OFFICIAL STATEMENT
Dated: August 1, 2016

Rating (PSF): Moody's: ..... "Aaa"
(See "OTHER INFORMATION – RATINGS" herein)

NEW ISSUE - Book-Entry Only

In the opinion of Special Tax Counsel, under existing law interest on the Bonds is excludable from gross income for federal income tax purposes and the Bonds are not "private activity bonds." See "TAX MATTERS" for a discussion of the opinion of Special Tax Counsel, including a description of alternative minimum tax consequences for corporations.

$5,125,000
SCHULENBURG INDEPENDENT SCHOOL DISTRICT
(Fayette County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS
SERIES 2016

The Bonds have been designated as "qualified tax-exempt obligations" for Financial Institutions.

Dated Date: August 1, 2016 **Due: February 15, as shown on the inside cover page**

Schulenburg Independent School District (the "District") is issuing its $5,125,000 Unlimited Tax School Building Bonds, Series 2016 (the "Bonds"). The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly Chapter 45, Texas Education Code, as amended, and an election held in the District on May 7, 2016, and are direct obligations of the District. The Bonds are payable from an 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 authorizing issuance of the Bonds (the "Order") (see "THE BONDS – Authority for Issuance"). Additionally, the District has received conditional approval of the Bonds to be guaranteed by the Permanent School Fund of the State of Texas (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Interest on the Bonds will accrue from the date of their delivery and will be payable on February 15 and August 15 of each year, commencing February 15, 2017, until maturity or prior redemption. The Bonds will be issued in principal denominations of $5,000 or any integral multiple thereof within a maturity. Interest accruing on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months (see "THE BONDS – Description of the Bonds").

The District intends to use the Book-Entry Only System of The Depository Trust Company ("DTC"), but use of such system could be discontinued. The principal of the Bonds at maturity or on a prior redemption date and interest on the Bonds will be payable to Cede & Co., as nominee for DTC, by BOKF, NA, Austin, Texas, as the initial Paying Agent/Registrar (the "Paying Agent/Registrar") for the Bonds. No physical delivery of the Bonds will be made to the beneficial owners thereof. Such Book-Entry Only System will affect the method and timing of payment and the method of transfer of the Bonds (see "BOOK-ENTRY ONLY SYSTEM").

Proceeds from the sale of the Bonds will be used (i) to finance the construction, acquisition, renovation, and equipment of school buildings in the District; and (ii) to pay certain costs incurred in connection with the issuance of the Bonds. (See "THE BONDS – Purpose" and "THE BONDS – Sources and Uses of Funds").

The Bonds maturing on and after February 15, 2027, are subject to redemption at the option of the District prior to maturity, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2026 or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption (see "THE BONDS – Optional Redemption").

See Principal Amounts, Maturities, Interest Rates and Yields on the Inside Cover Page

The Bonds are offered for delivery when, as, and if issued and received by the underwriters listed below (the "Underwriters") and subject to the approving opinions of the Attorney General of Texas, the opinion of Powell & Leon, LLP, Austin, Texas, Bond Counsel (see "APPENDIX C – FORM OF BOND COUNSEL'S OPINION") and the opinion of and Bracewell LLP, Austin, Texas, Special Tax Counsel (see "APPENDIX D – FORM OF SPECIAL TAX COUNSEL'S OPINION"). Certain legal matters will be passed upon for the Underwriters by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, as counsel to the Underwriters.

It is expected that the Bonds will be available for delivery through DTC on or about August 18, 2016.

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

PRINCIPAL AMOUNTS, MATURITIES, INTEREST RATES AND YIELDS

$5,125,000 Unlimited Tax School Building Bonds, Series 2016

$4,595,000 Serial Bonds

Maturity (2/15)[a]	Principal Amount	Interest Rate	Initial Reoffering Yield[b]	CUSIP No.[c] (808179)	Maturity (2/15)[a]	Principal Amount	Interest Rate	Initial Reoffering Yield[b]	CUSIP No.[c] (808179)
2017	$275,000	2.000%	0.700%	ES0	2024	$325,000	3.000%	1.500%	EZ4
2018	280,000	2.000	0.800	ET8	2025	335,000	3.000	1.600	FA8
2019	285,000	2.000	0.900	EU5	2026	350,000	4.000	1.700	FB6
2020	290,000	2.000	1.000	EV3	2027	360,000	4.000	1.750	FC4
2021	300,000	3.000	1.100	EW1	2028	375,000	4.000	1.800	FD2
2022	305,000	3.000	1.250	EX9	2029	390,000	4.000	1.850	FE0
2023	315,000	3.000	1.400	EY7	2030	410,000	4.000	1.900	FF7

$530,000 Term Bonds

$530,000 4.000% Term Bonds due February 15, 2032, Price 117.212, CUSIP 808179 FH3[a][b][c][d]

(Interest accrues from date of delivery)

(a) The Bonds maturing on and after February 15, 2027, are subject to optional redemption, in whole or in part, on February 15, 2026, or any date thereafter, at a price equal to the par value thereof, plus accrued interest from the most recent interest payment date to the date of redemption. (See "THE BONDS – Optional Redemption").

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

(c) CUSIP numbers have been assigned to this issue by the CUSIP Global Services managed by Standard and Poor's Financial Services LLC on behalf of the American Bankers Association and are included solely for the convenience of the purchasers of the Bonds. None of the District, the Financial Advisor and the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

(d) The Bonds stated to mature on February 15 in the year 2032 are subject to mandatory sinking fund redemption as more particularly described herein (see "THE BONDS – Mandatory Redemption").

USE OF INFORMATION IN THIS OFFICIAL STATEMENT

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

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

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

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

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

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

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information set forth in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but none of the Underwriters guarantees the accuracy or completeness of such information.

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FINANCIAL INFORMATION REGARDING THE DISTRICT ..... A
SCHULENBURG INDEPENDENT SCHOOL DISTRICT ANNUAL FINANCIAL REPORT ..... B
FORM OF BOND COUNSEL'S OPINION C
FORM OF SPECIAL TAX COUNSEL'S OPINION ..... D

The cover page hereof, this page, the 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 Schulenburg Independent School District (the "District") is a political subdivision located in Fayette County, Texas. The District is governed by a seven-member Board of Trustees (the "Board"). Board trustees serve staggered three-year terms with elections being held in May of each year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Consultants and advisors supply support services. See "INTRODUCTION – Description of the District." The District is approximately 134 square miles in area.
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, an election held in the District on May 7, 2016, and an order authorizing the issuance of the Bonds passed by the Board of Trustees of the District (the "Order") (see "THE BONDS – Authority for Issuance").
The Bonds.....	The District's Unlimited Tax School Building Bonds, Series 2016 (the "Bonds") shall mature on the dates and in the amounts set forth on the inside cover page of this Official Statement (see "THE BONDS – Description of the Bonds").
Payment of Interest.....	Interest on the Bonds will accrue from the date of delivery and will be payable semiannually on February 15 and August 15 of each year, commencing February 15, 2017, until maturity or prior redemption (see "THE BONDS – Description of the Bonds").
Paying Agent/Registrar.....	The initial Paying Agent/Registrar is BOKF, NA, Austin, Texas (see "THE BONDS – Paying Agent/Registrar"). Initially, the District intends to use the Book-Entry Only System of The Depository Trust Company (see "THE BONDS – Book-Entry Only System").
Security For The Bonds.....	The Bonds are direct obligations of the District, payable from an ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District. (See "THE BONDS – Security and Source of Payment"). In addition, the District has received conditional approval for payment of the Bonds to be guaranteed by the Permanent School Fund of the State of Texas (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").
Optional Redemption.....	The Bonds maturing on and after February 15, 2027, are subject to redemption at the option of the District prior to maturity, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2026 or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption (see "THE BONDS – Optional Redemption").
Mandatory Redemption.....	The Bonds stated to mature on February 15 in the year 2032 are subject to mandatory sinking fund redemption as more particularly described herein (see "THE BONDS – Mandatory Redemption").
Tax Matters.....	In the opinion of Special Tax Counsel, under existing law interest on the Bonds is excludable from gross income for federal income tax purposes and the Bonds are not "private activity bonds." See "TAX MATTERS" for a discussion of the opinion of Special Tax Counsel, including a description of alternative minimum tax consequences for corporations.

Qualified Tax-Exempt Obligations.....	The District expects to designate the Bonds as qualified tax-exempt obligations. See "TAX MATTERS – Purchase of Tax-Exempt Obligations By Financial Institutions" herein.
Use of Proceeds	Proceeds from the sale of the Bonds will be used (i) to finance the construction, acquisition, renovation, and equipment of school buildings in the District; and (ii) to pay certain costs incurred in connection with the issuance of the Bonds. (See "THE BONDS – Purpose" and "THE BONDS – Sources and Uses of Funds").
Book-Entry Only System.....	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry Only System described herein. The Bonds will be issued in principal denominations of $5,000 or any integral multiple thereof within a maturity. No physical delivery of the Bonds will be made to the beneficial owners thereof. The principal of the Bonds at maturity or on a prior redemption date and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. (See "THE BONDS – Book-Entry Only System").
Ratings.....	Moody's Investor Services ("Moody's") has assigned its municipal bond rating of "Aaa" to the Bonds by virtue of the guarantee of the Permanent School Fund of the State of Texas of the Bonds. An explanation of the significance of such ratings may be obtained from Moody's (See "OTHER INFORMATION – Ratings").
Payment Record.....	The District has never defaulted on the payment of its bonded indebtedness.

SCHULENBURG INDEPENDENT SCHOOL DISTRICT

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 8/31	Estimated Population[1]	Taxable Assessed Valuation[2]	Taxable Assessed Valuation Per Capita	Tax Supported Debt Outstanding	Ratio of Tax Supported Debt to Assessed Valuation	Tax Supported Debt Per Capita
2012	4,759	$345,623,006	$72,625	$5,704,994	1.65%	$1,199
2013	4,738	355,949,584	75,127	5,439,994	1.53%	1,148
2014	4,678	369,944,661	79,082	5,425,000	1.47%	1,160
2015	4,708	390,902,434	83,029	5,248,062	1.34%	1,115
2016	4,654	383,205,411	82,339	10,051,358[3]	2.62%	2,160

[1] Source: Municipal Advisory Council of Texas.
[2] As reported by Fayette County Appraisal District on the District's annual State Property Tax Reports and such values are subject to change during ensuing year.
[3] Includes the Bonds.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

Fiscal Year Ended August 31,

	2015	2014	2013	2012	2011
Beginning Balance	$ 577,077	$ 508,458	$ 435,073	$ 536,687	$ 443,124
Total Revenue	6,532,261	6,315,662	5,907,085	5,994,117	6,235,595
Total Expenditures	6,362,953	6,234,381	6,020,450	6,085,731	6,136,249
Excess/(Deficiency) of Revenues	169,308	81,281	(113,365)	(91,614)	99,346
Net Transfers/Adjustments	(32,746)	(12,662)	186,750	(10,000)	(5,783)
Ending Balance	$ 713,639	$ 577,077	$ 508,458	$ 435,073	$ 536,687

Source: The District's audited financial statements.

For additional information regarding the District, please contact:

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DISTRICT OFFICIALS, STAFF, AND CONSULTANTS

Elected Officials

Board of Trustees*	Length of Service	Term Expires	Occupation
Shannon McBride, President	3 Years	May, 2019	Administrator
Paddy Magliolo, Vice President	4 Years	May, 2018	Business Owner
Craig Schulz, Secretary	2 Years	May, 2017	Sales
John Salem, Member	2 Years	May, 2017	Sales
Rodney Michalke, Member	2 Years	May, 2017	Unemployed
Tony Shank, Member	1 Year	May, 2018	Sales

* The Board of Trustee's currently has an open position, appointment by the Board of Trustees to fill the position is scheduled for late August.

Selected Administrative Staff

Name	Position	Length of Service Within District	Total Industry Experience
Lisa Meysembourg	Superintendent	6 Years	19 Years
Lynne Machac	Business Manager	25 Years	25 Years

Consultants and Advisors

Auditors…… .....Belt Harris Pechacek, LLLP
Uvalde, Texas

Bond Counsel .....Powell & Leon, LLP
Austin, Texas

Special Tax Counsel .....Bracewell LLP
Austin, Texas

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

OFFICIAL STATEMENT

RELATING TO

$5,125,000
SCHULENBURG INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2016

INTRODUCTION

This Official Statement, which includes APPENDICES A, B, C, and D hereto, provides certain information regarding the issuance of the $5,125,000 Schulenburg Independent School District Unlimited Tax School Building Bonds, Series 2016 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the order (the "Order") adopted by the Board of Trustees (the "Board") of the Schulenburg Independent School District (the "District") on the date of sale of the Bonds, which will authorize the issuance of the Bonds, except as otherwise indicated herein.

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

Included in this Official Statement are descriptions of the Bonds, the Order, and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained by writing the Schulenburg Independent School District, 521 North Street, Schulenburg, Texas 78956, and, during the offering period, from the District's Financial Advisor, Government Capital Securities Corporation, 559 Silicon Drive, Suite 102, Southlake, Texas 76092, upon payment of reasonable copying, mailing, and handling charges.

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

Description of the District

The District is a political subdivision of the State of Texas located in Fayette County, Texas. The District is governed by the Board. Board trustees serve staggered three-year terms with elections being held in May of each year. Policymaking 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 is approximately 134 square miles in area.

THE BONDS

Description of the Bonds

The Bonds shall be dated August 1, 2016. Interest will accrue on the Bonds from the date of delivery thereof and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued in principal denominations of $5,000 or any integral multiple thereof within a maturity. The paying agent and transfer agent (the "Paying Agent/Registrar") for the Bonds is initially BOKF, NA, Austin, Texas.

Initially, the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry Only System described below. No physical delivery of the Bonds will be made to the beneficial owners. The principal of the Bonds at maturity or on a prior redemption date and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will distribute the

amounts paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry Only System" for a more complete description of such system.

Optional Redemption

The Bonds maturing on and after February 15, 2027 are subject to redemption prior to maturity, at the option of the District, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2026 or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. If less than all of the Bonds are redeemed at any time, the particular maturities of Bonds to be redeemed shall be selected by the District. If less than all of the Bonds of a certain maturity are to be redeemed, the particular Bond or portions thereof to be redeemed will be selected by the Paying Agent/Registrar by such random method as the Paying Agent/Registrar shall deem fair and appropriate.

Mandatory Redemption

The Bonds stated to mature on February 15 in the year 2032 ("Term Bonds") are subject to mandatory sinking fund redemption prior to their stated maturities at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption in the following principal amounts on August 15 in each of the years as set forth below:

Term Bonds Due February 15, 2032

Year	Principal Amount
2031	$425,000
2032	105,000*

*Stated maturity.

The particular Term Bonds to be redeemed shall be selected by the Paying Agent/Registrar by lot or other customary random selection method, on or before January 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 optionally redeemed on or before January 1 of such year and which have not been made the basis for a previous reduction.

Notice of Redemption

At least 30 days but not more than 60 days prior to the date fixed for any redemption of Bonds, the District shall cause a written notice of such redemption to be deposited in the United States mail, postage prepaid, addressed to each registered owner of the Bonds or portions thereof to be redeemed at the address shown on the books of registration kept by 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. UPON THE GIVING OF THE NOTICE OF REDEMPTION AND THE DEPOSIT OF THE FUNDS NECESSARY TO REDEEM SUCH BONDS, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND INTEREST ON SUCH BONDS OR PORTION THEREOF SHALL CEASE TO ACCRUE, IRRESPECTIVE OF WHETHER SUCH BONDS ARE SURRENDERED FOR PAYMENT.

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").

Authority for Issuance

The Bonds are being issued pursuant to authority conferred by the Constitution and general laws of the State of Texas, including particularly Chapter 45, Texas Education Code, as amended, by an election held in the District on May 7, 2016, and by the Order adopted by the Board. Capitalized terms used herein have the same meanings, respectively, assigned to such terms in the Order, except as otherwise indicated.

Purpose

Proceeds from the sale of the Bonds will be used (i) to finance the construction, acquisition, renovation, and equipment of school buildings in the District; and (ii) to pay certain costs incurred in connection with the issuance of the Bonds.

Sources and Uses of Funds

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

Sources of Funds:	
Par Amount of the Bonds	$5,125,000
Plus: Original Issue Premium	631,062.65
Total Sources of Funds	$5,756,062.65
Uses of Funds:	
Deposit to Project Fund	$5,600,000
Underwriters' Discount and Issuance Costs[(1)]	156,062.65
Total Uses of Funds	$5,756,062.65

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

Security and Source of Payment

The Bonds are direct obligations of the District, payable from an ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District, as provided in the Order. 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 for the payment of the Bonds to be guaranteed 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 payment of the Bonds will be guaranteed by the corpus of the Permanent School Fund of the State in accordance with the terms of the Guarantee Program for School District Bonds (the "Permanent School Fund Guarantee"). 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 Guarantee.

Legality

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

Amendments to the Order

In the Order, the District has reserved the right to amend the Order without the consent of any holder in any manner not detrimental to the interests of the holders, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District has reserved the right, with the consent of holders who own in the aggregate a majority of the principal amount of the Bonds then Outstanding affected thereby, to amend, change, modify or rescind any provisions of the Order; provided that, without the consent of all of the registered owners of the Bonds affected, no such change, amendment, modification or rescission shall (i) extend the time or times of payment of the principal of and interest on the Bonds, or reduce the principal amount thereof or the rate of interest thereon, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of Bonds required to be held by holders for consent to any such amendment, change, modification or rescission.

Defeasance

The Order provides that the District may defease the Bonds and discharge its obligation to the holders of any or all of the Bonds to pay the principal thereof and interest thereon when such payment shall have been provided for by depositing with an escrow agent (the "Escrow Agent"), for such payment, (i) cash sufficient to make such payment or (ii) Governmental Obligations certified by an independent public accounting firm of national reputation to be of such maturities and interest payment dates and to bear interest at such rates as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom (likewise to be held in trust and committed, except as hereinafter provided), be sufficient to make such payment or (iii) a combination of money and Governmental Obligations together so certified to be sufficient, provided that all the expenses pertaining to the Bonds with respect to which such deposit is made shall have been paid, or the payment thereof provided for, to the satisfaction of the Escrow Agent. Notwithstanding the foregoing, no such deposit shall have the effect described in above if made during the subsistence of a default in the payment of any Bond unless made with respect to all of the Bonds then outstanding. Any money and Government Obligations deposited for such purpose shall be held by the Escrow Agent in a segregated account in trust or escrow for the registered owners with respect to which such deposit is made and, together with any investment income therefrom, shall be disbursed solely to pay the principal of and interest on such Bonds when due. No money or Governmental Obligations so deposited may be invested or reinvested unless in Governmental Obligations and unless such money and Governmental Obligations not invested and such new investments are together certified by an independent public accounting firm of national reputation to be of such amounts, maturities, and interest payment dates and to be of such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earning therefrom, be sufficient to make such payment. At such times as a Bond shall be deemed to be paid as set forth above, as aforesaid, they shall no longer be entitled to the benefits of the Order, except for the purposes of any such payment from such money or Governmental Obligations.

For purposes of this subheading, "Government Obligations" means (i) direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by, the United States of America; (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; or (iv) such other obligations as may be authorized by law to be used for defeasance.

The Permanent School Fund guarantee of the Bonds will be released upon the defeasance of the Bonds.

Book-Entry Only System

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

Neither the District nor either of the Underwriters can give or gives 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 Bond will be issued for each maturity of the Bonds, 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 Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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

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

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

Use of Certain Terms in Other Sections of this Official Statement

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

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

Paying Agent/Registrar

BOKF, NA, Austin, Texas has been named to serve as initial Paying Agent/Registrar for the Bonds. In the Order, the District retains the right to replace the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank; a trust company organized under applicable law; or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice

thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

In the event the Book-Entry Only System should be discontinued, interest on the Bonds will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest will be paid (i) by check sent United States mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Notwithstanding the foregoing payment procedures, upon written request to the District and the Paying Agent/Registrar, the registered owner of at least $1,000,000 in principal amount of the Bonds may receive all payments of principal and interest on such Bonds by wire transfer on each payment date. CUSIP number identification with appropriate dollar amount of payment pertaining to each CUSIP number (if more than one CUSIP number) must accompany all payments of interest and principal, whether by check or wire transfer. Principal and redemption payments of the Bonds will be paid to the registered owner at the stated maturity or earlier redemption upon presentation to the designated payment/transfer office of the Paying Agent/Registrar. 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. 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 "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 thereof 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 principal 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" 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 Bonds (i) during a period beginning at the close of business on any Record Date and ending with the next interest payment date or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date 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

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

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

the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Owners' Remedies

The Order does not provide for the appointment of a trustee to represent the interests of the Bondholders upon any failure of the District to perform in accordance with the terms of the Order or upon any other condition and, in the event of any such failure to perform, the registered owners would be responsible for the initiation and cost of any legal action to enforce performance of the Order. Furthermore, the Order does not establish specific events of default with respect to the Bonds and, under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the District to observe any covenant under the Order. A registered owner of Bonds could seek a judgment against the District if a default occurred in the payment of principal of or interest on any such Bonds; however, such judgment could not be satisfied by execution against any property of the District and a suit for monetary damages could be vulnerable to the defense of sovereign immunity. A registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the District to levy, assess, and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due or perform other material terms and covenants contained in the Order. In general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform legally imposed ministerial duties necessary for the performance of a valid contract, and Texas law provides that, following their approval by the Attorney General and issuance, the Bonds are valid and binding obligations for all purposes according to their terms. However, the enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. The District is also eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinions of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

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

History and Purpose

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

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

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

In 2011, 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]

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

[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 Litigation and 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 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 "AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate" herein). Elections authorizing the levy of M&O taxes held in certain school districts under older laws, however, may subject M&O tax rates in such districts to other limitations (See "TAX RATE LIMITATIONS" herein).

State Funding for School Districts

State funding for school districts is provided through the Foundation School Program, which provides each school district with a minimum level of funding (a "Basic Allotment") for each student in average daily attendance

("ADA"). The Basic Allotment is calculated for each school district using various weights and adjustments based on the number of students in average daily attendance and also varies depending on each district's compressed tax rate. This Basic Allotment formula determines most of the allotments making up a district's 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 Legislative Session

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.

Possible Effects of Wealth Transfer Provisions on the District's Financial Condition

The District's wealth per student for the 2015-16 school year was more than the equalized wealth value. Accordingly, the District was required to exercise one of the permitted wealth equalization options and signed an agreement to purchase attendance credits.

The District's wealth per student for the 2016-17 school year also exceeded the equalization value and the District will be required to exercise one of the permitted wealth equalization options and has signed an agreement to purchase attendance credits.

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

AD VALOREM TAX PROCEDURES

Property Tax Code and County-Wide Appraisal District

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

Property Subject to Taxation by the District

Except for certain exemptions provided by State law, all real and certain tangible personal property with a tax situs in the District is subject to taxation by the District. Principal categories of exempt property (including certain exemptions which are subject to local option by the Board) include property owned by the State or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain improvements to real property and certain tangible personal property located in designated reinvestment zones on which the District has agreed to abate ad valorem taxes; certain household goods, family supplies and personal effects; farm products owned by the producers; certain real property and tangible personal property owned by a non-profit community business organization or a charitable organization; and designated historic sites. Other principal categories of exempt property include tangible personal property not held or used for production of income; solar and wind powered energy devices; most individually owned automobiles; $10,000 exemption to residential homesteads of disabled persons or persons ages 65 or over; an exemption from $5,000 to a maximum of

$12,000 for real or personal property of disabled veterans or the surviving spouses (so long as the surviving spouse remains unmarried) or children (under 18 years of age) of a deceased veteran who died while on active duty in the armed forces, with veterans who are 100% disabled (being a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability) or such veterans surviving spouse (so long as the surviving spouse remains unmarried) entitled to an exemption from taxation of the total appraised value of the veteran's residential homestead; an exemption for a partially disabled veteran or certain surviving spouses of partially disabled veterans 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 by a charitable organization; an exemption for the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse; $15,000 in market value for all residential homesteads; and certain classes of intangible property. In addition, except for increases attributable to certain improvements, the District is prohibited by State law from increasing the total ad valorem tax of the residence homestead of persons 65 years of age or older above the amount of tax imposed in the year such residence qualified for an exemption based on age of the owner. The freeze on ad valorem taxes on the homesteads of persons 65 years of age or older is also transferable to a different residence homestead. 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. The freeze on taxes paid on residence homesteads of persons 65 years of age and older was extended to include the resident homesteads of "disabled" persons, including the right to transfer the freeze to a different residence homestead. A "disabled" person is one who is "under a disability for purposes of payment of disability insurance benefits under the Federal Old Age, Survivors and Disability Insurance." Pursuant to a constitutional amendment approved by the voters on May 12, 2007, legislation was enacted to reduce the school property tax limitation imposed by the freeze on taxes paid on residence homesteads of persons 65 years of age or over or of disabled persons to correspond to reductions in local school district tax rates from the 2005 tax year to the 2006 tax year and from the 2006 tax year to the 2007 tax year (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – General"). The school property tax limitation provided by the constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years. Owners of agricultural and open space land, under certain circumstances, may request valuation of such land on the basis of productive capacity rather than market value.

Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal.

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by Section 11.253 of the Property Tax Code, which is effective for tax years 2008 and thereafter, as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. Section 11.253 of the Property Tax Code permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax "goods-in-transit" during the following tax year. A taxpayer may only receive either the freeport exemption or the "goods-in-transit" exemption for items of personal property. See "APPENDIX A – FINANCIAL INFORMATION REGARDING THE DISTRICT" 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. Effective September 1, 2001, school districts may not enter into tax abatement agreements under the general statute that permits cities and counties to initiate tax abatement agreements. In addition, credit will not be given by the Commissioner of Education in determining a district's property value wealth per student for (1) the appraised value, in excess of the "frozen" value, of property that is located in a TIF created after May 31, 1999 (except in certain limited circumstances where the municipality creating the tax increment financing zone gave notice prior to May 31, 1999 to all other taxing units that levy ad valorem taxes in the TIF of its intention to create the TIF and the TIF was created and had its final project and financing plan approved by the municipality prior to August 31, 1999), or (2) for the loss of value of abated property under any abatement agreement entered into after May 31, 1993. Notwithstanding the foregoing, in 2001 the Legislature enacted legislation known as the Texas Economic Development Act, which provides incentives for school districts to grant limitations on appraised property values and provide ad valorem tax credits to certain corporations and limited liability companies to encourage economic development within the district. Generally, during the last eight years of the ten-year term of a tax limitation agreement, the school district may only levy and collect ad valorem taxes for maintenance and operation purposes on the agreed-to limited appraised property value. The taxpayer is entitled to a tax credit from the school district for the amount of taxes imposed during the first two years of the tax limitation agreement on the appraised value of the property above the agreed-to limited value. Additional State funding is provided to a school district for each year of such tax limitation in the amount of the tax credit provided to the taxpayer. During the first two years of a tax limitation agreement, the school district may not adopt a tax rate that exceeds the district's rollback tax rate (see "AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate").

Valuation of Property for Taxation

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

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

The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. Landowners wishing to avail themselves of the agricultural use designation must apply for the designation, and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes for previous years based on the new value, including three years for agricultural use and five years for agricultural open-space land and timberland prior to the loss of the designation.

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

Residential Homestead Exemption

Under Section 1-b, Article VIII of the Texas Constitution and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than $3,000 of market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than $3,000 of the market value.

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

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

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

District and Taxpayer Remedies

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

Public Hearing and Rollback Tax Rate

In setting its annual tax rate, the governing body of a school district generally cannot adopt a tax rate exceeding the district's "rollback tax rate" without approval by a majority of the voters voting at an election approving the higher rate. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures and (2) a rate for debt service. 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.

Levy and Collection of Taxes

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

District's Rights in the Event of Tax Delinquencies

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

Except with respect to taxpayers who are 65 years of age or older, at any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights, or by bankruptcy proceedings which restrict the collection of taxpayer debts.

Collection of Taxes - Penalty and Interest Charges

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

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

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

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

EMPLOYEES' BENEFIT PLANS

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

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

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 February 19, 1966 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 2.62% of the District's current taxable assessed valuation of property. See "APPENDIX A – FINANCIAL INFORMATION REGARDING THE DISTRICT" 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 – Source and Security for Payment").

Section 45.0031, Texas Education Code, as amended ("Section 45.0031"), requires a district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by district voters at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, "exempt bonds"), from a tax levied at a rate of $0.50 per $100 of assessed valuation before bonds may be issued. In demonstrating the ability to pay debt service at a rate of $0.50, a district may take into account EDA and IFA allotments to the district, which effectively reduces the district's local share of debt service, and may also take into account Tier One funds allotted to the district. The District is required to deposit any State allotments provided solely for payment of debt service into the District's interest and sinking fund upon receipt of such amounts. In addition, the District must, prior to levying an interest and sinking fund tax rate that exceeds $0.50 per $100 of assessed valuation, credit to the interest and sinking fund other State assistance, including Tier One funds that may be used for either operating purposes or for payment of debt service, in an amount equal to the amount needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Once the prospective ability to pay such tax has been shown and the bonds are issued, a district may levy an unlimited tax to pay debt service. Taxes levied to pay refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the $0.50 tax rate test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the $0.50 threshold tax rate test when applied to subsequent bond issues. The Bonds are issued for school building purposes pursuant to Chapter 45, Texas Education Code as new debt and are subject to the threshold tax rate test. Under current law, a district may demonstrate its ability to comply with the $0.50 threshold tax rate test by applying the $0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a district uses projected future taxable values to meet the $0.50 threshold tax rate test and subsequently imposes a tax at a rate greater than $0.50 per $100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the 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.

INVESTMENTS

The District invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the Board. Both state law and the District's investment policies are subject to change. See Table 12 in APPENDIX A for a description of the District's investments as of May 13, 2016.

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 include a list of authorized investments for District funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Texas Public Funds Investment Act. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

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 family relationships with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the District, (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) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy, (5) 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, (6) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements and (8) provide specific investment training for the Treasurer, the chief financial officer (if not the Treasurer) and the investment officer.

TAX MATTERS

Tax Exemption

In the opinion of Bracewell LLP, Special Tax Counsel, under existing law, (i) interest on the Bonds is excludable from gross income for federal income tax purposes and (ii) the Bonds are not "private activity bonds" under the Code, and, as such, interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The District has covenanted in the Order that it will comply with these requirements.

Special Tax Counsel's opinion will assume continuing compliance with the covenants of the Order pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the District, the District's Financial Advisor and the Underwriters with respect to matters solely within the knowledge of the District, the District's Financial Advisor and the Underwriters, respectively, which Special Tax Counsel has not independently verified. If the District fails to comply with the covenants in the Order or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Bonds could become includable in gross income from the date of delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs. Special Tax Counsel's opinion will also rely on the opinions of the Attorney General of the State of Texas and Bond Counsel as to the validity of the Bonds.

The Code also imposes a 20% alternative minimum tax on the "alternative minimum taxable income" of a corporation if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT, or REMIC), includes 75% of the amount by which its "adjusted current earnings" exceeds its other "alternative minimum taxable income." Because interest on tax-exempt obligations, such as the Bonds, is included in a corporation's "adjusted current earnings," ownership of the Bonds could subject a corporation to alternative minimum tax consequences.

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

Special Tax Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Special Tax Counsel's knowledge of facts as of the date thereof. Special Tax Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Special Tax Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Special Tax Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Special Tax Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds regardless of the ultimate outcome of the audit.

Purchase of Tax-Exempt Obligations by Financial Institutions

Section 265(a) of the Code provides, in general, that a deduction for interest on indebtedness incurred to acquire or carry tax-exempt obligations is disallowed. Section 265(b) of the Code provides a specific complete disallowance of any deduction by a financial institution of its pro rata interest expense to reflect such financial institution's investment in tax-exempt obligations acquired after August 7, 1986. Section 265(b) also provides an exception for financial institutions for tax-exempt obligations that are properly designated or deemed designated by an issuer as "qualified tax-exempt obligations."

The Bonds have been designated as "qualified tax-exempt obligations" based, in part, on the District's representation that the amount of the Bonds, when added to the amount of all other tax-exempt obligations (not including private activity bonds other than "qualified 501(c)(3) bonds" or any obligations issued to currently refund any obligation to the extent the amount of the refunding obligation did not exceed the outstanding amount of the refunded obligation) issued or reasonably anticipated to be issued by or on behalf of the District during 2016, is not expected to exceed $10,000,000. Further, the District and entities aggregated with the District under the Code have not designated more than $10,000,000 in "qualified tax-exempt obligations" (including the Bonds) during 2016.

Notwithstanding the designation of the Bonds as "qualified tax-exempt obligations" under this exception, financial institutions acquiring the Bonds will be subject to a 20% disallowance of allocable interest expense.

ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS

Collateral Tax Consequences

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle taxpayers qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

Tax Accounting Treatment of Original Issue Premium

The issue price of all of the Bonds exceeds the stated redemption price payable at maturity of such Bonds. Such Bonds (the "Premium Bonds") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Premium Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Bonds.

Tax Legislative Changes

Current law may change so as to directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed, pending or future legislation.

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

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

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12. The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's current fiscal year end is 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.

Material Event Notices

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

by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports".

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

Limitations and Amendments

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

The continuing disclosure agreement may be amended, supplemented or repealed by the District from time to time under the following circumstances, but not otherwise: (1) 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 the provisions, as so amended or supplemented, would have permitted an underwriter to purchase or sell Bonds in a primary offering of the 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 either the registered owners of a majority in aggregate principal of the outstanding Bonds consent to such amendment, supplement or repeal or any State agency or official determines that such amendment will not materially impair the interests of the beneficial owners of the Bonds, (2) upon repeal of the applicable provisions of Rule 15c2-12, or any judgment by a court of final jurisdiction that such provisions are invalid or (3) in any other circumstance or manner permitted by the Rule. If the District amends or supplements its continuing disclosure agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in type of information and data provided.

Compliance with Prior Undertakings

The District has complied in all material respects with its continuing disclosure agreements during the previous five years.

OTHER INFORMATION

Ratings

The District has received conditional approval for payment of the Bonds to be guaranteed by the Permanent School Fund of the State of Texas and Moody's Investor Services ("Moody's") rates all bond issues (such as the Bonds) guaranteed by the Permanent School Fund of the State of Texas "Aaa". See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein. An explanation of the significance of such ratings may be obtained from Moody's. The ratings reflect only the views of Moody's, and the District makes no representation as to the appropriateness of such ratings.

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

No Litigation Certificate

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

Legal Investments and Eligibility to Secure Public Funds in Texas

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Bonds (1) are negotiable instruments, (2) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (3) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency before such Bonds are eligible investments for sinking funds and other public funds. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital and savings and loan associations.

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

Registration and Qualification of Bonds for Sale

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission 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 registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold, or otherwise transferred. This disclaimer of responsibility for registration and 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 or qualification provisions in such other jurisdictions.

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 opinions of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the legal opinions of Powell & Leon, LLP, Austin, Texas, Bond Counsel, and Bracewell LLP, Austin, Texas, Special Tax Counsel, with respect to the Bonds being issued in compliance with the provisions of applicable law and the interest on the Bonds being excludable from gross income for purposes of federal income tax. The form of Bond Counsel's opinion is attached hereto as APPENDIX C – FORM OF BOND COUNSEL'S OPINION and the form of Special Tax Counsel's opinion is attached hereto as APPENDIX D – FORM OF SPECIAL TAX COUNSEL'S OPINION. Bond Counsel will not be responsible in any manner for matters addressed in the opinion of Special Tax Counsel and, likewise, Special Tax Counsel will not be responsible in any manner for matters addressed in the opinion of Bond Counsel. Moreover, Bond Counsel and Special Tax Counsel have no joint responsibility with respect to the Bonds or the proceedings relating to the Bonds. Bond Counsel will be solely responsible its opinion and Special Tax Counsel will be solely responsible for its opinion.

Bond Counsel and Special Tax Counsel were engaged by, and only represent, the District. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in their capacity as Bond Counsel, such firm has reviewed the information appearing under the following captions or subcaptions, as applicable: "THE BONDS" (except under the subcaptions "Sources and Uses of Funds", "Permanent School Fund Guarantee", and "Book-Entry Only System"), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" (except under the subcaption "Possible Effects of Wealth Transfer Provisions on the District's Financial Condition"), "TAX RATE LIMITATIONS", "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Undertakings"), "OTHER INFORMATION – Legal Investments and Eligibility to Secure

Public Funds in Texas", "OTHER INFORMATION – Registration and Qualification of Bonds for Sale", and "OTHER INFORMATION – Legal Matters" (except for the last two sentences of the second paragraph thereof) and such firm is of the opinion that the information relating to the Bonds and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. Except as noted below, Special Tax 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 their capacity as Special Tax Counsel, such firm has reviewed the information appearing under the following captions or subcaptions, as applicable: "TAX MATTERS," "ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS," and "OTHER INFORMATION – Legal Matters" (insofar as such section relates to the legal opinion of special tax counsel), and such firm is of the opinion that the information relating to the Bonds and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein. Bond Counsel and Special Tax Counsel have not independently verified factual information contained in this Official Statement, nor have such firms conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to the accuracy or completeness of any of the other information contained herein. The legal fees to be paid to Bond Counsel and Special Tax Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. The legal opinions of Bond Counsel and Special Tax Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Houston, Texas. The legal fee of such firm is contingent upon the sale and delivery of the Bonds.

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

Financial Advisor

In its role as Financial Advisor, Government Capital Securities Corporation has relied on the District for certain information concerning the District and the Bonds. The fee of the Financial Advisor for services with respect to the Bonds is contingent upon the issuance and sale of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

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

Forward Looking Statements

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

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners, and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with

respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the District. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

Use of Audited Financial Statements

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

Underwriting

Coastal Securities, Inc. and Oppenheimer & Co. Inc. (collectively, the "Underwriters") have agreed, subject to certain conditions, to purchase the Bonds from the District, at the respective prices indicated on the inside front cover of this Official Statement, less an underwriting discount of $54,255.81, and no accrued interest. 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.

Certain of the Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. Certain of the Underwriters and their respective affiliates have, from time to time, performed and may in the future perform various financial advisory and investment banking services for the District for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the District.

The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

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

Miscellaneous

The financial data and other information contained herein have been obtained from the District's records, audited financial statements, and other sources that are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents, and 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.

Concluding Statement

The information set forth herein has been obtained from the District's records, audited financial statements, and other sources which are considered to be reliable. There is no guarantee that any of assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents, and the Order contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and the Order. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects. The Order authorizing the issuance of the Bonds also will approve the form and content of this Official Statement and any addenda, supplement, or amendment thereto and authorize its further use in the re-offering of the Bonds by the Underwriters. This Official Statement has been approved by the Board for distribution in accordance with the provisions of Rule 15c2-12.

ATTEST:

/s/ Craig Schulz
Secretary, Board of Trustees
Schulenburg Independent School District

/s/ Shannon McBride
President, Board of Trustees
Schulenburg Independent School District

APPENDIX A

FINANCIAL INFORMATION REGARDING THE DISTRICT

The Property Tax Code as it Applies to the District

The District has not granted an additional exemption to the market value of the residence homestead of persons 65 years of age or older, over the state-mandated exemption. The District has not granted an additional exemption to the market value of residence homesteads; minimum exemption of $5,000. The exemption for a disabled veteran is equal to 100% of the market value of the residence homestead.

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

The District does not tax nonbusiness personal property.

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

The District does not tax freeport property.

The District has not entered into tax abatement agreements.

The District does tax goods in transit.

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TABLE 1 - VALUATION, EXEMPTIONS, AND TAX SUPPORTED DEBT

District Direct Debt

2015/16 Certified Taxable Assessed Valuation[(1)] (100% of Estimated Market Value)	$383,205,411
Outstanding Debt	4,926,358
Plus: The Bonds	5,125,000
Total Direct Debt	$ 10,051,358
As a % of 2015/16 Certified Taxable Assessed Valuation	2.62%

[(1)] Provided by Fayette County Appraisal District.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

	Tax Year 2015	Tax Year 2014	Tax Year 2013	Tax Year 2012	Tax Year 2011
Gross Value	$986,233,470	$890,749,003	$868,184,338	$789,671,051	$459,586,222
Less Exemptions	603,028,059	499,846,569	498,239,677	433,721,467	113,963,216
Net Taxable Value	$383,205,411	$390,902,434	$369,944,661	$355,949,584	$345,623,006

TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY

Fiscal Year Ended 8/31	Estimated Population[1]	Taxable Assessed Valuation[2]	Taxable Assessed Valuation Per Capita	Tax Supported Debt Outstanding	Ratio of Tax Supported Debt to Assessed Valuation	Tax Supported Debt Per Capita
2012	4,759	$345,623,006	$72,625	$5,704,994	1.65%	$1,199
2013	4,738	355,949,584	75,127	5,439,994	1.53%	1,148
2014	4,678	369,944,661	79,082	5,425,000	1.47%	1,160
2015	4,708	390,902,434	83,029	5,248,062	1.34%	1,115
2016	4,654	383,205,411	82,339	10,051,358 [3]	2.62%	2,160

[1] Source: Municipal Advisory Council of Texas .
[2] As reported by Fayette County Appraisal District on the District's annual State Property Tax Reports and such values are subject to change during ensuing year.
[3] Includes the Bonds.

TABLE 4 - TAX RATE, LEVY, AND COLLECTION HISTORY

Fiscal Year Ended 8/31	Tax Year	Taxable Assessed Valuation[1]	Tax Rate	Tax Levy[2]	Percent Collected	
					Current	Total
2012	2011	$345,623,006	$1.18020	$4,079,043	97.23%	98.60%
2013	2012	355,949,584	1.17690	4,538,459	97.98%	102.35%
2014	2013	369,944,661	1.16250	4,651,793	98.15%	99.86%
2015	2014	390,902,434	1.15650	4,892,415	98.40%	99.79%
2016	2015	383,205,411	1.15650	4,854,067	(In Process of Collection)	

[1] Net of exemptions. Assessed valuations do not include adjustments in supplemental rolls made after the end of each fiscal year.
[2] Excludes penalties and interest.

TABLE 5 - TEN LARGEST TAXPAYERS

Taxpayers	Type of Property	2015 Net Taxable Assessed Valuations	% of Total 2015 Assessed Valuation
1. Dairy Farmers of America	Dairy Producer	$29,413,190	7.68%
2. PNC Equipment Finance LLC	Financing	17,227,800	4.50%
3. Union Pacific Railroad Co	Railroad	8,601,140	2.24%
4. B W I – Schulenburg Inc.	Agriculture Services	8,408,840	2.19%
5. LCRA Transmission Svcs Corp	Electric Utility	5,655,410	1.48%
6. Sach Hospitality LLC	Hotel	4,599,340	1.20%
7. AXIP Energy Services	Oil & Gas	4,030,800	1.05%
8. Contech Construction Products	Pipe Supplier	3,897,420	1.02%
9. W H K Family Interest Partnership Ltd.	Trust	3,663,260	0.96%
10. Kemlon Products	Electrical Components Mfg.	3,524,770	0.92%
Total		$89,021,970	23.23%

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[(a)]	Estimated % Overlapping	Overlapping Debt
Fayette Co	05/31/16	$631,000	16.13%	$ 101,780
Schulenburg, City of	05/31/16	-None-	100.00%	0
Estimated (Net) Overlapping Debt				$ 101,780
Schulenburg ISD[(b)]		$10,051,358		10,051,358
Total Direct & Estimated Overlapping Debt				$10,153,138
As a % of Certified 2015/16 Taxable Assessed Valuation				2.65%

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

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TABLE 7 - TAX SUPPORTED DEBT SERVICE REQUIREMENTS

FISCAL YEAR ENDED 8/31	OUTSTANDING DEBT	PLUS: THE BONDS PRINCIPAL	PLUS: THE BONDS INTEREST	TOTAL DEBT SERVICE
2016	$ 72,847.50	$ -	$ -	$ 72,847.50
2017	458,646.00	275,000.00	162,461.67	896,107.67
2018	498,888.00	280,000.00	158,300.00	937,188.00
2019	466,020.00	285,000.00	152,650.00	903,670.00
2020	481,295.00	290,000.00	146,900.00	918,195.00
2021	488,895.00	300,000.00	139,500.00	928,395.00
2022	472,270.00	305,000.00	130,425.00	907,695.00
2023	480,420.00	315,000.00	121,125.00	916,545.00
2024	487,970.00	325,000.00	111,525.00	924,495.00
2025	489,995.00	335,000.00	100,625.00	926,620.00
2026	496,495.00	350,000.00	89,600.00	936,095.00
2027	497,470.00	360,000.00	75,400.00	932,870.00
2028	502,672.50	375,000.00	60,700.00	938,372.50
2029	-	390,000.00	45,400.00	435,400.00
2030	-	410,000.00	29,400.00	439,400.00
2031	-	425,000.00	12,700.00	437,700.00
2032	-	105,000.00	2,100.00	107,100.00
	$5,893,884.00	$5,125,000.00	$1,539,811.67	$12,557,651.67

Estimated Average Annual Debt Service Requirements $738,685.39
Estimated Maximum Annual Debt Service Requirement $893,297.50

TABLE 8 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

After the issuance of the Bonds, the District will have no authorized but unissued unlimited tax bonds. The District does not anticipate issuing additional debt this fiscal year.

TABLE 9 - OTHER OBLIGATIONS

The District has Maintenance Tax Notes (Qualified Zone Academy Bonds), Series 2003, currently outstanding in the principal amount of $268,126.

FISCAL YEAR ENDED 8/31	PRINCIPAL	INTEREST	TOTAL
2017	$ 38,197	$ 5,504	$ 43,701
2018	229,929	5,504	235,433
	$268,126	$11,008	$279,134

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TABLE 10 – SCHEDULE OF GENERAL FUND REVENUES AND EXPENDITURE HISTORY

For Fiscal Year Ended August 31st

	2015	2014	2013	2012	2011
REVENUES:					
Local and Intermediate Sources	$ 4,575,418	$ 4,489,596	$ 4,312,036	$ 4,020,806	$ 3,767,880
State Program Revenues	1,956,843	1,826,066	1,595,049	1,973,311	2,467,715
Total Revenues	$ 6,532,261	$ 6,315,662	$ 5,907,085	$ 5,994,117	$ 6,235,595
EXPENDITURES:					
Current:					
Instruction	$ 3,145,348	$ 3,172,505	$ 3,032,485	$ 3,187,756	$ 3,298,613
Instructional Resources and Media Services	45,074	54,874	53,362	54,432	112,189
Curriculum & Instructional Staff Development	9,612	9,813	8,732	25,204	6,367
School Leadership	404,428	382,778	366,753	326,092	399,757
Guidance Counsel & Evaluation Serv.	138,528	48,132	64,088	88,991	89,160
Health Services	29,627	36,530	46,071	54,136	62,124
Student Transportation	360,314	188,202	182,579	179,635	190,200
Food Services	-	-	-	-	-
Cocurricular/Extracurricular Activities	393,715	323,982	312,542	324,918	326,764
General Administration	407,921	451,747	470,674	439,135	495,667
Debt Service - Principal on long-term debt	73,077	72,497	71,952	54,900	54,900
Debt Service - Interest on long-term debt	10,891	11,471	12,016	5,504	5,504
Plant Maintenance and Operations	858,542	1,036,479	827,126	893,620	753,717
Security and Monitoring Services	1,050	858	1,080	3,068	180
Data Processing Services	312,289	288,976	225,281	282,974	185,570
Capital Outlay	-	-	190,172	-	-
Payments to Fiscal Agent/SSA	155,537	155,537	155,537	9,829	155,537
Payments to Juvenile Justice Alternative	17,000	-	-	155,537	-
Total Expenditures	$ 6,362,953	$ 6,234,381	$ 6,020,450	$ 6,085,731	$ 6,136,249
Excess (Deficit) Revenue Over (Under) Expenditures	169,308	81,281	(113,365)	(91,614)	99,346
Other Financing Sources and (Uses):					
Issuance of Capital Leases	-	-	198,000	-	-
Operating Transfers In	-	17,053	13,000	-	-
Operating Transfers Out	(32,746)	(29,715)	(24,250)	(10,000)	(5,783)
Total Other Financing Sources and (Uses)	(32,746)	(12,662)	186,750	(10,000)	(5,783)
Net Change in Fund Balances	136,562	68,619	73,385	(101,614)	93,563
Fund Balances – Beginning	577,077	508,458	435,073	536,687	443,124
Fund Balances - Ending	$ 713,639	$ 577,077	$ 508,458	$ 435,073	$ 536,687

Source: The District's audited financial statements.

TABLE 11 - GENERAL OPERATING FUND COMPARATIVE BALANCE SHEET [a]

For Fiscal Year Ended August 31st

	2015	2014	2013	2012	2011
ASSETS:					
Cash and Cash Equivalents	$ 125,669	$ 249,072	$ 354,799	$ 613,510	$ 794,093
Current Investments	308,561	308,376	308,232	307,915	307,549
Property Taxes Receivable	177,583	161,884	156,445	251,181	199,913
Allowance for Uncollectible Taxes	(42,838)	(38,903)	(38,310)	(41,914)	(39,563)
Due from Other Governments	329,091	143,393	593	-	-
Due from Other Funds	181,095	100,047	211,499	68,833	9,351
Unrealized Expenditures	-	-	44,440	-	-
Restricted Assets	-	-	7,828	-	-
Prepaid Items	78,785	72,502	-	35,250	-
Total Assets	$ 1,157,946	$ 996,371	$ 1,045,526	$ 1,234,775	$ 1,271,343
LIABILITIES:					
Current Liabilities:					
Accounts Payable	$ 5,351	$ 7,248	$ -	$ 15,854	$ 11,159
Payroll Deductions and withholding payable	1,173	5,076	2,421	1,013	2,863
Accrued Wages Payable	173,051	153,771	129,618	139,623	153,573
Due to Other Funds	128,108	128,612	124,261	125,044	185,448
Due to Other Governments	-	-	162,633	308,901	217,978
Unearned Revenues	1,879	1,605	-	209,267	163,635
Total Liabilities	$ 309,562	$ 296,312	$ 418,933	$ 799,702	$ 734,656
DEFERRED INFLOWS OF RESOURCES:					
Unavailable Revenue for Property Taxes	134,745	122,982	118,135	-	-
Total Deferred Inflows of Resources	134,745	122,982	118,135	-	-
FUND BALANCES:					
Restricted Fund Balances:					
Construction	-	-	-	-	-
Unassigned Fund Balance	713,639	577,077	508,458	435,073	536,687
Total Fund Balances	$ 713,639	$ 577,077	$ 508,458	$ 435,073	$ 536,687
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 1,157,946	$ 996,371	$ 1,045,526	$ 1,234,775	$ 1,271,343

[a] The District's audited financial statements.

TABLE 12 - CURRENT INVESTMENTS[1]

As of May 13, 2016, the District's investable funds amounted to $331,217. The following summary itemizes the District's investment portfolio by type of security:

	Percent	Book Value	Market Value
Cash & Cash Equivalents	6.71%	$ 22,222	$ 22,222
Lone Star Investment Pool[1]	93.29%	$ 308,995	$ 308,995
Total	100.00%	$ 331,217	$ 331,217

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

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APPENDIX B

SCHULENBURG INDEPENDENT SCHOOL DISTRICT ANNUAL FINANCIAL REPORT

SCHULENBURG
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2015

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

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

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Introductory Section

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CERTIFICATE OF BOARD

Schulenburg Independent School District	Fayette	075-903
Name of School District	County	Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) ✓ approved _____ disapproved for the year ended August 31, 2015, at a meeting of the board of trustees of such school district on the 27 day of January, 2016.

Signature of Board Secretary

Signature of Board President

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

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Financial Section

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Independent Auditors' Report

To the Board of Trustees of the
Schulenburg Independent School District:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Schulenburg 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Schulenburg Independent School District as of August 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

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Governmental Audit Quality Center
AICPA

Emphasis of Matter

Change in Accounting Principle

As described in Note A to the financial statements, in 2015, Schulenburg 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 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 Schulenburg Independent School District's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is also not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the schedule of expenditures of federal awards, 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 combining and individual nonmajor fund financial statements, the schedule of expenditures of federal awards, and other supplementary information 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 22, 2016 on our consideration of Schulenburg 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 Schulenburg Independent School District's internal control over financial reporting and compliance.

Respectfully submitted,

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Bellville, Texas
January 22, 2016

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Management's Discussion and Analysis

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This discussion and analysis of the Schulenburg Independent School District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended August 31, 2015. It should be read in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

- The District's total combined net position at August 31, 2015 was $3,385,092.
- For the fiscal year ended August 31, 2015, the District's general fund reported a total fund balance of $713,639, which is unassigned, and the debt service fund reported a total fund balance of 794,598.
- At the end of the fiscal year, the District's governmental funds (the general fund plus all state and federal grant funds and the debt service fund) reported combined ending fund balances of $1,745,620.

OVERVIEW OF THE FINANCIAL STATEMENTS

The 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 supplementary of the District.

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements.
- The *governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.
- *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 fiduciary resources belong. This fund includes student activity funds.
- *Proprietary fund* statements provide information about services provided to parties inside the District. The proprietary funds include the internal service funds (the District's workers' compensation and unemployment fund activity).

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The notes to the financial statements are followed by a section entitled *Required Supplementary Information* that further explains and supports the information in the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

- To assess the overall health of the District, one needs to consider additional non-financial factors such as changes in the District's tax base, staffing patterns, enrollment, and attendance.

The government-wide financial statements of the District include the *governmental activities*. Most of the District's basic services such as instruction, extracurricular activities, curriculum and staff development, health services, general administration, and plant operation and maintenance are included in *governmental activities.* Locally assessed property taxes, together with State Foundation Program entitlements, which are based upon student enrollment and attendance, finance most of the government activities.

FUND FINANCIAL STATEMENTS

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

- Some funds are required by State law and other funds are mandated by bond agreements or bond covenants.

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

- Other funds are used to account for assets held by the District in a custodial capacity – these assets do not belong to the District but the District is responsible to properly account for them.

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 explains the relationship (or differences) between them.

- *Fiduciary funds* – The District serves as the trustee, or fiduciary, for certain funds such as student activity funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities that are reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its governmental operations.

- *Proprietary funds* – These funds include the internal service funds. The District's workers' compensation and unemployment fund activity is reported in the internal service funds and is shown in a separate statement of proprietary net position and as statement of changes in proprietary net position.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position was $3,385,092 at August 31, 2015. *Table 1* focuses on net position while *Table 2* shows the revenues and expenses that changed the net position balance during the fiscal year ended August 31, 2015. The District reported an increase of $402,729 in net position from the prior year. This is a result of receiving more revenue during the year.

Table 1
Net Position

Description	Governmental Activities 2015	Governmental Activities 2014	Total Change 2015-2014
Current assets	$ 2,080,186	$ 1,889,839	$ 190,347
Capital assets	8,014,410	8,214,702	(200,292)
Total Assets	10,094,596	10,104,540	(9,944)
Deferred outflows - pension	269,426	-	269,426
Deferred charge on refunding	171,525	290,151	(118,626)
Total Deferred Outflows of Resources	440,951	290,151	150,800
Current liabilities	251,660	241,520	10,140
Long-term liabilities	6,704,814	7,170,808	(465,994)
Total Liabilities	6,956,474	7,412,328	(455,854)
Deferred inflows - pension	193,981	-	193,981
Total Deferred Inflows of Resources	193,981	-	193,981
Net Position:			
Net investment in capital assets	1,943,366	1,762,006	181,360
Restricted	794,598	738,550	56,048
Unrestricted	647,128	481,807	165,321
Total Net Position	$ 3,385,092	$ 2,982,363	$ 402,729

Table 2
Changes in Net Position

	Governmental Activities		Total Change
	2015	2014	2015-2014
Revenues			
Program revenues:			
Charges for services	$ 477,746	$ 478,141	$ (395)
Operating grants and contributions	1,374,085	1,136,821	237,264
General revenues:			
Property taxes	4,946,489	4,718,045	228,444
State foundation program	1,669,920	1,586,723	83,197
Investment earnings	18,706	17,820	886
Miscellaneous	241,693	181,951	59,742
Total Revenue	8,728,639	8,119,501	609,138
Expenses			
Instruction	4,342,554	4,661,781	(319,227)
Instructional resources and media services	79,678	88,892	(9,214)
Curriculum and staff development	9,612	10,653	(1,041)
Instructional leadership	4,228	112,498	(108,270)
School leadership	540,944	388,072	152,872
Guidance, counseling, and evaluation services	258,818	178,192	80,626
Social work/health services	30,081	36,624	(6,543)
Student (pupil) transportation	283,065	238,503	44,562
Food services	385,053	354,973	30,080
Co-curricular/extracurricular activities	412,730	338,590	74,140
General administration	420,165	458,164	(37,999)
Plant maintenance and operations	900,230	1,072,985	(172,755)
Security and monitoring	1,050	858	192
Data processing services	314,714	289,663	25,051
Interest on long-term debt	161,423	142,399	19,024
Bond issuance and debt fees	9,028	3,550	5,478
Payments related to shared service arrangements	155,537	155,537	-
Payments related to juvenile justice alternative ed. Programs	17,000	-	17,000
Total Expenses	8,325,910	8,531,934	(206,024)
Change in Net Position	402,729	(412,433)	815,162
Beginning net position	2,982,363	3,394,796	(412,433)
Ending Net Position	$ 3,385,092	$ 2,982,363	$ 402,729

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At the close of the fiscal year ending August 31, 2015, the District's governmental funds reported a combined fund balance of $1,745,620. This compares to a combined fund balance of $1,522,242 at August 31, 2014. The general fund balance increased due to an increase in foundation revenue and a decrease in overall expenditures. The debt service fund increased due to an increase in property taxes.

GENERAL FUND BUDGETARY HIGHLIGHTS

In accordance with State law and generally accepted accounting standards, the District prepares an annual budget for the general fund, the food service special revenue fund, and for the debt service fund. The District budgets the capital projects fund for each *project*, which normally covers multiple years. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

During the period ended August 31, 2015, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenses. There were no material changes between the original budget and the final amended budget. The general fund's actual revenues exceeded budgeted revenues by $132,159 and the budgeted expenditures exceeded actual by $8,649.

CAPITAL ASSETS

Capital assets are generally defined as those items that have useful lives of two years or more and have an initial cost or valued (if donated) of an amount determined by the Board of Trustees. During the fiscal year ended August 31, 2015, the District used a capitalization threshold of $5,000, which means that all capital type assets, including library books, with a cost or initial value of less than $5,000, were not included in the capital assets inventory.

At August 31, 2015, the District had a total of $12,844,460 invested in capital assets such as land, buildings, vehicles, and equipment. This total includes $133,215 invested during the fiscal year ended August 31, 2015.

More detailed information about the District's capital assets can be found in the notes to the financial statements.

LONG-TERM DEBT

At August 31, 2015, the District had $5,699,560 in long-term debt outstanding, which consists of a bond issue, two notes and a capital lease, versus $6,052,637 last year.

More detailed information about the District's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND THE NEXT YEAR'S BUDGETS AND RATES

The following factors were considered in establishing the District's budget for 2015-2016:

- Student enrollment for 2015-2016 is expected to be consistent with the 2014-2015 school year. The District estimates the refined average daily attendance of 663; however, the District will budget using the refined daily attendance rate of 649.9.

- Property values for ad valorem tax purposes increased $17,445,045 as compared to 2014-2015.

- The District's total tax rate for 2014-2015 was $1.1565 per $100 of valuation. The rate adopted for the 2015-2016 school year is $1.1565 per $100 valuation. The rate approved was for $1.04 for maintenance and operations and $0.1165 for interest and sinking. The tax rate remained the same from the prior year.

- The District will continue to monitor state and federal grants sources and attendance to ensure effective use of funding to maintain and sustain a successful learning environment for all students. The District strives to utilize state and local finances in a fiscally responsible manner.

- The District will continue to use the TEKS Resource curriculum, along with Eduphoria, Renaissance Place, and Capturing Kids Heart and will implement eDynamic to provide students with abilities to meet new foundation graduation pathways. The District continues to implement Failure is Not an Option as its guideline during the 2015-2016 school year. The District provides a supportive infrastructure for technologically advanced programs and continues to support professional development and the purchase of computer equipment for student and staff use.

- The CATE programs are provided to students to enhance student needs for knowledge of career goals.

- The District will continue to serve as the fiscal agent for the Fayette-Gonzales Special Education Shared Service Arrangement with Flatonia and Waelder Independent School Districts. The Special Education Cooperative helps to provide the best resources for the students, faculty, and parents at a substantial savings to all districts.

- The District continues to monitor changes in state and federal funding and will implement cautious spending procedures, while providing a safe environment and high-level instructional needs for each student.

- Due to the constraints with state and local funding, a District Facility Task Force ("Task Force") committee has been created and has been working diligently to explore options for facility renovations and possible new additions. The Task Force is compiled of community and District staff members.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and creditors with a general overview of the District's finances and to demonstrate the District's commitment to accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Schulenburg Independent School District business office at 521 North Street, Schulenburg, Texas 78956 or by calling (979) 743-3448.

Basic Financial Statements

SCHULENBURG INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION
AUGUST 31, 2015

Data Control Codes		1 Governmental Activities
	ASSETS:	
1110	*Cash and Cash Equivalents*	$ 1,035,637
1120	*Current Investments*	308,561
1220	*Property Taxes Receivable*	199,945
1230	*Allowance for Uncollectible Taxes*	(49,081)
1240	*Due from Other Governments*	506,339
1410	*Prepaid Items*	78,785
	Capital Assets:	
1510	*Land*	359,065
1520	*Buildings and Improvements, Net*	7,293,395
1530	*Furniture and Equipment, Net*	361,950
1000	Total Assets	10,094,596
	DEFERRED OUTFLOWS OF RESOURCES:	
	Deferred Outflow of Resources	269,426
1705	*Deferred Outflow Related to Pensions*	171,525
1700	Total Deferred Outflows of Resources	440,951
	LIABILITIES:	
2110	*Accounts Payable*	5,351
2140	*Interest Payable*	10,188
2165	*Accrued Liabilities*	232,252
2300	*Unearned Revenue*	3,869
	Noncurrent Liabilities:	
2501	*Due Within One Year*	378,678
2502	*Due in More Than One Year*	5,692,367
2540	*Net Pension Liability*	633,769
2000	Total Liabilities	6,956,474
	DEFERRED INFLOWS OF RESOURCES:	
2605	*Deferred Inflow Related to Pensions*	193,981
2600	Total Deferred Inflows of Resources	193,981
	NET POSITION:	
3200	Net Investment in Capital Assets	1,943,366
	Restricted For:	
3850	Debt Service	794,598
3900	Unrestricted	647,128
3000	Total Net Position	$ 3,385,092

The accompanying notes are an integral part of this statement.

SCHULENBURG 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*	$ 4,342,554	$ 367,761	$ 792,647	$ (3,182,146)
12	*Instructional Resources and Media Services*	79,678	--	82	(79,596)
13	*Curriculum and Staff Development*	9,612	--	17	(9,595)
21	*Instructional Leadership*	4,228	--	--	(4,228)
23	*School Leadership*	540,944	--	39,560	(501,384)
31	*Guidance, Counseling, & Evaluation Services*	258,818	--	48,640	(210,178)
33	*Health Services*	30,081	--	54	(30,027)
34	*Student Transportation*	283,065	--	542	(282,523)
35	*Food Service*	385,053	70,507	250,290	(64,256)
36	*Cocurricular/Extracurricular Activities*	412,730	39,478	714	(372,538)
41	*General Administration*	420,165	--	1,513	(418,652)
51	*Facilities Maintenance and Operations*	900,230	--	2,609	(897,621)
52	*Security and Monitoring Services*	1,050	--	2	(1,048)
53	*Data Processing Services*	314,714	--	237,106	(77,608)
72	*Interest on Long-term Debt*	161,423	--	--	(161,423)
73	*Bond Issuance Costs and Fees*	9,028	--	--	(9,028)
93	*Payments Related to Shared Service Arrangements*	155,537	--	279	(155,258)
95	*Payments to Juvenile Justice Alternative Ed. Programs*	17,000	--	30	(16,970)
TG	Total Governmental Activities	8,325,910	477,746	1,374,085	(6,474,079)
TP	Total Primary Government	$ 8,325,910	$ 477,746	$ 1,374,085	(6,474,079)
	General Revenues:				
MT	*Property Taxes, Levied for General Purposes*				4,447,788
DT	*Property Taxes, Levied for Debt Service*				498,701
IE	*Investment Earnings*				18,706
GC	*Grants and Contributions Not Restricted to Specific Programs*				1,669,920
MI	*Miscellaneous*				241,693
TR	Total General Revenues				6,876,808
CN	Change in Net Position				402,729
NB	Net Position - Beginning				3,700,473
PA	Prior Period Adjustment				(718,110)
	Net Position - Beginning, as Restated				2,982,363
NE	Net Position - Ending				$ 3,385,092

The accompanying notes are an integral part of this statement.

SCHULENBURG INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS
AUGUST 31, 2015

Data Control Codes		10 General Fund	IDEA-B Formula
	ASSETS:		
1110	*Cash and Cash Equivalents*	$ 125,669	$ --
1120	*Current Investments*	308,561	--
1220	*Property Taxes Receivable*	177,583	--
1230	*Allowance for Uncollectible Taxes*	(42,838)	--
1240	*Due from Other Governments*	329,091	67,081
1260	*Due from Other Funds*	181,095	--
1410	*Prepaid Items*	78,785	--
1000	Total Assets	1,157,946	67,081
	LIABILITIES:		
	Current Liabilities:		
2110	*Accounts Payable*	$ 5,351	$ --
2150	*Payroll Deductions & Withholdings*	1,173	--
2160	*Accrued Wages Payable*	173,051	--
2170	*Due to Other Funds*	128,108	67,081
2300	*Unearned Revenue*	1,879	--
2000	Total Liabilities	309,562	67,081
	DEFERRED INFLOWS OF RESOURCES:		
	Unavailable Revenue for Property Taxes	134,745	--
2600	Total Deferred Inflows of Resources	134,745	--
	FUND BALANCES:		
	Restricted Fund Balances:		
3480	*Retirement of Long-Term Debt*	--	--
3490	*Other Restrictions of Fund Balance*	--	--
3600	Unassigned	713,639	--
3000	Total Fund Balances	713,639	--
4000	Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 1,157,946	$ 67,081

State Textbook Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
$ --	$ 670,337	$ 239,373	$ 1,035,379
--	--	--	308,561
--	22,362	--	199,945
--	(6,243)	--	(49,081)
93,961	--	16,206	506,339
--	124,261	--	305,356
--	--	--	78,785
93,961	810,717	255,579	2,385,284
$ --	$ --	$ --	$ 5,351
--	--	--	1,173
--	--	--	173,051
93,961	--	16,206	305,356
--	--	1,990	3,869
93,961	--	18,196	488,800
--	16,119	--	150,864
--	16,119	--	150,864
--	794,598	--	794,598
--	--	237,383	237,383
--	--	--	713,639
--	794,598	237,383	1,745,620
$ 93,961	$ 810,717	$ 255,579	$ 2,385,284

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SCHULENBURG 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	$	1,745,620
Amounts reported for governmental activities in the Statement of Net Position (SNP) are different because:		
Capital assets used in governmental activities are not reported in the funds.		8,014,410
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.		150,864
The assets and liabilities of internal service funds are included in governmental activities in the SNP.		(57,769)
Payables for bond principal which are not due in the current period are not reported in the funds.		(5,247,065)
Payables for capital leases which are not due in the current period are not reported in the funds.		(145,169)
Payables for bond interest which are not due in the current period are not reported in the funds.		(7,374)
Payables for notes which are not due in the current period are not reported in the funds.		(409,385)
Other long-term liabilities which are not due and payable in the current period are not reported in the funds.		(2,814)
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.		(718,110)
Deferred resource inflows related to Teacher Retirement System of Texas (TRS) are not reported in the funds.		(193,982)
Deferred resource outflows related to TRS are not reported in the funds.		255,866
Net position of governmental activities - Statement of Net Position	$	3,385,092

The accompanying notes are an integral part of this statement.

SCHULENBURG 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	IDEA-B Formula
	REVENUES:		
5700	*Local and Intermediate Sources*	$ 4,575,418	$ --
5800	*State Program Revenues*	1,956,843	--
5900	*Federal Program Revenues*	--	309,446
5020	Total Revenues	6,532,261	309,446
	EXPENDITURES:		
	Current:		
0011	*Instruction*	3,145,348	230,914
0012	*Instructional Resources and Media Services*	45,074	--
0013	*Curriculum and Staff Development*	9,612	--
0023	*School Leadership*	404,428	32,358
0031	*Guidance, Counseling, & Evaluation Services*	138,528	46,174
0033	*Health Services*	29,627	--
0034	*Student Transportation*	360,314	--
0035	*Food Service*	--	--
0036	*Cocurricular/Extracurricular Activities*	393,715	--
0041	*General Administration*	407,921	--
0051	*Facilities Maintenance and Operations*	858,542	--
0052	*Security and Monitoring Services*	1,050	--
0053	*Data Processing Services*	312,289	--
0071	*Principal on Long-term Debt*	73,077	--
0072	*Interest on Long-term Debt*	10,891	--
0073	*Bond Issuance Costs and Fees*	--	--
0093	*Payments to Shared Service Arrangements*	155,537	--
0095	*Payments to Juvenile Justice Alternative Education Programs*	17,000	--
6030	Total Expenditures	6,362,953	309,446
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	169,308	--
	Other Financing Sources and (Uses):		
7915	*Transfers In*	--	--
8911	*Transfers Out*	(32,746)	--
7080	Total Other Financing Sources and (Uses)	(32,746)	--
1200	Net Change in Fund Balances	136,562	--
0100	Fund Balances - Beginning	577,077	--
3000	Fund Balances - Ending	$ 713,639	$ --

The accompanying notes are an integral part of this statement.

State Textbook Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
$ --	$ 504,122	$ 401,553	$ 5,481,093
183,564	--	24,310	2,164,717
--	--	558,562	868,008
183,564	504,122	984,425	8,513,818
184,231	--	476,562	4,037,055
--	--	--	45,074
--	--	--	9,612
--	--	87,338	524,124
--	--	66,671	251,373
--	--	--	29,627
--	--	134	360,448
--	--	371,748	371,748
--	--	--	393,715
--	--	3,697	411,618
--	--	1,085	859,627
--	--	--	1,050
--	--	--	312,289
--	280,000	--	353,077
--	159,045	--	169,936
--	9,030	--	9,030
--	--	--	155,537
--	--	--	17,000
184,231	448,075	1,007,235	8,311,940
(667)	56,047	(22,810)	201,878
--	--	24,246	24,246
--	--	--	(32,746)
--	--	24,246	(8,500)
(667)	56,047	1,436	193,378
667	738,551	235,947	1,552,242
$ --	$ 794,598	$ 237,383	$ 1,745,620

SCHULENBURG 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	$	193,378
Amounts reported for governmental activities in the Statement of Activities (SOA) are different because:		
Capital outlays are not reported as expenses in the SOA.		133,215
The depreciation of capital assets used in governmental activities is not reported in the funds.		(333,507)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.		12,447
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.		280,000
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.		18,177
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.		54,900
Deferred charges and similar items are amortized in the SOA but not in the funds.		7,851
(Increase) decrease in accrued interest from beginning of period to end of period.		663
The net revenue (expense) of internal service funds is reported with governmental activities.		(26,279)
Implementing GASB 68 required certain expenditures to be de-expended and recorded as deferred outflows of resources.		202,375
The District's share of the unrecognized deferred inflows and outflows for the pension plan was amortized.		(140,490)
Change in net position of governmental activities - Statement of Activities	$	402,729

The accompanying notes are an integral part of this statement.

SCHULENBURG INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION
INTERNAL SERVICE FUND
AUGUST 31, 2015

Data Control Codes		Nonmajor Internal Service Fund Public Entity Risk Pool
	ASSETS:	
	Current Assets:	
1110	*Cash and Cash Equivalents*	$ 258
	Total Current Assets	258
1000	Total Assets	258
	LIABILITIES:	
	Current Liabilities:	
2200	*Accrued Expenses*	$ 58,027
	Total Current Liabilities	58,027
2000	Total Liabilities	58,027
	NET POSITION:	
3900	*Unrestricted*	(57,769)
3000	Total Net Position	$ (57,769)

The accompanying notes are an integral part of this statement.

SCHULENBURG INDEPENDENT SCHOOL DISTRICT

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

Data Control Codes		Nonmajor Internal Service Fund Public Entity Risk Pool
	OPERATING REVENUES:	
5700	*Local and Intermediate Sources*	$ 2
5020	Total Revenues	2
	OPERATING EXPENSES:	
6400	*Other Operating Costs*	34,781
6030	Total Expenses	34,781
	Income (Loss) before Contributions and Transfers	(34,779)
7915	*Transfers In*	8,500
1300	Change in Net Position	(26,279)
0100	Total Net Position - Beginning	(31,490)
3300	Total Net Position - Ending	$ (57,769)

The accompanying notes are an integral part of this statement.

SCHULENBURG INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2015

	Internal Service Funds
	Public Entity Risk Pool
Cash Flows from Operating Activities:	
Cash Received from Interest Earnings	$ 2
Cash Payments for Claims	(12,846)
Net Cash Provided (Used) by Operating Activities	(12,844)
Cash Flows from Non-capital Financing Activities:	
Operating Transfers From (To) Other Funds	8,500
Net Cash Provided (Used) by Non-capital Financing Activities	8,500
Net Increase (Decrease) in Cash and Cash Equivalents	(4,344)
Cash and Cash Equivalents at Beginning of Year	4,602
Cash and Cash Equivalents at End of Year	$ 257
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	(4,344)
Net Cash Provided (Used) by Operating Activities	$ (4,344)

The accompanying notes are an integral part of this statement.

SCHULENBURG 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*	$ 111,398
1000	Total Assets	111,398
	LIABILITIES:	
	Current Liabilities:	
2190	*Due to Student Groups*	$ 111,398
2000	Total Liabilities	111,398
	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 Schulenburg 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 (the "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.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

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.

IDEA B Formula: This fund is used to account for revenues and expenditures related to the IDEA B Formula Grant awards and entitlements. This fund is primarily on a reimbursement basis and has a program year that does not coincide with the District's fiscal year.

State Textbook Fund: This fund is used to account for revenues and expenditures related to the Instructional Materials Allotment awards and entitlements. This fund is primarily on a reimbursement basis and has a program year that does not always coincide with the District's fiscal year.

Debt Service Fund: This fund is used to account for tax revenues and for the payment of principal, interest, and related costs on long-term debt for which a tax has been dedicated. This is a budgeted fund and a separate bank account is maintained for this fund. Any unused sinking fund balances are transferred to the General Fund after all of the related debt obligations have been met.

In addition, the District reports the following fund types:

Special Revenue Funds: These funds are used to account for revenue and expenses related to grant awards and entitlements from federal, state, and local agencies. These funds are primarily on a reimbursement basis. Nearly all of these funds cannot carry a fund balance and, other than the food service fund, none of these funds are legally required to have an adopted budget.

Internal Service Funds: These funds are used to account for revenues and expenses related to services provided to parties inside the District. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the District's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

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 and Basis of Accounting

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

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

3. Financial Statement Amounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

b. 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.

c. Inventories and Prepaid Items

Inventories of supplies on the balance sheet are stated at weighted average cost, while inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Inventory items are recorded as expenditures when they are consumed. Supplies are used for almost all functions of activity, while food commodities are used only in the food service program. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount. Inventories also include plant maintenance and operation supplies as well as instructional supplies.

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

d. 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/Computer Equipment	3-15

e. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so would *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has four items that qualify in this category on the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred charges have been recognized as a result of differences between the actuarial expectations and the actual economic experience and for the changes in actuarial assumptions related to the District's defined benefit pension plan. These amounts are deferred and amortized over the average of the expected service lives of pension plan members. A deferred charge has been recognized for employer pension plan contributions that were made subsequent to the measurement date through the end of the District's fiscal year. This amount is deferred and recognized as a reduction to the net position liability during the measurement period in which the contributions were made.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to one or more future periods and will *not* be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category in the government-wide statement of net position. Deferred inflows of resources are recognized for the difference between the projected and actual investment earnings on the pension plan assets. This amount is deferred and amortized over a period of five years. Another deferral is recognized for the changes in proportion and differences between the employer's contributions and the proportionate share of contributions related to the District's defined benefit pension plan. This amount is deferred and amortized over the average of the expected service lives of pension plan members. At the fund level, the District only has one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

f. 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.

g. 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 position.

h. Use of Estimates

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

i. 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 ensure accuracy in building a statewide database for policy development and funding plans.

j. 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 convey 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.

k. 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.

l. 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.

m. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

4. Pensions

The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS' 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	$	633,769

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 was 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
Expenditures in excess of appropriations in the General Fund in functions 11, 23, and 34.	The District will amend the budget in anticipation of final expenditures.

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
Internal Service Fund	$ (57,769)	Deficit fund balance due to claims liability recorded at year end.

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 $1,147,035 and the bank balance was $1,589,365. 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 ("Act"), to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

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

The 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 is shown below.

Investment or Investment Type	Maturity	Fair Value
Lone Star Investment	N/A	$ 308,561
Total Investments		$ 308,561

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:

Investment or Investment Type	Administrator	Rating
Lone Star Investment	First Public, LLC	AAA*

*Rated by Standard & Poor's Investor Services

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.

Lone Star

The Lone Star Investment Pool ("Lone Star") is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. Lone Star is administered by First Public, a subsidiary of the Texas Association of School Boards (TASB), with Standish and American Beacon Advisors managing the investment and reinvestment of Lone Star's assets. State Street Bank provides custody and valuation services to Lone Star. All of the board of trustees' eleven members are Lone Star participants by either being employees or elected officials of a participant. Lone Star has established an advisory board composed of both pool members and non-members. Lone Star is rated 'AAA' by Standard and Poor's and operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The District is invested in the Government Overnight Fund of Lone Star which seeks to maintain a net asset value of one dollar. Lone Star has 3 different funds: Government Overnight, Corporate Overnight and Corporate Overnight Plus. Government and Corporate Overnight maintain a net asset value of one dollar and the Corporate Overnight Plus maintains a net asset value of 50 cents.

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	$ 359,065	$ --	$ --	$ 359,065
Total capital assets not being depreciated	359,065	--	--	359,065
Capital assets being depreciated:				
Buildings and improvements	11,316,971	--	--	11,316,971
Equipment	146,600	--	--	146,600
Vehicles	888,610	133,215	--	1,021,825
Total capital assets being depreciated	12,352,180	133,215	--	12,485,395
Less accumulated depreciation for:				
Buildings and improvements	(3,749,784)	(273,792)	--	(4,023,575)
Equipment	(127,089)	(3,965)	--	(131,054)
Vehicles	(619,670)	(55,751)	--	(675,421)
Total accumulated depreciation	(4,496,543)	(333,508)	--	(4,830,050)
Total capital assets being depreciated, net	7,855,638	(200,293)	--	7,655,345
Governmental activities capital assets, net	$ 8,214,703	$ (200,293)	$ --	$ 8,014,410

Depreciation was charged to functions as follows:

Instruction	$ 172,612
Instructional Resources and Media Services	34,018
Instructional Leadership	4,228
School Leadership	5,294
Guidance, Counseling, & Evaluation Services	2,214
Health Services	94
Student Transportation	54,293
Food Services	6,258
Extracurricular Activities	13,879
General Administration	3,424
Plant Maintenance and Operations	36,506
Data Processing Services	687
	$ 333,508

E. Interfund Balances and Activities

1. Due To and From Other Funds

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

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Special revenue Funds	$ 177,248	Short-term loans
Debt Service fund	General Fund	124,261	Short-term loans
	Total	$ 301,509	

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

2. Transfers To and From Other Funds

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	$ 24,246	Supplement other funds sources
Internal Service Fund	General Fund	8,500	Supplement other funds sources
	Total	$ 32,746	

F. Long-Term Obligations

1. Long-Term Obligation 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:

	Original Issue	Beginning Balance	Net Changes	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Building Bonds, Series 2003B	$ 325,000	$ 119,766	$ (16,704)	$ 103,062	$ 16,704
Maint. Tax Notes, Series 2003	743,190	344,519	(38,197)	306,322	38,197
Refunding Bonds, Series 2011	5,574,994	5,425,000	(280,000)	5,145,000	305,000
Capital Lease - Bus	198,000	163,351	(18,177)	145,175	18,776
Total governmental activities	$ 6,841,184	$ 6,052,636	$ (353,077)	$ 5,699,560	$ 378,676
Other liabilities:					
Net issuance premiums (discounts)	$ --	$ 400,059	$ (28,576)	$ 371,484	--
Net pension liability	--	778,298	(144,528)	633,769	--
Total governmental activities	$ 6,841,184	$ 7,230,994	$ (526,181)	$ 6,704,813	$ 378,676

Long-term liabilities due in more than one year $ 5,692,367

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in the governmental funds, but rather recognized as an expenditure when due.

Current requirements for principal and interest expenditures for the bond issue are accounted for in the Debt Service Fund. This bond was issued as a refunding bond and the interest rate on the bonds are 2.00 percent to 3.10 percent. Interest expense $159,045 for the year ended August 31, 2015.

The maintenance tax notes are accounted for in the General Fund. The interest rate is 2.30 percent to 6.40 percent and the interest expense was $5,504 for the year ended August 31, 2015.

The capital lease principal and interest payments are accounted for in the General Fund. Interest expense was $5,387 for the year ended August 31, 2015.

2. Debt Service Requirements

The 2003B QZAB bonds and 2003 QZAB maintenance tax notes will be paid off in full at July 15, 2018 in the amounts of $325,000 and $743,190, respectively, using the payments made into a cumulative sinking fund deposit account since the bonds and notes were sold in 2003.

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

	Bonds		
Year Ending August 31,	Principal	Interest	Total
2016	$ 321,704	$ 151,018	$ 472,721
2017	316,704	141,943	458,646
2018	366,695	132,193	498,888
2019	345,000	121,020	466,020
2020	370,000	111,295	481,295
2021-2025	2,045,000	375,910	2,420,910
2026-2030	1,482,960	66,638	1,549,598
Totals	$ 5,248,062	$ 1,100,015	$ 6,348,077

	Maintenance Tax Note		
Year Ending August 31,	Principal	Interest	Total
2016	$ 38,197	$ 5,504	$ 43,701
2017	38,197	5,504	43,701
2018	229,929	5,504	233,191
Totals	$ 306,322	$ 14,269	$ 320,592

	Capital Lease		
Year Ending August 31,	Principal	Interest	Total
2016	$ 18,776	$ 4,788	$ 23,564
2017	19,395	4,168	23,564
2018	20,035	3,529	23,564
2019	20,696	2,868	23,564
2020	21,378	2,186	23,564
2021-2025	44,895	2,233	47,127
Totals	$ 145,175	$ 19,771	$ 164,946

G. Commitments Under Noncapitalized Leases

Commitments under operating (noncapitalized) lease agreements for facilities and equipment provide for minimum future rental payments as of August 31, 2015 are as follows:

Year Ending August 31,	
Rental Expenditures in 2015	$ 69,076

H. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, 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.

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 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 for fiscal year 2015 as discussed in Note 1 of the TRS 2014 CAFR. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015.

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

District's 2014 Employer Contributions	$	60,187
District's 2014 Member Contributions	$	55,971
NECE 2014 On-Behalf Contributions to District	$	207,331

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 valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2014
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	30 Years
Asset Valuation Method	5 Year Market Value
Discount Rate	8%
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	-	4.0%	-
Stable Value Hedge Funds	4%	5.2%	0.2%
Cash	1%	2.0%	-
Real Return			
Global Inflat. Linked Bonds	3%	3.1%	-
Real Assets	16%	7.3%	1.5%
Energy & Natural Resources	3%	8.8%	0.3%
Commodities	-	3.4%	-
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 one percentage point less and one 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	$ 1,133,149	$ 633,769	$ 260,954
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 $633,769 for its proportionate share of the TRS' 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	$ 633,769
State's proportionate share of the net pension liability associated with the District	2,189,070
Total	$ 2,822,839

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 resulting 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 $202,375 and revenue of $202,375 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	$ 9,807	$ --
Changes in actuarial assumptions	41,219	--
Difference between projected and actual investment earnings	--	193,815
Changes in proportion and differences between the District's contributions and the proportionate share of contributions	--	166
District contributions paid to TRS subsequent to the measurement date	120,499	--
Total	$ 171,525	$ 193,981

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	$ (39,874)
2017	$ (39,874)
2018	$ (39,874)
2019	$ (39,874)
2020	$ 8,580
Thereafter	$ 7,961

J. 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 website 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 1.0% for fiscal years 2015 and 2014, and 0.5% for fiscal year 2013. 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 $3,264, $3,050, and $1,321, respectively; the active member contributions were $26,569, $25,367, and $25,340, respectively; and the District's contributions were $22,481, $21,465, and $21,441, 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 $16,675, $10,320, and $10,473, respectively.

K. Employee Health Care Coverage

During the year ended August 31, 2015, employees of the District were covered by a health insurance plan (the "Plan"). The District paid premiums of $300 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a third-party administrator, acting on behalf of the licensed insurer. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

The contract between the District and the third-party administrator is renewable September 1, 2015, and terms of coverage and premium costs are included in the contractual provisions.

L. Commitments and Contingencies

1. Contingencies

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

2. Litigation

No reportable litigation was pending against the District at August 31, 2015.

M. Shared Service Arrangements - Fiscal Agent

The District is the fiscal agent for a Shared Service Arrangement (SSA) which provides services to the member districts listed below. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent. According to guidance provided in TEA's Resource Guide, the District has accounted for the fiscal agent's activities of the SSA in a special revenue fund and will be accounted for using Model 3 in the SSA section of the Resource Guide. Expenditures of the SSA are summarized below:

Member Districts	Expenditures
Schulenburg ISD	$ 376,760
Flatonia ISD	197,647
Waelder ISD	80,352
Total	$ 654,759

N. Workers' Compensation

During the year ended August 31, 2015, employees of the District participated in a Workers' Compensation Plan (the "Plan"). The plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreements.

The contract between the District and the third-party administrator, Claims Administrative Services (CAS), acting on behalf of the self-funded pool, is renewable September 1, 2015, and terms, as well as costs of coverage, are included in the contractual provisions.

In accordance with state statutes, the District was protected against unanticipated catastrophic individual or aggregate loss by reinsurance coverage carried through Midwest Employers Casualty, a commercial insurer licensed or eligible to do business in the state of Texas in accordance with Texas Insurance Code. Reinsurance coverage was in effect for individual claims exceeding $500,000 and for aggregate claims with a statutory limit of $5,000,000. According to CAS, the unfunded claim benefit obligation included $58,027 and there was $44,589 in claims incurred but not reported (IBNR) at August 31, 2015.

The claim liability is based on estimates of the ultimate cost of report claims (including future claim adjustment expenses) and an estimate for claims which have been incurred but not reported based on historical experience. Changes in the claims liability for workers' compensation benefits for the current and prior fiscal year are summarized below.

	Fiscal Year 2015	2014
Claims liability at beginning of year	$ 36,092	$ 30,905
Current year claims and estimated changes	35,374	14,533
Claims payments	(13,439)	(9,346)
Claims liability at year end	$ 58,027	$ 36,092

O. Prior Period Adjustment

Beginning net position for the governmental activities was restated to recognize pension liability per GASB 68.

	Governmental Activities
Beginning net position - as reported	$ 3,700,473
Change in the net pension liability and contributions	(718,110)
Beginning net position - as restated	$ 2,982,363

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.

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SCHULENBURG 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*	$ 4,569,284	$ 4,569,284	$ 4,575,418	$ 6,134
5800	*State Program Revenues*	1,691,418	1,830,818	1,956,843	126,025
5020	Total Revenues	6,260,702	6,400,102	6,532,261	132,159
	EXPENDITURES:				
	Current:				
	Instruction & Instructional Related Services:				
0011	*Instruction*	3,094,081	3,144,081	3,145,348	* (1,267)
0012	*Instructional Resources and Media Services*	61,221	46,221	45,074	1,147
0013	*Curriculum and Staff Development*	9,280	9,780	9,612	168
	Total Instruction & Instr. Related Services	3,164,582	3,200,082	3,200,034	48
	Instructional and School Leadership:				
0023	*School Leadership*	395,722	404,022	404,428	* (406)
	Total Instructional & School Leadership	395,722	404,022	404,428	(406)
	Support Services - Student (Pupil):				
0031	*Guidance, Counseling and Evaluation Services*	132,918	138,518	138,528	(10)
0033	*Health Services*	27,498	31,498	29,627	1,871
0034	*Student (Pupil) Transportation*	306,541	359,041	360,314	* (1,273)
0036	*Cocurricular/Extracurricular Activities*	328,000	395,000	393,715	1,285
	Total Support Services - Student (Pupil)	794,957	924,057	922,184	1,873
	Administrative Support Services:				
0041	*General Administration*	447,050	408,050	407,921	129
	Total Administrative Support Services	447,050	408,050	407,921	129
	Support Services - Nonstudent Based:				
0051	*Plant Maintenance and Operations*	766,062	863,062	858,542	4,520
0052	*Security and Monitoring Services*	3,500	1,500	1,050	450
0053	*Data Processing Services*	292,851	312,851	312,289	562
	Total Support Services - Nonstudent Based	1,062,413	1,177,413	1,171,881	5,532
	Debt Service:				
0071	*Principal on Long-Term Debt*	60,900	74,009	73,077	932
0072	*Interest on Long-Term Debt*	--	10,891	10,891	--
	Total Debt Service	60,900	84,900	83,968	932
	Capital Outlay:				
0081	*Capital Outlay*	149,541	541	--	541
	Total Capital Outlay	149,541	541	--	541
	Intergovernmental Charges:				
0093	*Payments to Fiscal Agent/Member Dist.-SSA*	155,537	155,537	155,537	--
0095	*Payments to Juvenile Justice Alternative*				
0095	*Education Programs*	20,000	17,000	17,000	--
	Total Intergovernmental Charges	175,537	172,537	172,537	--
6030	Total Expenditures	6,250,702	6,371,602	6,362,953	8,649
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	10,000	28,500	169,308	140,808

SCHULENBURG 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)
	Other Financing Sources (Uses):				
8911	*Transfers Out*	(10,000)	(28,500)	(32,746)	(4,246)
7080	Total Other Financing Sources and (Uses)	(10,000)	(28,500)	(32,746)	(4,246)
1200	Net Change in Fund Balance	--	--	136,562	136,562
0100	Fund Balance - Beginning	580,077	577,077	577,077	--
3000	Fund Balance - Ending	$ 580,077	$ 577,077	$ 713,639	$ 136,562

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

*2. Expenditures exceeded appropriations at the legal level of control.

SCHULENBURG INDEPENDENT SCHOOL DISTRICT

EXHIBIT G-2

SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS (TRS)
FOR THE YEAR ENDED AUGUST 31, 2015

	Fiscal Year 2015*
District's proportion of the net pension liability (asset)	0.237%
District's proportionate share of the net pension liability (asset)	$ 634,128
State's proportionate share of the net pension liability (asset) associated with the District	2,189,070
Total	$ 2,823,198
District's covered employee payroll **	$ 3,902,650
District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	16.25%
Plan fiduciary net position as a percentage of the total pension liability	83.25%

* Only one year's worth of information is currently available.
** As of the measurement date.

Notes to Required Supplementary Information:

Defined Benefit Pension Plan

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.

SCHULENBURG INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS (TRS)
LAST TEN FISCAL YEARS

	Fiscal Year				
	2015	2014	2013	2012	2011
Contractually required contribution	$ 120,499	$ 60,187	$ 46,972	$ 48,240	$ 65,535
Contributions in relation to the contractually required contribution	120,499	60,187	46,972	48,240	65,535
Contribution deficiency (excess)	$ --	$ --	$ --	$ --	$ --
District's covered employee payroll	$ 4,087,532	$ 3,902,650	$ 3,898,428	$ 4,078,590	$ 4,406,963
Contributions as a percentage of covered employee payroll	2.95%	1.54%	1.20%	1.18%	1.49%

	Fiscal Year				
	2010	2009	2008	2007	2006
$	80,652	$ 55,232	$ 64,688	$ 37,170	$ 26,659
	80,652	55,232	64,688	37,170	26,659
$	--	$ --	$ --	$ --	$ --
$	4,428,922	$ 4,104,706	$ 4,155,480	$ 3,786,342	$ 3,402,449
	1.82%	1.35%	1.56%	0.98%	0.78%

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Combining Statements as Supplementary Information

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

SCHULENBURG INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
AUGUST 31, 2015

Data Control Codes		211 ESEA Title I Improving Basic Programs	240 National School Breakfast/Lunch Program	255 ESEA Title II Training & Recruiting	263 Eng. Language Acquistion & Enhancement
	ASSETS:				
1110	*Cash and Cash Equivalents*	$ --	$ 1,990	$ --	$ --
1240	*Due from Other Governments*	1,670	--	8,234	--
1000	Total Assets	1,670	1,990	8,234	--
	LIABILITIES:				
	Current Liabilities:				
2170	*Due to Other Funds*	$ 1,670	$ --	$ 8,234	$ --
2300	*Unearned Revenue*	--	1,990	--	--
2000	Total Liabilities	1,670	1,990	8,234	--
	FUND BALANCES:				
	Restricted Fund Balances:				
3490	*Other Restrictions of Fund Balance*	--	--	--	--
3000	Total Fund Balances	--	--	--	--
4000	Total Liabilities and Fund Balances	$ 1,670	$ 1,990	$ 8,234	$ --

270 ESEA, Title VI Part B, Subpart 2 Rural School	289 Summer School LEP	314 IDEA-B Preschool	315 IDEA - B High Cost Risk Pool	385 Supplemental Visually Impaired
$ --	$ --	$ --	$ --	$ --
--	--	5,042	1,260	--
--	--	5,042	1,260	--
$ --	$ --	$ 5,042	$ 1,260	$ --
--	--	--	--	--
--	--	5,042	1,260	--
--	--	--	--	--
--	--	--	--	--
$ --	$ --	$ 5,042	$ 1,260	$ --

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SCHULENBURG INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
AUGUST 31, 2015

Data Control Codes		437 Special Education	459 Medicaid Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
	ASSETS:			
1110	*Cash and Cash Equivalents*	$ 141,196	$ 96,187	$ 239,373
1240	*Due from Other Governments*	--	--	16,206
1000	Total Assets	141,196	96,187	255,579
	LIABILITIES:			
	Current Liabilities:			
2170	*Due to Other Funds*	$ --	$ --	$ 16,206
2300	*Unearned Revenue*	--	--	1,990
2000	Total Liabilities	--	--	18,196
	FUND BALANCES:			
	Restricted Fund Balances:			
3490	*Other Restrictions of Fund Balance*	141,196	96,187	237,383
3000	Total Fund Balances	141,196	96,187	237,383
4000	Total Liabilities and Fund Balances	$ 141,196	$ 96,187	$ 255,579

SCHULENBURG INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes		211 ESEA Title I Improving Basic Programs	240 National School Breakfast/Lunch Program	255 ESEA Title II Training & Recruiting	263 Eng. Language Acquistion & Enhancement
	REVENUES:				
5700	*Local and Intermediate Sources*	$ --	$ 70,623	$ --	$ --
5800	*State Program Revenues*	--	10,865	--	--
5900	*Federal Program Revenues*	165,956	239,413	24,207	799
5020	Total Revenues	165,956	320,901	24,207	799
	EXPENDITURES:				
	Current:				
0011	*Instruction*	165,822	--	24,207	799
0023	*School Leadership*	--	--	--	--
0031	*Guidance, Counseling, & Evaluation Services*	--	--	--	--
0034	*Student Transportation*	134	--	--	--
0035	*Food Service*	--	371,748	--	--
0041	*General Administration*	--	--	--	--
0051	*Facilities Maintenance and Operations*	--	--	--	--
6030	Total Expenditures	165,956	371,748	24,207	799
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	--	(50,847)	--	--
	Other Financing Sources and (Uses):				
7915	*Transfers In*	--	24,246	--	--
7080	Total Other Financing Sources and (Uses)	--	24,246	--	--
1200	Net Change in Fund Balances	--	(26,601)	--	--
0100	Fund Balances - Beginning	--	26,601	--	--
3000	Fund Balances - Ending	$ --	$ --	$ --	$ --

270 ESEA, Title VI Part B, Subpart 2 Rural School	289 Summer School LEP	314 IDEA-B Preschool	315 IDEA - B High Cost Risk Pool	385 Supplemental Visually Impaired
$ --	$ --	$ --	$ --	$ --
--	--	--	--	1,650
13,409	1,107	11,625	22,278	--
13,409	1,107	11,625	22,278	1,650
13,409	1,107	11,625	22,278	1,650
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
13,409	1,107	11,625	22,278	1,650
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
$ --	$ --	$ --	$ --	$ --

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SCHULENBURG INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR SPECIAL REVENUE FUNDS FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes		437 Special Education	459 Medicaid Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
	REVENUES:			
5700	*Local and Intermediate Sources*	$ 330,930	$ --	$ 401,553
5800	*State Program Revenues*	10,340	1,455	24,310
5900	*Federal Program Revenues*	--	79,768	558,562
5020	Total Revenues	341,270	81,223	984,425
	EXPENDITURES:			
	Current:			
0011	*Instruction*	158,149	77,516	476,562
0023	*School Leadership*	83,585	3,753	87,338
0031	*Guidance, Counseling, & Evaluation Services*	66,671	--	66,671
0034	*Student Transportation*	--	--	134
0035	*Food Service*	--	--	371,748
0041	*General Administration*	3,005	692	3,697
0051	*Facilities Maintenance and Operations*	--	1,085	1,085
6030	Total Expenditures	311,410	83,046	1,007,235
1100	Excess (Deficiency) of Revenues Over (Under)			
1100	Expenditures	29,860	(1,823)	(22,810)
	Other Financing Sources and (Uses):			
7915	*Transfers In*	--	--	24,246
7080	Total Other Financing Sources and (Uses)	--	--	24,246
1200	Net Change in Fund Balances	29,860	(1,823)	1,436
0100	Fund Balances - Beginning	111,336	98,010	235,947
3000	Fund Balances - Ending	$ 141,196	$ 96,187	$ 237,383

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Other Supplementary Information

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

SCHULENBURG 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	$ 1.2946	$ .195	$ 252,067,340
2008	$ 1.04	$ .1653	$ 273,385,909
2009	$ 1.04	$ .1653	$ 299,411,472
2010	$ 1.04	$ .158	$ 312,518,932
2011	$ 1.04	$ .152	$ 327,977,672
2012	$ 1.04	$ .1402	$ 373,578,962
2013	$ 1.04	$ .1369	$ 386,426,031
2014	$ 1.04	$ .1225	$ 401,119,712
2015 (School Year Under Audit)	$ 1.04	$ .1165	$ 423,036,336
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
$ 33,372	$ --	$ 455	$ 67	$ (1,529)	$ 31,321
3,794	--	25	4	--	3,765
1,185	--	45	7	--	1,132
3,468	--	--	--	762	4,229
4,305	--	178	27	(69)	4,031
7,771	--	1,171	171	834	7,262
10,152	--	1,788	241	1,590	9,713
32,843	--	14,275	1,879	2,919	19,609
86,094	--	42,479	5,004	2,008	40,619
--	4,892,415	4,329,198	484,953	--	78,263
$ 182,983	$ 4,892,415	$ 4,389,614	$ 492,354	$ 6,514	$ 199,945
$ --	$ --	$ --	$ --	$ --	$ --

SCHULENBURG 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 Budgeted Amounts Original	2 Budgeted Amounts Final	3 Actual	Variance with Final Budget Positive (Negative)
	REVENUES:				
5700	*Local and Intermediate Sources*	$ 90,500	$ 90,500	$ 70,623	$ (19,877)
5800	*State Program Revenues*	252,000	10,000	10,865	865
5900	*Federal Program Revenues*	--	263,772	239,413	(24,359)
5020	Total Revenues	342,500	364,272	320,901	(43,371)
	EXPENDITURES:				
	Current:				
	Support Services - Student (Pupil):				
0035	*Food Services*	342,500	376,272	371,748	4,524
	Total Support Services - Student (Pupil)	342,500	376,272	371,748	4,524
6030	Total Expenditures	342,500	376,272	371,748	4,524
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	--	(12,000)	(50,847)	(38,847)
	Other Financing Sources (Uses):				
7915	*Transfers In*	--	--	24,246	24,246
7080	Total Other Financing Sources and (Uses)	--	--	24,246	24,246
1200	Net Change in Fund Balance	--	(12,000)	(26,601)	(14,601)
0100	Fund Balance - Beginning	26,601	26,601	26,601	--
3000	Fund Balance - Ending	$ 26,601	$ 14,601	$ --	$ (14,601)

Note to Other Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

SCHULENBURG INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-3

DEBT SERVICE 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)
	REVENUES:				
5700	*Local and Intermediate Sources*	$ 454,348	$ 454,348	$ 504,122	$ 49,774
5020	Total Revenues	454,348	454,348	504,122	49,774
	EXPENDITURES:				
	Debt Service:				
0071	*Principal on Long-Term Debt*	368,425	286,273	280,000	6,273
0072	*Interest on Long-Term Debt*	77,423	159,045	159,045	--
0073	*Bond Issuance Costs and Fees*	8,500	9,030	9,030	--
	Total Debt Service	454,348	454,348	448,075	6,273
6030	Total Expenditures	454,348	454,348	448,075	6,273
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	--	--	56,047	56,047
1200	Net Change in Fund Balance	--	--	56,047	56,047
0100	Fund Balance - Beginning	738,551	738,551	738,551	--
3000	Fund Balance - Ending	$ 738,551	$ 738,551	$ 794,598	$ 56,047

Note to Other Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With *Government Auditing Standards*

To the Board of Trustees of the
Schulenburg Independent School District:

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 Schulenburg Independent School District, as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise Schulenburg Independent School District's basic financial statements, and have issued our report thereon dated January 22, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Schulenburg Independent School 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 Schulenburg Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Schulenburg 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.

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Stephanie E. Harris, CPA
Nathan Krupke, CPA

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Schulenburg 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.

Respectfully submitted,

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Bellville, Texas
January 22, 2016

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133

To the Board of Trustees of the
Schulenburg Independent School District:

Report on Compliance for Each Major Federal Program

We have audited the Schulenburg Independent School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Schulenburg Independent School District's major federal programs for the year ended August 31, 2015. Schulenburg Independent School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Schulenburg Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended August 31, 2015.

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Report on Internal Control Over Compliance

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

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

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

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

Respectfully submitted,

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Bellville, Texas
January 22, 2016

SCHULENBURG INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2015

A. Summary of Auditors' Results

1. Financial Statements

Type of auditors' report issued:	Unmodified	
Internal control over financial reporting:		
One or more material weaknesses identified?	___ Yes	X No
One or more significant deficiencies identified that are not considered to be material weaknesses?	___ Yes	X None Reported
Noncompliance material to financial statements noted?	___ Yes	X No

2. Federal Awards

Internal control over major programs:		
One or more material weaknesses identified?	___ Yes	X No
One or more significant deficiencies identified that are not considered to be material weaknesses?	___ Yes	X None Reported
Type of auditors' report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	___ Yes	X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.027 and 84.173	IDEA B Cluster

Dollar threshold used to distinguish between type A and type B programs:	$300,000	
Auditee qualified as low-risk auditee?	X Yes	___ No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

SCHULENBURG INDEPENDENT SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2015

Finding/Recommendation	Current Status	Management's Explanation If Not Implemented
NONE NOTED		

SCHULENBURG INDEPENDENT SCHOOL DISTRICT

EXHIBIT K-1

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2015

(1)	(2)	(2A)	(3)
Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education:			
ESEA Title I Part A - Improving Basic Programs	84.010	15610101075903	$ 165,956
*SSA IDEA-B Formula **	84.027	156600010759036600	309,446
*SSA IDEA-B Discretionary **	84.027	156600060759036680	22,278
Total CFDA Number 84.027			331,724
*SSA IDEA-B Preschool **	84.173	156610010759036610	11,625
ESEA, Title VI, Part B, Subpart 2 - Rural and Low Income School	84.358	15696001075903	13,409
Title III Part A English Language Acquisition & Language Enhancement	84.365	15671001227950	799
ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367	15694501075903	24,207
Summer School LEP	84.369	69551402	1,107
Total Passed Through State Department of Education			548,827
Total U. S. Department of Education			548,827
U. S. DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Education:			
School Breakfast Program *	10.553	71401501	52,765
National School Lunch Program *	10.555	71301501	169,836
Commodity Supplemental Food Program (Non-cash) *	10.565	075-903	16,812
Total Passed Through State Department of Education			239,413
Total U. S. Department of Agriculture			239,413
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 788,240

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

Federal Revenue per SEFA	$ 788,240
Medicaid	79,768
C-2 Federal Revenue	$ 868,008

The accompanying notes are an integral part of this schedule.

SCHULENBURG INDEPENDENT SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2015

Basis of Presentation

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

SCHULENBURG 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.	$ 633,769
SF13	Pension Expense (object 6147) at fiscal year-end.	$ 202,375

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APPENDIX C

FORM OF BOND COUNSEL'S OPINION

August 18, 2016

SCHULENBURG INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2016
IN THE ORIGINAL PRINCIPAL AMOUNT OF $5,125,000

We have acted as Bond Counsel to the Schulenburg Independent School District (the "Issuer") in connection with the issuance of the bonds described above (the "Bonds") for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas. We have not investigated or verified original proceedings, records, data, or other material, but we have relied solely upon the transcript of certified proceedings, certifications, and other documents described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. We have relied solely on information and certifications furnished to us by the Issuer with respect to the current outstanding indebtedness of, and assessed valuation of taxable property within, the Issuer.

In our capacity as Bond Counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds that contains certified copies of certain proceedings of the Board of Trustees of the Issuer (the "Board"); an order of the Board authorizing the Bonds adopted on August 1, 2016 (the "Order"); the approving opinion of the Attorney General of the State of Texas; customary certificates of officers, agents, and representatives of the Issuer, and other public officials; and other documents relating to the issuance of the Bonds. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the truth and accuracy of the statements contained in such certificates. We have also examined executed Bond No. I-1.

Based on said examination, it is our opinion that:

1. The Issuer is a validly existing political subdivision of the State of Texas with power to adopt the Order, perform its agreements therein, and issue the Bonds.

2. The Bonds have been authorized, sold, and delivered in accordance with law.

3. The Bonds constitute valid and legally binding obligations of the Issuer enforceable in accordance with their terms except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation, and other similar laws now or hereafter enacted relating to creditors' rights generally.

4. Ad valorem taxes, without legal limitation, upon all taxable property within the Issuer, necessary to pay the interest on and principal of the Bonds, have been pledged irrevocably for such purpose.

In rendering these opinions, we have relied upon the representations and certifications of the Issuer, with respect to matters solely within the knowledge of the Issuer, which we have not independently verified.

We express no opinion as to any federal, state, or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on or the acquisition, ownership, or disposition of the Bonds. We have acted only as Bond Counsel with respect to rendering the above opinions. We understand that the District's Special Tax Counsel, Bracewell, LLP ("Tax Counsel"), is not responsible for our opinion as Bond Counsel and our law firm is not responsible for any of the matters that are the subject of opinions rendered by Tax Counsel. In like manner, neither Tax Counsel nor our law firm has exercised joint responsibility or supervised the work of the other firm with respect to the Bonds or the proceedings relating to the same, but Tax Counsel has been solely responsible therefor, and we have been solely responsible only for our opinion as Bond Counsel. The two firms are not part of a partnership and each firm is an independent entity.

The opinions set forth above are based on existing laws of the United States and the State of Texas, which are subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention, or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result; rather, such opinions represent our legal judgment based on our review of existing law, and are made in reliance on the representations and covenants referenced above that we deem relevant to such opinions.

This legal opinion expresses the professional judgment of the undersigned firm as to the legal issues explicitly addressed therein. In rendering a legal opinion, we do not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of our opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Respectfully submitted,

APPENDIX D

FORM OF SPECIAL TAX COUNSEL'S OPINION

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Bracewell LLP
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April 18, 2016

WE HAVE ACTED AS SPECIAL TAX COUNSEL for the Schulenburg Independent School District (the "District"), in connection with an issue of bonds (the "Bonds") described as follows:

> Schulenburg Independent School District Unlimited Tax School Building Bonds, Series 2016 aggregating $5,125,000 in initial principal amount and initially dated as of August 1, 2016.

WE HAVE ACTED AS SPECIAL TAX COUNSEL for the sole purpose of rendering an opinion with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied upon certificates executed by officers, agents and representatives of the District and other public officials. We have assumed no responsibility with respect to the financial condition of the District or the reporting or disclosure thereof in connection with the sale of the Bonds. We have acted only as special tax counsel. We understand that the District's bond counsel, Powell & Leon, LLP ("Bond Counsel"), is not responsible for our opinion as special tax counsel and our law firm is not responsible for any of the matters that are the subject of opinions rendered by Bond Counsel. In like manner, neither Bond Counsel nor our law firm has exercised joint responsibility or supervised the work of the other firm with respect to the Bonds or the proceedings relating to the same, but Bond Counsel has been solely responsible therefor, and we have been solely responsible only for our opinion as special tax counsel. The two firms are not part of a partnership and each firm is an independent entity.

IN OUR CAPACITY AS SPECIAL TAX COUNSEL, we have examined a transcript of certified proceedings pertaining to the Bonds on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the District and customary certificates of officers, agents and representatives of the District and other public officials. We have also examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, Treasury Regulations and published rulings of the Internal Revenue Service (the "Service") as we have deemed relevant.

Capitalized terms used herein, unless otherwise defined, have the meanings set forth in the Order adopted by the District with respect to the issuance of the Bonds.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION that, under existing law:

1. Interest on the Bonds is excludable from gross income for federal income tax purposes.

2. The Bonds are not "private activity bonds" within the meaning of the Code, and interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Bonds will be included in the "adjusted current earnings" of a corporation (other than any S corporation, regulated investment company, REIT or REMIC) for purposes of computing its alternative minimum tax liability.

In providing such opinions, we have relied on legal opinions of the Attorney General of the State of Texas and of Bond Counsel of even date herewith regarding the legality and validity of the Bonds under the Constitution and laws of the State of Texas. We have further relied on representations of the District, the District's financial advisor and the underwriters of the Bonds with respect to matters solely within the knowledge of the District, the District's financial advisor and the underwriters of the Bonds, respectively, which we have not independently verified. In addition, we have assumed for purposes of this opinion continuing compliance with the covenants in the Order pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. If such representations are determined to be inaccurate or incomplete or the District fails to comply with the foregoing covenants of the Order, interest on the Bonds could become includable in gross income from the date of their original delivery, regardless of the date on which the event causing such inclusion occurs.

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

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign

corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Bonds).

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer. We observe that the District has covenanted in the Order not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.