OFFICIAL STATEMENT DATED AUGUST 8, 2016

Moody's Underlying: "A1"
PSF Enhanced: "Aaa"
See ("OTHER INFORMATION - RATING" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Co-Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Co-Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Co-Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Co-Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See "TAX MATTERS."

$29,245,000
CHISUM INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Lamar and Delta Counties)
UNLIMITED TAX SCHOOL BUILDING AND REFUNDING BONDS, SERIES 2016

Dated: August 1, 2016 **Due: August 15, as shown on the inside cover**
Interest to Accrue from the Date of Delivery

PAYMENT TERMS . . . The $29,245,000 Chisum Independent School District Unlimited Tax School Building and Refunding Bonds, Series 2016 (the "Bonds") will be issued in the principal amounts shown on the inside cover page hereof. Interest on the Bonds will accrue from their initial date of delivery (the "Date of Delivery") to the underwriters listed below (the "Underwriters"), will be payable on February 15 and August 15 of each year commencing February 15, 2017, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued as fully registered obligations in the denominations of $5,000 of principal amount or any integral multiple thereof for any one stated maturity. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the book-entry-only system described herein. Beneficial ownership of the Bonds may be acquired in authorized denominations thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. The principal and interest on the Bonds will be payable by the paying agent/registrar, initially BOKF, N.A., Austin, Texas (the "Paying Agent/Registrar") to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS – Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 45, Texas Education Code, as amended, Chapter 1207, Texas Government Code, as amended, an election held within the Chisum Independent School District (the "District") on May 7, 2016 (with respect to the new money portion of the Bonds) (the "Election"), and an order authorizing the issuance of the Bonds (the "Order"). The Bonds are direct obligations of the District, payable from an annual ad valorem tax levied, without legal limit as to rate or amount, on all taxable property located within the District, as provided in the Order (see "THE BONDS – Authority For Issuance"). **An application has been filed and the District has received conditional approval for the Bonds to be guaranteed by the Permanent School Fund Guarantee Program of the State of Texas. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM."**

PURPOSE . . . Proceeds from the sale of the Bonds will be used for the (i) construction, acquisition, renovation and equipment of school buildings in the District, for the purchase of new technology, and for the purchase of new school buses; (ii) construction, acquisition, renovation and equipment of tennis courts, a fine arts auditorium, vocational and agriculture facilities and a greenhouse laboratory; (iii) construction, acquisition, renovation and equipment of a multi-purpose conference center; (iv) refunding of a portion of the District's outstanding bonds as shown in SCHEDULE I (collectively, the "Refunded Bonds") in order to lower the overall debt service requirements of the District; and (v) payment of the costs associated with the issuance of the Bonds (see "PLAN OF FINANCING - Purpose" and "- Sources and Uses of Proceeds"). See SCHEDULE I for a detailed listing of the Refunded Bonds and their call dates.

Maturity Schedule on Inside Cover

OPTIONAL REDEMPTION . . . The District reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 2027, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2026 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District may select the maturities of the Bonds to be redeemed. See "THE BONDS – Optional Redemption." Additionally, the Term Bonds (as defined herein) are subject to mandatory sinking fund redemption as described herein. See "THE BONDS – Mandatory Sinking Fund Redemption."

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinion of Powell & Leon, LLP, Austin, Texas, and Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Co-Bond Counsel. See APPENDIX B, "FORMS OF CO-BOND COUNSELS' OPINIONS." Certain legal matters will be passed upon for the Underwriters by Bracewell LLP, Houston, Texas, counsel for the Underwriters.

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on or about August 25, 2016.

OPPENHEIMER & CO.

William Blair **Raymond James**

MATURITY SCHEDULE
$29,245,000
CHISUM INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the Stated of Texas located in Lamar and Delta Counties, Texas)
UNLIMITED TAX SCHOOL BUILDING AND REFUNDING BONDS, SERIES 2016

$25,640,000 Serial Bonds

Maturity Date[3] (August 15)	Principal	Interest Rate	Price or Yield[1]	CUSIP No.[2]
2018	$ 740,000	3.00%	0.700%	170175 DR1
2019	760,000	4.00	0.800	170175 DS9
2020	795,000	4.00	0.930	170175 DT7
2021	820,000	4.00	1.080	170175 DU4
2022	860,000	4.00	1.280	170175 DV2
2023	890,000	5.00	1.420	170175 DW0
2024	930,000	5.00	1.520	170175 DX8
2025	975,000	5.00	1.620	170175 DY6
2026	1,025,000	5.00	1.730	170175 DZ3
2027	1,075,000	5.00	1.840	170175 EA7
2028	1,130,000	4.00	2.170	170175 EB5
2029	1,175,000	5.00	1.990	170175 EC3
2030	1,235,000	3.00	2.600	170175 ED1
2031	1,270,000	3.00	2.650	170175 EE9
2032	1,310,000	3.00	2.700	170175 EF6
2033	1,350,000	4.00	2.500	170175 EG4
2034	1,400,000	4.00	2.550	170175 EH2
2035	1,460,000	4.00	2.600	170175 EJ8
2036	1,515,000	4.00	2.640	170175 EK5
2037	1,580,000	4.00	2.670	170175 EL3
2038	1,640,000	4.00	2.690	170175 EM1
2039	1,705,000	4.00	2.700	170175 EN9

$3,605,000 Term Bonds

$3,605,000 3.00% Term Bond Due August 15, 2041[3][4] Priced to Yield 3.070%[1] CUSIP No. 170175 EQ2[2]

(Interest to accrue from the Date of Delivery)

[1] The initial yields are established by and are the sole responsibility of the Underwriters, and may subsequently be changed. The yields shown are calculated to maturity or the first optional redemption date, whichever produces the lowest yield

[2] CUSIP Numbers have been assigned to the Bonds by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association, and are included solely for the convenience of the purchasers of the Bonds. None of the District, the Financial Advisor, or the Underwriters shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.

[3] The District reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 2027, in whole or part in principal amounts of $5,000 of integral multiples thereof, on August 15, 2026, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. See "THE BONDS – Optional Redemption."

[4] The Term Bonds are subject to mandatory sinking fund redemption as described herein. See "THE BONDS – Mandatory Sinking Fund Redemption."

USE OF INFORMATION IN OFFICIAL STATEMENT

This Official Statement, which includes the cover page, the Schedule and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon.

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

None of the District, the Underwriters, or the Financial Advisor make any representation or warranty with respect to the information contained in this Official Statement regarding the Depository Trust Company ("DTC") or its Book-Entry-Only System or the affairs of the Texas Education Agency ("TEA") described under "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM," as such information has been provided by DTC and TEA, respectively.

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

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 offering document.

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

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

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.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as a 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.

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

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 Chisum Independent School District (the "District") is a political subdivision located in Lamar and Delta Counties, Texas. The District is approximately 203 square miles in area. See "INTRODUCTION – Description of District."
THE BONDS	The Bonds are issued as $29,245,000 Chisum Independent School District Unlimited Tax School Building and Refunding Bonds, Series 2016 (the "Bonds"). The Bonds are issued and are scheduled to mature on August 15 in each of the years and in the amounts indicated on the inside cover page of this Official Statement. See "THE BONDS - Description of the Bonds."
PAYMENT OF INTEREST	Interest on the Bonds will accrue from their initial date of delivery (the "Date of Delivery") to the underwriters listed on the cover page of this Official Statement, will be payable on February 15 and August 15 of each year commencing February 15, 2017, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. See "THE BONDS – Description of the Bonds."
AUTHORITY FOR ISSUANCE	The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including particularly Chapter 45, Texas Education Code, Chapter 1207, Texas Government Code, an election held within the District on May 7, 2016 (with respect to the new money portion of the Bonds), and an order authorizing the issuance of the Bonds (the "Order"). See "THE BONDS - Authority for Issuance."
SECURITY FOR THE BONDS	The Bonds constitute direct obligations of the District, payable from an annual ad valorem tax levied, without legal limit as to rate or amount, on all taxable property within the District. See "THE BONDS – Security and Source of Payment." Additionally, the District has received conditional approval for the payment of principal and interest on the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM."
PERMANENT SCHOOL FUND GUARANTEE	The District has received preliminary approval from the Texas Education Agency for the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas (see "THE BONDS – Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").
OPTIONAL REDEMPTION	The District reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 2027, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2026 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District may select the maturities of the Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. See "THE BONDS – Optional Redemption."
MANDATORY SINKING FUND REDEMPTION	The Term Bonds are subject to mandatory sinking fund redemption as described herein. See "THE BONDS – Mandatory Sinking Fund Redemption."

TAX EXEMPTION ..... In the opinion of Co-Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Co-Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Co-Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Co-Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See "TAX MATTERS."

USE OF PROCEEDS..... Proceeds from the sale of the Bonds will be used for the (i) construction, acquisition, renovation and equipment of school buildings in the District, for the purchase of new technology, and for the purchase of new school buses; (ii) construction, acquisition, renovation and equipment of tennis courts, a fine arts auditorium, vocational and agriculture facilities and a greenhouse laboratory; (iii) construction, acquisition, renovation and equipment of a multi-purpose conference center; (iv) refunding of a portion of the District's outstanding bonds as shown in SCHEDULE I (collectively, the "Refunded Bonds") in order to lower the overall debt service requirements of the District; and (v) payment of the costs associated with the issuance of the Bonds. See "PLAN OF FINANCING – Purpose" and "– Sources and Uses of Proceeds."

RATING ..... The Bonds have been rated "Aaa" by Moody's Investors Services, Inc., ("Moody's") by virtue of the guarantee of the Permanent School Fund of the State of Texas (the "PSF Guarantee"). The presently outstanding tax supported debt of the District (without the PSF Guarantee) is rated "A1" by Moody's. An explanation of the significance of such rating may be obtained from Moody's. The rating reflects only the views of such organization and the District makes no representation as to the appropriateness of the rating. There is no assurance that the rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by Moody's, if in the judgment of Moody's, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds. See "OTHER INFORMATION – Rating."

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

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

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 8/31	Estimated Population[1]	Taxable Assessed Valuation[2][3]	Taxable Assessed Valuation Per Capita	Tax Supported Debt Outstanding	Ratio of Tax Supported Debt to Assessed Valuation	Tax Supported Debt Per Capita
2012	3,534	$ 773,593,119	$218,900	$9,590,000	1.24%	$2,714
2013	3,548	762,517,962	214,914	8,740,000	1.15%	2,463
2014	3,856	836,938,854	217,048	7,865,000	0.94%	2,040
2015	3,799	786,560,122	207,043	6,960,000	0.88%	1,832
2016	3,987	811,454,434	203,525	30,165,000[4]	3.72%[4]	7,566[4]

(1) Source: The District and Municipal Advisory Council of Texas.
(2) As reported by Lamar County Appraisal District and Delta County Appraisal District. Values may differ from those reported in other sources because values are subject to change during ensuing years.
(3) The certified taxable assessed valuation for the fiscal year ending August 31, 2017 (assessed as of January 1, 2016) is $954,869,804 as reported by the Lamar County Appraisal District and Delta County Appraisal District on July 25, 2016.
(4) Includes the Bonds. Excludes the Refunded Bonds.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	Fiscal Year Ended August 31,				
	2015	2014	2013	2012	2011
Beginning Balance	$ 4,292,040	$ 4,174,631	$ 4,859,048	$ 4,755,620	$ 5,092,652
Total Revenue	9,099,639	9,400,991	8,705,209	9,241,439	8,797,840
Total Expenditures	9,265,487	9,237,801	9,455,504	9,081,851	9,091,405
Excess/(Deficiency) of Revenues	(165,848)	163,190	(750,295)	159,588	(293,565)
Net Transfers/Adjustments	(20,965)	(45,782)	65,878	(56,160)	(43,467)
Ending Balance	$ 4,105,227	$ 4,292,039	$ 4,174,631	$ 4,859,048	$ 4,755,620

Source: The District's audited financial statements.

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DISTRICT OFFICIALS, STAFF, AND CONSULTANTS

Elected Officials

Board of Trustees	Length of Service	Term Expires	Occupation
Travis Ball, President	9 Years	May, 2019	Chief Procurement Officer
Matt Patterson, Vice President	3 Years	May, 2019	Operations Support Analyst
Dashielle Floyd, Secretary	5 Years	May, 2017	Certified R.N. Anesthetist
Paul Hutto, Alternate Secretary	5 Years	May, 2018	Office Administrator
Craig Burns, Member	2 Years	May, 2017	Self-employed
Mike Ford, Board Member	2 Years	May, 2017	Operations Supervisor
Larry Rickman, Board Member	22 Years	May, 2018	Self-employed

Selected Administrative Staff

Name	Position	Length of Service Within District	Total Industry Experience
Tommy Chalaire	Superintendent	22 Years	22 Years
Kim Williams	Business Manager	32 Years	32 Years

Consultants and Advisors

Auditors..... Malnory, McNeal & Company, PC
Paris, Texas

Co-Bond Counsel..... Powell & Leon, LLP, Austin, Texas
Orrick, Herrington & Sutcliffe LLP, Houston, Texas

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

For additional information regarding the District, please contact:

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OFFICIAL STATEMENT

Relating to

$29,245,000
CHISUM INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Lamar and Delta Counties)
UNLIMITED TAX SCHOOL BUILDING AND REFUNDING BONDS, SERIES 2016

INTRODUCTION

This Official Statement, which includes the Schedule and Appendices hereto, provides certain information regarding the issuance of $29,245,000 Chisum Independent School District Unlimited Tax School Building and Refunding Bonds, Series 2016 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the order authorizing the issuance of the Bonds, (the "Order"), except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the Chisum Independent School District (the "District") and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District's Financial Advisor, Government Capital Securities Corporation, Southlake, Texas.

Description of the District

The District is a political subdivision located in Lamar and Delta Counties, Texas. The District is governed by a seven-member Board of Trustees (the "Board") who serve staggered four-year terms with elections being held in May in even numbered years. 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 203 square miles in Lamar and Delta Counties and has an enrollment of approximately 932 students.

PLAN OF FINANCING

Purpose

Proceeds from the sale of the Bonds will be used for the (i) construction, acquisition, renovation and equipment of school buildings in the District, for the purchase of new technology, and for the purchase of new school buses; (ii) construction, acquisition, renovation and equipment of tennis courts, a fine arts auditorium, vocational and agriculture facilities and a greenhouse laboratory; (iii) construction, acquisition, renovation and equipment of a multi-purpose conference center; (iv) refunding of a portion of the District's outstanding bonds as shown in SCHEDULE I (collectively, the "Refunded Bonds") in order to lower the overall debt service requirements of the District; and (v) payment of the costs associated with the issuance of the Bonds. See SCHEDULE I for a detailed listing of the Refunded Bonds, their redemption dates and call price.

Refunded Bonds

The principal and interest due on the Refunded Bonds are to be paid on the scheduled interest payment dates and the respective redemption dates of such Refunded Bonds, from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the District and BOKF N.A., Austin, Texas (the "Escrow Agent"). The Order provides that from the proceeds of the sale of the Bonds received from the underwriters listed on the cover page hereof (the "Underwriters") and other available District funds, the District will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds on their respective redemption dates. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase a portfolio of securities authorized by Section 1207.062, Texas Government Code, which authorized securities include direct noncallable obligations of the United States and/or 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 the principal of and interest on the Refunded Bonds.

Grant Thornton LLP, a nationally recognized accounting firm, will verify at the time of delivery of the Bonds to the Underwriters thereof the mathematical accuracy of the schedules that demonstrate the Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of

and interest on the Refunded Bonds. Such maturing principal of and interest on the Federal Securities will not be available to pay the Bonds. See "OTHER INFORMATION - Verification of Arithmetical and Mathematical Computations."

By the deposit of the Federal Securities and cash, if necessary, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of all of the Refunded Bonds in accordance with the terms of Chapter 1207, Texas Government Code, as amended. It is the opinion of Co-Bond Counsel that as a result of such defeasance and in reliance upon the report of Grant Thornton LLP, the 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 Guarantee Program.

The District has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Bonds, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund be insufficient to make such payment.

Sources and Uses of Proceeds

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

Sources of Funds	
Principal Amount of the Bonds	$29,245,000.00
Net Premium	3,641,270.45
Total Sources of Funds	$ 32,886,270.45
Uses of Funds	
Deposit to Construction Fund	$ 26,940,000.00
Deposit to Escrow Fund	5,448,380.79
Underwriters' Discount	191,376.25
Costs of Issuance[(1)]	306,513.41
Total Uses of Funds	$ 32,886,270.45

[(1)] Includes legal fees, financial advisory fees, rating agency fees, fees of the Paying Agent/Registrar and Escrow Agent, and other costs of issuance, including contingency.

THE BONDS

Description of the Bonds

The Bonds will be dated August 1, 2016 (the "Dated Date"). Interest on the Bonds will accrue from their initial date of delivery to the underwriters listed on the cover page of this Official Statement will be payable on February 15 and August 15 of each year commencing February 15, 2017, until the earlier of maturity or prior redemption. The Bonds will mature on the dates, in the principal amounts, and will bear interest at the rates set forth on the inside cover page hereof, and such interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Interest on the Bonds will be payable to the registered owner whose name appears on the bond registration books of BOKF, N.A., Austin, Texas, the initial paying agent/registrar (the "Paying Agent/Registrar") at the close of business on the Record Date (hereinafter defined) and such accrued interest will be paid by (i) check sent by United States mail, first class, postage prepaid, to the address of the registered owner appearing on such registration books of the Paying Agent/Registrar or (ii) such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The principal amount of the Bonds will be payable only upon presentation of such Bonds at the designated office of the Paying Agent/Registrar upon maturity or redemption, as applicable. If the date for the payment of the principal or interest on the Bonds is a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due. The definitive Bonds will be issued only in fully registered form in any integral multiple of $5,000 of principal amount for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the 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. So long as Cede & Co. is the registered owner of the Bonds, principal, interest and redemption payments on the Bonds will be made as described in "THE BONDS – Book-Entry-Only System" herein.

Authority for Issuance

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including particularly Chapter 45, Texas Education Code, Chapter 1207, Texas Government Code, an election held within the District on May 7, 2016 (with respect to the school building portion of the Bonds), and the Order.

Security and Source of Payment

The Bonds are direct obligations of the District, payable from an annual ad valorem tax levied, without legal limit as to rate or amount, on all taxable property located within the District, as provided in the Order. In addition, the District has received approval, subject to certain conditions, for the Bonds to be guaranteed by the Permanent School Fund of the State of Texas. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM," "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" herein.

Permanent School Fund Guarantee

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

In the event the District defeases any of the Bonds, the payment of such defeased Bonds will cease to be guaranteed by the Permanent School Fund of the State of Texas. See "THE BONDS – Defeasance."

Optional Redemption

The District reserves the right, at its option, to redeem the Bonds maturing on or after August 15, 2027, in whole or from time to time in part, in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2026, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District may select the maturities of the Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

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Mandatory Sinking Fund Redemption

The Bonds maturing on August 15, 2041 (the "Term Bonds") are subject to mandatory sinking fund redemption prior to maturity on August 15 in each of the years and respective principal amounts set forth below at a redemption price equal to 100% of the principal amount plus accrued interest to the date of redemption:

$3,605,000 Term Bonds Due August 15, 2041

Mandatory Redemption Date (August 15)	Principal Amount
2040	$ 1,775,000
2041 (maturity)	1,830,000

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.

Notice of Redemption

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

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

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 DTC participant or indirect participant 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 DTC participants and indirect participants may implement a redemption of such Bonds from the beneficial owners.

Any such selection of Bonds to be redeemed will not be governed by the Order and 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 DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds for redemption. See "THE BONDS – Book-Entry-Only System").

Defeasance

The District reserves the right to defease the Bonds in any manner now or hereafter permitted by law. Upon defeasance of the Bonds, the Bonds will no longer be guaranteed by the Permanent School Fund of the State of Texas.

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 DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by 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 none of the District, the Financial Advisor nor the Underwriters take any responsibility for the accuracy or completeness thereof.

The District cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or 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 Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully- registered security will be issued for each maturity of bonds, as set forth on the inside cover hereof, each in the aggregate principal amount of such maturity and will be deposited with DTC.

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmation 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 affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 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 payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. 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 information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement. In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Order will be given only to DTC.

Effect of Termination of Book-Entry-Only System. In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the District, printed bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under "THE BONDS – Transfer, Exchange and Registration" below.

Paying Agent/Registrar

The initial Paying Agent/Registrar is BOKF, N.A., Austin, 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.

In the event the Book-Entry-Only System should be discontinued, interest on the Bonds will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest will be paid (i) by check sent by United States mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Bonds will be paid to the registered owner at the stated maturity or earlier redemption, as applicable, upon presentation to the designated payment/transfer office of the Paying Agent/Registrar. If the date for the payment of the principal or interest on the Bonds is a Saturday, Sunday, a legal holiday or a day when banking institutions are authorized to close, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due. So long as Cede & Co. is the registered owner of the Bonds, payments of principal of and interest on the Bonds will be made as described in "THE BONDS – Book-Entry-Only System," above.

Transfer, Exchange and Registration

In the event the Book-Entry-Only System should be discontinued, 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 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "THE BONDS – Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the District nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Record Date for Interest Payment

Interest on the Bonds will be paid to the registered owner appearing on the registration and transfer books of the Paying Agent/Registrar at the close of business on the "Record Date" (the last day of the month next preceding each interest payment date) and shall be paid by the Paying Agent/Registrar (i) by check sent by United States mail, first class postage prepaid, to the address of the Holder recorded in the registration and transfer books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. If the date for the payment of the principal or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the principal payment office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

In the event of non-payment of interest on a scheduled payment date and for thirty (30) days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar when funds for the payment of such interest have been received. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date" which shall be 15 days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner of a Bond appearing in the registration and transfer books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing such notice.

Bondholders' Remedies

The Order does not provide for the appointment of a trustee to represent the interests of the registered owners 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 registered owners 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 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.

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

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

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

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

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

equity and fixed income holdings as of August 31 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund's securities lending program. Such list, when filed, is incorporated herein and made a part hereof for all purposes.

The Total Return Constitutional Amendment

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

In determining the Distribution Rate, the SBOE has adopted the goal of maximizing the amount distributed from the Fund in a manner designed to preserve "intergenerational equity." Intergenerational equity is the maintenance of 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.

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

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

With respect to the management of the Fund's financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE generally reviews the asset allocations during its summer meeting in even numbered years. The first asset allocation policy adopted by the SBOE following the Total Return Constitutional Amendment was in February 2004, and the policy was reviewed and modified or reaffirmed in the summers of 2006, 2008, 2010, 2012 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. Subsequent asset allocation policies have continued to diversify Fund assets, and have added an alternative asset allocation to the fixed income and equity allocations. The alternative asset allocation category includes real estate, real return, absolute return and private equity components. Alternative asset classes diversify the SBOE-managed assets and are not as correlated to traditional asset classes, which is intended to increase investment returns over the long run while reducing risk and return volatility of the

portfolio. The most recent asset allocation, from 2014, consists of (i) an equity allocation of 40% (with large cap equities targeted at 16%, small/mid cap equities at 5% and emerging and international large cap equities 19%), (ii) a fixed income allocation of 19% (including a 7% allocation for emerging market debt) and (iii) an alternative asset allocation of 41% (which includes a private equity allocation of 10% and a real estate allocation of 8%).

For a variety of reasons, each change in asset allocation for the Fund, including the 2014 modifications, have been implemented in phases, and that approach is likely to be carried forward when and if the asset allocation policy is again modified. At August 31, 2015, the Fund's financial assets portfolio was invested as follows: 44.96% in public market equity investments; 14.43% in fixed income investments; 10.80% in absolute return assets; 5.11% in private equity assets; 6.30% in real estate assets; 6.44% in risk parity assets; 5.55% in real return assets; 6.04% in emerging market debt; and 0.37% in cash.

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. The Attorney General has advised the SBOE in Op. Tex. Att'y Gen. No. GA-0998 (2013) ("GA-0998"), that the PSF is not subject to requirements of certain State competitive bidding laws with respect to the selection of investments. In GA-0998, the Attorney General also advised that the SBOE generally must use competitive bidding for the selection of investment managers and other third party providers of investment services, such as record keeping and insurance, but excluding certain professional services, such as accounting services, as State law prohibits the use of competitive bidding for specified professional services. GA-0998 provides guidance to the SBOE in connection with the direct management of alternative investments through investment vehicles to be created by the SBOE, in lieu of contracting with external managers for such services, as has been the recent practice of the PSF. The PSF staff and the Fund's investment advisor are tasked with advising the SBOE with respect to the implementation of the Fund's asset allocation policy, including the timing and manner of the selection of any external managers and other consultants.

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

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

Management and Administration of the Fund

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

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

management costs deducted from the assets of a mutual fund or other investment company in which PSF funds have been invested.

Texas law assigns control of the Fund's land and mineral rights to the three-member SLB, which consists of the elected Commissioner of the 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 or the IRS Limit. On May 21, 2010, the SBOE modified the regulations that govern the School District Bond Guarantee Program (the "SDBGP Rules"), and increased the State Law Capacity to an amount equal to three times the cost value of the PSF. Such modified regulations, including the revised capacity rule, became effective on July 1, 2010. The SDBGP Rules provide that the Commissioner may reduce the multiplier to maintain the AAA credit rating of the Guarantee Program, but provide that any changes to the multiplier made by the Commissioner are to be ratified or rejected by the SBOE at the next meeting following the change. See "Valuation of the PSF and Guaranteed Bonds," below.

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

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

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

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

The School District Bond Guarantee Program

The School District Bond Guarantee Program requires an application be made by a school district to the Commissioner for a guarantee of its bonds. If the conditions for the School District Bond Guarantee Program are satisfied, the guarantee becomes

effective upon approval of the bonds by the Attorney General and remains in effect until the guaranteed bonds are paid or defeased, by a refunding or otherwise.

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

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

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

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

Charter District Bond Guarantee Program

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

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

The capacity of the Charter District Bond Guarantee Program is limited to the amount that equals the result of the percentage of the number of students enrolled in open-enrollment charter schools in the State compared to the total number of students enrolled in all public schools in the State multiplied by the available capacity of the Guarantee Program. Available capacity is defined as the maximum amount under SBOE rules, less Capacity Reserve and minus existing guarantees. The CDBGP Rules authorize the

Commissioner to determine that ratio based on information provided to the TEA by school districts and open-enrollment charter schools, and the calculation will be made annually, on or about March 1 of each year. As of May 2015 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 4.36%. As of December, 2015, there were 188 active open-enrollment charter schools in the State, and there were 654 charter school campuses operating under such charters (though as of such date, 19 of such campuses' operations have not begun serving students for various reasons). Section 12.101, Texas Education Code, as amended by the Legislature in 2013, provides that the Commissioner may grant not more than 215 charters through the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters permitted by the statute. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

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

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

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

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

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

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

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.

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Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

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

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

[2] At November 30, 2015, the PSF had a book value of $29,010,996,323 and a market value of $36,372,415,414 (November 30, 2015 values are based on unaudited data).

Permanent School Fund Guaranteed Bonds

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

[1] Represents original principal amount; does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount shown excludes bonds that have been refunded and released from the Guarantee Program. The TEA does not maintain records of the accreted value of capital appreciation bonds that are guaranteed under the Guarantee Program.

[2] As of August 31, 2015, the TEA expected that the principal and interest to be paid by school districts over the remaining life of the bonds guaranteed by the Guarantee Program is $103,722,905,410, of which $39,767,456,363 represents interest to be paid. At August 31, 2015, there were $63,955,449,047 of bonds guaranteed under the Guarantee Program and the capacity of the Guarantee Program was $87,256,574,142 based on the three times cost value multiplier approved by the SBOE on May 21, 2010. Such capacity figures include the Reserve Capacity for the Guarantee Program. As a result of the SBOE actions in November 2015 described above, the State Law Capacity will increase effective February 1, 2016 from a cost value multiplier of 3 times to 3.25 times. Based on the cost value of the Fund at August 31, 2015, had such increase been effective at that date, it would have produced a State Law Capacity of $94,527,955,321.

Permanent School Fund Guaranteed Bonds by Category[1]

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

[1] Represents original principal amount; does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount shown excludes bonds that have been refunded and released from the Guarantee Program.

[2] Fiscal 2014 was the first year of operation of the Charter District Bond Guarantee Program. At November 30, 2015 (based on unaudited data), there were $64,436,407,282 of bonds guaranteed under the Guarantee Program, representing 3,144 school district issues, aggregating $63,607,587,282 in principal amount and 29 charter district issues, aggregating $828,820,000 in principal amount. At November 30, 2015, the capacity of the Charter District Bond Guarantee Program was $795,479,046 (based on unaudited data).

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2015

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

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

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

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

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

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

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

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

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

2011 Constitutional Amendment

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

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

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

The Distribution Rates for the Fund were set at 3.5%, 2.5%, 4.2%, 3.3% and 3.5% for each of two year periods 2008-2009, 2010-2011, 2012-2013, 2014-2015 and 2016-2017, respectively. In September 2015, in accordance with the 2016-2017 Distribution

Rate determination, the SBOE approved the distribution of $1.056 billion to the ASF in fiscal year 2016, which represents a per student distribution of $217.51, based on 2015 final student average daily attendance of 4,854,882.

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

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

Other Events and Disclosures

The State Investment Ethics Code governs the ethics and disclosure requirements for financial advisors and other service providers who advise certain State governmental entities, including the PSF. In accordance with the provisions of the State Investment Ethics Code, the SBOE periodically modifies its code of ethics, which occurred most recently in 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/ch033a.html#33.5.

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

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

The SBOE is a named defendant in litigation described in the Official Statement pertaining to the Bonds 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 case was filed in State District Court, which has issued a ruling, and that ruling has been appealed to the State Supreme Court. 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/Texas_Permanent_School_Fund/Texas_Permanent_School_Fund_Disclosure_Statement_-_Bond_Guarantee_ Program/. The most recent amendment to the TEA Rule was adopted by the SBOE on November 19, 2010, and is summarized below. Through the adoption of the TEA Rule and its commitment to guarantee bonds, the SBOE has made the following agreement for the benefit of the issuers, holders and beneficial owners of guaranteed bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an "obligated person," within the meaning of Rule 15c2-12, with respect to guaranteed bonds. Nothing in the TEA Rule obligates the TEA to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the TEA under the TEA Rule pertain solely to the Guarantee Program. The issuer or an "obligated person" of the guaranteed bonds has assumed the applicable obligation under Rule 15c-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such undertakings. Under the TEA agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

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

Annual Reports

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

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

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

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

Material Event Notices

The TEA will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal

securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA will provide timely notice of any failure by the TEA to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information

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

Limitations and Amendments

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

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

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

On seven occasions in the last thirty years, the Texas Supreme Court (the "Court") has issued decisions assessing the constitutionality of the Texas public school finance system (the "Finance System"). The litigation has primarily focused on whether the Finance System, as amended by the Texas Legislature (the "Legislature") from time to time (i) met the requirements of article VII, section 1 of the Texas Constitution, which requires the Legislature to "establish and make suitable provision for the support and maintenance of an efficient system of public free schools," or (ii) imposed a statewide ad valorem tax in violation of article VIII, section 1-e of the Texas Constitution because the statutory limit on property taxes levied by school districts for maintenance and operation purposes had allegedly denied school districts meaningful discretion in setting their tax rates. In response to the Court's previous decisions, the Legislature enacted multiple laws that made substantive changes in the way the Finance System is funded in efforts to address the prior decisions declaring the Finance System unconstitutional.

On May 13, 2016, the Court issued its opinion in the most recent school finance litigation, *Morath, et.al v. The Texas Taxpayer and Student Fairness Coalition, et al.*, No. 14-0776 (Tex. May 13, 2016) ("*Morath*"). The plaintiffs and intervenors in the case had alleged that the Finance System, as modified by the Legislature in part in response to prior decisions of the Court, violated article VII, section 1 and article VIII, section 1-e of the Texas Constitution. In its opinion, the Court held that "[d]espite the imperfections of the current school funding regime, it meets minimum constitutional requirements." The Court also noted that:

> Lawmakers decide if laws pass, and judges decide if those laws pass muster. But our lenient standard of review in this policy-laden area counsels modesty. The judicial role is not to second-guess whether our system is optimal, but whether it is constitutional. Our Byzantine school funding "system" is undeniably imperfect, with immense room for improvement. But it satisfies minimum constitutional requirements.

Possible Effects of Changes in Law on District Bonds

The Court's decision in *Morath* upheld the constitutionality of the Finance System but noted that the Financing System was "undeniably imperfect." While not compelled by the *Morath* decision to reform the Finance System, the Legislature could enact future changes to the Finance System. Any such changes could benefit or be a detriment to the District. If the Legislature enacts future changes to, or fails adequately to fund the Finance System, or if changes in circumstances otherwise provide grounds for a challenge, the Finance System could be challenged again in the future. In its 1995 opinion in *Edgewood Independent School District v. Meno*, 917 S.W.2d 717 (Tex. 1995), the Court stated that any future determination of unconstitutionality "would not, however, affect the district's authority to levy the taxes necessary to retire previously issued bonds, but would instead require the Legislature to cure the system's unconstitutionality in a way that is consistent with the Contract Clauses of the U.S. and Texas Constitutions" (collectively, the "Contract Clauses"), which prohibit the enactment of laws that impair prior obligations of contracts.

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview

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

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

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

Local Funding for School Districts

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

State Funding for School Districts

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

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

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

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

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

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

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

In addition to the operations funding components of the Foundation School Program discussed above, the Foundation School Program provides a facilities funding component consisting of the Instructional Facilities Allotment (IFA) program and the Existing Debt Allotment (EDA) program. These programs assist school districts in funding facilities by, generally, equalizing a district's I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the "IFA Guaranteed Yield") in State and local funds for each cent of tax effort to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The guaranteed yield per cent of local tax effort per student in ADA has been $35 since this program first began in 1997. To receive an IFA award, a school district must apply to the

Commissioner in accordance with rules adopted by the Commissioner before issuing the bonds to be paid with IFA state assistance. The total amount of debt service assistance over a biennium for which a district may be awarded is limited to the lesser of (1) the actual debt service payments made by the district in the biennium in which the bonds are issued; or (2) the greater of (a) $100,000 or (b) $250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. For the fiscal years 2011-12 through 2015-16, no funds were appropriated for new IFA awards by the Texas Legislature, although all prior awards were funded throughout such periods. The 84th Texas Legislature appropriated funds in the amount of $55,500,000 for new IFA awards to be made during the 2016-17 fiscal year only.

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

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

2006 Legislation

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

2015 Legislation

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

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

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

Wealth Transfer Provisions

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

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

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

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

The School Finance System as Applied to the District

The District's wealth per student for the 2015-16 school year is greater than the equalized wealth value, and the District has received preliminary notice from the TEA that the District's wealth per student for the 2016-2017 school year will also be greater than the equalized wealth level. Accordingly, the District has been required to exercise one of the permitted wealth equalization options and has signed an agreement for the purchase of attendance credits (netting Foundation School Program funding under Chapter 42, Texas Education Code).

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. If the District were to detach property voluntarily, a portion of its outstanding debt (including the Bonds) could be assumed by the district to which the property is annexed, in which case timely payment of the Bonds could become dependent in part on the financial performance of the annexing district.

TAX INFORMATION

Ad Valorem Tax Law

The appraisal of property within the District is the responsibility of the Lamar Central Appraisal District and the Delta County Appraisal District (collectively, the "Appraisal District"). Excluding agricultural and open space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Property Tax Code to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law further limits the appraised value of a residence homestead for a tax year to an amount that would not exceed either the lesser of (1) the property's market value for the most recent tax year in which it was appraised or (2) 110% of the appraised value of the residence homestead for the preceding tax year. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to appraise the value of property within the Appraisal District at least every three years. The District may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the District by petition filed with the Appraisal Review Board.

Reference is made to the Texas Property Tax Code for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Article VIII of the State Constitution ("Article VIII") and State law provide for certain exemptions from property taxes, the valuation of agricultural and open space lands at productivity value, and the exemption of certain personal property from ad valorem taxation.

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

$25,000; and an additional

$10,000 for those 65 years of age or older, or the disabled. A person over 65 and disabled may receive only one $10,000 exemption, and only one such exemption may be received per family, per residence homestead. State law also mandates a freeze on taxes paid on residence homesteads of persons 65 years of age or older which receive the $10,000 exemption. Such residence homesteads shall be appraised and taxes calculated as on any other property, but taxes shall never exceed the amount imposed in the first year in which the property received the $10,000 exemption. The freeze on ad valorem taxes on the homesteads of persons 65 years of age or older for general elementary and secondary public school purposes is also transferable to a different residence homestead. If improvements (other than maintenance or repairs) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as (i) the taxpayer died in a year in which he qualified for the exemption, (ii) the surviving spouse was at least 55 years of age when the taxpayer died and (iii) the property was the residence homestead of the surviving spouse when the taxpayer died and the property remains the residence homestead of the surviving spouse. Pursuant to a constitutional amendment approved by the voters on May 12, 2007, legislation was enacted to reduce the school property tax limitation imposed by the freeze on taxes paid on residence homesteads of persons 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 – Overview" herein). The school property tax limitation provided by the constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years.

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

(i) An exemption of not less than $3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision;

(ii) An exemption of up to 20% of the market value of residence homesteads; minimum exemption $5,000.

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from $5,000 to a maximum of $12,000. Disabled

veterans (and their surviving spouses) who receives 100% disability compensation from the United States Department of Veterans Affairs or its successor due to a service-connected disability and a rating of 100% disabled or of individual un-employability are entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. In addition, a partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated at no cost by a charitable organization. Finally, the surviving spouse of a member of the armed forces who was killed in action is entitled to an exemption of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption may be transferred to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

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

Tangible personal property not producing income, except for manufactured homes, is exempt from ad valorem taxation. In addition, an individual is entitled to an exemption from taxation of one passenger car or light truck used in the course of the individual's occupation or profession if it is also used for personal activities that do not produce income.

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

Article VIII, section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by 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 receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property. See "TAX INFORMATION – Table 1 – Valuation, Exemptions and Tax Supported Debt" for a schedule of exemptions allowed by the District.

A city or county may create a tax increment financing district ("TIF") within the city or county with defined boundaries and establish a base value of taxable property in the TIF at the time of its creation. Overlapping taxing units, including school districts, may agree with the city or county to contribute all or part of future ad valorem taxes levied and collected against the "incremental value" (taxable value in excess of the base value) of taxable real property in the TIF to pay or finance the costs of certain public improvements in the TIF, and such taxes levied and collected for and on behalf of the TIF are not available for general use by such contributing taxing units. Prior to September 1, 2001, school districts were allowed to enter into tax abatement agreements to encourage economic development. Under such agreements, a property owner agrees to construct certain improvements on its property. The school district in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. School districts have been prohibited from entering into new tax abatement agreements since September 1, 2001. Notwithstanding the foregoing, in 2001 the Legislature enacted legislation known as the Texas Economic Development Act, which provides incentives for school districts to grant limitations on appraised property values and provide ad valorem tax credits to certain corporations and limited liability companies to encourage economic development within the district. Generally, during the last eight years of the ten-year term of a tax limitation agreement, the school district may only levy and collect ad valorem taxes for maintenance and operation purposes on the agreed-to limited appraised property value. The taxpayer is entitled to a tax credit from the school district for the amount of taxes imposed during the first two years of the tax limitation agreement on the appraised value of the property above the agreed-to limited value. Additional State funding is provided to a school district for each year of such tax limitation in the amount of the tax credit provided to the taxpayer. During the first two years of a tax limitation agreement, the school district may not adopt a tax rate that exceeds the district's rollback tax rate. See "TAX INFORMATION – Public Hearing and Rollback Tax Rate." 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 tax increment financing zone 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 zone of its intention to create the zone and the zone is created and has 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.

Tax Rate Limitations

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the succeeding paragraphs. The maximum voted M&O tax rate for the District is $1.50 per $100 of assessed valuation as approved by the voters at an election held on July 31, 1965, pursuant to Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended ("Article 2784e-1").

Article 2784e-1 limits the District's annual M&O tax rate based upon a comparison between the District's outstanding bonded indebtedness and the District's taxable assessed value per $100 of assessed valuation. Article 2784e-1 provides for a reduction of $0.10 for each one percent (1%) or major fraction thereof increase in bonded indebtedness beyond seven percent (7%) of assessed valuation of property in the District. This limitation is capped when the District's bonded indebtedness is ten percent (10%) (or greater) of the District's assessed valuation which would result in an annual M&O tax rate not to exceed $1.20. Lastly, the Texas Attorney General in reviewing the District's transcript of proceedings will allow the District to reduce the amount of its outstanding bonded indebtedness by the amount of funds (on a percentage basis) that the District receives in State assistance for the repayment of this bonded indebtedness (for example, if the District anticipates that it will pay 75% of its bonded indebtedness from State assistance, for the purposes of Article 2784e-1, the Texas Attorney General will assume that only 25% of the District's bonded indebtedness is outstanding and payable from local ad valorem taxes). The bonded indebtedness of the District after the issuance of the Bonds will be approximately 3.16% of the District's 2016 taxable assessed valuation of property. See "TAX INFORMATION – Table 1 Valuation, Exemptions and Tax Supported Debt" herein.

The maximum tax rate per $100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) $1.50, or such lower rate as described in the preceding paragraph, and (B) the sum of (1) the rate of $0.17, and (2) the product of the "State Compression Percentage" multiplied by $1.50. The State Compression Percentage has been set, and will remain, at 66.67% for fiscal years 2015-16. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For a more detailed description of the State Compression Percentage, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Funding for School Districts". Furthermore, a school district cannot annually increase its tax rate in excess of the district's "rollback tax rate" without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate. See "TAX INFORMATION – Public Hearing and Rollback Tax Rate."

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

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

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

Public Hearing And Rollback Tax Rate

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

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

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

Property Assessment and Tax Payment

Property within the District is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first installment due on February 1 of each year and the final installment due on August 1.

Penalties and Interest

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

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

(a) Includes additional penalty of 20% assessed after July 1 in order to defray attorney collection expenses. For delinquent taxes related to tax years 2003 and prior, an additional penalty of 15% was imposed.

(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. For delinquent taxes related to tax years 2003 and prior, an additional penalty of 15% was imposed.

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

District Application of Tax Code

The District grants a state mandated exemption to the market value of the residence homestead of persons 65 of age or older or disabled of $10,000. They do not grant a $10,000 local option exemption.

The District has not granted an additional exemption on the market value of residence homesteads.

The District grants a state mandated $25,000 general homestead exemption.

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

The District does grant a freeport exemption.

The District does not tax nonbusiness personal property.

On November 12, 2007, the Board officially determined not to grant a "goods-in-transit" exemption.

In accordance with Section 11.131 of the Tax Code, the District grants a complete exemption on the residential homesteads of veterans judged to be 100% disabled or unemployable by the U.S. Department of Veteran Affairs.

Table 1 - Valuation, Exemptions and Tax Supported Debt

District Direct Debt

2016 Certified Taxable Assessed Valuation[(1)] (100% of Estimated Market Value)	$954,869,804
2015 Certified Taxable Assessed Valuation[(1)] (100% of Estimated Market Value)	$811,454,434
Outstanding Debt	6,185,000
Less: The Refunded Bonds	5,265,000
Plus: The Bonds	29,245,000
Total Direct Debt	$30,165,000
As a % of 2016 Certified Taxable Assessed Valuation	3.16%
As a % of 2015 Certified Taxable Assessed Valuation	3.72%

[(1)] Provided by Lamar County Appraisal District and Delta County Appraisal District on July 25, 2016.

Table 2 - Taxable Assessed Valuations By Category

	Tax Year 2015	**Tax Year 2014**	**Tax Year 2013**	**Tax Year 2012**	**Tax Year 2011**
Real Property	$ 684,982,160	$ 679,547,840	$ 660,636,714	$ 664,776,796	$ 512,274,230
Non Real Property	449,911,144	408,196,954	458,232,284	377,608,404	389,023,504
Gross Value	$1,134,893,304	$1,087,744,794	$1,118,868,998	$1,042,385,200	$ 901,297,734
Less Exemptions	323,438,870	301,184,672	281,930,144	279,867,238	127,704,615
Net Taxable Value	$ 811,454,434	$ 786,560,122	$ 836,938,854	$ 762,517,962	$ 773,593,119

Table 3 - Valuation And Tax Supported Debt History

Fiscal Year Ended 8/31	Estimated Population[(1)]	Taxable Assessed Valuation[(2)(3)]	Taxable Assessed Valuation Per Capita	Tax Supported Debt Outstanding	Ratio of Tax Supported Debt to Assessed Valuation	Tax Supported Debt Per Capita
2012	3,534	$ 773,593,119	$218,900	$9,590,000	1.24%	$2,714
2013	3,548	762,517,962	214,914	8,740,000	1.15%	2,463
2014	3,856	836,938,854	217,048	7,865,000	0.94%	2,040
2015	3,799	786,560,122	207,043	6,960,000	0.88%	1,832
2016	3,987	811,454,434	203,525	30,165,000[(4)]	3.72%[(4)]	7,566[(4)]

[(1)] Source: The District and Municipal Advisory Council of Texas.
[(2)] As reported by Lamar County Appraisal District and Delta County Appraisal District. Values may differ from those reported in other sources because values are subject to change during ensuing years.
[(3)] The certified taxable assessed valuation for the fiscal year ending August 31, 2017 (assessed as of January 1, 2016) is $954,869,804 as reported by the Lamar County Appraisal District and Delta County Appraisal District on July 25, 2016.
[(4)] Includes the Bonds. Excludes the Refunded Bonds.

Table 4 - Tax Rate, Levy And Collection History

Fiscal Year Ended 8/31	Tax Year	Taxable Assessed Valuation[1][2]	Tax Rate	Tax Levy[3]	Percent Collected	
					Current	Total
2012	2011	$773,593,119	$1.2000	$8,886,596	99.47%	99.74%
2013	2012	762,517,962	1.2000	9,094,348	99.36%	99.68%
2014	2013	836,938,854	1.1850	9,864,922	98.54%	99.61%
2015	2014	786,560,122	1.1850	9,258,083	99.22%	99.50%
2016	2015	811,454,434	1.1868	9,705,084	97.55%	97.55%

(1) Net of exemptions. Assessed valuations do not include adjustments in supplemental rolls made after the end of each fiscal year.
(2) The certified taxable assessed valuation for the fiscal year ending August 31, 2017 (assessed as of January 1, 2016) is $954,869,804 as reported by the Lamar County Appraisal District and Delta County Appraisal District on July 25, 2016.
(3) Excludes penalties and interest.

Table 5 - Ten Largest Taxpayers

Taxpayers	Type of Property	2015 Net Taxable Assessed Valuations[1]	% of Total 2015 Assessed Valuation
1. Lamar Power Partners LP	Utility	$ 211,940,470	26.12%
2. Kimberly-Clark Corp	Industry (paper products)	127,505,990	15.71%
3. Gulf Crossing Pipeline Co	Oil & Gas	68,348,256	8.42%
4. Midcontinent Express	Oil & Gas	64,621,141	7.96%
5. Transcanada Keystone Pipeline	Pipeline	30,922,310	3.81%
6. Daisy Farms	Farming	23,823,580	2.94%
7. Kimberly-Clark Corp	Industry (paper products)	21,119,814	2.60%
8. Oncor Electric Delivery Co LLC	Utility	19,364,090	2.39%
9. Daisy Farms LLC	Farming	18,378,410	2.26%
10. Natural Gas Pipeline Co. of America	Pipeline	12,376,990	1.53%
Total		$ 598,401,051	73.74%

(1) The taxable assessed valuation in the District is concentrated within the top ten taxpayers and within the utility, paper, and oil and gas industries. Adverse developments in economic conditions, especially in the utility and oil and gas industries, could adversely impact the taxable assessed valuation in the District, resulting in less local tax revenue being available for District purposes, including the payment of debt service, without an adjustment in the tax rate.

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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
Delta Co.	05/31/2016	-None-	5.19%	$ 0
Lamar Co.	05/31/2016	$ 3,414,264[(a)]	23.53%	803,376
Paris, City of	05/31/2016	44,415,000[(a)]	19.82%	8,803,053
Estimated (Net) Overlapping Debt				$ 9,606,429
The District[(b)]		30,165,000	100.00%	30,165,000
Total Direct & Estimated Overlapping Debt				$39,771,429
As a % of 2016 Certified Taxable Assessed Valuation				4.17%
As a % of 2015 Certified Taxable Assessed Valuation				4.90%

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

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DEBT INFORMATION

Table 7 –Tax Supported Debt Service Requirements

Period Ending 8/31	Outstanding Debt Service Requirements	Less: Debt Service on Refunded Bonds	Debt Service Requirements U/L Tax School Building & Refunding Bonds, Series 2016			Total Debt Service Requirements
			Principal	Interest	Total	
2016	$ 1,189,025	$ -	$ -	$ -	$ -	$ 1,189,025
2017	1,006,200	210,600	-	1,116,986	1,116,986	1,912,586
2018	1,005,600	1,005,600	740,000	1,148,900	1,888,900	1,888,900
2019	1,003,800	1,003,800	760,000	1,126,700	1,886,700	1,886,700
2020	1,005,800	1,005,800	795,000	1,096,300	1,891,300	1,891,300
2021	1,001,400	1,001,400	820,000	1,064,500	1,884,500	1,884,500
2022	1,005,800	1,005,800	860,000	1,031,700	1,891,700	1,891,700
2023	1,003,600	1,003,600	890,000	997,300	1,887,300	1,887,300
2024	-	-	930,000	952,800	1,882,800	1,882,800
2025	-	-	975,000	906,300	1,881,300	1,881,300
2026	-	-	1,025,000	857,550	1,882,550	1,882,550
2027	-	-	1,075,000	806,300	1,881,300	1,881,300
2028	-	-	1,130,000	752,550	1,882,550	1,882,550
2029	-	-	1,175,000	707,350	1,882,350	1,882,350
2030	-	-	1,235,000	648,600	1,883,600	1,883,600
2031	-	-	1,270,000	611,550	1,881,550	1,881,550
2032	-	-	1,310,000	573,450	1,883,450	1,883,450
2033	-	-	1,350,000	534,150	1,884,150	1,884,150
2034	-	-	1,400,000	480,150	1,880,150	1,880,150
2035	-	-	1,460,000	424,150	1,884,150	1,884,150
2036	-	-	1,515,000	365,750	1,880,750	1,880,750
2037	-	-	1,580,000	305,150	1,885,150	1,885,150
2038	-	-	1,640,000	241,950	1,881,950	1,881,950
2039	-	-	1,705,000	176,350	1,881,350	1,881,350
2040	-	-	1,775,000	108,150	1,883,150	1,883,150
2041	-	-	1,830,000	54,900	1,884,900	1,884,900
Totals	**$8,221,225**	**$6,236,600**	**$29,245,000**	**$17,089,536**	**$46,334,536**	**$47,130,136**

Average Annual Debt Service Requirements $1,885,205
Maximum Annual Debt Service Requirement $1,912,586

Table 8 - Interest and Sinking Fund Budget Projection

Estimated Tax Supported Debt Service Requirements for Fiscal Year Ended August 31, 2016		$1,189,025
Interest and Sinking Fund Local Revenue	$1,191,053	
Debt Subsidy from Texas Education Agency	$ 0	
Transfers In/(Out)	$ 0	
Net Increase/(Decrease) in Fund Balance		$ 2,028
Interest and Sinking Fund Balance, 9-1-15 (Beginning)		$ 4,719
Interest and Sinking Fund Balance, 8-31-16 (Ending)		$ 6,747

Source: The District.

Table 9 - Authorized but Unissued Unlimited Tax Bonds

Purpose	Date Authorized	Amount Authorized	Issued to Date	Amount This Issue	Unissued Balance
School Building	05/07/2016	$18,475,000	$0	$18,475,000	$0
Auditorium	05/07/2016	$ 4,600,000	$0	$ 4,600,000	$0
Multi-Purpose Center	05/07/2016	$ 3,865,000	$0	$ 3,865,000	$0

Anticipated Issuance Of Unlimited Tax Debt

The District does not anticipate issuing additional unlimited tax bonds within the next 12 months.

Table 10 - Other Obligations

The District had no other obligations outstanding as of July 1, 2016.

Pension Fund

Pension funds for employees of Texas school districts, and any employee in public education in Texas, are administered by the Teacher Retirement System of Texas (the "System"). The individual employees contribute a fixed amount of their salary to the System, currently 6.4%, and the State of Texas contributes funds to the System based on statutory required minimum salary for certified personnel, except any District personnel paid by federally funded programs. (For more detailed information concerning the retirement plan, see APPENDIX A, THE DISTRICT'S ANNUAL FINANCIAL REPORT, NOTE 10.) In 2015, the District adopted new accounting guidance, Government Accounting Standards (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, and GASB No. 71, Pension Transition for contributions made Subsequent to the Measurement Date— and amendment of GASB Statement No. 68. The implementation of GASB No. 68 resulted in a prior period adjustment of the beginning net position in the amount of $611,305. See APPENDIX A, THE DISTRICT'S ANNUAL FINANCIAL REPORT, NOTE M.

In addition to its participation in the System, the District contributes to the Texas Public School Retired Employees Group Insurance Program (the "TRS-Care Retired Plan"), a cost-sharing multiple-employer defined benefit post-employment health care plan. The TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. For more detailed information concerning the District's funding policy and contributions in connection with the TRS-Care Retired Plan, see APPENDIX A, THE DISTRICT'S ANNUAL FINANCIAL REPORT, NOTE I.1.

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

FINANCIAL INFORMATION

Table 11 - Schedule of General Fund Revenues and Expenditure History

	For Fiscal Year Ended August 31st				
	2015	**2014**	**2013**	**2012**	**2011**
REVENUES:					
Total Local and Intermediate Sources	$ 8,085,662	$ 8,753,083	$ 7,933,620	$ 7,885,190	$ 8,166,078
State Program Revenues	1,013,977	647,908	771,589	1,356,249	631,762
Federal Program Revenues	-	-	-	-	-
Total Revenues	$ 9,099,639	$ 9,400,991	$ 8,705,209	$ 9,241,439	$ 8,797,840
EXPENDITURES:					
Current:					
Instruction	$ 4,143,655	$ 3,999,399	$ 3,990,012	$ 3,486,212	$ 4,001,304
Instructional Resources & Media Services	110,411	109,460	100,607	104,252	115,898
Curriculum & Staff Development	66,915	101,721	75,588	63,809	75,349
School Leadership	505,454	480,305	459,189	516,022	585,371
Guidance, Counseling & Evaluation Services	206,256	204,338	193,047	181,374	188,052
Social Work Services	2,600	2,500	4,833	21,841	22,118
Health Services	56,323	53,881	54,897	53,679	53,284
Student Transportation	384,882	301,889	330,145	272,049	265,283
Food Service	18,978	10,811	9,771	8,812	11,009
Cocurricular/Extracurricular Activities	414,063	445,008	457,653	403,910	424,229
General Administration	357,675	397,779	508,778	435,010	479,583
Plant Maintenance and Operations	715,827	826,647	758,429	745,754	729,168
Security and Monitoring Services	14,550	3,508	3,873	22,308	23,632
Data Processing Services	62,621	93,284	92,314	91,816	93,706
Principal on Long Term Debt	-	-	-	-	-
Interest on Long Term Debt	-	-	-	-	-
Bond Issuance Cost and Fees	-	-	-	-	-
Capital Outlay	28,649	418,910	272,686	14,216	473,120
Contracted Instructional Services:					
Between Public Schools	1,656,496	1,312,412	1,636,325	2,173,736	1,092,272
Payments to Shared Service Arrangements	377,986	348,374	385,715	370,911	342,094
Other Intergovernmental Charges	142,146	127,575	121,652	116,140	115,933
Total Expenditures	$ 9,265,487	$ 9,237,801	$ 9,455,504	$ 9,081,851	$ 9,091,405
Excess (Deficiency) of Revenues Over (Under) Expenditures	(165,848)	163,190	(750,295)	159,588	(293,565)
Other Financing Sources and (Uses):					
Transfers In	-	-	-	-	215,010
Transfers Out	(20,965)	(45,782)	(70,771)	(34,618)	(274,710)
Total Other Financing Sources and (Uses)	(20,965)	(45,782)	(70,771)	(34,618)	(59,700)
SPECIAL ITEM:					
Special Item (Resource)	-	-	136,649	43,408	80,165
Special Item (Use)	-	-	-	(64,950)	(63,932)
Net Change in Fund Balances	(186,813)	117,408	(684,417)	103,428	(337,032)
Fund Balances – Beginning	4,292,040	4,174,631	4,859,048	4,755,620	5,092,652
Fund Balances - Ending	$ 4,105,227	$ 4,292,039	$ 4,174,631	$ 4,859,048	$ 4,755,620

Source: The District's audited financial statements.

Table 12 – General Operating Fund Comparative Balance Sheet

	Fiscal Year Ended August 31st				
	2015	**2014**	**2013**	**2012**	**2011**
ASSETS:					
Cash & Cash Equivalents	$ 3,927,895	$ 4,484,966	$ 4,733,854	$ 5,699,768	$ 6,724,268
Current Investments	9	9	9	9	9
Taxes Receivable, Net	381,166	230,525	246,736	183,791	167,011
Due from Other Governments	399,564	48,031	-	-	--
Due from Other Funds	-	-	-	-	69,378
Other Receivables	8,952	8,053	4,879	4,862	1,566
Inventories	3,327	2,874	4,581	3,601	5,528
Other Current Assets	-	-	460	-	5,099
Total Assets	$ 4,720,913	$ 4,774,458	$ 4,990,519	$ 5,892,031	$ 6,972,859
LIABILITIES:					
Current Liabilities:					
Accounts Payable	$ 17,837	$ 58,618	$ 13,566	$ 3,021	$ 18,509
Accrued Wages Payable	187,597	158,792	154,545	149,599	193,686
Due to Other Funds	-	-	-	-	--
Due to Other Governments	-	-	285,365	677,103	1,775,830
Accrued Expenditures	29,087	34,483	19,969	19,470	62,203
Unearned Revenue	-	-	342,443	183,790	167,011
Total Liabilities	$ 234,521	$ 251,893	815,888	$ 1,032,983	$ 2,217,239
DEFERRED INFLOWS OF RESOURCES:					
Unavailable Revenue – Property Tax	381,165	230,526	-	-	-
Total Deferred Inflows of Resources	381,165	230,526	-	-	-
FUND BALANCES:					
Nonspendable Fund Balances:					
Inventories	3,327	2,874	4,580	3,601	$ 5,528
Restricted Fund Balances:					
Retirement of Long-Term Debt	-	-	-	-	
Committed Fund Balances:					
Construction	720,000	1,083,300	1,460,000	1,970,000	1,935,000
Capital Expenditures for Equipment	28,000	147,000	76,000	30,000	303,000
Other Committed Fund Balance	-	-	-	-	--
Unassigned	3,353,900	3,058,865	2,634,051	2,855,447	--
Total Fund Balances	4,105,227	4,292,039	4,174,631	4,859,048	$ 4,755,620
Total Liabilities, Deferred Inflow of Resources and Fund Balances	$ 4,720,913	$ 4,774,458	$ 4,990,519	$ 5,892,031	$ 6,972,859

Source: The District's audited financial reports.

FINANCIAL POLICIES

Basis of Accounting. . . The District is a public education agency operating under the applicable laws and regulations of the State of Texas. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Government Accounting Standards Board ("GASB") and other authoritative sources identified in Statement on Auditing Standards No. 69 of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriated version of the Texas Education Agency's Financial Accountability System Resource Guide, issued by the Texas Education Agency, and the requirements of contracts and grants of agencies from which it receives funds.

In 2002, the District implemented GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments (GASB Statement No. 34). GASB Statement No. 34 established a new financial reporting model for state and local governments that includes the addition of management's discussion and analysis, government-wide financial statements, required supplementary information, and the elimination of the effects of internal service activities, and the use of account groups to the already required fund financial statements and notes.

The GASB determined that fund accounting has and will continue to be essential in helping governments to achieve fiscal accountability and should, therefore, be retained. The GASB also determined that government-wide financial statements are needed to allow the users of financial reports to assess a government's operational accountability. The new GASB model integrates fund-based financial reporting and government-wide financial reporting as complementary components of a single comprehensive financial reporting model. See APPENDIX A - "THE DISTRICT'S ANNUAL FINANCIAL REPORT", NOTE 1 for a summary of the District's significant accounting policies.

The District does not offer any post-employment retirement benefits and therefore the District has no liabilities for "Other Post-Employment Retirement Benefits" as defined in GASB statement No. 45.

General Fund Balance. . . The District's goal is to maintain surplus and unencumbered funds equal to at least two months of expenditures in the General Fund. However, pursuant to the current budget, the District anticipates a one month surplus.

Budgetary Procedures . . . Prior to June 19 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year that begins July 1. The operating budget includes proposed expenditures and the means of financing them.

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

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

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

INVESTMENTS

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

Legal Investments

Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits or, (ii) where (a) the funds are invested by the District through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list

adopted by the District as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (iii) 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; (iv) 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 (v) the District appoints the depository institution selected under (ii) above, an entity 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 issued for the account of the District; (8) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no- load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share; and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the 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 and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

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

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAm or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution.

The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Investment Policies

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

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

Additional Provisions

Under Texas law the District is additionally required to: (1) annually review its adopted policies and strategies; (2) 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 Education; (3) require the registered principal of firms seeking to sell securities to the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (5) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (6) 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 repurchase agreement; (7) restrict the investment in mutual funds in the aggregate to no more than 80% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

Table 13 - Current Investments

As of May 31, 2016, the District's investable funds amounted to $6,611,845.58. The following summary itemizes the District's investment portfolio by type of security:

	Percent	Book Value	Market Value
Cash and Cash Equivalents	100.00%	$6,611,845.58	$6,611,845.58
Total	100.00%	$6,611,845.58	$6,611,845.58

No funds of the District are invested in derivative securities, i.e., securities whose rate of return is determined by reference to another instrument, index, or commodity.

TAX MATTERS

In the opinion of Co-Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Co-Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Co-Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinions of Co-Bond Counsel is set forth in Appendix B hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain

or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Issuer has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Co-Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Co-Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Co-Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Co-Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Co-Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Co-Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. For example, the Obama Administration's budget proposals in recent years have proposed legislation that would limit the exclusion from gross income of interest on the Bonds to some extent for high-income individuals. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Co-Bond Counsel is expected to express no opinion.

The opinion of Co-Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Co-Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Co-Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Issuer, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Issuer has covenanted, however, to comply with the requirements of the Code.

Co-Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Co-Bond Counsel is not obligated to defend the Issuer or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Issuer and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Issuer legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the Issuer or the Beneficial Owners to incur significant expense.

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 an "obligated person" with respect to the Bonds, within

the meaning of United States Securities and Exchange Commission Rule 15c2-12 (the "Rule"). 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 (the "MSRB"). For a description of the continuing disclosure obligations of the TEA, see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM."

Annual Reports

The District will provide certain updated financial information and operating data annually to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables numbered 1 through 5 and 7 through 13 and in APPENDIX A. The District will update and provide this information within six months after the end of each fiscal year.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site (www.emma.msrb.org) or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by the Rule. The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements by the required time and 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 A or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation.

The District's current fiscal year end is August 31. Accordingly, it must provide updated information by the last day of February 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.

Event Notices

The District also will provide timely notices of any of the following events with respect to the Bonds (not in excess of ten (10) business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other materials events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) the appointment of a successor or additional trustee or change of name of the trustee, if material. Neither the Bonds nor the Bond Order make any provision for liquidity enhancement or require the funding of debt service reserves.

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

In addition, the District will provide timely notice of any failure by the District to provide annual financial information, data or financial statements in accordance with its agreement described above under "Annual Reports." The District will provide each notice described in this paragraph to the MSRB in an electronic format, as prescribed by the MSRB.

Availability Of Information

The District has agreed to provide the information only to the MSRB, accompanied by identifying information and in an electronic format, as prescribed by the MSRB. The MASB has prescribed that such information must be filed with the MSRB pursuant to its Electronic Municipal Market Access ("EMMA") System. The MSRB makes the information available to the public without charge and investors will be able to access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that has been provided except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the District to comply with its agreement. Nothing in this paragraph is intended or shall act to disclaim, waive or limit the District's duties under federal or state securities laws.

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if, but only if, (1) the agreement, as so amended, would have permitted underwriters to purchase or sell Bonds in the initial primary offering in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent or (b) any qualified person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. If the District amends its agreement, it has agreed to include with the financial information and operating data next provided, in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and operating data so provided.

Compliance with Prior Undertakings

For the past five years, the District has complied in all material respects with its continuing disclosure undertakings.

OTHER INFORMATION

Rating

Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, ("Moody's") has assigned its municipal rating of "Aaa" to the Bonds by virtue of the guarantee of the Permanent School Fund of the State of Texas on the Bonds. An explanation of the rating may be obtained from Moody's. Moody's generally rates bond issues guaranteed by the Permanent School Fund of Texas "Aaa". The presently outstanding tax supported debt of the District (without the PSF Guarantee) is rated "A1" by Moody's. The ratings reflect only the views of Moody's and the District makes no representation as to the appropriateness of the rating. There is no assurance that the ratings will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating company if in the judgment of the company circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.)

Litigation

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

At the time of the initial delivery of the Bonds, the District will provide the Underwriters with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Bonds or that affects the payment and security of the Bonds or in any other manner questioning the issuance, sale or delivery of said Bonds.

Registration and Qualification of Bonds for Sale

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

Legal Investments and Eligibility to Secure Public Funds in Texas

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

Legal Matters

The 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 Texas to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without limit as to rate or amount, upon all taxable property in the District, and the legal opinion of Powell & Leon LLP and Orrick, Herrington & Sutcliffe LLP, Co-Bond Counsel, a copy of the proposed form of which is attached as APPENDIX B.

Co-Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that, in its capacity as Co-Bond Counsel, such firms have reviewed the information under the captions and subcaptions "PLAN OF FINANCING" (except for the information under the subcaption "Sources and Uses of Proceeds"), "THE BONDS" (except for the information under the subcaptions "Permanent School Fund Guarantee," "Book-Entry-Only System" and "Bondholders' Remedies," as to which no opinion need be expressed) and "CONTINUING DISCLOSURE OF INFORMATION" (except for the information under the subcaption "Compliance with Prior Undertakings," as to which no opinion need be expressed), and such firms are of the opinion that the statements and information contained therein accurately reflect the provisions of the Order; further, Co-Bond Counsel have reviewed the statements and information contained in this Official Statement under the captions and subcaptions "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" (except for the information under the subcaption "The School Finance System as Applied to the District"), "TAX INFORMATION – Tax Rate Limitations" (first paragraph only except for the last two sentences thereof), "TAX MATTERS" and "OTHER INFORMATION – Registration and Qualification of Bonds For Sale," "– Legal Investments and Eligibility to Secure Public Funds in Texas" and "– Legal Matters," and Co-Bond Counsel is of the opinion that the statements and information contained therein are correct as to matters of law. The validity of the Bonds and certain other legal matters are subject to the approving opinions of Co-Bond Counsel to the District. A complete copy of the proposed form of opinions of Co-Bond Counsel is set forth in Appendix B hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. The legal fees to be paid to Co-Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by Bracewell LLP, Houston, Texas, counsel to the Underwriters. The legal fee of Bracewell LLP is contingent upon the sale and delivery of the Bonds.

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

Verification of Arithmetical and Mathematical Computations

The arithmetical accuracy of certain computations included in the schedules provided by Government Capital Securities Corporation on behalf of the District relating to (a) computation of forecasted receipts of principal and interest on the Federal Securities and the forecasted payments of principal and interest to redeem the Refunded Bonds and (b) computation of the yields of the Refunding Bonds and the restricted Federal Securities were verified by Grant Thornton, LLP, certified public accountants. Such computations were based solely on assumptions and information supplied by Government Capital Securities Corporation on behalf of the District. Grant Thornton, LLP has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based

and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

The report will be relied upon by Co-Bond Counsel in rendering its opinion with respect to the tax-exemption of interest on the Bonds and with respect to the defeasance of the Refunded Bonds.

Financial Advisor

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

The Financial Advisor 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.

Underwriting

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District, at a price of $32,694,894.20 (representing the par amount of the Bonds, plus a net original issue premium of $3,641,270.45, and less an underwriting discount of $191,376.25). The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

The Underwriters have reviewed the information in this Official Statement in accordance with and 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.

Forward-Looking Statements Disclaimer

The statements contained in this Official Statement, and in any other information provided by the District, that are not purely historical, are forward-looking statements, including statements regarding the District's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements. The District's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the District. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

Audited Financial Statements

Malnory, McNeal & Company, PC, the District's independent auditor, has not reviewed, commented on, or approved, and is not associated with, this Official Statement. The District's financial statements for the fiscal year ended August 31, 2015 is included in this Official Statement in APPENDIX A; however, Malnory, McNeal & Company, PC, has not performed any procedures on such financial statements since the date of such report, and has not performed any procedures on any other financial information of the District, including without limitation any of the information contained in this Official Statement.

Miscellaneous

The financial data and other information contained herein have been obtained from the District's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

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

/s/ Travis Ball
President, Board of Trustees
Chisum Independent School District

ATTEST:

/s/ Dashielle Floyd
Secretary, Board of Trustees
Chisum Independent School District

SCHEDULE I

SCHEDULE OF REFUNDED BONDS

Unlimited Tax School Building Bonds, Series 2008

Original Dated Date	Maturity (August 15)	Interest Rate	Amount	Call Date
July 15, 2008	2018	4.00%	$ 795,000	August 15, 2017
	2019	4.00%	825,000	August 15, 2017
	2020	4.00%	860,000	August 15, 2017
	2021	4.00%	890,000	August 15, 2017
	2022	4.00%	930,000	August 15, 2017
	2023	4.00%	965,000	August 15, 2017

APPENDIX A

THE DISTRICT'S ANNUAL FINANCIAL REPORT

For the Year Ended August 31, 2015

The information contained in this APPENDIX A consists of the Chisum Independent School District Annual Financial Report for the Year Ended August 31, 2015, and is not intended to be a complete statement of the District's financial condition.

Chisum
Independent School District

Annual Financial Report

For the Year Ended
August 31, 2015

Malnory, McNeal & Company, PC

Certified Public Accountants

CHISUM INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2015

Chisum Independent School District
Annual Financial Report
For The Year Ended August 31, 2015

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Introductory Section

CERTIFICATE OF BOARD

Chisum Independent School District	Lamar	139-905
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) _X_ approved _____ disapproved for the year ended August 31, 2015, at a meeting of the board of trustees of such school district on the _11th_ day of _January_, _2016_.

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)

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Financial Section

Malnory, McNeal & Company, PC

Certified Public Accountants

Mark W. Malnory, CPA
Johnna W. McNeal, CPA
Beverly Smith, CPA

Members of
American Institute of Certified Public Accountants
Texas Society of Certified Public Accountants
AICPA Governmental Audit Quality Center

Elizabeth Hamm, CPA
E. J. Musharbash, CPA
Les S. Malnory, CPA

Independent Auditor's Report

To the Board of Trustees
Chisum Independent School District
3250 Church Street
Paris, Texas 75462

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Emphasis of Matter

Change in Accounting Principle

As described in Note A to the financial statements, in 2015, Chisum Independent School District adopted new accounting guidance, Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions,* and GASB Statement No. 71, *Pension Transition for contributions made Subsequent to the Measurement Date -- an amendment of GASB Statement No. 68.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of the District's proportionate share of the net pension liability and schedule of District pension contributions identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Chisum Independent School District's basic financial statements. The introductory section and schedule of delinquent taxes receivables and the budgetary comparison schedules requried by TEA are presented for purposes of additional analysis and are not required parts of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2016 on our consideration of Chisum Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial

reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Chisum Independent School District's internal control over financial reporting and compliance.

Mahnery, McNeal & Company PC

January 11, 2016
Paris, Texas

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

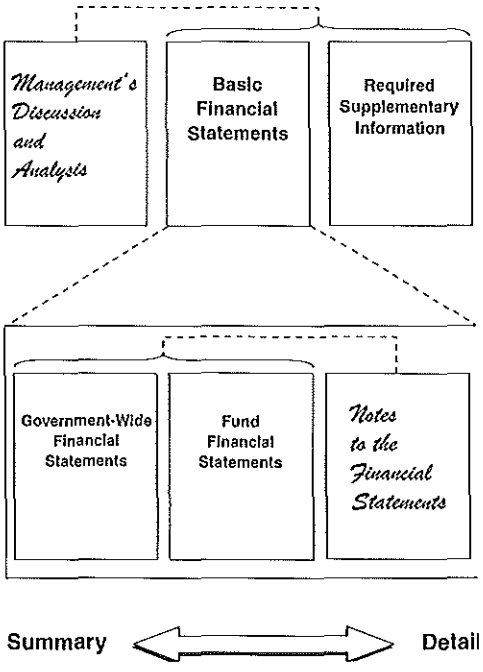
FINANCIAL HIGHLIGHTS

- The District's total combined net position is $9,670,827, at August 31, 2015.
- During the year, the District's expenses were $282,632, less than the $11,194,755, generated in taxes and other revenues for governmental activities.
- The total cost of the District's programs increased from last year, with no new programs added this year. Function 91 (Contracted Instructional Services between Schools) expenses during the year were $1,656,496, as a result of the required Chapter 41 payment to other districts. This was an increase of $344,084, from 2013-2014.
- The general fund reported a fund balance this year of $4,105,227, which is a decrease of $186,813. from 2013-2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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



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

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

Government-wide Statements

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

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

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

- To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in the District's tax base

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

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

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

GASB Statements 67, 69, and 70 have no impact on the District's financial statements.

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

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

The adoption of Statement No. 68 has no impact on the District's governmental fund financial statements, which continue to report expenditures in the contribution amount determined by the state legislature for the TRS plan. The calculation of pension contributions is unaffected by the change. However, the adoption has resulted in the restatement of the District's beginning net position for the fiscal year 2015 government-wide

financial statements to reflect the reporting of net pension liabilities and deferred inflows of resources and deferred outflows of resources for its qualified pension plan and the recognition of pension expense in accordance with the provisions of the Statement. Net position as of July 1, 2014 was decreased by $611,305 to reflect the cumulative effect of adoption. The net pension liability of $662,516 and the deferred outflows of resources of $51,211 at August 31, 2014 were reported as a prior period adjustment to the net position on September 1, 2014. Refer to the footnotes for more information regarding the District's pension.

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

• TRS – The beginning deferred outflow includes contributions from September 1, 2013 through August 31, 2014, totaling $51,211.

Fund Financial Statements

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

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

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

The District has the following kinds of funds:

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

- *Fiduciary funds*—The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets. The District's combined net assets were $9,670,827, at August 31, 2015. (See Table A-1).

Table A-1
Chisum Independent School District's Net Assets
(Rounded to the nearest $1,000)

	Governmental Activities	
	2015	2014
Current assets:		
Cash and cash equivalents	$3,992,000	$4,633,000
Due from other governments	$415,000	$61,000
Taxes receivables	$416,000	$257,000
Inventories -- supplies and materials	$3,000	$3,000
Capitalized Bond & Debt Issuance Cost		
Other Current Assets		
Other receivables	9,000	$8,000
Total current assets:	$4,835,000	$4,962,000
Capital assets	$25,735,000	$25,604,000
Less accumulated depreciation	($13,124,000)	($12,366,000)
Total capital assets	$12,611,000	$13,239,000
Total Assets	$17,446,000	$18,200,000
Deferred Outflow	--	16,000
Unrealized Loss on Defeasance of Debt	5,000	--
Deferred Outflow Related to Pensions	148,000	--
Total Deferred Outflows of Resources	153,000	16,000
Current liabilities:		
Accounts payable and accrued liabilities	$255,000	$261,000
Unearned Revenue	--	--
Payable Restricted Assets	$12,000	$13,000
Due to other governments	--	--
Total current liabilities	$267,000	$274,000
Long-term liabilities:		
Bonds payable	$6,998,000	$7,928,000
Net Pension Liability	$540,000	--
Total Liabilities	$7,805,000	$8,202,000
Deferred Inflows:		
Deferred Inflow Related to Pensions	$124,000	--
Total Deferred Inflows of Resources	$124,000	--
Net Assets:		
Invested in capital assets	$5,619,000	$5,328,000
Restricted for Debt Service	$63,000	$151,000
Unrestricted	$3,989,000	$4,536,000
Total Net Assets	$9,671,000	$10,015,000

Approximately $63,000 of the District's restricted net assets represents proceeds from local taxes. These proceeds when spent, are restricted for debt service bond payments. The $4.0 million of unrestricted net assets represents resources available to fund the programs of the District next year.

Changes in net assets. The District's total revenues were $11,195,000. A significant portion, 82 percent, of the District's revenue comes from taxes, 4 percent comes from state aid, 1 percent comes from investments and local resources, 9 percent comes from federal sources, while 4 percent relates to charges for services. The total cost of all programs and services was $10,912,000. 44 percent of these costs are for instructional and student services.

Governmental Activities

The tax rate for General Operating for 2014-2015 remained the same as in 2013-2014.

Table A-2
Changes in Chisum Independent School District's Net Assets
(Rounded to the Nearest $1,000)

	Governmental Activities	
	2015	2014
Program Revenues:		
Charges for Services	412,000	352,000
Operating Grants and Contributions	1,041,000	745,000
Capital Grants & Contributions	--	--
General Revenues		
Property Taxes	9,244,000	9,839,000
State Aid	415,000	412,000
Investment Earnings	20,000	22,000
Other	63,000	38,000
Total Revenues	11,195,000	11,408,000
Instruction	4,630,000	4,596,000
Instructional Resources and Media Services	109,000	109,000
Curriculum Dev. And Instructional Staff Dev.	91,000	115,000
School Leadership	490,000	480,000
Guidance, Counseling and Evaluation Services	200,000	204,000
Health Services	55,000	54,000
Student (Pupil) Transportation	354,000	372,000
Food Services	430,000	419,000
Curricular/Extracurricular Activities	781,000	726,000
General Administration	386,000	435,000
Plant Maintenance & Oper.	853,000	991,000
Data Processing Services	61,000	93,000
Truancy	3,000	3,000
Interest on Long Term Debt	273,000	301,000
Security	19,000	11,000
Bond Issuance Costs and Fees	1,000	
Facilities Acquisition and Construction		
Contracted Instr. Services Between Public Schools	1,657,000	1,312,000
Payments to Shared Service Arrangements	378,000	348,000
Other Governmental Charges	142,000	128,000
Total Expenses	10,912,000	10,697,000
Excess (Deficiency) Before Other Resources,	283,000	711,000
Uses & Transfers	--	--
Other Resources (Uses)	--	--
Special Item Inflow	--	--
Increase (Decrease) in Net Assets	283,000	711,000

Table A-2, presents the cost of each of the District's largest functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

- The cost of all *governmental* activities this year was $10,912,123.

- However, the amount that our taxpayers paid for these activities through property taxes was only $9,243,896.

- The amount of re-capture increased by $344,000 from $1,312,000 in 2013-14 to $1,656,000 in 2014-15.

- Some of the cost was paid by those who directly benefited from the programs $412,000, or by grants and contributions of $1,041,000 which are restricted for specific operations. The District also received $415,000 in contributions not restricted as to specific functional expenses.

Table A-3
Net Cost of Selected District Functions
(Rounded to the Nearest $1,000)

	Total Cost of Services		Net Cost of Services	
	2015	2014	2015	2014
Instruction	4,630,000	4,596,000	(4,307,000)	(4,227,000)
School administration	490,000	480,000	(472,000)	(458,000)
Plant Maintenance & Operations	853,000	991,000	(842,000)	(976,000)
Chapter 41 Recapture	1,657,000	1,312,000	(1,657,000)	(1,312,000)
Co-curricular/Extracurricular Activities	781,000	726,000	(483,000)	(492,000)

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled $11,129,125 which is a decrease of approximately $304,000 over the preceding year. The Chapter 41 payment sent to the Texas Education Agency to comply with the recapture plan increased by approximately $344,000 from 2013-14 school year to 2014-15 school year.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget 4 times. Even with these adjustments, actual expenditures were $460,844 below final budget amounts. There were several coding adjustments that did not affect fund balance. The ones that did affect fund balance increased the original budget by $607,626 during the 2014-15 school year. Some of the amendments affecting fund balance for new line items were: purchase of a maintenance department lawn mower, Agriculture Building roof, supplies for the CATE department, purchase of a school bus, High School band instruments and security cameras. Some of the line items that were increased within 2014-15 were: electricity, salary costs, Chapter 41 Payment, Delta County appraisal cost, North Lamar Alternative School cost, band student travel, internet service, lunchroom supplies, travel, commodity processing and food cost.

CAPITAL ASSETS AND DEBT ADMINISTRATION
Capital Assets

At the end of 2015, the District had invested $25,735,361 in a broad range of capital assets, including, equipment, building repair, infrastructure and vehicles. (See Table A-4.) This amount represents a net increase (including additions and deductions) of approximately 1% over last year. This amount of increase is $130,817.

Table A-4
District's Capital Assets
(Rounded to the Nearest $1,000)

	Governmental Activities	
	2015	2014
Land	$487,000	$487,000
Buildings and improvements	$20,356,000	$20,327,000
Vehicles	$ 1,331,000	$1,230,000
Equipment	$2,874,000	$2,874,000
Infrastructure	$ 687,000	$ 687,000
Totals at historical cost	$25,735,000	$25,605,000
Total accumulated depreciation	$13,124,000	$12,366,000
Net capital assets	$12,611,000	$13,239,000

During the District's fiscal year 2016 the general fund's committed fund balance could be used for technology related purchases and purchases of vehicles as well as additional improvements to the existing facilities that are not in the original budget.

Long Term Debt

At year-end the District had $6,998.006 in bonds outstanding as shown in Table A-5. More detailed information about the District's debt is presented in the notes to the financial statements.

Table A-5
District's Long Term Debt

	Governmental Activities	
	2015	2014
Bldg Refunded Bonds 2011	$775,000	$1,530,000
Bldg Bonds Series 2008	$6,185,000	$6,335,000
Unamortized Premium	$38,000	$62,000
Unamortized Gain (Loss) on Defeasance of Debt (2001)		($16,000)
Total bonds	$6,998,000	$7,911,000

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- There is an increase in revenues projected for 2015-16. In 2016-17 we hope to maintain this increase in revenue if our enrollment numbers hold steady. The amount of recapture for 2014-15 was $1,656,496. We have estimated that the amount for 2015-16 will be $1,228,918.

  In August of 2015 a balance of $748,000 of fund balance was committed by the Board of Trustees for technology needs, purchase of a school bus & other miscellaneous items and capital improvement projects to be completed in the 2015-16 school year.

- The district's Maintenance and Operation tax rate for 2015-16 remains at the HB1 reduced rate of $1.04. The Debt Service tax rate has increased to $.14678 from the 2014-15 rate of $.145.

The 2015-16 revenues budgeted for General Fund is $9.4 million. The indicators above were taken into account when adopting the general fund budget for 2015-2016.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Administration offices.

Basic Financial Statements

CHISUM INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION
AUGUST 31, 2015

Data Control Codes		1 Governmental Activities
	ASSETS:	
1110	*Cash and Cash Equivalents*	$ 3,991,938
1120	*Current Investments*	11
1225	*Property Taxes Receivable (Net)*	416,214
1240	*Due from Other Governments*	414,931
1290	*Other Receivables (Net)*	8,952
1300	*Inventories*	3,327
	Capital Assets:	
1510	*Land*	487,301
1520	*Buildings and Improvements, Net*	9,767,984
1530	*Furniture and Equipment, Net*	1,820,907
1590	*Infrastructure, Net*	535,301
1000	Total Assets	17,446,866
	DEFERRED OUTFLOWS OF RESOURCES:	
1710	*Unrealized Loss On Defeasance of Debt*	5,470
1705	*Deferred Outflow Related to Pensions*	147,858
1700	Total Deferred Outflows of Resources	153,328
	LIABILITIES:	
2110	*Accounts Payable*	31,807
2165	*Accrued Liabilities*	224,678
2400	*Payable from Restricted Assets*	11,513
	Noncurrent Liabilities:	
2501	*Due Within One Year*	930,000
2502	*Due in More Than One Year*	6,068,006
2540	*Net Pension Liability*	539,543
2000	Total Liabilities	7,805,547
	DEFERRED INFLOWS OF RESOURCES:	
2605	*Deferred Inflow Related to Pensions*	123,820
2600	Total Deferred Inflows of Resources	123,820
	NET POSITION:	
3200	Net Investment in Capital Assets	5,618,956
	Restricted For:	
3850	Debt Service	63,303
3900	Unrestricted	3,988,568
3000	Total Net Position	$ 9,670,827

The accompanying notes are an integral part of this statement.

CHISUM INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2015

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*	$ 4,630,023	$ --	$ 322,855	$ (4,307,168)
12	*Instructional Resources and Media Services*	108,688	--	2,906	(105,782)
13	*Curriculum and Staff Development*	90,827	--	21,081	(69,746)
23	*School Leadership*	490,162	--	18,133	(472,029)
31	*Guidance, Counseling, & Evaluation Services*	199,910	--	8,211	(191,699)
32	*Social Work Services*	2,600	--	--	(2,600)
33	*Health Services*	54,770	--	2,477	(52,293)
34	*Student Transportation*	354,305	--	8,164	(346,141)
35	*Food Service*	430,251	130,277	271,942	(28,032)
36	*Cocurricular/Extracurricular Activities*	781,234	281,688	16,981	(482,565)
41	*General Administration*	386,121	--	10,630	(375,491)
51	*Facilities Maintenance and Operations*	853,041	--	10,630	(842,411)
52	*Security and Monitoring Services*	18,685	--	--	(18,685)
53	*Data Processing Services*	60,882	--	347,167	286,285
72	*Interest on Long-term Debt*	273,046	--	--	(273,046)
73	*Bond Issuance Costs and Fees*	950	--	--	(950)
91	*Contracted Instructional Services between Schools*	1,656,496	--	--	(1,656,496)
93	*Payments Related to Shared Services Arrangements*	377,986	--	--	(377,986)
99	*Other Intergovernmental Charges*	142,146	--	--	(142,146)
TG	Total Governmental Activities	10,912,123	411,965	1,041,177	(9,458,981)
TP	Total Primary Government	$ 10,912,123	$ 411,965	$ 1,041,177	(9,458,981)
	General Revenues:				
MT	*Property Taxes, Levied for General Purposes*				8,131,070
DT	*Property Taxes, Levied for Debt Service*				1,112,825
IE	*Investment Earnings*				19,873
GC	*Grants and Contributions Not Restricted to Specific Programs*				414,956
MI	*Miscellaneous*				62,888
TR	Total General Revenues				9,741,612
CN	Change in Net Position				282,631
NB	Net Position - Beginning				10,015,123
PA	Prior Period Adjustment				(626,928)
	Net Position - Beginning, as Restated				9,388,196
NE	Net Position - Ending				$ 9,670,827

The accompanying notes are an integral part of this statement.

CHISUM INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS
AUGUST 31, 2015

Data Control Codes		10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
	ASSETS:				
1110	*Cash and Cash Equivalents*	$ 3,927,895	$ 4,717	$ 59,326	$ 3,991,938
1120	*Current Investments*	9	2	--	11
1225	*Taxes Receivable, Net*	381,166	35,048	--	416,214
1240	*Due from Other Governments*	399,564	--	15,367	414,931
1290	*Other Receivables*	8,952	--	--	8,952
1300	*Inventories*	3,327	--	--	3,327
1000	Total Assets	4,720,913	39,767	74,693	4,835,373
	LIABILITIES:				
	Current Liabilities:				
2110	*Accounts Payable*	$ 17,837	$ --	$ 13,970	$ 31,807
2160	*Accrued Wages Payable*	187,597	--	7,292	194,889
2200	*Accrued Expenditures*	29,087	--	702	29,789
2000	Total Liabilities	234,521	--	21,964	256,485
	DEFERRED INFLOWS OF RESOURCES:				
	Unavailable Revenue- Property Taxes	381,165	35,048	--	416,213
2600	Total Deferred Inflows of Resources	381,165	35,048	--	416,213
	FUND BALANCES:				
	Nonspendable Fund Balances:				
3410	*Inventories*	3,327	--	--	3,327
	Restricted Fund Balances:				
3480	*Retirement of Long-Term Debt*	--	4,719	--	4,719
	Committed Fund Balances:				
3510	*Construction*	720,000	--	--	720,000
3530	*Capital Expenditures for Equipment*	28,000	--	--	28,000
3545	*Other Committed Fund Balance*	--	--	52,729	52,729
3600	Unassigned	3,353,900	--	--	3,353,900
3000	Total Fund Balances	4,105,227	4,719	52,729	4,162,675
4000	Total Liabilities, Deferred Inflow of Resources and Fund Balances	$ 4,720,913	$ 39,767	$ 74,693	$ 4,835,373

The accompanying notes are an integral part of this statement.

CHISUM INDEPENDENT SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
AUGUST 31, 2015

Total fund balances - governmental funds balance sheet	$	4,162,675
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.		12,611,493
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.		416,213
Payables for bond principal which are not due in the current period are not reported in the funds.		(6,960,000)
Payables for bond interest which are not due in the current period are not reported in the funds.		(11,513)
A loss on defeasance of debt is a deferred outflow in the SNP, but expensed at the time of refunding in the funds.		(32,536)
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.		(539,543)
Deferred Resource Inflows related to TRS are not reported in the funds.		(123,820)
Deferred Resource Outflows related to TRS are not reported in the funds.		147,858
Net position of governmental activities - Statement of Net Position	$	9,670,827

The accompanying notes are an integral part of this statement.

CHISUM INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes		10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
	REVENUES:				
5700	*Local and Intermediate Sources*	$ 8,085,662	$ 1,113,676	$ 387,673	$ 9,587,011
5800	*State Program Revenues*	1,013,977	--	105,525	1,119,502
5900	*Federal Program Revenues*	--	--	422,612	422,612
5020	Total Revenues	9,099,639	1,113,676	915,810	11,129,125
	EXPENDITURES:				
	Current:				
0011	*Instruction*	4,143,655	--	245,550	4,389,205
0012	*Instructional Resources and Media Services*	110,411	--	--	110,411
0013	*Curriculum and Staff Development*	66,915	--	18,755	85,670
0023	*School Leadership*	505,454	--	--	505,454
0031	*Guidance, Counseling, & Evaluation Services*	206,256	--	--	206,256
0032	*Social Work Services*	2,600	--	--	2,600
0033	*Health Services*	56,323	--	--	56,323
0034	*Student Transportation*	384,882	--	--	384,882
0035	*Food Service*	18,978	--	415,074	434,052
0036	*Cocurricular/Extracurricular Activities*	414,063	--	255,028	669,091
0041	*General Administration*	357,675	--	--	357,675
0051	*Facilities Maintenance and Operations*	715,827	--	--	715,827
0052	*Security and Monitoring Services*	14,550	--	--	14,550
0053	*Data Processing Services*	62,621	--	--	62,621
0071	*Principal on Long-term Debt*	--	905,000	--	905,000
0072	*Interest on Long-term Debt*	--	287,975	--	287,975
0073	*Bond Issuance Costs and Fees*	--	950	--	950
0081	*Capital Outlay*	28,649	--	--	28,649
0091	*Contracted Instructional Services*				
0091	*Between Public Schools*	1,656,496	--	--	1,656,496
0093	*Payments to Shared Service Arrangements*	377,986	--	--	377,986
0099	*Other Intergovernmental Charges*	142,146	--	--	142,146
6030	Total Expenditures	9,265,487	1,193,925	934,407	11,393,819
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	(165,848)	(80,249)	(18,597)	(264,694)
	Other Financing Sources and (Uses):				
7915	*Transfers In*	--	--	20,965	20,965
8911	*Transfers Out*	(20,965)	--	--	(20,965)
7080	Total Other Financing Sources and (Uses)	(20,965)	--	20,965	--
1200	Net Change in Fund Balances	(186,813)	(80,249)	2,368	(264,694)
0100	Fund Balances - Beginning	4,292,040	84,968	65,984	4,442,992
1300	Prior Period Adjustment	--	--	(15,623)	(15,623)
	Fund Balances - Beginning, as Restated	4,292,040	84,968	50,361	4,427,369
3000	Fund Balances - Ending	$ 4,105,227	$ 4,719	$ 52,729	$ 4,162,675

The accompanying notes are an integral part of this statement.

CHISUM INDEPENDENT SCHOOL DISTRICT

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

Net change in fund balances - total governmental funds	$	(264,694)
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:		
Capital outlays are not reported as expenses in the SOA.		130,817
The depreciation of capital assets used in governmental activities is not reported in the funds.		(758,345)
Tax revenues in the SOA not providing current financial resources are not reported as revenues in the funds. funds.		159,125
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.		905,000
The amortization of the premium on the bonds is a reduction to interest expense in the SOA.		24,579
Decrease in accrued interest from beginning of period to end of the period.		1,287
The amortization of the loss on defeasance is an expense in the SOA but not in funds.		(10,937)
The District's share of the unrecognized deferred inflows and outflows for TRS had to be amortized.		95,799
Rounding difference		1
Change in net position of governmental activities - Statement of Activities	$	282,632

The accompanying notes are an integral part of this statement.

CHISUM INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2015

Data Control Codes		Agency Fund Student Activity
	ASSETS:	
1110	*Cash and Cash Equivalents*	$ 8,033
1000	Total Assets	8,033
	LIABILITIES:	
	Current Liabilities:	
2190	*Due to Student Groups*	$ 8,033
2000	Total Liabilities	8,033
	NET POSITION:	
3000	Total Net Position	$ --

The accompanying notes are an integral part of this statement.

A. Summary of Significant Accounting Policies

The basic financial statements of Chisum 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.

In addition, the District reports the following 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.

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

b. Measurement Focus, Basis of Accounting

Government-wide and Fiduciary Fund Financial Statements: 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 does not consider revenues collected after its year-end to be available in the current period. 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
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer 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.

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.

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.

4. Pensions

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

At August 31, 2015 the District reported the following:

Net Pension Asset	$ --
Net Pension Liability	$ 539,543

5. New Accounting Standards Adopted

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

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

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

1) Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.

2) Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.

3) Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

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

The adoption of Statement No. 67 has no impact on the District's financial statements.

b. Statement No. 68 establishes standards of accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution pensions provided to the employees of state and local government employers through pension plans that are administered through trusts or equivalent arrangements criteria detailed above in the description of Statement No. 67. This Statement replaces the

requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans within the scope of the Statement.

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

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

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

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

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

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

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

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

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 August 31, 2015, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was $3,999,971 and the bank balance was $4,046,141. The District's cash deposits at August 31, 2015 and during the year ended August 31, 2015, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

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 investment at August 31, 2015 are shown below.

Investment or Investment Type	Maturity	Fair Value
Texpool	N/A	$ 11
Total Investments		$ 11

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.

At August 31, 2015, the District's investments, other than those which are obligations of or guaranteed by the U. S. Government, are rated as to credit quality as follows:

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.

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

TexPool

The District invests in the Texas Local Government Investment Pool (TexPool), which is a local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The State Comptroller of Public Accounts oversees TexPool. Federated Investors, Inc. is the administrator and investment manager of TexPool under a contract with the State Comptroller. In accordance with the Public Funds Investment Act, the State Comptroller has appointed the TexPool Investment Advisory Board to advise with respect to TexPool. The board is composed equally of participants in TexPool Portfolios and other persons who do not have a business relationship with TexPool Portfolios and are qualified to advise in respect to TexPool Portfolios. The Advisory Board members review the investment policy and management fee structure. TexPool is rated AAAm by Standard & Poor's and operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. All investments are stated at amortized cost, which usually approximates the market value of the securities. The stated objective of TexPool is to maintain a stable average $1.00 per unit net asset value; however, the $1.00 net asset value is not guaranteed or insured. The financial statements can be obtained from the Texas Trust Safekeeping Trust Company website at www.ttstc.org.

D. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 487,301	$ -	$ -	$ 487,301
Construction in progress	-	-	-	-
Total capital assets not being depreciated	487,301	-	-	487,301
Capital assets being depreciated:				
Buildings and improvements	20,327,214	28,649	-	20,355,863
Equipment	2,873,782	--	-	2,873,782
Vehicles	1,229,793	102,168	-	1,331,961
Infrastructure	686,454	--	-	686,454
Total capital assets being depreciated	25,117,243	130,817	-	25,248,060
Less accumulated depreciation for:				
Buildings and improvements	(10,079,143)	(508,736)	-	(10,587,879)
Equipment	(1,349,700)	(164,809)	-	(1,514,509)
Vehicles	(858,446)	(11,881)	-	(870,327)
Infrastructure	(78,234)	(72,919)	-	(151,153)
Total accumulated depreciation	(12,365,523)	(758,345)	-	(13,123,868)
Total capital assets being depreciated, net	12,751,720	(627,528)	-	12,124,192
Governmental activities capital assets, net	$ 13,239,021	$ (627,528)	$ -	$ 12,611,493

Depreciation was charged to functions as follows:

Instruction	$ 365,642
Curriculum and Staff Development	6,630
Student Transportation	64,284
Food Services	4,823
Extracurricular Activities	119,708
General Administration	37,102
Plant Maintenance and Operations	156,021
Security and Monitoring Services	4,135
	$ 758,345

E. Interfund Balances and Activities

Transfers to and from other funds at August 31, 2015, consisted of the following:

Transfers From	Transfers To	Amount	Reason
General fund	Food Service Fund	$ 20,965	Supplement other funds sources
	Total	$ 20,965	

F. 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 Obligations Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2015, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Unlimited Tax School Building Bonds, Series 2008	$ 6,335,000	$ --	$ 150,000	$ 6,185,000	$ 155,000
Unlimited Tax Refunding Bonds, Series 2011,Current Interest	1,530,000		755,000	775,000	775,000
Total governmental activities	7,865,000	--	905,000	6,960,000	930,000
Unamortized Premium:					
Series 2008, Current Interest	30,857	--	3,428	27,429	--
Series 2011, Current Interest	31,728	--	21,151	10,577	--
Total governmental activities	$ 7,927,585	$ --	$ 929,579	$ 6,998,006	$ 930,000

2. Debt Service Requirements

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

	Series 2011, Current Interest Bonds		
Year Ending August 31,	Principal	Interest	Total
2016	775,000	11,625	786,625
Totals	$ 775,000	$ 11,625	$ 786,625

Interest Rate: 2.0% - 3.0%
TEC Code 45.004

	Unlimited Tax School Building Bonds, Series 2008		
Year Ending August 31,	Principal	Interest	Total
2016	155,000	247,400	402,400
2017	765,000	241,200	1,006,200
2018	795,000	210,600	1,005,600
2019	825,000	178,800	1,003,800
2020	860,000	145,800	1,005,800
2021	890,000	111,400	1,001,400
2022	930,000	75,800	1,005,800
2023	965,000	38,600	1,003,600
Totals	$ 6,185,000	$ 1,249,600	$ 7,434,600

Unlimited Tax School Building Bonds have an interest rate of 4% and maturity of August of 2023.
TEC Code 45.004

3. Advance Refunding of Debt

GASB Statement No. 7, "Advance Refundings Resulting in Defeasance of Debt", provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of August 31, 2015, outstanding balances of bond issues that have been refunded and defeased in-substance by placing existing assets and the proceeds of new bonds in an irrevocable trust to provide for future debt service payments are as follows:

Unlimited Tax Refunding Bonds, Series 2001

Maturity Date	Interest Rate		Principal
02/15/2016	4.80%		810,000
Total		$	810,000

G. 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 2015, 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.

H. Pension Plan

1. Plan Description

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

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

2. Pension Plan Fiduciary Net Position

Detailed information about the TRS' fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.trs.state.tx.us/about/documents/cafr.pdf#CAFR; by writing to TRS at 1000 Red River Street, Austin, TX 78701-2698; or by calling (512) 542-6592.

3. Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes, including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs, can be granted by the Texas Legislature, as noted in the plan description in (1.) above.

4. Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution, which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less that 6% and not more than 10% of the aggregate

annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 through 2017. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015.

Contribution Rates

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

District's 2014 Employer Contributions	$	51,211
District's 2014 Member Contributions	$	51,211
NECE 2014 On-Behalf Contributions to District	$	271,545

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

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

--- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.

--- During a new member's first 90 days of employment.

--- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.

--- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

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

5. Actuarial Assumptions

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

Valuation Date	August 31, 2014
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	30 Years
Asset Valuation Method	5 Year Market Value
Discount Rate	8%
Long-term Expected Rate of Return*	8%
Salary Increases*	4.25% to 7.25%
Weighted-Average at Valuation Date	5.55%
Payroll Growth Rate	3.5%

* Includes inflation of 3%

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

6. Discount Rate

The discount rate used to measure the total pension liability was 8%. There was no change in the discount rate since the previous fiscal year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2014 are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long-term Expected Portfolio Real Rate of Return *
Global Equity			
U.S.	18%	7.0%	1.4%
Non-U.S. Developed	13%	7.3%	1.1%
Emerging Markets	9%	8.1%	0.9%

Directional Hedge Funds	4%	5.4%	0.2%
Private Equity	13%	9.2%	1.4%
Stable Value			
U.S. Treasuries	11%	2.9%	0.3%
Absolute Return	0%	4.0%	0.0%
Stable Value Hedge Funds	4%	5.2%	0.2%
Cash	1%	2.0%	0.0%
Real Return			
Global Inflat. Linked Bonds	3%	3.1%	0.0%
Real Assets	16%	7.3%	1.5%
Energy & Natural Resources	3%	8.8%	0.3%
Commodities	0%	3.4%	0.0%
Risk Parity			
Risk Parity	5%	8.9%	0.4%
Alpha			1.0%
Total	100%		8.7%

* The expected contribution to returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.

7. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the net pension liability if the discount rate used was 1 percentage point less and 1 percentage point greater than the discount rate that was used (8%) in measuring the 2014 net pension liability.

	1% Decrease 7%	Current Discount Rate 8%	1% Increase 9%
District's proportionate share of the net pension liability	$ 964,131	$ 539,543	$ 222,031
Plan net pension liability (in millions from TRS CAFR)	$ 47,737	$ 26,717	$ 10,998

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

At August 31, 2015, the District reported a liability of $539,543 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	$ 539,543
State's proportionate share of the net pension liability associated with the District	2,867,065
Total	$ 3,406,608

The net pension liability was measured as of August 31, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2013 through August 31, 2014.

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

There was a change in employer contribution requirements that occurred after the measurement date of the net pension liability and the employer's measurement date. A 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees went into law effective September 1, 2014. The amount of the expected resultant change in the employer's proportion cannot be determined at this time.

For the year ended August 31, 2015, the District recognized pension expense of $265,055 and revenue of $265,055 for support provided by the State.

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

	Deferred Outflows	Deferred Inflows
Differences between expected and actual economic experience	$ 8,344	$ --
Changes in actuarial assumptions	35,071	--
Difference between projected and actual investment earnings	--	164,906
Changes in proportion and differences between the District's contributions and the proportionate share of contributions	--	141
District contributions paid to TRS subsequent to the measurement date	111,751	
Total	$ 155,166	$ 165,047
Less current year amortization	(7,308)	(41,227)
Total deferred outflows/inflows (see A-1)	$ 147,858	$ 123,820

The net amounts of the District's balances of deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended August 31		
2016	$	(33,926)
2017	$	(33,926)
2018	$	(33,926)
2019	$	(33,926)
2020	$	7,300
Thereafter	$	6,772

I. 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 rate was 1% for fiscal year 2014, 0.5% for fiscal year 2013 and 1.0% for fiscal year 2012 and the active public school employee contributions rates were 0.65% of public school payroll, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2015, 2014 and 2013. For the years ended August 31, 2015, 2014, and 2013, the State's contributions to TRS-Care were $48,042, $47,053, and $45,647, respectively, the active member contributions were $31,227, $30,584, and $29,670, respectively, and the District's contributions were $26,423, $25,879, and $25,106, 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 August 31, 2015, 2014, and 2013, the subsidy payments received by TRS-Care on behalf of the District were $19,901, $12,478, and $12,281, respectively.

J. Employee Health Care Coverage

Texas House Bill 3343 created a statewide program for public school employee group health coverage beginning September 1, 2002. The Active Care Plan "the Plan" was authorized by Article 3.50-7 of the Texas Insurance Code and is administered by the Teacher Retirement System of Texas (TRS). Both the TRS and the Texas Education Agency (TEA) have roles in funding the program. The TRS Active Care Plan is a self-funding pool at TRS, but the participating District's are fully insured. The District contributed $341 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions for dependents. All contributions were paid to the administrator of the Plan. The contract between the District and the Plan is renewable September 1, 2015, and the annual financial statements have been filed with the Texas State Board of Insurance.

K. Shared Services Arrangements

Shared Services Arrangement - Membership
The District participates in a shared services arrangement ("SSA") for a federal program with the following school districts:

Member Districts
North Lamar
Prairiland
Roxton
Chisum

The District does not account for revenues or expenditures in these programs 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, North Lamar I.S.D. and Region VIII Education Service Center, 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.

Federal Program	Fiscal Agent	Grant Funds
IDEA-B Formula Model 2	North Lamar Independent School District for Lamar County Cooperative	$ 158,643
IDEA-B Preschool Model 2	North Lamar Independent School District for Lamar County Cooperative	4,342
Title 3 Part A	LEP - Region VIII Education Service Center	3,995
Title I Part C, Carl Perkins	CTE Region VIII Education Service Center	8,817
Regional Day School for Deaf Ed.	North Lamar ISD	27,287
		District Contributions
Special Education Model 2	North Lamar Independent School District for Lamar County Cooperative	$ 342,922
Alternative School Model 3	North Lamar Independent School District	51,253

L. Subsequent Events

Management has evaluated subsequent events through January 11, 2016; the date which the financial statements were available for distribution. The ISD approved the purchase of baseball and softball field lighting in the amount of $275,800.

M. Prior Period Adjustment

The implementation of GASB 68 on the District's financial statement resulted in the restatement of the beginning net position for the fiscal year August 31, 2015, in the amount $611,305. The also had an additional prior period adjustment of $15,623 relating to accounts payable in the food service fund.

N. GASB 72 Fair Value Measurement and Application

The requirements of this statement are effective for financial statements for reporting periods beginning after June 15, 2015, earlier application is encouraged. The requirements of this statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement also will enhance fair value application guidance and related deisclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The District will implement early.

O. GASB 73 Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68

The provisions of this statement are effective for fiscal years beginning after June 15, 2015 -- except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Earlier application is encouraged. This statement is not expected to effect the financial statements of the District.

P. GASB 74 Financial Reporting for Postemployment Benefit Plan other Than Pension Plans

The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016. Earlier application is encouraged The provisions of this statement are not expected to impact the District.

Q. GASB 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

The provisions of this statement are effective for fiscal years beginning after June 15, 2017. Earlier applicaton is encouraged. The provisions of this statemet are not expected to impact the District.

R. GASB 77 Tax Abatement Disclosures

The requirements of this statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged. The requirements of this statement improve financial reporting by giving users of the financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make the transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. The District does not intend to implement early. This statement will change the disclosures but will not impact the finanacial statements or net position.

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.

CHISUM INDEPENDENT SCHOOL DISTRICT

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2015

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*	$ 8,249,700	$ 8,249,700	$ 8,085,662	$ (164,038)
5800	*State Program Revenues*	911,836	927,092	1,013,977	86,885
5020	Total Revenues	9,161,536	9,176,792	9,099,639	(77,153)
	EXPENDITURES:				
	Current:				
	Instruction & Instructional Related Services:				
0011	*Instruction*	4,211,235	4,306,059	4,143,655	162,404
0012	*Instructional Resources and Media Services*	111,951	113,826	110,411	3,415
0013	*Curriculum and Staff Development*	83,790	83,840	66,915	16,925
	Total Instruction & Instr. Related Services	4,406,976	4,503,725	4,320,981	182,744
	Instructional and School Leadership:				
0023	*School Leadership*	497,274	513,625	505,454	8,171
	Total Instructional & School Leadership	497,274	513,625	505,454	8,171
	Support Services - Student (Pupil):				
0031	*Guidance, Counseling and Evaluation Services*	212,027	215,049	206,256	8,793
0032	*Social Work Services*	2,500	2,600	2,600	--
0033	*Health Services*	59,672	60,480	56,323	4,157
0034	*Student (Pupil) Transportation*	295,347	392,298	384,882	7,416
0035	*Food Services*	11,496	19,682	18,978	704
0036	*Cocurricular/Extracurricular Activities*	430,072	442,372	414,063	28,309
	Total Support Services - Student (Pupil)	1,011,114	1,132,481	1,083,102	49,379
	Administrative Support Services:				
0041	*General Administration*	359,076	366,013	357,675	8,338
	Total Administrative Support Services	359,076	366,013	357,675	8,338
	Support Services - Nonstudent Based:				
0051	*Plant Maintenance and Operations*	578,134	722,413	715,827	6,586
0052	*Security and Monitoring Services*	5,284	15,610	14,550	1,060
0053	*Data Processing Services*	62,562	63,570	62,621	949
	Total Support Services - Nonstudent Based	645,980	801,593	792,998	8,595
	Capital Outlay:				
0081	*Capital Outlay*	10,000	113,449	28,649	84,800
	Total Capital Outlay	10,000	113,449	28,649	84,800
	Intergovernmental Charges:				
0091	*Contracted Instr. Services Between Public Schools*	1,678,811	1,739,838	1,656,496	83,342
0093	*Payments to Fiscal Agent/Member Dist.-SSA*	385,230	403,592	377,986	25,606
0099	*Other Intergovernmental Charges*	150,715	152,015	142,146	9,869
	Total Intergovernmental Charges	2,214,756	2,295,445	2,176,628	118,817
6030	Total Expenditures	9,145,176	9,726,331	9,265,487	460,844
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	16,360	(549,539)	(165,848)	383,691
	Other Financing Sources (Uses):				
7915	*Transfers In*	--	225,209	--	(225,209)

CHISUM INDEPENDENT SCHOOL DISTRICT

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes		1 Budgeted Amounts Original	2 Budgeted Amounts Final	3 Actual	Variance with Final Budget Positive (Negative)
8911	*Transfers Out*	(16,360)	(283,296)	(20,965)	262,331
7080	Total Other Financing Sources and (Uses)	(16,360)	(58,087)	(20,965)	37,122
1200	Net Change in Fund Balance	--	(607,626)	(186,813)	420,813
0100	Fund Balance - Beginning	4,292,040	4,292,040	4,292,040	--
3000	Fund Balance - Ending	$ 4,292,040	$ 3,684,414	$ 4,105,227	$ 420,813

CHISUM INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
OF A COST SHARING MULTIPLE-EMPLOYER PENSION PLAN
TEACHER RETIREMENT SYSTEM OF TEXAS (TRS)
*FOR THE YEAR ENDED JUNE 30, 2015 **

	Fiscal Year									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
District's proportion of the net pension liability (asset)	0.0020199%	--	--	--	--	--	--	--	--	--
District's proportionate share of the net pension liability (asset)	$ 539,543	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ --
State's proportionate share of the net pension liability (asset) associated with the District	2,867,065	--	--	--	--	--	--	--	--	--
Total	$ 3,406,608	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ --
District's covered-employee payroll	$ 4,804,209	$	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ --
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	11.23%	--	--	--	--	--	--	--	--	--
Plan fiduciary net position as a percentage of the total pension liability	83.25%	--	--	--	--	--	--	--	--	--

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

** These amounts and calculations are as of August 31, 2014, actuary report.

CHISUM INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS
TO THE TEACHER RETIREMENT SYSTEM PENSION PLAN
*LAST TEN FISCAL YEARS **

	Fiscal Year									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	$ 111,751	$ 51,151	$ 42,490	$ 42,175	$ 55,560	$ 44,287	$ 46,950	$ 44,114	$ 36,712	$ 36,882
Contributions in relation to the contractually required contribution	(111,751)	(51,151)	(42,490)	(42,175)	(55,560)	(44,287)	(46,950)	(44,114)	(36,712)	(36,882)
Contribution deficiency (excess)	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ --
District's covered-employee payroll	$ 4,804,209	$ 4,705,247	$ 4,564,661	$ 4,616,156	$ 4,817,149	$ 4,711,632	$ 4,512,973	$ 4,338,915	$ 4,031,999	$ 3,779,049
Contributions as a percentage of covered-employee payroll	2.33%	1.09%	0.93%	0.91%	1.15%	0.94%	1.04%	1.02%	0.91%	0.98%

* The amounts presented for the fiscal year were determined as of the District's fiscal year ended August 31.

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 establishing the budgetary data.:

a. Prior to August 21 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year. 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 the beginning of the fiscal year, 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 August 31, 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.

Defined Benefit Pension Plan

Actuarial Assumptions

The information presented in the required supplementary schedules was used in the actuarial valuation for determining the actuarially determined contnribution rate and the Net Pension Liability in accordance with GASB 68. The total pension liability in the August 31, 2014, actuarial evaluation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2014
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	30 Years
Asset Valuation Method	5 Year Market Value
Discount Rate	8%
Long-term Expected Rate of Return*	8%
Salary Increases*	4.25% to 7.25%
Weighted-Average at Valuation Date	5.55%
Payroll Growth Rate	3.5%

* Includes inflation of 3%

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

Changes of benefit terms

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

Changes of assumptions

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

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.

CHISUM INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2015

Year Ended August 31	1 Tax Rates Maintenance	2 Tax Rates Debt Service	3 Assessed/Appraised Value For School Tax Purposes
2006 and Prior Years	$ Various	$ Various	$ Various
2007	1.37	.164	509,973,308
2008	1.04	.156	542,461,400
2009	1.04	.20	603,092,518
2010	1.04	.18	678,155,270
2011	1.04	.16	777,639,500
2012	1.04	.16	740,549,662
2013	1.04	.16	757,862,304
2014	1.04	.145	832,482,880
2015 (School Year Under Audit)	1.04	.145	781,272,791
1000 Totals			
9000 - Portion of Row 1000 for Taxes Paid into Tax Increment Zone Under Chapter 311, Tax Code			

10 Beginning Balance 9/1/14	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/15
$ 71,898	$ --	$ 400	$ 45	$ (8,291)	$ 63,162
12,690	--	64	8	0	12,618
12,125	--	--	--	(0)	12,125
14,744	--	--	--	1	14,745
18,359	--	115	20	(0)	18,224
23,318	--	1,568	241	(411)	21,098
24,528	--	1,169	180	(411)	22,768
35,066	--	2,924	450	3,788	35,480
75,964	--	22,232	3,100	(1,973)	48,660
--	9,258,083	7,920,995	1,104,369	(5,938)	226,780
$ 288,691	$ 9,258,083	$ 7,949,467	$ 1,108,413	$ (13,236)	$ 475,658
$ --	$ --	$ --	$ --	$ --	$ --

CHISUM INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-2

NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes		1 Budget	2 Actual	3 Variance Positive (Negative)
	REVENUES:			
5700	*Local and Intermediate Sources*	$ 125,000	$ 130,277	$ 5,277
5800	*State Program Revenues*	2,684	2,821	137
5900	*Federal Program Revenues*	236,000	261,011	25,011
5020	Total Revenues	363,684	394,109	30,425
	EXPENDITURES:			
	Current:			
	Support Services - Student (Pupil):			
0035	*Food Services*	421,771	415,074	6,697
	Total Support Services - Student (Pupil)	421,771	415,074	6,697
6030	Total Expenditures	421,771	415,074	6,697
1100	Excess (Deficiency) of Revenues Over (Under)			
1100	Expenditures	(58,087)	(20,965)	37,122
	Other Financing Sources (Uses):			
7915	*Transfers In*	58,087	20,965	(37,122)
7080	Total Other Financing Sources and (Uses)	58,087	20,965	(37,122)
0100	Fund Balance - Beginning	--	15,623	15,623
1300	Prior Period Adjustment	--	(15,623)	(15,623)
0100	Fund Balance - Beginning, as Restated	--	--	--
3000	Fund Balance - Ending	$ --	$ --	$ --

CHISUM INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-3

DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes		1 Budget	2 Actual	3 Variance Positive (Negative)
	REVENUES:			
5700	*Local and Intermediate Sources*	$ 1,132,996	$ 1,113,676	$ (19,320)
5020	Total Revenues	1,132,996	1,113,676	(19,320)
	EXPENDITURES:			
	Debt Service:			
0071	*Principal on Long-Term Debt*	905,000	905,000	--
0072	*Interest on Long-Term Debt*	287,975	287,975	--
0073	*Bond Issuance Costs and Fees*	1,500	950	550
	Total Debt Service	1,194,475	1,193,925	550
6030	Total Expenditures	1,194,475	1,193,925	550
1100	Excess (Deficiency) of Revenues Over (Under)			
1100	Expenditures	(61,479)	(80,249)	(18,770)
1200	Net Change in Fund Balance	(61,479)	(80,249)	(18,770)
0100	Fund Balance - Beginning	61,479	84,968	23,489
3000	Fund Balance - Ending	$ --	$ 4,719	$ 4,719

Malnory, McNeal & Company, PC

Certified Public Accountants

Mark W. Malnory, CPA
Johnna W. McNeal, CPA
Beverly Smith, CPA

Members of
American Institute of Certified Public Accountants
Texas Society of Certified Public Accountants
AICPA Governmental Audit Quality Center

Elizabeth Hamm, CPA
E. J. Musharbash, CPA
Les S. Malnory, CPA

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*

Board of Trustees
Chisum Independent School District
3250 Church Street
Paris, Texas 75462

Members of the Board of Trustees:

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 Chisum Independent School District, as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise Chisum Independent School District's basic financial statements, and have issued our report thereon dated January 11, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Chisum Independent Schoo 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 Chisum Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Chisum Independent School 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 Chisum Independent School 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Malnory, McNeal & Company PC
Certified Public Accountants

January 11, 2016
Paris, Texas

CHISUM INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2015

Data Control Codes		Responses
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	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 over financial reporting and compliance for local, state or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts and laws related to local, state or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other governmental agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	What was the total accumulated accretion on capital appreciation bonds (CABs) included in government-wide financial statements at fiscal year-end?	$ --
SF11	Net Pension Assets (object 1920) at fiscal year-end.	$ --
SF12	Net Pension Liabilities (object 2540) at fiscal year-end.	$ 539,543
SF13	Pension Expense (object 6147) at fiscal year-end.	$ 46,283

APPENDIX B

FORMS OF CO-BOND COUNSELS' OPINIONS

_____, 2016

Chisum Independent School District
Unlimited Tax School Building and Refunding Bonds, Series 2016

Ladies and Gentlemen:

We have acted as co-bond counsel to the Chisum Independent School District (the "District") in connection with the issuance of $29,245,000 aggregate principal amount of bonds designated as "Chisum Independent School District Unlimited Tax School Building and Refunding Bonds, Series 2016" (the "Bonds"). The Bonds are authorized by an order adopted by the Board of Trustees of the District (the "Board") on August 8, 2016 (the "Order"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Order.

In such connection, we have reviewed the Order, the tax certificate of the District dated the date hereof (the "Tax Certificate"), certificates of the District, and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Order and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Order and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against issuers in the State of Texas. We express no opinion with respect to any indemnification, contribution, liquidated damages,

penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding obligations of the District.

2. The Board has power and is obligated to levy an annual ad valorem tax, 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.

3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Faithfully yours,

POWELL & LEON LLP

Orrick, Herrington & Sutcliffe LLP
1301 McKinney Street, Suite 4100
Hoiuston, Texas 77010
+1 713 658-6400
orrick.com

August 25, 2016

Chisum Independent School District
Unlimited Tax School Building and Refunding Bonds, Series 2016

(Final Opinion)

Ladies and Gentlemen:

We have acted as co-bond counsel to the Chisum Independent School District (the "District") in connection with the issuance of $29,245,000 aggregate principal amount of bonds designated as "Chisum Independent School District Unlimited Tax School Building and Refunding Bonds, Series 2016" (the "Bonds"). The Bonds are authorized by an order adopted by the Board of Trustees of the District (the "Board") on August 8, 2016 (the "Order"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Order.

In such connection, we have reviewed the Order, the tax certificate of the District dated the date hereof (the "Tax Certificate"), certificates of the District, and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Order and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Order and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to

or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against issuers in the State of Texas. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding obligations of the District.

2. The Board has power and is obligated to levy an annual ad valorem tax, 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.

3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP