluation Services*	--	--	(1,223)
0033	*Health Services*	--	--	--
0034	*Student Transportation*	--	--	--
0035	*Food Service*	--	--	--
0036	*Cocurricular/Extracurricular Activities*	--	--	242,158
0041	*General Administration*	--	--	11,451
0051	*Facilities Maintenance and Operations*	--	--	341
0052	*Security and Monitoring Services*	--	--	844
0061	*Community Services*	--	--	--
0093	*Payments to Shared Service Arrangements*	--	--	--
6030	Total Expenditures	--	--	474,360
1100	Excess (Deficiency) of Revenues Over (Under)			
1100	Expenditures	--	1,407	11,662
1200	Net Change in Fund Balances	--	1,407	11,662
0100	Fund Balances - Beginning	1,107	3,019	490,553
3000	Fund Balances - Ending	$ 1,107	$ 4,426	$ 502,215

FORNEY INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET POSITION
PRIVATE-PURPOSE TRUST FUNDS
JUNE 30, 2014

Data Control Codes		806 Smith Elementary Scholarship	816 Forney ISD Board of Trustees Scholarship	Total Private-Purpose Trust Funds (See Exhibit E-1)
	ASSETS:			
1110	*Cash and Cash Equivalents*	$ 1,640	$ 8,167	$ 9,807
1410	*Unrealized Expenses*	625	--	625
1000	Total Assets	2,265	8,167	10,432
	LIABILITIES:			
2000	Total Liabilities	--	--	--
	NET POSITION:			
3800	*Held in Trust*	$ 2,265	$ 8,167	$ 10,432
3000	Total Net Position	$ 2,265	$ 8,167	$ 10,432

FORNEY INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
ALL PRIVATE-PURPOSE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	806 Smith Elementary Scholarship	816 Forney ISD Board of Trustees Scholarship	Total Private-Purpose Trust Funds (See Exhibit E-2)
Additions:			
Donations	$ 2,265	$ 11,364	$ 13,629
Investment Income	--	--	--
Total Additions	2,265	11,364	13,629
Deductions:			
Scholarship Awards	--	8,000	8,000
Administrative Expenses	--	3,836	3,836
Total Deductions	--	11,836	11,836
Change in Net Assets	2,265	(472)	1,793
Net Assets-Beginning of the Year	--	8,639	8,639
Net Assets-End of the Year	$ 2,265	$ 8,167	$ 10,433

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Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

FORNEY INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2014

Year Ended June 30	1 Tax Rates Maintenance	2 Tax Rates Debt Service	3 Assessed/Appraised Value For School Tax Purposes
2005 and Prior Years	$ Various	$ Various	$ Various
2006	1.46	.28	1,665,387,221
2007	1.3346	.28	1,834,704,072
2008	1.04	.38	2,186,360,493
2009	1.04	.42	2,340,032,940
2010	1.04	.46	2,333,464,800
2011	1.04	.46	2,263,120,733
2012	1.04	.46	2,274,351,650
2013	1.04	.50	2,307,567,564
2014 (School Year Under Audit)	1.04	.50	2,351,857,078
1000 Totals			
9000 - Portion of Row 1000 for Taxes Paid into Tax Increment Zone Under Chapter 311, Tax Code			

10 Beginning Balance 7/1/13	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 6/30/14
$ 84,296	$ --	$ 856	$ 270	$ (13,920)	$ 69,250
26,694	--	574	110	--	26,009
30,113	--	2,622	550	--	26,941
38,392	--	4,272	1,561	(44)	32,515
64,246	--	26,018	10,507	38,615	66,335
84,868	--	30,593	13,531	32,888	73,632
99,552	--	45,721	20,223	39,077	72,686
124,008	--	54,286	24,011	36,526	82,237
388,448	--	202,884	97,540	(3,127)	84,896
--	36,218,599	24,187,010	11,628,370	--	403,219
$ 940,617	$ 36,218,599	$ 24,554,836	$ 11,796,673	$ 130,015	$ 937,720
$ --	$ --	$ --	$ --	$ --	$ --

Add: Penalty and Interest Receivable	$ 428,382
Less: Allowance for Uncollectible Taxes	(434,037)
Total Net Taxes Receivable Per EXH A-1	$ 932,065

FORNEY INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-2

NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2014

Data Control Codes		1 Budget	2 Actual	3 Variance Positive (Negative)
	REVENUES:			
5700	*Local and Intermediate Sources*	$ 2,390,000	$ 2,392,622	$ 2,622
5800	*State Program Revenues*	75,000	91,079	16,079
5900	*Federal Program Revenues*	835,000	919,524	84,524
5020	Total Revenues	3,300,000	3,403,225	103,225
	EXPENDITURES:			
	Current:			
	Support Services - Student (Pupil):			
0035	*Food Services*	3,300,000	3,403,225	(103,225)
	Total Support Services - Student (Pupil)	3,300,000	3,403,225	(103,225)
6030	Total Expenditures	3,300,000	3,403,225	(103,225)
1100	Excess (Deficiency) of Revenues Over (Under)			
1100	Expenditures	--	--	--
0100	Fund Balance - Beginning	--	--	--
3000	Fund Balance - Ending	$ --	$ --	$ --

FORNEY INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-3

DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2014

Data Control Codes		1 Budget	2 Actual	3 Variance Positive (Negative)
	REVENUES:			
5700	*Local and Intermediate Sources*	$ 11,850,000	$ 11,878,662	$ 28,662
5800	*State Program Revenues*	2,225,000	2,693,881	468,881
5020	Total Revenues	14,075,000	14,572,543	497,543
	EXPENDITURES:			
	Debt Service:			
0071	*Principal on Long-Term Debt*	2,058,105	1,976,599	81,506
0072	*Interest on Long-Term Debt*	12,000,815	11,763,587	237,228
0073	*Bond Issuance Costs and Fees*	16,080	1,312,413	(1,296,333)
	Total Debt Service	14,075,000	15,052,599	(977,599)
6030	Total Expenditures	14,075,000	15,052,599	(977,599)
1100	Excess (Deficiency) of Revenues Over (Under)			
1100	Expenditures	--	(480,056)	(480,056)
	Other Financing Sources (Uses):			
7911	*Capital-Related Debt Issued (Regular Bonds)*	--	20,423,858	20,423,858
7916	*Premium or Discount on Issuance of Bonds*	--	5,563,603	5,563,603
7949	*Other Resources*	--	9,877	9,877
8949	*Other Uses*	--	(25,004,162)	(25,004,162)
7080	Total Other Financing Sources and (Uses)	--	993,176	993,176
1200	Net Change in Fund Balance	--	513,120	513,120
0100	Fund Balance - Beginning	5,328,800	5,328,800	--
1300	Prior Period Adjustment	728,122	728,122	--
0100	Fund Balance - Beginning, as Restated	6,056,922	6,056,922	--
3000	Fund Balance - Ending	$ 6,056,922	$ 6,570,042	$ 513,120

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
Forney Independent School District
Forney, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Forney Independent School District (the "District"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 31, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item #2014-001.

District's Response to Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Whitley Penn LLP

Houston, Texas
October 31, 2014

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Trustees
Forney Independent School District
Forney, Texas

Report on Compliance for Each Major Federal Program

We have audited Forney Independent School District's (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Whitley Penn LLP

Houston, Texas
October 31, 2014

FORNEY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2014

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported.
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported.
Type of auditors' report issued on compliance with major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) 2-7 OMB Circular A-133?	None.

Identification of major programs

Name of Federal Program or Cluster	CFDA Numbers
US Department of Education	
Special Education Cluster:	
IDEA-B Formula	84.027
IDEA-B Preschool	84.173

1. Dollar Threshold Considered Between Type A and Type B Federal Programs	$300,000
2. Auditee qualified as low-risk auditee?	Yes

II. Financial Statement Findings

Finding #2014-001 – Spending Requirement – Career and Technical Education – Program Intent Code 22

Criteria:	Per the Texas Administrative Code section 105.11 and the Texas Education Agency's Financial Accountability System Resource Guide Section 4.6.5, school districts must spend at least 58 percent of its Career and Technical Education program allotment on direct expenses.
Condition:	For fiscal year 2014, the District's calculation shows the District has underspent its Career and Technical Education Program.
Cause:	Personnel costs coding to the general ledger has caused this shortfall.
Effect:	The District, after the allocation of Program Intent Code 99, may not be in compliance with the spending requirement.
Recommendation:	The District should continue to review the accounting coding of its personnel costs for fiscal year 2015 to ensure that the District meets the spending requirements.

III. Federal Awards Findings and Questioned Costs

NONE

IV. Status Of Prior Year Findings

NONE

FORNEY INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

Finding/Recommendation	Current Status	Management's Explanation If Not Implemented
None to report.		

FORNEY INDEPENDENT SCHOOL DISTRICT

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2014

The Chief Financial Officer will review all special programs to ensure compliance with minimum spending requirements.

Date of Implementation: November, 2014

Responsible Person: Lucas Janda, Chief Financial Officer

FORNEY INDEPENDENT SCHOOL DISTRICT

EXHIBIT K-1

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

(1)	(2)	(2A)	(3)
Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through Region X ESC:			
Head Start	93.600	06CH0391/21	$ 82,498
Total U. S. Department of Health and Human Services			82,498
U. S. DEPARTMENT OF EDUCATION			
Passed Through Texas Education Agency:			
IDEA-B Formula *	84.027	136600011299026000	63,378
IDEA-B Formula *	84.027	146600011299026000	968,291
Total CFDA Number 84.027A			1,031,669
IDEA-B Preschool *	84.173	146610011299026610	5,485
Summer School LEP	84.369A	69551302	2,205
Total Passed Through Texas Education Agency			1,039,359
Passed Through Region X ESC:			
ESEA Title I Part A - Improving Basic Programs	84.010a	316110101057950	47,210
ESEA Title I Part A - Improving Basic Programs	84.010a	416110101057950	265,014
Total CFDA Number 84.010a			312,224
Career and Technical - Basic Grant	84.048	414210006057950	34,407
Title III Part A English Language Acquisition and Language Enhancer	84.365	31671001057950	20,824
Title III Part A English Language Acquisition and Language Enhancer	84.365	41671001057950	29,871
Total CFDA Number 84.365A			50,695
ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367a	31694501057950	13,503
ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367a	41671001057950	33,451
Total CFDA Number 84.367a			46,954
Total Passed Through Region X ESC			445,275
Total U. S. Department of Education			1,484,634
U. S. DEPARTMENT OF AGRICULTURE			
Passed Through Texas Department of Agriculture:			
National School Lunch Program (Non-cash) *	10.555	71301301 / 71401301	186,503
Passed Through Texas Education Agency:			
School Breakfast Program *	10.553	71401301	231,999
National School Lunch Program *	10.555	71301301	907,216
Total Passed Through Texas Education Agency			1,139,215
Total U. S. Department of Agriculture			1,325,718
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 2,891,854

* Indicates clustered program under OMB Circular A-133 Compliance Supplement

General Fund Federal Revenues:	
E-Rate	$ 68,971
SHARS	546,716
JROTC	57,965
Total Federal Revenues (EXH C-2)	$ 3,565,506

The accompanying notes are an integral part of this schedule.

FORNEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Forney Independent School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

Summary of Significant Accounting

The District accounts for all awards under federal programs in the General and certain Special Revenue Funds in accordance with the Texas Education Agency's Financial Accountability System Resource Guide. These programs are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for these funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e. both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited to reimbursement. Pass-through entity identifying numbers are presented where available.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods.

General Fund Federal Revenue

Federal awards and funds reported in the General Fund are summarized as follows:

Program or Source	CFDA No.	Amount
Indirect Costs:		
School Breakfast Program*	10.553	$ 82,720
National School Lunch Program*	10.555	323,472
E-Rate	N/A	68,971
SHARS	N/A	546,716
JROTC	N/A	57,965
		$ 1,079,844

* The District charged indirect costs to the Child Nutrition Program using its indirect cost rate as prescribed by the USDA Policy Memorandum impacting the 2013-2014 fiscal year.

FORNEY INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF JUNE 30, 2014

Data Control Codes		Responses
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? - Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	What was the total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year-end?	$ 30,390,382

APPENDIX C

FORM OF CO-BOND COUNSEL'S OPINION

POWELL & LEON, L.L.P.
115 Wild Basin Rd, Ste 106
Austin, Texas 78746

MCGUIREWOODS LLP
600 Travis, Suite 7500
Houston, Texas 77002

June 10, 2015

We have acted as Co-Bond Counsel in connection with the issuance by the Forney Independent School District (the "District") of its Unlimited Tax Refunding Bonds, Series 2015 (the "Bonds"), dated June 1, 2015, in the aggregate principal amount of $103,095,000. The Bonds are issuable in fully registered form only, in denominations of $5,000 or integral multiples thereof, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the order (the "Order") adopted by the Board of Trustees of the District authorizing their issuance.

We have acted as Co-Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income under federal income tax law. In such capacity, we have examined the Constitution and laws of the State of Texas; federal income tax law; and a transcript of certain certified proceedings pertaining to the issuance of the Bonds issuance of the Bonds and the obligations that are being refunded (the "Refunded Obligations") with the proceeds of the Bonds. The transcript contains certified copies of certain proceedings of the District and BOKF, NA dba Bank of Texas (the "Escrow Agent"); the report (the "Report") of Grant Thornton L.L.P., certified public accountants, which verifies the sufficiency of the deposits made with the Escrow Agent for the defeasance of the Refunded Obligations and the mathematical accuracy of certain computations of the yield on the Bonds and the obligations acquired with the proceeds of the Bonds; certain certifications and representations and other material facts within the knowledge and control of the District, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bond and the firm banking and financial arrangements for the discharge and final payment of the Refunded Obligations. We have also examined executed Bond No. R-1 of this issue.

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

Based on such examination, it is our opinion as follows:

1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; the Bonds constitute valid and legally binding obligations of the District enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws

affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with law; and

2) The Bonds are payable, both as to principal and interest, from the receipts of all annual ad valorem tax levied, without legal limit as to rate or amount, upon taxable property located within the District, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds; and

3) The escrow agreement between the District and the Escrow Agent (the "Escrow Agreement") has been duly executed and delivered and constitutes a binding and enforceable agreement in accordance with its terms; the establishment of the Escrow Fund pursuant to the Escrow Agreement and the deposit made therein constitute the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Obligations; in reliance upon the accuracy of the calculations contained in the Report, the Refunded Obligations, having been discharged and paid, are no longer outstanding and the lien on and pledge of ad valorem taxes and other revenues as set forth in the order authorizing their issuance will be appropriately and legally defeased; the holders of the Refunded Obligations may obtain payment of the principal of, redemption premium, if any, and interest in the Refunded Obligations only out of the funds provided therefor now held in escrow for that purpose by the Escrow Agent pursuant to the terms of the Escrow Agreement; and therefore the Refunded Obligations are deemed to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefor in such Escrow Agreement.

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

In providing the opinion set forth in the foregoing paragraph, we are assuming continuing compliance with the Covenants (as hereinafter defined) by the District. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the Bonds in order for interest on the Bonds to be and remain excludable from

gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, restrictions on the use, expenditure and investment of the proceeds of the Bonds and the use of the property financed by the Bonds, limitations on the source of the payment of and the security for the Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the Bonds to the United States Treasury. The Order and the District's tax certificate for the Bonds (the "Tax Certificate") contain covenants (the "Covenants") under which the District has agreed to comply with such requirements. We have further relied on the Report regarding the mathematical accuracy of certain computations. If such representations or the Report are determined to be inaccurate or incomplete or the District fails to comply with the Covenants interest on the Bonds could become includable in gross income for federal income tax purposes retroactively to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Bonds from becoming includable in gross income for federal income tax purposes. We have no responsibility to monitor compliance with the Covenants after the date of issue of the Bonds.

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

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