OFFICIAL STATEMENT
Dated: March 20, 2017

Rating (PSF): S&P:.....“AAA”
Underlying Rating: S&P: .....“A+”
(See “OTHER INFORMATION – RATINGS” herein)

NEW ISSUE - Book-Entry Only

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

$19,490,000
JOURDANTON INDEPENDENT SCHOOL DISTRICT
(Atascosa County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS
SERIES 2017

Interest to Accrue from Date of Delivery **Due: February 15, as shown on the inside cover page**

Jourdanton Independent School District (the “District”) is issuing its $19,490,000 Unlimited Tax School Building Bonds, Series 2017 (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 November 3, 2015, 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 adopted March 20, 2017 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, 2018, 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, New York, New York (“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 and equipment of school buildings in the District (including the rehabilitation, renovation, expansion and improvement thereof), and (ii) to pay the costs incurred in 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, 2028, 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, 2027 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 Prices 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 and the opinions of Orrick, Herrington & Sutcliffe LLP, Houston, Texas, and Walsh Gallegos Trevino Russo & Kyle P.C., San Antonio, Texas, Co-Bond Counsel (see “APPENDIX C – Form of Co-Bond Counsel Opinions”). Certain legal matters will be passed upon for the Underwriters by Andrews Kurth Kenyon LLP, Houston, Texas, as Counsel to the Underwriters.

It is expected that the Bonds will be available for delivery through DTC on or about April 5, 2017.

WILLIAM BLAIR

STIFEL, NICOLAUS & COMPANY, INCORPORATED RAYMOND JAMES & ASSOCIATES, INC.

PRINCIPAL AMOUNTS, MATURITIES, INTEREST RATES AND PRICES*

$19,490,000 Unlimited Tax School Building Bonds, Series 2017

$9,050,000 Serial Bonds

Maturity (2/15)	Principal Amount	Interest Rate	Initial Reoffering Yield[(b)]	CUSIP No.[(c)] (481124)
2018	$ 75,000	2.000%	1.040%	EG6
2019	360,000	3.000	1.250	EH4
2020	375,000	4.000	1.470	EJ0
2021	385,000	1.660	1.660	EK7
2022	395,000	4.000	1.900	EL5
2023	415,000	5.000	2.110	EM3
2024	435,000	5.000	2.310	EN1
2025	460,000	5.000	2.470	EP6
2026	480,000	5.000	2.600	EQ4
2027	505,000	5.000	2.690	ER2
2028[(a)]	530,000	4.000	2.980	ES0
****				
2031[(a)]	585,000	4.000	3.290	EU5
2032[(a)]	610,000	4.000	3.370	EV3
2033[(a)]	635,000	4.000	3.450	EW1
2034[(a)]	660,000	4.000	3.510	EX9
2035[(a)]	685,000	4.000	3.560	EY7
2036[(a)]	715,000	4.000	3.600	EZ4
2037[(a)]	745,000	4.000	3.620	FA8

$1,110,000 3.000% Term Bonds Due February 15, 2030. Yield 3.200%[(a)(b)(c)(d)] CUSIP No. 481124 ET8
$4,200,000 4.000% Term Bonds Due February 15, 2042. Yield 3.730%[(a)(b)(c)(d)] CUSIP No. 481124 FB6
$5,130,000 4.000% Term Bonds Due February 15, 2047. Yield 3.830%[(a)(b)(c)(d)] CUSIP No. 481124 FC4

(Interest accrues from date of delivery)

(a) The Bonds maturing on and after February 15, 2028, are subject to optional redemption, in whole or in part, on February 15, 2027, 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 S&P Global Market Intelligence on behalf of the American Bankers Association and are included solely for the convenience of the purchasers of the Bonds. Neither the District, the Financial Advisor, nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

(d) Subject to mandatory redemption in the years and in the amounts set forth herein under the caption "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 UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THESE SECURITIES HAVE BEEN REGISTERED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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, the Financial Advisor nor the Underwriters 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, 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.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless otherwise specified, such web sites and the information or links contained therein are not incorporated into, and are not a part of, this official statement for the purposes of, and as that term is defined in United States Securities and Exchange Commission Rule 15c2-12.

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APPENDIX A -FINANCIAL INFORMATION REGARDING THE DISTRICT
APPENDIX B -ANNUAL FINANCIAL REPORT
APPENDIX C - FORM OF CO-BOND COUNSEL OPINIONS

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 Jourdanton Independent School District (the "District") is a political subdivision located in Atascosa County, Texas. The District is governed by a seven-member Board of Trustees (the "Board"), who serve staggered three-year terms with elections being held in November of each year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Consultants and advisors supply support services. See "INTRODUCTION – Description of the District." The District is approximately 270 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 November 3, 2015, and the order authorizing the issuance of the Bonds adopted by the Board of Trustees of the District on March 20, 2017 (the "Order") (see "THE BONDS – Authority for Issuance").
The Bonds.....	The District's Unlimited Tax School Building Bonds, Series 2017 (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 their delivery and will be payable semiannually on February 15 and August 15 of each year, commencing February 15, 2018, 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, New York, New York ("DTC")(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, 2028, 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, 2027 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 maturing on February 15 in the years 2030, 2042 and 2047 (the "Term Bonds") are subject to mandatory sinking fund redemption prior to maturity as described herein. (See "THE BONDS – Mandatory Redemption").

Tax Matters	In the opinion of Orrick, Herrington & Sutcliffe LLP, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Orrick, Herrington & Sutcliffe LLP, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Orrick, Herrington & Sutcliffe LLP observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Orrick, Herrington & Sutcliffe LLP expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein. The opinion of Walsh Gallegos Trevino Russo & Kyle P.C. does not address federal tax matters.
Use of Proceeds	Proceeds from the sale of the Bonds will be used (i) to finance the construction, acquisition and equipment of school buildings in the District (including the rehabilitation, renovation, expansion and improvement thereof) and (ii) to pay the costs incurred in 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.....	S&P Global Ratings ("S&P") 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. In addition, S&P has assigned its underlying unenhanced rating of "A+" to the Bonds. An explanation of the significance of such ratings may be obtained from S&P (See "OTHER INFORMATION – Ratings").
Payment Record.....	The District has never defaulted on the payment of its bonded indebtedness.

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
2013	7,104	$54,646,311	$72,022	$ 0	0.00%	$ 0
2014	7,646	732,873,637	95,851	0	0.00%	0
2015	7,843	783,029,128	99,838	0	0.00%	0
2016	7,859	834,327,272	106,162	22,305,000	2.67%	2,838
2017	8,811	735,810,981[4]	83,510	41,795,000[3]	5.68%[3]	4,744[3]

(1) Source: Municipal Advisory Council of Texas
(2) As reported by Atascosa 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.
(4) See "APPENDIX A – FINANCIAL INFORMATION REGARDING THE DISTRICT – Table 6A – Decreases in Mineral Values and Tax Value Concentration."

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

For Fiscal Year Ended August 31,

	2016	2015	2014	2013	2012
Beginning Balance	$ 4,119,161	$ 5,701,229	$ 6,303,753	$ 5,724,118	$ 5,592,629
Total Revenue	16,808,995	14,931,655	13,848,359	12,555,528	11,500,547
Total Expenditures	16,148,408	16,538,977	14,450,883	11,975,893	11,369,058
Excess/(Deficiency) of Revenues	660,587	(1,607,322)	-	579,635	-
Net Transfers/Adjustments	(152,000)	25,254	(602,524)	-	131,489
Ending Balance	$ 4,627,748	$ 4,119,161	$ 5,701,229	$ 6,303,753	$ 5,724,118

Source: The District's audited financial statements.

For additional information regarding the District, please contact:

Theresa McAllister, Superintendent
Jourdanton Independent School District
200 Zanderson
Jourdanton, Texas 78026
(830) 769-3548
tmcallister@jisdtx.us

Justin Padron
Government Capital Securities Corporation
559 Silicon Drive, Suite 102
Southlake, TX 76092
(817) 722-0220
jpadron@govcapsecurities.com

DISTRICT OFFICIALS, STAFF, AND CONSULTANTS

Elected Officials

Board of Trustees	Length of Service	Term Expires	Occupation
Barbara Peeler, President	30 Years	Nov, 2016	Office supply store owner
Mary Y. Ramirez, Secretary	6 Years	Nov, 2016	Librarian
Vance Jupe, Trustee	3Years	Nov, 2017	Commercial building insulation business
Amador Lugo, Sr., Trustee	8 Years	Nov, 2018	Game fence contractor/owner
Lanny Wheeler, Trustee	3 Years	Nov, 2018	Game fence contractor/owner
Phillip Netardus, Trustee	3Years	Nov, 2017	Pilot
Rita Munoz, Trustee	>1 Year	No, 2017	Parts Manager

Selected Administrative Staff

Name	Position	Length of Service Within District	Total Industry Experience
Theresa McAllister	Superintendent	22 Years	28 Years
Angelina Balaszi	Business Manager	11 Years	13 Years

Consultants and Advisors

Auditors ..... Coleman, Horton & Company, LLP
Uvalde, Texas

Co-Bond Counsel ..... Walsh Gallegos Trevino Russo & Kyle P.C., San Antonio, Texas
Orrick, Herrington & Sutcliffe LLP, Houston, Texas

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

PRELIMINARY OFFICIAL STATEMENT

RELATING TO
JOURDANTON INDEPENDENT SCHOOL DISTRICT

$19,490,000 UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2017

INTRODUCTION

This Official Statement, which includes APPENDICES A and B hereto, provides certain information regarding the issuance of the $19,490,000 Jourdanton Independent School District Unlimited Tax School Building Bonds, Series 2017 (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 Jourdanton Independent School District (the "District") on March 20, 2017, 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 Jourdanton Independent School District, 200 Zanderson, Jourdanton, Texas 78026, 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, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314 and will be available through its Electronic Municipal Market Access System ("EMMA"). 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 Atascosa County, Texas. The District is governed by the Board who serve staggered three-year terms with elections being held in November 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 270 square miles in area.

THE BONDS

Description of the Bonds

The Bonds shall be dated April 5, 2017. 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/registrar (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, New York, New York ("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, 2028, 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, 2027, 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 to be redeemed, the District shall determine the principal amount and maturities to be redeemed and shall direct the Paying Agent/Registrar to select by lot or other customary method that results in a random selection, of each respective series of Bonds or portions thereof within a maturity, to be redeemed.

Mandatory Redemption

The Bonds maturing on February 15 in the years 2030, 2042 and 2047 (the "Term Bonds") are subject to mandatory sinking fund redemption prior to maturity at random, in part by lot or other customary method selected by the Paying Agent/Registrar, at par plus accrued interest to the redemption date, in amounts sufficient to redeem the Term Bonds on February 15 in each of the years and the amounts set forth below:

$1,110,000 Term Bonds Maturing February 15, 2030

Mandatory Redemption Dates	Principal Amounts
February 15, 2029	$545,000
February 15, 2030(maturity)	$565,000

$4,200,000 Term Bonds Maturing February 15, 2042

Mandatory Redemption Dates	Principal Amounts
February 15, 2038	$775,000
February 15, 2039	$805,000
February 15, 2040	$840,000
February 15, 2041	$870,000
February 15, 2042(maturity)	$910,000

$5,130,000 Term Bonds Maturing February 15, 2047

Mandatory Redemption Dates	Principal Amounts
February 15, 2043	$945,000
February 15, 2044	$985,000
February 15, 2045	$1,025,000
February 15, 2046	$1,065,000
February 15, 2047(maturity)	$1,110,000

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 prior to the date fixed for any such redemption, 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 at the address shown on the Registration Books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. 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, an election held in the District on November 3, 2015, and the Order, expected to be adopted by the District on March 20, 2017. Capitalized terms used herein have the same meanings 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 and equipment of school buildings in the District (including the rehabilitation, renovation, expansion and improvement thereof), and (ii) to provide funds to pay issuance costs associated with 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	$19,490,000.00
Plus: Net Premium	870,536.50
Total Sources of Funds	$20,360,536.50
Uses of Funds	
Deposit to Project Fund	$20,000,000.00
Underwriters' Discount and Issuance Costs[(a)]	360,536.50
Total Uses of Funds	$20,360,536.50

(a) Includes Underwriters' discount and the fees of Co-Bond Counsel, the Paying Agent/Registrar, the rating agency and other costs related to the issuance of 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 the District's Co-Bond Counsel, Orrick, Herrington & Sutcliffe LLP, Houston, Texas and Walsh Gallegos Trevino Russo & Kyle P.C., San Antonio, Texas ("Co-Bond Counsel") (see "OTHER INFORMATION – Legal Matters" and "APPENDIX C – FORM OF CO-BOND COUNSEL'S OPINIONS").

Amendments to the Order

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

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 of and interest thereon in any manner now or hereafter permitted by law, including by depositing with the Registrar or with the Comptroller of the State of Texas either: (a) cash in an amount equal to the principal amount of and interest thereon to the date of maturity; or (b) pursuant to an escrow or trust agreement, cash and/or (i) direct noncallable obligations of United States of America, including obligations that are unconditionally guaranteed by the United States of America; or (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Board 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; and the principal of and interest on which will, when due or redeemable at the option of the holder, without further investment or reinvestment of either the principal amount thereof or the interest earnings thereon, provide money in an amount which, together with other moneys, if any, held in such escrow at the same time and available for such purpose, shall be sufficient to provide for the timely payment of the principal of and interest thereon to the date of maturity or earlier redemption; provided, however, that if any of the Bonds are to be redeemed prior to their respective dates of maturity, provision shall be made for the giving of notice of redemption as provided in the Order. Any surplus amount not required to accomplish such defeasance shall be returned to the District.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for

redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorize.

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 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 (hereinafter defined) believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

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

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

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

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

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

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

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

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

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

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

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

Use of Certain Terms in Other Sections of this Official Statement

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

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

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. 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 received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date"), which shall be 15 days after the Special Record Date, shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

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 opinion of Co-Bond Counsel

will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

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

History and Purpose

The PSF was created with a $2,000,000 appropriation by the Texas Legislature (the "Legislature") in 1854 expressly for the benefit of the public schools of Texas. The Constitution of 1876 stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the state, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U. S. Supreme Court on May 31, 1960, affirmed Texas' historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund is established and administered, which occurred on September 13, 2003 (the "Total Return Constitutional Amendment"), and which is further described below, the PSF had as its main sources of revenues capital gains from securities transactions and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF. The State School Land Board ("SLB") maintains the land endowment of the Fund on behalf of the Fund and is authorized to manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a three member board, the membership of which consists of the Commissioner of the Texas General Land Office (the "Land Commissioner") and two citizen members, one appointed by the Governor and one by the Texas Attorney General (the "Attorney General"). As of August 31, 2016, the General Land Office (the "GLO") managed approximately 19% of the PSF, as reflected in the fund balance of the PSF at that date.

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

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

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

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

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

The sole purpose of the PSF is to assist in the funding of public education for present and future generations. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividends produced by Fund investments flowed into the Available School Fund (the "ASF"), where they are distributed to local school districts and open-enrollment charter schools based on average daily attendance. Any net gains from investments of the Fund accrue to the corpus of the PSF. Prior to the approval by the voters of the State of the Total Return Constitutional Amendment, costs of administering the PSF were allocated to the ASF. With the approval of the Total Return Constitutional Amendment, the administrative costs of the Fund have shifted from the ASF to the PSF. In fiscal year 2016, distributions to the ASF amounted to an estimated $214.52 per student and the total amount distributed to the ASF was $1,056.4 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, 2016, 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, 2016 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, 2016 and for a description of the financial results of the PSF for the year ended August 31, 2016, the most recent year for which audited financial information regarding the Fund is available. The 2016 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2016 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, as filed, is incorporated herein and made a part hereof for all purposes.

The Total Return Constitutional Amendment

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

Year Total Return should be calculated on an annual basis, (ii) a contingency plan adopted by the SBOE, to permit monthly transfers equal in aggregate to the annual Distribution Rate to be halted and subsequently made up if such transfers temporarily exceed the Ten Year Total Return, is not prohibited by State law, provided that such contingency plan applies only within a fiscal year time basis, not on a biennium basis, and (iii) that the amount distributed from the Fund in a fiscal year may not exceed 6% of the average of the market value of the Fund or the Ten Year Total Return. In accordance with GA-0707, in the event that the Ten Year Total Return is exceeded during a fiscal year, transfers to the ASF will be halted. However, if the Ten Year Total Return subsequently increases during that biennium, transfers may be resumed, if the SBOE has provided for that contingency, and made in full during the remaining period of the biennium, subject to the limit of 6% in any one fiscal year. Any shortfall in the transfer that results from such events from one biennium may not be paid over to the ASF in a subsequent biennium as the SBOE would make a separate payout determination for that subsequent biennium.

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

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

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

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

For a variety of reasons, each change in asset allocation for the Fund, including the 2016 modifications, have been implemented in phases, and that approach is likely to be carried forward when and if the asset allocation policy is again modified. At August 31, 2016, the Fund's financial assets portfolio was invested as follows: 44.16% in public market equity investments; 13.27% in fixed income investments; 10.15% in absolute return assets; 6.03% in private equity assets; 7.02% in real estate assets; 6.84% in risk parity assets; 5.68% in real return assets; 6.61% in emerging market debt; and 0.24% in cash.

Following on previous decisions to create strategic relationships with investment managers in certain asset classes, in September 2015 and January 2016, the SBOE approved the implementation of direct investment programs in private equity and absolute return assets, respectively, which has continued to reduce administrative costs with respect to those portfolios. The Attorney General has advised the SBOE in Op. Tex. Att'y Gen. No. GA-0998 (2013) ("GA-0998"), that the PSF is not subject to requirements of certain State competitive bidding laws with respect to the selection of investments. In GA-0998, the Attorney General also advised that the SBOE generally must use competitive bidding for the selection of investment managers and other third party providers of investment services, such as record keeping and insurance, but excluding certain professional services, such as accounting services, as State law prohibits the use of competitive bidding for specified professional services. GA-0998

provides guidance to the SBOE in connection with the direct management of alternative investments through investment vehicles to be created by the SBOE, in lieu of contracting with external managers for such services, as has been the recent practice of the PSF. The PSF staff and the Fund's investment advisor are tasked with advising the SBOE with respect to the implementation of the Fund's asset allocation policy, including the timing and manner of the selection of any external managers and other consultants.

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

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

Management and Administration of the Fund

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

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

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

The SBOE contracts with its securities custodial agent to measure the performance of the total return of the Fund's financial assets. A consultant is typically retained for the purpose of providing consultation with respect to strategic asset allocation decisions and to assist the SBOE in selecting external fund management advisors. The SBOE also contracts with financial institutions for custodial and securities lending services. Like other State agencies and instrumentalities that manage large

investment portfolios, the PSF has implemented an incentive compensation plan that may provide additional compensation for investment personnel, depending upon the criteria relating to the investment performance of the Fund.

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

Capacity Limits for the Guarantee Program

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

On July 18, 2016, the IRS issued final regulations enacting the IRS Notice (the "Final IRS Regulations"). The Final IRS Regulations are effective for bonds sold on or after October 17, 2016. The IRS Notice, the Proposed IRS Regulations and the Final 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.

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. The change to the State Law Capacity became effective on February 1, 2016. At its November 2016 meeting, the SBOE again voted to increase the State Law Capacity and, in accordance with

applicable requirements for the modification of SDBGP and CDBGP Rules, a second and final vote to approve the increase in the State Law Capacity occurred on February 3, 2017. As a result, the State Law Capacity increased from 3.25 times the cost value multiplier to 3.50 times effective March 1, 2017, with a second increase to 3.75 times, which becomes effective on September 1, 2017. Based upon the cost basis of the Fund at August 31, 2016, the State Law Capacity increased from $97,933,360,905 on August 31, 2016 to $105,466,696,360 on March 1, 2017, and will increase to $113,000,031,814 on September 1, 2017.

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

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

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

The School District Bond Guarantee Program

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

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

If a school district fails to pay principal or interest on a bond as it is stated to mature, other amounts not due and payable are not accelerated and do not become due and payable by virtue of the district's default. The School District Bond Guarantee Program does not apply to the payment of principal and interest upon redemption of bonds, except upon mandatory sinking fund

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

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

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

The Charter District Bond Guarantee Program

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

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

The capacity of the Charter District Bond Guarantee Program is limited to the amount that equals the result of the percentage of the number of students enrolled in open-enrollment charter schools in the State compared to the total number of students enrolled in all public schools in the State multiplied by the available capacity of the Guarantee Program. Available capacity is defined as the maximum amount under SBOE rules, less Capacity Reserve and minus existing guarantees. The CDBGP Rules authorize the Commissioner to determine that ratio based on information provided to the TEA by school districts and open-enrollment charter schools, and the calculation will be made annually, on or about March 1 of each year. As of February 27, 2017 (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 5.10%. As of March 6, 2017, there were 182 active open-enrollment charter schools in the State and there were 706 charter school campuses operating under such charters (though as of such date, 23 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, limits the number of charters that the Commissioner may grant to 215 charters as of the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters. 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"). In accordance with the Act, each charter district that has a bond guaranteed must annually remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10 percent of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. 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. An amendment to that rule is expected to become effective in January 2017. The current rule is available at http://ritter.tea.state.tx.us/rules/tac/chapter033/ch033aa.html#33.1001.

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

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

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

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

regulations, including by making any material misrepresentations in the charter holder's application for charter district designation or guarantee under the Charter District Bond Guarantee Program, constitutes a material violation of the open-enrollment charter holder's charter.

Beginning in July 2015, TEA began limiting new guarantees under the Charter District Bond Guarantee Program to conform to the Act and, subsequently, with CDBGP Rules that require the maintenance of a capacity reserve for the Charter District Bond Guarantee Program. Following the increase in the Program multiplier in February 2016 and the update of the percentage of students enrolled in open-enrollment charter schools to the total State scholastic census in March 2016, some new capacity became available under the Charter District Bond Guarantee Program, but that capacity was quickly exhausted. In accordance with the action of the SBOE on February 3, 2017, additional capacity for the Charter District Bond Guarantee Program became effective on March 1, 2017 and additional capacity will be available on September 1, 2017. See "Capacity Limits for the Guarantee Program." Other factors that could increase the capacity of the Charter District Bond Guarantee Program include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the Charter District capacity, growth in the relative percentage of students enrolled in open-enrollment charter schools to the total State scholastic census, changes in level of school district or charter district participation in the Program, or a combination of such circumstances.

Charter District Risk Factors

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

Other than credit support for charter district bonds that is provided to qualifying charter districts by the Charter District Bond Guarantee Program, under current law, open-enrollment charter schools do not receive a dedicated funding allocation from the State to assist with the construction and acquisition of new facilities. Charter schools generally issue revenue bonds to fund facility construction and acquisition, or fund facilities from cash flows of the school. Some charter districts have issued non-guaranteed debt in addition to debt guaranteed under the Charter District Bond Guarantee Program, and such non-guaranteed debt is likely to be secured by a deed of trust covering all or part of the charter district's facilities. In March 2017, the TEA will begin requiring charter districts to provide the TEA with a lien against charter district property as a condition to receiving a guarantee under the Charter District Bond Guarantee Program. However, charter district bonds issued and guaranteed under the Charter District Bond Guarantee Program prior to the implementation of the new requirement did not have the benefit of a security interest in real property, although other existing debts of such charter districts that are not guaranteed under the Charter District Bond Guarantee Program may be secured by real property that could be foreclosed on in the event of a bond default.

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

As described above, the Act includes a funding "intercept" function that applies to both the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. However, school districts are viewed as the "educator of last resort" for students residing in the geographical territory of the district, which makes it unlikely that State funding for those school districts would be discontinued, although the TEA can require the dissolution and merger into another school district if necessary to ensure sound education and financial management of a school district. That is not the case with a charter district, however, and open-enrollment charter schools in the State have been dissolved by TEA from time to time. If a charter district that has bonds outstanding that are guaranteed by the Charter District Bond Guarantee Program should be dissolved, debt service on guaranteed bonds of the district would continue to be paid to bondholders in accordance with the Charter District Bond Guarantee Program, but there would be no funding available for reimbursement of the PSF by the Comptroller for such payments. As described under "The Charter District Bond Guarantee Program," the Act establishes a Charter District Reserve Fund, which could in the future be a significant reimbursement resource for the PSF. At March 1, 2017, the Charter District Reserve Fund contained $2,364,929.

2017 Legislative Session

On January 10, 2017 the 85th Texas Legislature convened in general session, which is scheduled to end on May 29, 2017. Thereafter, the Governor may call one or more additional special sessions. During this time the Texas Legislature may enact laws that affect the Permanent School Fund and/or the Guarantee Program. As of March 10, 2017, which was the deadline for the unrestricted filing of bills and joint resolutions in the 85th Legislative Session, bills had been filed that, if enacted, would directly or indirectly affect the Fund and the finances of school and charter districts that may issue debt guaranteed by the Fund. It is possible that other such legislation could still be considered during the session. As of March 10, 2017, among such bills that had been filed were bills that would do the following: change the way charter districts are allocated capacity under the Guarantee Program from a percentage of the "available capacity" of the Program, to a percentage of the "total capacity" of the Program; provide State funding for the construction and acquisition of facilities for entities operating charter schools; have the Texas Bond Review Board approve bond guarantees for Charter Districts, instead of the Commissioner; create a program whereby the Texas Public Facilities Authority ("TPFA") could obtain PSF guarantees for bonds it issues to finance vehicles and equipment for school districts and charter districts, which program would not require that charter districts using the program have an investment grade rating, as is currently required by the Charter District Bond Guarantee Program, and would allow school districts to secure their obligations to the TPFA by pledging any available revenues, which payment source would secure TPFA guaranteed debt, instead of securing their debt with a pledge of unlimited debt service taxes, as is currently required by the School District Bond Guarantee Program. Management of the Fund is unable to make any representations regarding the actions the Texas Legislature may take during the session or any subsequent session.

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Ratings of Bonds Guaranteed Under the Guarantee Program

Moody's Investors Service, S&P Global Ratings and Fitch Ratings rate bonds guaranteed by the PSF "Aaa," "AAA" and "AAA," respectively. Not all districts apply for multiple ratings on their bonds, however. See "Ratings" herein.

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

Fiscal Year Ended 8/31	Book Value[(1)]	Market Value[(1)]
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	29,081,052,900	36,196,265,273
2016	30,128,037,903[(2)]	37,279,799,335[(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, 2016, mineral assets, sovereign and other lands and internally managed discretionary real estate, external discretionary real estate investments and cash managed by the SLB had book values of approximately $13.42 million, $271.09 million, $2,741.66 million and $2,315.36 million, respectively, and market values of approximately $1,471.17 million, $615.99 million, $2,721.32 million and $2,315.33 million, respectively.

[(2)] At January 31, 2017, the PSF had a book value of $30,667,341,681 and a market value of $38,068,184,792. January 31, 2017 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds

At 8/31	Principal Amount[(1)]
2012	$53,634,455,141
2013	55,218,889,156
2014	58,364,350,783
2015	63,955,449,047
2016	68,303,328,445[(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, 2016, 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 $109,338,474,893, of which $41,035,146,448 represents interest to be paid. As shown in the table above, at August 31, 2016, there were $68,303,328,445 of bonds guaranteed under the Guarantee Program and the capacity of the Guarantee Program at that date was $97,933,360,905 based on the 3.25 times cost value multiplier approved by the SBOE on November, 2015, which became effective on February 1, 2016. Such capacity figures include the Reserve Capacity for the Guarantee Program. As a result of the SBOE actions in November 2016 and February 2017 described under "Capacity Limits for the Guarantee Program," the State Law Capacity increased effective March 1, 2017 from a cost value multiplier of 3.25 times to 3.50 times, with a second increase approved and to be effective on September 1, 2017, from 3.50 times to 3.75 times.

Permanent School Fund Guaranteed Bonds by Category[1]

	School District Bonds		Charter District Bonds		Totals	
Fiscal Year	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
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	757,935,000	3,117	63,955,449,047
2016	3,244	67,342,303,445	35	961,025,000	3,279	68,303,328,445

[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 January 31, 2017 (based on unaudited data, which is subject to adjustment), there were $70,760,043,972 of bonds guaranteed under the Guarantee Program, representing 3,368 school district issues, aggregating $69,699,993,972 in principal amount, and 36 charter district issues, aggregating $1,060,050,000 in principal amount. At January 31, 2017, the capacity of the Charter District Bond Guarantee Program was $1,119,707,478 (based on unaudited data, which is subject to adjustment). Taking into account the annual determination of the percentage of students enrolled in open-enrollment charter schools to the total State scholastic census, which was made on February 27, 2017, and the increase in the State Capacity Limit that became effective on March 1, 2017, both applied against the unaudited cost value of the Fund as of January 31, 2017, would result in an increase of the Charter District capacity to $1,591,652,223.

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2016

The following discussion is derived from the Annual Report for the year ended August 31, 2016, 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, 2016, 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 2016, the Fund balance was $37.3 billion, an increase of $1.5 billion from the prior year after applying the effects resulting from adoption of Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application* (GASB 72), primarily due to increases in value of most of the asset classes in which the Fund has invested and the addition of the fair value of minerals and sovereign lands to the Fund's balance sheet resulting from the adoption of GASB 72. 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 7.61%, 6.44%, 7.77% and 5.71% 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 5.51%, 6.98%, and 8.04% 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, 2016, the PSF(SBOE) portion of the Fund had diversified into emerging market and 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. As of August 31, 2016, the SBOE had approved and the PSF(SBOE) made capital commitments to real estate investments in the amount of $2.60 billion and capital commitments to four private equity limited partnerships in the total amount of $2.94 billion. Unfunded commitments at August 31, 2016 were $840.0 million in real estate and $1,150.4 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, 2016, the remaining commitments totaled approximately $1,564.2 million.

The PSF(SBOE)'s investment in domestic, international, and emerging market equity securities experienced returns of 12.45%, 3.36%, and 10.73%, respectively, during the fiscal year ended August 31, 2016. The PSF(SBOE)'s investment in domestic fixed income securities produced a return of 5.98% during the fiscal year and absolute return investments yielded a return of -0.88%. The PSF(SBOE) real estate and private equity investments returned 12.23% and 12.76%, respectively. Risk parity assets produced a return of 8.17%, while real return assets yielded 0.26%. Emerging market debt produced a return of 9.97%. Combined, all PSF(SBOE) asset classes produced an investment return of 7.61% for the fiscal year ended August 31, 2016, out-performing the benchmark index of 6.84% by approximately 77 basis points. All PSF(SLB) real assets (including cash) returned 5.51% for the fiscal year ending August 31, 2016.

For fiscal year 2016, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled $2,689.5 million, an increase of $2,833.6 million from fiscal year 2015 earnings of $-144.1 million. This increase reflects the performance of the securities markets in which the Fund was invested in fiscal year 2016. In fiscal year 2016, 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, decreased 13.9% for the fiscal year ending August 31, 2016. This decrease is primarily attributable to a decrease in PSF(SLB) operational costs and generally lower costs of purchased gas in the State Energy Management Program, which is administered by the SLB as part of the Fund.

The Fund supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. For fiscal years 2015 and 2016, the distribution from the SBOE to the ASF totaled $838.7 million and $1,056.4 million, respectively. There was no contribution to the ASF by the SLB in fiscal year 2016.

At the end of the 2016 fiscal year, PSF assets guaranteed $68.30 billion in bonds issued by 851 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 6,619 school district and charter district bond issues totaling $152.6 billion in principal amount. During the 2016 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program increased by 162, or 5.2%. The dollar amount of guaranteed school and charter bond issues outstanding increased by $4.3 billion or 6.8%. The guarantee capacity of the Fund increased by $10.09 billion, or 12.2%, during fiscal year 2016 due to growth in the cost basis of the Fund and the increase in the cost multiplier (from 3.00 to 3.25, as discussed above) used to calculate Program capacity.

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.

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 2016, in accordance with the 2016-2017 Distribution Rate determination, the SBOE approved the distribution of $1.056 billion to the ASF in fiscal year 2017, which represents a per

student distribution of $214.52, based on 2016 final student average daily attendance of 4,924,589. In November, 2016, the SBOE set the Distribution Rate for the 2018-2019 biennium at 3.70%

Changes in the Distribution Rate for each biennial period has been based on 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. The new calculation base described above has been used to determine all payments to the ASF from the Fund beginning with the 2012-13 biennium. The broader base for the Distribution Rate calculation could increase transfers from the PSF to the ASF, although the effect of the broader calculation base has been somewhat offset since the 2014-2015 biennium by the establishment by the SBOE of somewhat lower Distribution Rates than for the 2012-2013 biennium. In addition, the changes made by the amendment that increased the calculation base that could affect the corpus of the Fund 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.

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

Other Events and Disclosures

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

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

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

As of August 31, 2016, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property, and other litigation arising in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

PSF Continuing Disclosure Undertaking

The SBOE has adopted an investment policy rule (the "TEA Rule") pertaining to the PSF and the Guarantee Program. The TEA Rule is codified in Section I of the TEA Investment Procedure Manual, which relates to the Guarantee Program and is posted to the TEA web site at http://tea.texas.gov/Finance_and_Grants/Texas_Permanent_School_Fund/Texas_Permanent_School_Fund_Disclosure_Statement_-_Bond_Guarantee_Program/. The most recent amendment to the TEA Rule was adopted by the SBOE on November 19, 2010, and is summarized below. Through the adoption of the TEA Rule and its commitment to guarantee bonds, the SBOE has made the following agreement for the benefit of the issuers, holders and beneficial owners of guaranteed bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an "obligated person," within the meaning of Rule 15c2-12, with respect to guaranteed bonds. Nothing in the TEA Rule obligates the TEA to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the TEA under the TEA Rule pertain solely to the Guarantee Program. The issuer or an "obligated person" of the guaranteed bonds has assumed the

applicable obligation under Rule 15c-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such undertakings. Under the TEA agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

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

Annual Reports

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

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

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

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

Material Event Notices

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

calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA will provide timely notice of any failure by the TEA to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information

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

Limitations and Amendments

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

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

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

response to the Court's previous decisions, the Legislature enacted multiple laws that made substantive changes in the way the Finance System is funded in efforts to address the prior decisions declaring the Finance System unconstitutional.

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

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

Possible Effects of Changes in Law on District Bonds

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview

The following description 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 maintenance and operations ("M&O") tax to pay current expenses and an unlimited interest and sinking fund ("I&S") tax to pay debt service on bonds. 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 the 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 2016-2017, 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 is referred to as "Tier One" of the Foundation School Program. The basic level of funding is then "enriched" with additional funds known as "Tier Two" of the Foundation School Program. Tier Two provides a guaranteed level of funding for each cent of local tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates above $1.00 per $100 of taxable value). The Finance System also provides an Existing Debt Allotment ("EDA") to subsidize debt service on eligible outstanding school district bonds and an Instructional Facilities Allotment ("IFA") to subsidize debt service on newly issued bonds. IFA primarily addresses the debt service needs of property-poor school districts. A New Instructional Facilities Allotment ("NIFA") also is available to help pay operational expenses associated with the opening of a new instructional facility; however, NIFA awards were not funded by the Legislature for either the 2012–13 or the 2014-15 State fiscal bienniums. 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 $55.5 million 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 year 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 $77.53 per cent per weighted student in average daily attendance ("WADA") for the fiscal year 2016-17. 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 year 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 2016-17. These conversions are optional for each applicable district in the 2016-17 fiscal year 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 biennia. A district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the district receives IFA funding.

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

2006 Legislation

Since the enactment of the Reform Legislation in 2006, most school districts in the State have operated with a "target" funding level per student ("Target Revenue") that is based upon the "hold harmless" principles embodied in the Reform Legislation. This system of Target Revenue was superimposed on the Foundation School Program and made existing funding formulas substantially less important for most school districts. The Reform Legislation was intended to lower M&O tax rates in order to give school districts "meaningful discretion" in setting their M&O tax rates, while holding school districts harmless by providing them with the same level of overall funding they received prior to the enactment of the Reform Legislation. Under the Target Revenue system, each school district is generally entitled to receive the same amount of revenue per student as it did in either the 2005–2006 or 2006–07 fiscal year (under existing laws prior to the enactment of the Reform Legislation), as long as the district adopted an M&O tax rate that was at least equal to its compressed rate. The reduction in local M&O taxes resulting from the mandatory compression of M&O tax rates under the Reform Legislation, by itself, would have significantly reduced the amount

of local revenue available to fund the Finance System. To make up for this shortfall, the Reform Legislation authorized Additional State Aid for Tax Reduction ("ASATR") for each school district in an amount equal to the difference between the amount that each district would receive under the Foundation School Program and the amount of each district's Target Revenue funding level. However, in subsequent legislative sessions, the Texas Legislature has gradually reduced the reliance on ASATR by increasing the funding formulas. This phase-out of ASATR began with actions adopted by the 83rd Texas Legislature. Beginning with the 2017-18 school year, the statutes authorizing ASATR are repealed.

2015 Legislation

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

Senate Bill 1, which was also passed during the 84th Texas Legislature and was signed by the Governor on June 15, 2015, provides for additional state aid to hold school districts harmless for tax revenue losses resulting from the increased homestead exemption. Any hold harmless funding for future biennia must be approved in a subsequent legislative session, and the District can make no representation that such funding will occur. Senate Bill 1 also prohibits a school district from reducing the amount of or repealing an optional homestead exemption that was in place for the 2014 tax year (fiscal year 2015) for a period ending December 31, 2019. An optional homestead exemption reduces both the tax revenue and State aid received by a school district.

Wealth Transfer Provisions

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

The equalized wealth levels that subject Chapter 41 districts to wealth equalization measures for fiscal year 2016–17 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 2016-17 school year, 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 current school year is greater than the equalized wealth value. Accordingly, the District has been required to exercise one of the permitted wealth equalization options and has elected to purchase attendance credits from the State. (See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Wealth Transfer Provisions").

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 Atascosa 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 each Appraisal District (collectively, the "Appraisal Review Board"), whose members are appointed by the Board of Directors of each 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 of Trustees of the District) 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 windpowered 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; $25,000 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 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 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.

See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - 2015 Legislation" for a description of recent Texas Constitutional amendments affecting residential homestead exemptions.

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 of Trustees of the District based upon the valuation of property within the District as of the preceding January 1 and the amount required to be raised for debt service 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 of Trustees has approved a resolution initiating an additional 20% penalty to defray attorney costs in the collection of delinquent taxes over and above the penalty automatically assessed under the Tax Code. Charges for penalties and interest on the unpaid balance of delinquent taxes are as follows:

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

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

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

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. For the year ended August 31, 2016, the State contributed $98,295 to TRS on behalf of the District; other contributions into the plan made from private grants and from the District for salaries above the statutory minimum were $54,130. In addition to the TRS retirement plan, the District provides health care coverage for its employees. For a detailed description of the Plan, see Note N to the Annual Financial Report of the District attached hereto as Appendix B.

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 in the District 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 5.68% of the District's current taxable assessed valuation of property. See "Table 1 Valuation, Exemptions and Tax Supported Debt" in Appendix A hereto.

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

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

Section 45.0031, Texas Education Code, as amended ("Section 45.0031"), requires a district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by district voters at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, "exempt bonds"), from a tax levied at a rate of $0.50 per $100 of assessed valuation before bonds may be issued. In demonstrating the ability to pay debt service at a rate of $0.50, a district may take into account EDA and IFA allotments to the district, which effectively reduces the district's local share of debt service, and may also take into account Tier One funds allotted to the district. The District is required to deposit any State allotments provided solely for payment of debt service into the District's interest and sinking fund upon receipt of such amounts. In addition, the District must, prior to levying an interest and sinking fund tax rate that exceeds $0.50 per $100 of assessed valuation, credit to the interest and sinking fund other State assistance, including Tier One funds that may be used for either operating purposes or for payment of debt service, in an amount equal to the amount needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Once the prospective ability to pay such tax has been shown and the bonds are issued, a district may levy an unlimited tax to pay debt service. Taxes levied to pay refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the $0.50 tax rate test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the $0.50 threshold tax rate test when applied to subsequent bond issues. The Bonds are being issued for school building purposes pursuant to Chapter 45, Texas Education Code as new debt, and are subject to the $0.50 threshold tax rate test. Under current law, a district may demonstrate its ability to comply with the $0.50 threshold tax rate test by applying the $0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a district uses projected future taxable values to meet the $0.50 threshold tax rate test and subsequently imposes a tax at a rate greater than $0.50 per $100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Attorney General must find that the district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the $0.50 threshold tax rate test from a tax rate of $0.45 per $100 of valuation. The District has not used projected property values to satisfy this threshold test.

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 December 31, 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 of Trustees detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, 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 of Trustees.

Additional Provisions

Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) require any investment officers with personal business relationships or 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 Orrick, Herrington & Sutcliffe LLP, ("Orrick"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Orrick is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Orrick observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Orrick is set forth in Appendix C hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

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

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on

the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Orrick assumes the accuracy of these representations and compliance with these covenants. Orrick has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Orrick's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Orrick is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

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

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

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

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

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

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

The District's current fiscal year end is 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.

This continuing disclosure agreement may be amended by the District from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the registered owners and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District amends its agreement, it must include with the next financial information and opening data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in type of information and data provided. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

Compliance with Prior Undertakings

During the last 5 years, the District has complied in all material respects with its previous continuing disclosure agreements entered into pursuant to the Rule.

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 S&P Global Ratings ("S&P"), 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. In addition, S&P has assigned its underlying unenhanced rating of "A+" to the Bonds. An explanation of the significance of such ratings may be obtained from S&P. The ratings reflect only the views of S&P, 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 Orrick, Herrington & Sutcliffe LLP, Houston, Texas and Walsh Gallegos Trevino Rosso & Kyle P.C., San Antonio, Texas, Co-Bond Counsel, with respect to the Bonds being issued in compliance with the provisions of applicable law and the opinion of Orrick that the interest on the Bonds being excludable from gross income for purposes of federal income tax. The form of Co-Bond Counsel opinions are attached hereto as APPENDIX C – Form of Co-Bond Counsel Opinions.

Co-Bond Counsel was engaged by, and only represents, the District. Except as noted below, Co-Bond Counsel did not take part in the preparation of the Official Statement, and the firms have not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Co-Bond Counsel, such firm has reviewed the information appearing under captions or subcaptions, "THE BONDS" (except under the subcaptions "Sources and Uses of Funds", "Permanent School Fund Guarantee", "Book-Entry Only System" and "Owner's Remedies"), "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," "TAX MATTERS" (reviewed only by Orrick), "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 (excluding the caption "TAX MATTERS" with respect to Walsh Gallegos Trevino Russo & Kyle, P.C.) is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal fee to be paid Co-Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. The legal opinion of Co-Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, Andrews Kurth Kenyon 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

Coleman, Horton & Company, LLP, 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. Coleman, Horton & Company, LLP also has not performed any procedures relating to this Official Statement.

Underwriting

William Blair & Company, Stifel, Nicolaus & Company, Incorporated, and Raymond James & Associates, Inc. (collectively, the "Underwriters") have agreed to purchase the Bonds from the District for $20,231,509.13 (being the principal amount of the Bonds, plus a net premium of $870,536.50, less an Underwriters' discount of $129,027.37).

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.

Certain Relationships of Parties

A branch manager at a retail office of Stifel, Nicolaus & Company, Incorporated in Dallas, Texas, is the father of a municipal advisor employed by the Financial Advisor.

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 will also 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 of Trustees of the District for distribution in accordance with the provisions of the United States Securities and Exchange Commission's rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

/s/ Barbara Peeler
President, Board of Trustees
Jourdanton Independent School District

ATTEST:

/s/ Mary Y. Ramirez
Secretary, Board of Trustees
Jourdanton Independent School District

APPENDIX A

FINANCIAL INFORMATION REGARDING

JOURDANTON INDEPENDENT SCHOOL DISTRICT

The Tax Code as it Applies to the District

The District grants an exemption on appraised values on homestead properties for $25,000 (state mandated) and an exemption of the residence homestead of persons 65 years of age or older of $10,000; the disabled are also granted an exemption of $10,000. The District has granted an additional exemption of $10,000 of the appraised value of residence homesteads for persons 65 years of age or older.

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

The District does tax nonbusiness personal property.

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

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

The District does not tax Freeport property.

The District does tax goods in transit.

Table 1 - Valuation, Exemptions, and Tax Supported Debt

District Direct Debt

2017 Certified Taxable Assessed Valuation[(1)] (100% of Estimated Market Value)	$735,810,981
Outstanding Debt	22,305,000
Plus: The Bonds	19,490,000
Total Direct Debt	$ 41,795,000
As a % of 2015 Certified Taxable Assessed Valuation	5.68%

(1) Provided by Atascosa County Appraisal District.

Table 2 - Taxable Assessed Valuations by Category

	Tax Year 2016	Tax Year 2015	Tax Year 2014	Tax Year 2013	Tax Year 2012
Real Property	$ 591,442,489	$595,937,898	$614,288,716	$647,994,270	$573,943,939
Personal Property	301,248,056	319,491,330	250,938,300	272,900,470	138,044,520
Mineral Property	134,130,089	209,390,979	206,883,551	111,602,965	85,409,467
Gross Value	$1,026,820,634	$1,124,820,207	$1,072,110,567	$1,032,497,705	$797,397,926
Less Exemptions	291,009,653	290,492,935	289,081,439	299,624,068	285,751,615
Net Taxable Value	$ 735,810,981[(1)]	$ 834,327,272	$ 783,029,128	$ 732,873,637	$ 511,646.311

(1) See "APPENDIX A – FINANCIAL INFORMATION REGARDING THE DISTRICT – Table 6A – Decreases in Mineral Values and Tax Value Concentration."

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
2013	7,104	$511,646,311	$72,022	$ 0	0.00%	$ 0
2014	7,646	732,873,637	95,851	0	0.00%	0
2015	7,843	783,029,128	99,838	0	0.00%	0
2016	7,859	834,327,272	106,162	22,305,000	2.67%	2,838
2017	8,811	735,810,981[4]	83,510	41,795,000[3]	5.68%[3]	4,744[3]

(1) Source: Municipal Advisory Council of Texas
(2) As reported by Atascosa 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.
(4) See "APPENDIX A – FINANCIAL INFORMATION REGARDING THE DISTRICT – Table 6A – Decreases in Mineral Values and Tax Value Concentration."

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
2013	2012	$511,646,311	$1.1221	$5,946,609	97.23%	98.90%
2014	2013	732,873,637	1.0460	7,824,357	85.64%	97.92%
2015	2014	783,029,128	1.1700	9,414,694	97.31%	97.31%
2016	2015	834,327,272	1.1700	10,115,069	97.04%	97.04%
2017	2016	735,810,981[3]	1.3762	8,681,957	(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.
(3) See "APPENDIX A – FINANCIAL INFORMATION REGARDING THE DISTRICT – Table 6A – Decreases in Mineral Values and Tax Value Concentration."

Table 5 - Ten Largest Taxpayers

Taxpayers	Type of Property	2016/17 Net Taxable Assessed Valuation	% of Total 2016/17 Assessed Valuation
1. EOG Resources Inc[1]	Oil & Gas	$ 97,015,360	13.18%
2. San Miguel Electric Coop[1]	Electric Utility	43,214,630	5.87%
3. San Miguel Electric Cooperative	Electric Utility	32,899,740	4.47%
4. Murphy Exploration & Production Co – USA	Oil & Gas	32,215,730	4.38%
5. EOG Resources Inc	Oil & Gas	23,675,291	3.22%
6. Atlas Eagle Ford Oper Co LLC	Car Dealer	12,480,822	1.70%
7. Jourdanton Hospital Corporation	Hospital	9,506,010	1.29%
8. Mockingbird Midstream Gas Svcs	Oil & Gas	9,303,800	1.26%
9. RLC	Political	8,612,970	1.17%
10. Sterling Crane LLC	Financial Investments	7,990,950	1.09%
Total		$276,915,303	37.63%

(1) As shown in the table above, the two of the top ten taxpayers in the District currently account for nearly 20% of the District's tax base. Adverse developments in economic conditions, particularly in the oil and gas industry, could adversely impact these businesses in the District and the tax values in the District, resulting in less local tax revenue. If any major taxpayer were to default in the payment of taxes, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process. See "THE BONDS – Owners' Remedies" and "AD VALOREM TAX PROCEDURES – District's Rights in the Event of Tax Delinquencies" herein.

Table 6A – Decreases in Mineral Values and Tax Value Concentration

The District's assessed valuation has decreased from $834,327,272 in tax year 2015 to 735,810,981 in the current tax year. As shown in Table 2, this decrease is primarily due to a decrease in the valuation of "Mineral Property," which consists of oil, natural gas and other minerals in the District. Specifically, this category decreased from $209,390,979 in tax year 2015 to $134,130,089 in the current tax year. The decrease is due to the decreased oil and gas drilling in and production from the Eagle Ford Shale formation, which formation underlies most of the District. The District does not make any representations as to any future trend in the valuation of oil, natural gas and other minerals in the District. Furthermore, fluctuations in this category, including related fluctuations in population, could have a significant impact on the District's future finances and enrollment figures.

As shown in Table 5 above, the top ten taxpayers in the District currently account for approximately thirty-eight percent of the District's tax base. Adverse developments in economic conditions, especially in the oil and natural gas industry, could adversely impact and have, in the last two years, adversely impacted, the businesses that own oil and/or natural gas properties in the District and the tax values in the District, resulting in less local tax revenue. If any major taxpayer were to default in the payment of taxes, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process, and which can only occur annually, or, perhaps, to sell tax anticipation notes until such amounts could be collected, if ever. See "THE BONDS – Owners' Remedies" and "AD VALOREM TAX PROCEDURES – District's Rights in the Event of Tax Delinquencies" in this Official Statement.

Table 6B - 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[(1)]	Estimated % Overlapping	Overlapping Debt
Atascosa Co	12/31/16	$10,910,000	21.63%	$ 2,359,833
Jourdanton, City of	12/31/16	12,070,000	100.00%	12,070,000
Pleasanton, City of	12/31/16	23,525,000	6.91%	1,625,578
Estimated (Net) Overlapping Debt				$16,055,411
Jourdanton ISD[(2)]		$41,795,000		41,795,000
Total Direct & Estimated Overlapping Debt[(2)]				$57,850,411
As a % of Certified 2017 Taxable Assessed Valuation				7.86%

(1) Gross Debt
(2) Includes the Bonds.

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DEBT INFORMATION

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
2017	$ 1,524,750	-	-	$ 1,524,750
2018	1,554,050	$ 75,000	$1,057,297	2,686,347
2019	1,550,025	360,000	770,441	2,680,466
2020	1,547,850	375,000	757,541	2,680,391
2021	1,550,150	385,000	746,846	2,681,996
2022	1,543,850	395,000	735,750	2,674,600
2023	1,543,750	415,000	717,475	2,676,225
2024	1,542,650	435,000	696,225	2,673,875
2025	1,545,450	460,000	673,850	2,679,300
2026	1,542,150	480,000	650,350	2,672,500
2027	1,539,000	505,000	625,725	2,669,725
2028	1,535,625	530,000	602,500	2,668,125
2029	1,535,375	545,000	583,725	2,664,100
2030	1,533,125	565,000	567,075	2,665,200
2031	1,533,750	585,000	546,900	2,665,650
2032	1,532,125	610,000	523,000	2,665,125
2033	1,533,125	635,000	498,100	2,666,225
2034	1,531,625	660,000	472,200	2,663,825
2035	1,527,625	685,000	445,300	2,657,925
2036	1,526,000	715,000	417,300	2,658,300
2037	1,526,500	745,000	388,100	2,659,600
2038	1,524,000	775,000	357,700	2,656,700
2039	1,523,375	805,000	326,100	2,654,475
2040	1,519,500	840,000	293,200	2,652,700
2041	1,522,125	870,000	259,000	2,651,125
2042	-	910,000	223,400	1,133,400
2043	-	945,000	186,300	1,131,300
2044	-	985,000	147,700	1,132,700
2045	-	1,025,000	107,500	1,132,500
2046	-	1,065,000	65,700	1,130,700
2047	-	1,110,000	22,200	1,132,200
	$38,387,550	$19,490,000	$14,464,500	$72,342,050

Average Annual Debt Service Requirements $2,333,615
Maximum Annual Debt Service Requirement $2,686,347

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

Fiscal Year Ended 8/31	Principal[(1)]	Interest	Debt Service
2017	$ 555,352	$ 69,490	$ 624,842
2018	563,188	62,020	625,208
2019	571,086	54,415	625,501
2020	578,049	46,675	624,724
2021	524,000	38,809	562,809
2022	530,000	32,900	562,900
2023	536,000	26,919	562,919
2024	542,000	20,865	562,865
2025	548,000	14,740	562,740
2026	554,000	8,542	562,542
2027	159,000	2,272	161,272
2028	161,000	1,143	162,143
	$5,821,675	$378,790	$6,200,465

(1) Consists of the District's (a) Maintenance Tax Note, Series 2011 (Qualified School Construction Bonds) currently outstanding in the principal amount of $3,738,000 and (b) Maintenance Tax Note, Series 2014 (Qualified Zone Academy Bond) currently outstanding in the amount of $1,855,000, which obligations are paid from the District's Maintenance and Operations tax levy, and (c) a loan to purchase buses currently outstanding in the amount of $228,675.

Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, certain automatic reductions in federal spending took effect as of March 1, 2013. These required reductions in federal spending include a reduction to refundable credits under section 6431 of the Internal Revenue Code (the "Code") applicable to certain qualified bonds. The sequester reduction is applied to amounts claimed by an issuer of such qualified bonds that result in a payment to such issuer on or after March 1, 2013. The current sequestration reduction rate will be applied until the end of the current fiscal year (September 30, 2017) or intervening Congressional action, at which time the sequestration rate is subject to change. These reductions apply to Qualified School Construction Bond and Qualified Zone Academy Bonds, among others, for which an issuer elected to receive a direct credit subsidy pursuant to section 6431 of the Code. Payments to issuers of such bonds for the fiscal year ending September 30, 2017 are subject to a reduction of 6.9% of the amount budgeted for such payments.

[*Remainder of page intentionally left blank***]**

Table 10 - Schedule of General Fund Revenues and Expenditure History

	For Fiscal Year Ended August 31st				
	2016	**2015**	**2014**	**2013**	**2012**
REVENUES:					
Local and Intermediate Sources	$ 10,684,951	$ 10,095,853	$ 7,354,509	$ 6,468,049	$ 5,694,505
State Program Revenues	5,572,421	4,822,505	6,248,204	6,076,052	5,803,903
Federal Program Revenues	551,623	13,297	245,646	11,427	2,139
Total Revenues	$ 16,808,995	$ 14,931,655	$ 13,848,359	$ 12,555,528	$ 11,500,547
EXPENDITURES:					
Current:					
Instruction	$ 8,453,554	$ 7,712,969	$ 7,570,566	$ 6,315,289	$ 5,811,325
Instructional Resources and Media Services	112,027	103,651	100,360	112,979	89,861
Curriculum Development	32,243	54,937	25,306	20,452	13,081
Instructional Leadership	87,318	108,369	105,376	103,362	95,612
School Leadership	862,662	940,735	843,805	783,470	717,323
Guidance Counseling & Evaluation	320,466	314,058	317,139	256,967	254,846
Health Services	74,470	81,178	75,306	71,231	72,679
Student Transportation	854,512	889,752	452,136	419,076	566,699
Food Services	22,748	90,938	23,849	17,345	16,038
Extracurricular Activities	854,528	757,666	686,960	564,405	515,122
General Administration	712,149	579,058	570,127	533,933	434,558
Facilities Maintenance and Operations	1,879,895	1,344,322	1,338,844	1,165,312	998,410
Security and Monitoring Services	68,773	97,858	85,720	56,185	13,756
Data Processing Services	370,561	193,443	205,920	231,935	79,685
Community Services	2,876	2,779	9,311	2,676	2,548
Debt Service:					
Debt Service - Principal on long-term debt	546,959	489,000	488,000	333,000	329,000
Debt Service - Interest on long-term debt	550,155	90,422	88,927	66,261	68,775
Capital Outlay:					
Facilities Acquisition and Construction	20,098	1,945,442	734,251	274,580	601,621
Intergovernmental:					
Payments to Fiscal Agent/Member Districts of SSA	139,989	586,095	566,467	528,322	557,993
Payments to Juvenile Justice Alternative Ed. Prog.	5,922	4,642	5,656	5,120	5,500
Other governmental charges	176,503	151,663	156,857	113,993	124,626
Total Expenditures	$ 16,148,408	$ 16,538,977	$ 14,450,883	$ 11,975,893	$ 11,369,058
Excess (Deficit) Revenue Over (Under) Expenditures	660,587	(1,607,322)	-	579,635	-
Other Financing Sources (Uses):					
Non-Current Loans	-	281,634	-	-	-
Transfers Out (Use)	(152,000)	(35,000)	-	-	-
Other (Uses)	-	(221,380)	-	-	-
Total Other Financing Sources (Uses)	(152,000)	25,254	-	-	-
Net Change in Fund Balances	508,587	(1,582,068)	(602,524)	579,635	131,489
Fund Balance – Beginning	4,119,161	5,701,229	6,303,753	5,724,118	5,592,629
Prior Period Adjustment	-	-	-	-	-
Fund Balances – Beginning, as restated	4,119,161	5,701,229	6,303,753	5,724,118	5,592,629
Fund Balance - Ending	$ 4,627,748	$ 4,119,161	$ 5,701,229	$ 6,303,753	$ 5,724,118

Source: The District's audited financial statements.

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

	For Fiscal Year Ended August 31st				
	2016	**2015**	**2014**	**2013**	**2012**
ASSETS:					
Cash and Cash Equivalents	$ 5,719,302	$ 4,039,174	$ 5,302,623	$ 5,306,299	$ 5,152,832
Investments - Current	-	-	-	-	-
Property Taxes - Delinquent	1,033,701	1,012,008	1,841,950	917,186	1,015,957
Allowance for Uncollectible Taxes (Credit)	(155,055)	(151,801)	(276,292)	(137,578)	(152,394)
Receivable from Other Governments	188,949	534,066	663,646	1,314,794	826,313
Due from Other Funds	-	-	8,906	8,906	15,348
Other Receivables	116,251	149,530	54,502	39,458	72,661
Inventories	8,894	8,056	14,471	30,037	8,211
Total Assets	$ 6,912,042	$ 5,591,033	$ 7,609,806	$ 7,479,102	$ 6,938,928
LIABILITIES:					
Liabilities:					
Accounts Payable	$ 172,068	$ 288,088	$ 49,527	$ 62,081	$ 67,384
Payroll Deductions and Withholdings Payable	1,864	1,295	-	-	-
Accrued Wages Payable	513,138	367,036	332,231	359,403	331,811
Due to Other Funds	2,127	2,157	1,460	-	-
Due to Other Governments	730,204	602	-	-	-
Accrued Expenditures	23,368	23,628	22,389	26,158	15,897
Deferred Revenues	14,051	8,153	-	-	799,718
Total Liabilities	$ 1,456,820	$ 690,959	$ 405,607	$ 447,642	$ 1,214,810
DEFERRED INFLOWS OF RESOURCES:					
Unavailable Revenue – Property Taxes	$ 827,474	$ 780,913	$ 1,502,970	$ 727,707	$ -
Total Deferred Inflows of Resources	$ 827,474	$ 780,913	$ 1,502,970	$ 727,707	$ -
FUND BALANCES:					
Nonspendable Fund Balance:					
Inventories	$ 8,894	$ 8,056	$ 4,471	$ 0,037	$ 8,211
Committed Fund Balance:					
Construction	59,689	59,689	1,228,764	1,971,909	1,971,909
Other Committed Fund Balance	-	-	-	-	-
Unassigned Fund Balance	4,559,165	4,051,416	4,457,994	4,301,807	3,743,998
Total Fund Balance	$ 4,627,748	$ 4,119,161	$ 5,701,229	$ 6,303,753	$ 5,724,118
Total Liabilities and Fund Balances	$ 6,912,042	$ 5,591,033	$ 7,609,806	$ 7,479,102	$ 6,938,928

[(a)] Source: The District's audited financial statements.

Table 12 – Current Investments

As of December 31, 2016, the District's investable funds amounted to $1,577,646. The following summary itemizes the District's investment portfolio by type of security:

	Percent	Book Value	Market Value
Lone Star Investment[(1)]	92.27%	$1,455,639	$1,455,639
Certificate of Deposit	7.73%	$ 122,007	$ 122,007
Total	100.00%	$1,577,646	$1,577,646

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

APPENDIX B

ANNUAL FINANCIAL REPORT

JOURDANTON INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED

AUGUST 31, 2016

JOURDANTON INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2016

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CERTIFICATE OF BOARD

Jourdanton Independent School District	Atascosa	007902
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, 2016 at a meeting of the Board of Trustees of such school district on the 12th of December, 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)

COLEMAN, HORTON & COMPANY, LLP
Certified Public Accountants
400 E. NOPAL ST.
UVALDE, TEXAS 78801-5305

ROBERT O.COLEMAN, CPA
STEPHEN L. HORTON, CPA
DEBORAH V. McDONALD, CPA
DEREK L. WALKER, CPA
DUSTY R. ROUTH, CPA

830-278-6276
FAX 830-278-6868
chc@colemanhortoncpa.com

Independent Auditor's Report

To the Board of Trustees of
Jourdanton Independent School District
200 Zanderson
Jourdanton, Texas 78026

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 Jourdanton Independent School District, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the Jourdanton Independent School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Jourdanton Independent School District as of August 31, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 on pages 7-13 and 48-50 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 Jourdanton Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *Title 2 U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1 through J-2. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2016, on our consideration of the Jourdanton 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 the Jourdanton Independent School District's internal control over financial reporting and compliance.

Coleman, Horton, & Company, LLP

Certified Public Accountants
Uvalde, Texas
November 28, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The annual financial report of Jourdanton Independent School District (the District) is presented in six sections, management's discussion and analysis (this part), basic financial statements, required supplementary information, combining and other statements, required TEA supplementary information, and federal section. This section of the District's annual financial report presents our discussion and analysis of the financial performance during the year ending August 31, 2016. Please read it in conjunction with the District's financial section, which follows.

Overview of the Basic Financial Statements

The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's *overall* financial status.

- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in *more detail* than the government-wide statements.

    - The *governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.

    - *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required TEA supplementary information* that further explains and supports the information in the financial statements.

Government-wide Statements

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

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

* Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
* To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's tax base.

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

Fund Financial Statements

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

* Some funds are required by State law and by bond covenants.
* The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has two 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 government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, then explain the relationship (or differences) between them.

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

Financial Highlights

* The District's combined net position was $13,744,051 at August 31, 2016, an increase of $887,471 from day to day operations.

* For the year, the District's revenues were $19,037,682 as reflected below:

		Governmental Activities	
		Current Period	Prior Year
a)	Taxes	$10,461,875	$ 8,790,369
b)	State Aid	5,749,238	5,089,534
c)	Federal Aid	1,705,899	1,134,896
d)	Investment Earnings	57,642	4,174
e)	Other	1,063,028	848,056
	Total	$19,037,682	$15,867,029

* During the year, the District's expenses were $18,150,211 as reflected below:

		Governmental Activities	
		Current Period	**Prior Year**
a)	Instruction and instructional related	$ 9,873,826	$ 8,796,646
b)	Instructional leadership/school leadership	1,017,259	1,066,258
c)	Guidance, social work, health, transportation	1,018,980	1,039,931
d)	Food services	1,204,297	1,072,265
e)	Extracurricular activities	1,010,956	881,679
f)	General administration	750,326	593,653
g)	Plant maintenance and security	1,790,449	1,441,972
h)	Data processing services	380,287	196,819
i)	Community services	4,699	2,222
j)	Debt services	776,718	95,631
k)	Capital Outlay	-	-
l)	Payments to fiscal agent/member districts - shared service	145,911	590,737
m)	Intergovernmental charges	176,503	151,663
	Total Expenses	$18,150,211	$15,929,476

* The general fund reported a fund balance for the year of $4,627,748, an increase of $508,587 from the prior year.

* The capital projects fund reported a fund balance for the year of $17,827,622 , an increase of $17,344,751 from the prior year.

* The District's combined net position was $13,744,051 at August 31, as reflected below:

	Governmental Activities	
	Current Period	**Prior Year**
Assets:		
Current and other assets	$27,137,701	$ 6,359,242
Capital and non-current assets	24,414,252	15,487,292
Total Assets	$51,551,953	$21,846,534
Deferred Outflows	$ 1,638,673	$ 397,851
Liabilities:		
Current liabilities	$ 3,822,446	$ 923,293
Long term liabilities	35,364,361	7,973,560
Total Liabilities	$39,186,807	$ 8,896,853
Deferred Inflows	$ 259,768	$ 490,952
Net position:		
Net investment in capital assets	$10,229,521	$ 9,118,658
Restricted	62,143	509,489
Unrestricted	3,452,387	3,228,433
Total Net Position	$13,744,051	$12,856,580

* Property tax rates remained the same from the previous year. The taxable value increased during the past year by $59,861,111. The tax levy increased by $700,375 over the prior year.

* State aid increased for the year by $659,704.

* Federal aid increased for the year by $571,003.

* The general fund transferred $152,000 to supplement the Child Nutrition Program.

Capital Assets and Debt Administration

Capital Assets

Capital assets for the District at the end of the fiscal year August 31, 2016 amounted to $24,414,252. It is the District's policy to charge off as a current expenditure any purchases less than $5,000. The total capital assets recorded were land and its improvements, buildings, equipment and vehicles as reflected below:

District's Capital Assets

	Governmental Activities	
	Current Year	Prior Year
Land	$ 1,181,420	$ 1,180,638
Buildings and improvements	18,418,471	16,826,557
Equipment	2,874,947	2,499,934
Library books and media	120,525	120,525
Construction in progress	8,785,811	1,424,721
Totals at historical cost	31,381,174	22,052,375
Total accumulated depreciation	(6,966,922)	(6,565,083)
Net capital assets	$24,414,252	$15,487,292

Long-term Liabilities

The District's long-term liabilities includes bonds payable, maintenance tax notes, time warrants, and loans payable in the amount of $32,012,353.

District's Long Term Liabilities

	Governmental Activities	
	Current Year	Prior Year
Bonds payable	$22,305,000	$ -
Net issuance premiums/discounts	3,885,678	-
Total Bonds Payable	26,190,678	-
Maintenance tax notes	5,593,000	5,974,000
Time warrants notes	-	113,000
Loans payable	228,675	281,634
Total Debt	$32,012,353	$ 6,368,634

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget several times. Even with these adjustments, actual expenditures exceeded final budget amounts. The District exceeded its budget in facilities acquisition and construction. Additionally, resources available were $802,476 below the final budgeted amount.

* Local revenue sources were $18,595 less than expected.
* State funding was less than budgeted amounts by $786,972.
* Federal revenue was more than budgeted amounts by $3,092.

Contacting the District's Financial Management

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

BASIC FINANCIAL STATEMENTS

JOURDANTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2016

Data Control Codes		Primary Government: Governmental Activities
	ASSETS	
1110	Cash and Cash Equivalents	$ 25,836,520
1220	Property Taxes Receivable (Delinquent)	1,033,701
1230	Allowance for Uncollectible Taxes	(155,055)
1240	Due from Other Governments	289,470
1290	Other Receivables, net	116,727
1300	Inventories	16,338
	Capital Assets:	
1510	Land	1,181,420
1520	Buildings, Net	13,399,716
1530	Furniture and Equipment, Net	1,043,613
1560	Library Books and Media, Net	3,692
1580	Construction in Progress	8,785,811
1000	Total Assets	51,551,953
	DEFERRED OUTFLOWS OF RESOURCES	
1705	Deferred Outflow Related to TRS	1,638,673
1700	Total Deferred Outflows of Resources	1,638,673
	LIABILITIES	
2110	Accounts Payable	2,374,552
2140	Interest Payable	84,805
2150	Payroll Deductions & Withholdings	1,864
2160	Accrued Wages Payable	569,149
2180	Due to Other Governments	730,204
2200	Accrued Expenses	27,036
2300	Unearned Revenue	34,836
	Noncurrent Liabilities	
2501	Due Within One Year	1,070,352
2502	Due in More Than One Year	30,942,001
2540	Net Pension Liability (District's Share)	3,352,008
2000	Total Liabilities	39,186,807
	DEFERRED INFLOWS OF RESOURCES	
2605	Deferred Inflow Related to TRS	259,768
2600	Total Deferred Inflows of Resources	259,768
	NET POSITION	
3200	Net Investment in Capital Assets	10,229,521
3820	Restricted for Federal and State Programs	45,805
3890	Restricted for Other Purposes	16,338
3900	Unrestricted	3,452,387
3000	Total Net Position	$ 13,744,051

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

JOURDANTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes		1	Program Revenues 3	4	Net (Expense) Revenue and Changes in Net Position 6
		Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:					
	GOVERNMENTAL ACTIVITIES:				
11	Instruction	$ 9,714,728	$ 9,374	$ 1,002,715	$ (8,702,639)
12	Instructional Resources and Media Services	122,047	361	5,755	(115,931)
13	Curriculum and Staff Development	37,051	-	4,808	(32,243)
21	Instructional Leadership	91,266	-	4,082	(87,184)
23	School Leadership	925,993	40,198	40,302	(845,493)
31	Guidance, Counseling and Evaluation Services	343,474	-	15,351	(328,123)
33	Health Services	113,528	-	33,714	(79,814)
34	Student (Pupil) Transportation	561,978	1,082	20,755	(540,141)
35	Food Services	1,204,297	306,077	715,224	(182,996)
36	Extracurricular Activities	1,010,956	216,217	21,689	(773,050)
41	General Administration	750,326	-	24,967	(725,359)
51	Facilities Maintenance and Operations	1,721,032	5,882	50,996	(1,664,154)
52	Security and Monitoring Services	69,417	-	984	(68,433)
53	Data Processing Services	380,287	18,387	7,028	(354,872)
61	Community Services	4,699	-	2,876	(1,823)
72	Debt Service - Interest on Long Term Debt	508,468	-	-	(508,468)
73	Debt Service - Bond Issuance Cost and Fees	268,250	-	-	(268,250)
93	Payments related to Shared Services Arrangements	139,989	65,330	-	(74,659)
95	Payments to Juvenile Justice Alternative Ed. Prg.	5,922	-	-	(5,922)
99	Other Intergovernmental Charges	176,503	-	-	(176,503)
[TP]	TOTAL PRIMARY GOVERNMENT:	$ 18,150,211	$ 662,908	$ 1,951,246	(15,536,057)

Data Control Codes		
	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	10,461,875
SF	State Aid - Formula Grants	4,948,859
GC	Grants and Contributions not Restricted	819,815
IE	Investment Earnings	57,642
MI	Miscellaneous Local and Intermediate Revenue	135,337
TR	Total General Revenues	16,423,528
CN	Change in Net Position	887,471
NB	Net Position - Beginning	12,856,580
NE	Net Position--Ending	$ 13,744,051

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

JOURDANTON INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2016

Data Control Codes		10 General Fund	60 Capital Projects	Other Funds	Total Governmental Funds
	ASSETS				
1110	Cash and Cash Equivalents	$ 5,719,302	$ 19,985,290	$ 131,928	$ 25,836,520
1220	Property Taxes - Delinquent	1,033,701	-	-	1,033,701
1230	Allowance for Uncollectible Taxes (Credit)	(155,055)	-	-	(155,055)
1240	Receivables from Other Governments	188,949	-	100,521	289,470
1260	Due from Other Funds	-	-	2,127	2,127
1290	Other Receivables	116,251	-	476	116,727
1300	Inventories	8,894	-	7,444	16,338
1000	Total Assets	$ 6,912,042	$ 19,985,290	$ 242,496	$ 27,139,828
	LIABILITIES				
2110	Accounts Payable	$ 172,068	$ 2,157,668	$ 44,816	$ 2,374,552
2150	Payroll Deductions and Withholdings Payable	1,864	-	-	1,864
2160	Accrued Wages Payable	513,138	-	56,011	569,149
2170	Due to Other Funds	2,127	-	-	2,127
2180	Due to Other Governments	730,204	-	-	730,204
2200	Accrued Expenditures	23,368	-	3,668	27,036
2300	Unearned Revenues	14,051	-	20,785	34,836
2000	Total Liabilities	1,456,820	2,157,668	125,280	3,739,768
	DEFERRED INFLOWS OF RESOURCES				
2601	Unavailable Revenue - Property Taxes	827,474	-	-	827,474
2600	Total Deferred Inflows of Resources	827,474	-	-	827,474
	FUND BALANCES				
	Nonspendable Fund Balance:				
3410	Inventories	8,894	-	7,444	16,338
	Restricted Fund Balance:				
3450	Federal or State Funds Grant Restriction	-	-	45,805	45,805
3470	Capital Acquisition and Contractural Obligation	-	17,827,622	-	17,827,622
	Committed Fund Balance:				
3510	Construction	59,689	-	-	59,689
3545	Other Committed Fund Balance	-	-	40,624	40,624
3600	Unassigned Fund Balance	4,559,165	-	23,343	4,582,508
3000	Total Fund Balances	4,627,748	17,827,622	117,216	22,572,586
4000	Total Liabilities, Deferred Inflows & Fund Balances	$ 6,912,042	$ 19,985,290	$ 242,496	$ 27,139,828

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

JOURDANTON INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
AUGUST 31, 2016

	Total Fund Balances - Governmental Funds	$	22,572,586
1	Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was $22,052,375 and the accumulated depreciation was ($6,565,083). In addition, long-term liabilities of ($6,368,634) are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		9,118,658
2	Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2016 capital outlays of $9,409,653 and debt principal payments of $546,959 is to increase net position.		9,956,612
3	Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68 in the amount of ($3,352,008), a Deferred Resource Inflow related to TRS in the amount of ($259,768) and a Deferred Resource Outflow related to TRS in the amount of $1,638,673. The net effect is to decrease Net Position.		(1,973,103)
4	The 2016 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(482,693)
5	Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue of $827,474 from property taxes as revenue, reclassifying the proceeds of bond sales of ($22,305,000) as an increase in bonds payable, recording the unamortized net premium/discount of ($3,885,678) and recognizing the liabilities associated with maturing long-term debt and interest of ($84,805). The net effect of these reclassifications and recognitions is to increase net position.		(25,448,009)
19	**Net Position of Governmental Activities**	$	13,744,051

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

JOURDANTON INDEPENDENT SCHOOL DISTRICT EXHIBIT C-3

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes		10 General Fund	60 Capital Projects	Other Funds	Total Governmental Funds
	REVENUES:				
5700	Total Local and Intermediate Sources	$ 10,684,951	$ 51,482	$ 534,768	$ 11,271,201
5800	State Program Revenues	5,572,421	-	176,817	5,749,238
5900	Federal Program Revenues	551,623	-	1,154,276	1,705,899
5020	Total Revenues	16,808,995	51,482	1,865,861	18,726,338
	EXPENDITURES:				
	Current:				
0011	Instruction	8,453,554	-	669,047	9,122,601
0012	Instructional Resources and Media Services	112,027	-	-	112,027
0013	Curriculum and Instructional Staff Development	32,243	-	4,808	37,051
0021	Instructional Leadership	87,318	-	-	87,318
0023	School Leadership	862,662	-	-	862,662
0031	Guidance, Counseling and Evaluation Services	320,466	-	-	320,466
0033	Health Services	74,470	-	30,974	105,444
0034	Student (Pupil) Transportation	854,512	-	-	854,512
0035	Food Services	22,748	-	1,132,634	1,155,382
0036	Extracurricular Activities	854,528	-	163,258	1,017,786
0041	General Administration	712,149	-	-	712,149
0051	Facilities Maintenance and Operations	1,879,895	-	118	1,880,013
0052	Security and Monitoring Services	68,773	-	-	68,773
0053	Data Processing Services	370,561	-	-	370,561
0061	Community Services	2,876	-	-	2,876
	Debt Service:				
0071	Principal on Long Term Debt	546,959	-	-	546,959
0072	Interest on Long Term Debt	550,155	-	-	550,155
0073	Bond Issuance Cost and Fees	-	268,250	-	268,250
	Capital Outlay:				
0081	Facilities Acquisition and Construction	20,098	8,708,461	-	8,728,559
	Intergovernmental:				
0093	Payments to Fiscal Agent/Member Districts of SSA	139,989	-	-	139,989
0095	Payments to Juvenile Justice Alternative Ed. Prg.	5,922	-	-	5,922
0099	Other Intergovernmental Charges	176,503	-	-	176,503
6030	Total Expenditures	16,148,408	8,976,711	2,000,839	27,125,958
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	660,587	(8,925,229)	(134,978)	(8,399,620)
	OTHER FINANCING SOURCES (USES):				
7911	Capital Related Debt Issued (Regular Bonds)	-	22,305,000	-	22,305,000
7915	Transfers In	-	-	152,000	152,000
7916	Premium or Discount on Issuance of Bonds	-	3,964,980	-	3,964,980
8911	Transfers Out (Use)	(152,000)	-	-	(152,000)
7080	Total Other Financing Sources (Uses)	(152,000)	26,269,980	152,000	26,269,980
1200	Net Change in Fund Balances	508,587	17,344,751	17,022	17,870,360
0100	Fund Balance - September 1 (Beginning)	4,119,161	482,871	100,194	4,702,226
3000	Fund Balance - August 31 (Ending)	$ 4,627,748	$ 17,827,622	$ 117,216	$ 22,572,586

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

JOURDANTON INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2016

Total Net Change in Fund Balances - Governmental Funds	$	17,870,360
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2016 capital outlays of $9,409,653 and debt principal payments of $546,959 is to increase net position.		9,956,612
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.		(482,693)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue of $46,561 from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying the proceeds of bond sales of ($22,305,000) and net premium/disocunt on issuance of bonds of ($3,964,980), recognizing current year amortization of bond premium of $79,302 and recognizing the change in liabilities associated with maturing long-term debt and interest ($37,615). The net effect of these reclassifications and recognitions is to decrease net position.		(26,181,732)
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 8/31/2015 caused the change in the ending net position to increase in the amount of $279,607. The District recorded their proportionate share of the pension expense during the measurement period as part of the net pension liability. The amounts expensed for FY2016 were ($655,648) for pension expense from TRS data and the amounts de-expended for the net deferred resouce inflow recognized by TRS in the measurement period was $100,965. The impact of all of these is to decrease the change in net position.		(275,076)
Change in Net Position of Governmental Activities	$	887,471

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

JOURDANTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2016

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and Cash Equivalents	$ 4,732	$ 88,115
Total Assets	4,732	$ 88,115
LIABILITIES		
Accounts Payable	-	$ 478
Due to Student Groups	-	87,637
Total Liabilities	-	$ 88,115
NET POSITION		
Restricted for Other Purposes	4,732	
Total Net Position	$ 4,732	

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

JOURDANTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2016

	Private Purpose Trust Fund
ADDITIONS:	
Local and Intermediate Sources	$ 38,171
Total Additions	38,171
DEDUCTIONS:	
Payroll Costs	38,234
Total Deductions	38,234
Change in Net Position	(63)
Total Net Position - September 1 (Beginning)	4,795
Total Net Position - August 31 (Ending)	$ 4,732

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Jourdanton Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in ***GASB Statement No. 76*** and it complies with the requirements of the appropriate version of Texas Education Agency's ***Financial Accountability System Resource Guide*** (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

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's 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.

As of August 31, 2016, Jourdanton Independent School District retrospectively/prospectively applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

A. REPORTING ENTITY

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the Jourdanton Independent School District nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by property taxes, State foundation funds, grants, and other intergovernmental revenues.

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

Interfund activities between governmental funds appear as due to/due froms on the Governmental Fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Net Position.

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

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District considers all revenues available if they are collectible within 60 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”, that is, when they are both measurable and available. The District considers them “available” if they are collected within 60 days of the end of the fiscal year. 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.

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

Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrued basis of accounting. This basis of accounting recognizes revenues in the accounting periodin which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable.

Agency Funds utilize the accrual basis of accounting but do not have a measureable focus as they report only assets and liabilities.

D. FUND ACCOUNTING

The District reports the following major governmental funds:

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

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

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

Governmental Funds:

1. **Special Revenue Funds** - The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Fiduciary Funds:

2. **Agency Funds** - The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Funds is the student activity fund.

3. **Private Purpose Trust Fund** - This fund is one in which the District holds assets in trust for others in an investment program managed by the District. The District's Private Purpose Trust Funds is its After School Care Fund.

E. FUND BALANCE POLICY

Jourdanton Independent School District reports fund balance for governmental funds in classifications based primarily on the extent to which the district is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The **nonspendable** classification represents assets that will be consumed or "must be maintained in tact" and therefore will never convert to cash, such as inventories of supplies and endowments. Provisions of laws, contracts, and grants specify how fund resources can be used in the **restricted** classification. The nature of these two classifications precludes a need for a policy from the Board of Trustees. However, the Board has adopted fund balance policies for the three unrestricted classifications – committed, assigned, and unassigned.

From time to time, the Board of Trustees may commit fund balances by a majority vote in a scheduled meeting. The Board's commitment may be modified or rescinded by a majority vote in a scheduled meeting. Board commitments cannot exceed the amount of fund balance that is greater than the sum of nonspendable and restricted fund balances since that practice would commit funds that the district does not have. Commitments may be for facility expansion or renovation, program modifications, wage and salary adjustments, financial cushions and other purposes determined by the Board.

The Board of Trustees may delegate authority to specified persons or groups to make assignments of certain fund balances by a majority vote in a scheduled meeting. The Board may modify or rescind its delegation of authority by the same action. The authority to make assignments shall be in effect until modified or rescinded by the Board by majority vote in a scheduled meeting.

When the District incurs expenditures that can be made from either restricted or unrestricted balances, the expenditures should be charged to restricted balances. When the District incurs expenditures that can be made from either committed, assigned, or unassigned balances, the expenditures should be charged to committed, assigned then unassigned.

By a majority vote in a scheduled meeting the Board of Trustees may commit fund balances and it may modify or rescind commitments. The Board may also delegate authority to persons or parties to assign fund balances in specific circumstances or funds.

Nonspendable	
Inventories in the general fund	$ 8,894
Inventories in the food service fund	7,444
Total nonspendable	16,338
Restricted	
Capital acquisition	17,827,622
Federal and State fund grant restriction	45,805
Total restricted	17,873,427
Committed	
Construction	59,689
Campus Activity Fund	40,624
Total committed	100,313
Unassigned	4,582,508
Total Fund Balances	$22,572,586

F. OTHER ACCOUNTING POLICIES

1. Although food service commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and unearned revenue when received. When requisitioned, inventory and unearned revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount. Inventories also include fuel inventories for the transportation department and are recorded at cost.

2. The District records purchases of supplies as expenditures.

3. The District records its investments in certificates of deposit and state sponsored money market accounts at cost, which approximates fair value.

4. Unearned revenue accounted for on the balance sheet of the general fund and special revenue funds relates to excess funds received from the Texas Education Agency over earned amounts.

5. The District provides risk management obligations by carrying commercial insurance policies. Property and general liability insurance is obtained from a licensed insurer. Risk of loss is not retained by the District.

6. 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 future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District's deferred outflows of resources consist of deferred charges for pension contributions made after the measurement date of August 31, 2015 and during the District's current reporting period, differences between the expected and actual economic experience in the pension plan and changes in actuarial assumptions.

7. 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 a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Uncollected property taxes which are assumed collectible are reported in this category on the balance sheet for governmental funds. They are not reported in this category on the government wide statement of net position. In the government wide financial statements, the District reports the deferred inflows for pension for the District's proportionate share of the deferred inflow for the difference between the projected and actual investment earnings in the pension plan.

8. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

10. In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Debt issuance costs, are expensed as incurred.

    In the fund financial statements, governmental fund types recognized debt issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

11. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the government.

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

    The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture and equipment of the District is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	20-50
Vehicles	5-10
Office equipment	3-10
Computer equipment	5
Library books and media	5

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund and the Food Service Fund which is included in the Special Revenue Funds. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 and the other report is in Exhibit J-2.

The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

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

2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.

3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.

4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end. A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

	August 31, 2016 Fund Balance
Appropriated Budget Funds - Food Service Special Revenue Fund	$ 53,249
Nonappropriated Budget Funds	63,967
All Special Revenue Funds	$ 117,216

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As noted in Exhibit G-1, the General Fund over-expended Function 81 by $12,313. The over-expenditure was the result of recognizing construction payables that were identified after year end.

As noted in Exhibit J-2, the Child Nutrition Program over-expended Function 51 $118.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. The pledge of approved securities is waived only to the extent of the depository's bond or the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. Since the District complies with this law, it has no custodial credit risk for deposits.

At August 31, 2016 the District had deposits of $4,597,399 not covered by FDIC insurance, but fully collateralized by either the depository or the depository's agent in the District's name.

As of August 31, 2016, Jourdanton Independent School District had the following cash and cash equivalents.

		Investment Maturities (in years)				
Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10	Credit Rating
Lonestar Investment Pool	$ 1,453,625	$ 1,453,625	$ -	$ -	$ -	AAAm
Money Market Accounts	$19,501,246	$19,501,246	$ -	$ -	$ -	N/A
Bank Certificate of Deposit	$ 121,941	$ 12,941	$ -	$ -	$ -	N/A

There were several times during the year in which the District was exposed to custodial risk due to deposits exceeding both the FDIC insurance and pledged securities by the depository bank. The cause of the under pledge of securities was the result of the District transferring money from its investment accounts to cover its normal check or payroll runs. The under pledged amounts normally did not exceed one day as the bank was able to pledge the required securities to make up the deficiency.

District Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires a governmental entity to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas and its agencies; (2) guaranteed or secured certificates of deposit issued by state and national banks domiciled in Texas; (3) obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality not less than an "A"; (4) No load money market funds with a weighted average maturity of 90 days or less; (5) fully collateralized repurchase agreements; (6) commercial paper having a stated maturity of 270 days or less from the date of issuance and is not rated less than A-1 or P-1 by two nationally recognized credit rating agencies OR one nationally recognized credit agency and is fully secured by an irrevocable letter of credit; (7) secured corporate bonds rated not lower than "AA" or the equivalent; (8) public funds investment pools; and (9) guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas Public Funds Investment Act in an amount equal to the bond proceeds. The Act also requires the entity to have independent auditors perform test procedures related to investment practices as provided by the Act. Jourdanton Independent School District is in substantial compliance with the requirements of the Act and with local policies.

Additional polices and contractual provisions governing deposits and investments for Jourdanton Independent School District are specified below:

Credit Risk To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments to bank certificates of deposit and State sponsored investment pools.

Custodial Credit Risk for Investments To limit the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party the District requires counterparties to register the securities in the name of the District and hand them over to the District or its designated agent. All of the securities are in the District's name and held by the District or its agent.

Concentration of Credit Risk To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District investment is in secured bank certificates of deposit and State sponsored investment pools.

Interest Rate Risk To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires the investment portfolio to have maturities of less than one year on a weighted average maturity basis.

The investment pools used by the District are organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. The investment pools are public funds investment pools created to provide a safe environment for the placement of local government funds in authorized short-term investment.

The District's investment in investment pools, which are exempt from regulation by the Securities and Exchange Commission, have as one of their objectives the maintenance of stable net asset value of $1. The book value of the position in the pools is the same as the number of the shares in each pool; the market value of a share should approximately equal the book value of a share.

Lone Star Investment Pool (the Pool): The Pool's liquidity fund operates in a manner consistent with the SEC Rule 2a7 of the Investment Company Act of 1940, which allows the fund to use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the District's position in the Pool is the same as the value of the Pool's shares and does not include any unrealized gains and losses.

The Pool is governed by an eleven member board of trustees (Board) made up of active participants in the Pool. The Board has the responsibility of adopting and monitoring compliance with the investment policy, appointing investment officers, overseeing the selection of an investment advisor, custodian, investment consultant, administrator, and other service providers. The Board is also responsible for monitoring performance of the Pool. Financial information for the Pool can be obtained by writing to Post Office Box 400, Austin, Texas 78767-0400 or by calling 1-800-758-3927.

The Jourdanton Independent School District has no investments measured at the Net Asset Value (NAV) per Share (or its equivalent).

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 located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are collected based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General Fund are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. INTERFUND BALANCES AND TRANSFERS

Interfund balances, primarily for payroll clearing purposes, at August 31, 2016 consisted of the following amounts:

Due to Non-Major Governmental Funds From:	
General Fund	$ 2,127
Total Due to Non-Major Governmental Funds From Other Funds	$ 2,127
Transfers to Non-Major Governmental Funds From:	
General Fund	$ 152,000
Total Transfers to Non-Major Governmental Funds From Other Funds	$ 152,000

Transfers were used to supplement the District's Child Nutrition Program.

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2016 were as follows:

	Property Taxes	Other Governments	Due From Other Funds	Other	Total Receivables
Governmental Activities:					
General Fund	$ 1,033,701	$ 188,949	$ -	$ 116,251	$ 1,338,901
Nonmajor Governmental Funds	-	100,521	2,127	476	103,124
Total - Governmental Activities	$ 1,033,701	$ 289,470	$ 2,127	$ 116,727	$ 1,442,025
Amounts not scheduled for collection during the subsequent year	$ 155,055	$ -	$ -	$ -	$ 155,055

Payables at August 31, 2016 were as follows:

	Accounts Payable	Salaries and Benefits	Due To Other Funds	Due To Other Governments	Total Payables
Governmental Activities:					
General Fund	$ 172,068	$ 515,002	$ 2,127	$ 730,204	$ 1,419,401
Capital Projects Fund	2,157,668	-	-	-	2,157,668
Nonmajor Gov. Funds	44,816	56,011	-	-	100,827
Total - Gov. Activities	$ 2,374,552	$ 571,013	$ 2,127	$ 730,204	$ 3,677,896
Amounts not scheduled for payment during the subsequent year	$ -	$ -	$ -	$ -	$ -

F. CAPITAL ASSET ACTIVITY

Capital asset activity for the year ended August 31, 2016 was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Land	$ 1,180,638	$ 782	$ -	$ 1,181,420
Buildings and improvements	16,826,557	1,591,914	-	18,418,471
Equipment	2,499,934	455,867	(80,854)	2,874,947
Library books and media	120,525	-	-	120,525
Construction in progress	1,424,721	8,727,777	(1,366,687)	8,785,811
Total at historical cost	22,052,375	10,776,340	(1,447,541)	31,381,174
Less accumulated depreciation				
Buildings and improvements	(4,689,743)	(329,013)	-	(5,018,756)
Equipment	(1,760,968)	(151,219)	80,854	(1,831,333)
Library books and media	(114,372)	(2,461)	-	(116,833)
Total accumulated depreciation	(6,565,083)	(482,693)	80,854	(6,966,922)
Governmental activities capital assets, net	$15,487,292	$10,293,647	$ (1,366,687)	$24,414,252

Depreciation expense was charged to governmental functions as follows:

Instruction	$ 233,190
Instructional Resources & Media Services	6,347
School Leadership	27,525
Guidance, Counseling & Evaluation Services	10,307
Health Services	3,095
Student Transportation	100,410
Food Services	21,950
Extracurricular Activities	4,502
General Administration	19,309
Plant Maintenance and Operations	51,057
Data Processing Services	5,001
Total Depreciation Expense	$ 482,693

G. BONDS PAYABLE

Bond indebtedness of the District is reflected in the Statement of Net Position, and current requirements for principles and interest expenditures are accounted for in the Debt Service Fund.

A summary of changes in bonds payable for the year ended August 31, 2016 is as follows:

Description	Final Maturity	Interest Rate Payable	Amounts Original Issue	Interest Current Year	Amounts Outstanding 9/1/2015	Issued	Retired/ Refunded	Amounts Outstanding 8/31/2016	Amounts Due Within One Year
Unlimited Tax School Building Bonds, Series 2016	2041	2.00%-5.00 %	$22,305,000	$ 459,524	$ -	$22,305,000	$ -	$22,305,000	$ 515,000
Totals				$ 459,524	$ -	$22,305,000	$ -	$22,305,000	$ 515,000

Debt Service requirements for general obligation bonds and refund bonds are as follows:

Year Ending August 31	Principal	Interest	Total Requirements
2017	$ 515,000	$ 1,009,750	$ 1,524,750
2018	555,000	999,050	1,554,050
2019	565,000	985,025	1,550,025
2020	580,000	967,850	1,547,850
2021	600,000	950,150	1,550,150
2022-2026	3,335,000	4,382,850	7,717,850
2027-2031	4,135,000	3,541,875	7,676,875
2032-2036	5,280,000	2,370,500	7,650,500
2037-2041	6,740,000	875,500	7,615,500
Total	$22,305,000	$16,082,550	$38,387,550

H. DEBT PAYABLE

On February 24, 2011, the District issued Maintenance Tax Notes in the amount of $4,926,000 for the purpose of providing funds to pay maintenance improvements as authorized by Texas Education Code, Section 45.108. The Board of Trustees elected to designate the Note as a "Qualified School Construction Bond" under sections 54A and 54F of the Internal Revenue Code of 1986. Under these sections the District is able to obtain a "Federal Subsidy" or cash subsidy for the amount of interest which would have been payable under such Note if such interest were determined at the applicable credit rate determined under Section 54A(b)(3) of the Internal Revenue Code. Annual principal and interest payments are scheduled to begin on February 15, 2012 and end on February 15, 2026. The interest rate on the Note is 6.75% with a federally subsidized amount of 5.45% for a net interest cost of 1.30% to the District.

In conjunction with the Maintenance Tax Note the District issued a Time Warrant in the amount of $500,000 for the purpose of providing funds to pay for the costs of constructing, purchasing, equipping or improving school buildings and facilities as authorized by Texas Education Code, Section 45.103. The Board of Trustees elected to designate the Warrant as a "Qualified School Construction Bond" under sections 54A and 54F of the Internal Revenue Code of 1986. Under these sections the District is able to obtain a "Federal Subsidy" or cash subsidy for the amount of interest which would have been payable under such Note if such interest were determined at the applicable credit rate determined under Section 54A(b)(3) of the Internal Revenue Code. Annual principal and interest payments are scheduled to begin on February 15, 2012 and end on February 15, 2016. The interest rate on the Warrant is 6.75% with a federally subsidized amount of 5.45% for a net interest cost of 1.30% to the District.

On April 8, 2014, the District issued Maintenance Tax Notes in the amount of $2,300,000 for the purpose of providing funds to pay for repairs and renovations as authorized by Texas Education Code, Section 45.108. The Board of Trustees elected to designate the Note as a "Qualified Zone Academy Bond" under section 54E of the Internal Revenue Code of 1986. Under these sections the District is able to obtain a "Federal Subsidy" or cash subsidy for the amount of interest which would have been payable under such Note if such interest were determined at the applicable credit rate determined under Section 54A(d)(4)(c) of the Internal Revenue Code. Annual principal and interest payments are scheduled to begin on December 15, 2014 and end on December 15, 2027. The interest rate on the Note is 4.95% with a federally subsidized amount of 4.24% for a net interest cost of 0.71% to the District.

Notes and Warrant payables of the District is reflected in the Statement of Net Position, and current requirements for principal and interest expenditures are accounted for in the General Fund.

A summary of changes in debt payable for the year ended August 31, 2016 is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Interest Current Year	Payable Amounts Outstanding 9/1/15	Issued	Retired	Amounts Outstanding 8/31/16	Due Within One Year
Maintenance Tax Notes Series 2011	1.30%	$4,926,000	$ 66,340	$3,971,000	$ -	$ 233,000	$3,738,000	$ 352,000
Time Warrant Series 2011	1.30%	500,000	952	113,000	-	113,000	-	-
Maintenance Tax Notes Series 2015	0.71%	2,300,000	14,221	2,003,000	-	148,000	1,855,000	149,000
Loan Payable-Buses	3.378%	281,634	9,118	281,634	-	52,959	228,675	54,352
TOTAL		$8,007,634	$ 90,631	$6,368,634	$ -	$ 546,959	$5,821,675	$ 555,352

Long-term debt service requirements are as follows:

Year Ended August 31,	Total Requirements		
	Principal	Interest	Total
2017	$ 555,352	$ 69,490	$ 624,842
2018	563,188	62,020	625,208
2019	571,086	54,415	625,501
2020	578,049	46,675	624,724
2021	524,000	38,809	562,809
2022-2026	2,710,000	103,965	2,813,965
2027-2028	320,000	3,415	323,415
Total	$5,821,675	$ 378,789	$6,200,464

I. CHANGES IN LONG-TERM LIABILITIES

Following is a summary of changes in long-term liabilities for the year ended August 31, 2016:

	Amount Outstanding 9/1/15	Additions	Deletions	Amount Outstanding 8/31/16	Due Within One Year
Bonds Payable	$ -	$22,305,000	$ -	$22,305,000	$ 515,000
Net Issuance Premiums/ Discounts	-	3,964,980	79,302	3,885,678	-
Total Bonds Payable	-	26,269,980	79,302	26,190,678	515,000
Notes Payable	6,368,634	-	546,959	5,821,675	555,352
	$ 6,368,634	$26,269,980	$ 626,261	$32,012,353	$ 1,070,352

There are a number of limitations and restrictions contained in the general obligation bond indentures. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2016.

J. COMMITMENTS UNDER LEASES

Commitments under operating (noncapitalized) lease agreements for equipment provide for minimum future rental payments as of August 31, 2016, as follows:

Year Ended August 31	
2017	$ 87,505
2018	87,505
2019	69,275
Thereafter	-
Total Minimum Rentals	$ 244,285
Rental Expenditures for Fiscal Year 2016	$ 130,973

K. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

The State of Texas has created a minimum personal leave program consisting of five days per year leave with no limit on accumulation and transferability among districts for every teacher regularly employed in Texas public schools.

Each district's local Board of Education is required to establish a leave plan. Local school districts may provide additional leave beyond the state minimum. Jourdanton Independent School District provides an additional five days per year leave above the state granted five days per year. Personal leave is not vested, therefore, upon resignation, termination or nonrenewal of contract, accumulated personal leave is not paid.

L. HEALTH CARE COVERAGE

During the period ended August 31, 2016, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of $298 per pay period per employee and dependents based on employee coverage selection to the plan. All premiums were paid to a self-funded pool. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement. The contract between the District and the licensed insurer is renewable annually and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the Blue Cross/Blue Shield TRS ActiveCare are available and have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

M. SCHOOL DISTRICT RETIREE HEALTH PLAN

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

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202,204, 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. The 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 participates selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2016-2014.

Contribution Rates and Contribution Amounts

	Active Member		State		School District	
Year	Rate	Amount	Rate	Amount	Rate	Amount
2016	.65%	$ 63,973	1.0%	$ 98,295	.55%	$ 54,130
2015	.65%	$ 62,736	1.0%	$ 96,517	.55%	$ 53,084
2014	.65%	$ 62,604	1.0%	$ 96,311	.55%	$ 52,971

N. DEFINED BENEFIT PENSION PLAN

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

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

Pension Plan Fiduciary Net Position. Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at http:www.trs.state.tx.us/about/documents/cafr.pdf#CAFR; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512)542-6592. The information provided in the Notes to the Financial Statements in the 2015 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan fiduciary net position as of August 31, 2015.

Net Pension Liability	Total
Total Pension Liability	$163,887,375,172
Less: Plan Fiduciary Net Position	(128,538,706,212)
Net Pension Liability	$ 35,348,668,960
Net Position as percentage of Total Pension Liability	78.43%

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

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer rates for fiscal years 2016 and 2017.

Contribution Rates

	2015	2016
Member	6.7%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Jourdanton ISD 2016 Employer Contributions		$ 279,607
Jourdanton ISD 2016 Member Contributions		708,620
Jourdanton ISD 2015 NECE On-Behalf Contributions		496,771

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

As the non-employer contributing entity for public education, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers including public schools are required to pay the employer contribution rate in the following instances:

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

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

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

In addition to the employer contributions listed above, there are two additional surcharges an employer is subject to.

* When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

* When a school district does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

Actuarial Assumptions. The total pension liability in the August 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.0%
Long-term expected Investment Rate of Return	8.0%
Inflation	2.5%
Salary Increases Including Inflation	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit Changes During the Year	None
Ad hoc Post Employment Benefit Changes	None

The actuarial methods and assumptions are based primarily on a study of actual experience for the four year period ending August 31, 2014 and adopted on September 24, 2015.

Discount Rate. The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8.0%. 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, 2015 are summarized below:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contributions to Long-Term Portfolio Returns*
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Hedge Funds (Stable Value)	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectations			2.2%
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.*

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2015 Net Pension Liability.

	1% Decrease in Discount Rate (7%)	Discount Rate (8%)	1% Increase in Discount Rate (9%)
Jourdanton ISD's proportionate share of the net pension liability:	$5,251,965	$3,352,008	$1,769,462

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2015, Jourdanton Independent School District reported a liability of $3,352,008 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Jourdanton Independent School District. The amount recognized by Jourdanton Independent School 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 Jourdanton Independent School District were as follows:

District's proportionate share of the collective net pension liability	$3,352,008
State's proportionate share that is associated with the District	5,928,650
Total	$9,280,658

The net pension liability was measured as of August 31, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2014 thru August 31, 2015.

At August 31, 2015, the employer's proportion of the collective net pension liability was 0.000094827% which was an increase of 0.000034743% from its proportion measured as of August 31, 2014.

Changes Since the Prior Actuarial Valuation - The following are changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period:

Economic Assumptions

1. The inflation assumption was decreased from 3.00% to 2.50%.
2. The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%.
3. In accordance with the observed experience, there were small adjustments in the service-based promotional/longevity component of the salary scale.
4. The payroll growth assumption was lowered from 3.50% to 2.50%.

Mortality Assumptions

5. The post-retirement mortality tables for non-disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
6. The post-retirement mortality tables for disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
7. The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.

Other Demographic Assumptions

8. Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.
9. There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
10. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
11. Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
12. For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

Actuarial Methods and Policies

13. The method of using celled data in the valuation process was changed to now using individual data records to allow for better reporting of some items, such as actuarial gains and losses by source.

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

For the year ended August 31, 2015, Jourdanton Independent School District recognized pension expense of $844,737 and revenue of $844,737 for support provided by the State in the Government Wide Statement of Activities.

At August 31, 2016, Jourdanton Independent School District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 20,643	$ 128,821
Changes in actuarial assumptions	86,761	119,585
Differences between projected and actual investment earnings	457,627	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	794,035	11,362
Contributions paid to TRS subsequent to the measurement date	279,607	-
Total	$1,638,673	$ 259,768

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

Year Ended August 31	Pension Expense Amount
2017	$ 195,984
2018	195,984
2019	195,984
2020	318,617
2021	110,951
Thereafter	81,778

O. MEDICARE PART D - ON BEHALF PAYMENTS

The Medicare Prescription Drug, Improvement and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. Payments made on behalf of Jourdanton Independent School District for fiscal years 2014, 2015, and 2016 were $26,008, $42,687, and $40,199.

P. LITIGATION

The District is occasionally involved in litigation in the general course of business. Attorneys for the District indicate there is no pending litigation at August 31, 2016.

Q. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The District participates in numerous state and Federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2016 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

The District is in the process of facility renovations as of August 31, 2016. Related costs to be provided for in the 2016-2017 year are $11,424,161.

R. JOINT VENTURE-SHARED SERVICE ARRANGEMENTS

The District is the fiscal agent for a Shared Services Arrangement ("SSA") which provides alternative campuses to member districts. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent. According to guidance provided by TEA's Resource Guide, the District has accounted for the fiscal agent's activities of the SSA in its Special Revenue Fund and Fund 459 "Special Education Unit" and will be accounted for using Model 3 in the SSA section of the Resource Guide. Contributions to the SSA are summarized below:

Member Districts	Special Education Unit
Charlotte Independent School District	$ 5,922
Devine Independent School District	5,922
Dilley Independent School District	5,922
Jourdanton Independent School District	5,922
Lytle Independent School District	5,922
McMullen County	5,922
Natalia Independent School District	5,922
Pearsall Independent School District	5,922
Pleasanton Independent School District	5,922
Poteet Independent School District	5,922
Somerset Independent School District	5,922
Portions Relieved from/(added to) Deferred Revenue	188
Totals	$ 65,330

S. UNEARNED REVENUE

Unearned revenue at year end consisted of the following:

	General Fund	Capital Projects Fund	Other Funds	Total
State Revenue	$ -	$ -	$ 6,026	$ 6,026
Federal Revenue	-	-	14,759	14,759
Local Revenue	14,051	-	-	14,051
Total Unearned Revenue	$ 14,051	$ -	$ 20,785	$ 34,836

T. DUE FROM OTHER GOVERNMENTS

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2016, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements.

Fund	State Entitlements	Federal Grants	Other	Total
General Fund	$ 188,607	$ -	$ 342	$ 188,949
Other Funds	-	100,521	-	100,521
Total	$ 188,607	$ 100,521	$ 342	$ 289,470

U. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

	General Fund	Capital Projects Fund	Special Revenue Fund	Total
Property Taxes	$10,415,314	$ -	$ -	$10,415,314
Penalties, Interest and Other Tax-related Income	111,449	-	-	111,449
Investment Income	6,109	51,482	52	57,643
Rent	4,800	-	-	4,800
Foundation, Gifts and Bequests	-	-	8,761	8,761
Insurance Recovery	15,128	-	-	15,128
Food Sales	-	-	306,077	306,077
Extracurricular Student Activities	58,511	-	-	58,511
Enterprising Revenue	-	-	151,936	151,936
Shared Service	-	-	65,330	65,330
Other	73,640	-	2,612	76,252
Total	$10,684,951	$ 51,482	$ 534,768	$11,271,201

V. GENERAL FUND FEDERAL SOURCES REVENUE

Program or Source	CFDA Number	Amount
School Health and Related Services (SHARS) Program	N/A	$ 334,470
Medicaid Administrative Claiming Program (MAC)	N/A	217,153
Total		$ 551,623

W. RELATED PARTY TRANSACTIONS

During the year the District received printing services and office supplies from R B Printing in the amount of $2,739 R B Printing is owned by a trustee of the District.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT G-1

JOURDANTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
	REVENUES:				
5700	Total Local and Intermediate Sources	$ 10,223,807	$ 10,703,546	$ 10,684,951	$ (18,595)
5800	State Program Revenues	4,799,814	6,359,393	5,572,421	(786,972)
5900	Federal Program Revenues	355,000	548,531	551,623	3,092
5020	Total Revenues	15,378,621	17,611,471	16,808,995	(802,476)
	EXPENDITURES:				
	Current:				
0011	Instruction	8,043,315	8,683,691	8,453,554	230,137
0012	Instructional Resources and Media Services	119,115	123,867	112,027	11,840
0013	Curriculum and Instructional Staff Development	36,610	54,110	32,243	21,867
0021	Instructional Leadership	110,941	99,704	87,318	12,386
0023	School Leadership	941,199	881,517	862,662	18,855
0031	Guidance, Counseling and Evaluation Services	324,542	328,111	320,466	7,645
0033	Health Services	70,855	80,965	74,470	6,495
0034	Student (Pupil) Transportation	787,112	1,152,452	854,512	297,940
0035	Food Services	21,912	23,912	22,748	1,164
0036	Extracurricular Activities	849,110	899,541	854,528	45,013
0041	General Administration	607,496	750,478	712,149	38,329
0051	Facilities Maintenance and Operations	1,717,591	1,966,865	1,879,895	86,970
0052	Security and Monitoring Services	70,000	77,000	68,773	8,227
0053	Data Processing Services	278,266	432,547	370,561	61,986
0061	Community Services	678	4,508	2,876	1,632
	Debt Service:				
0071	Principal on Long Term Debt	862,494	546,959	546,959	-
0072	Interest on Long Term Debt	-	758,074	550,155	207,919
	Capital Outlay:				
0081	Facilities Acquisition and Construction	-	7,785	20,098	(12,313)
	Intergovernmental:				
0093	Payments to Fiscal Agent/Member Districts of SSA	320,565	370,565	139,989	230,576
0095	Payments to Juvenile Justice Alternative Ed. Prg.	8,000	8,000	5,922	2,078
0099	Other Intergovernmental Charges	208,820	208,820	176,503	32,317
6030	Total Expenditures	15,378,621	17,459,471	16,148,408	1,311,063
1100	Excess of Revenues Over Expenditures	-	152,000	660,587	508,587
	OTHER FINANCING SOURCES (USES):				
8911	Transfers Out (Use)	-	(152,000)	(152,000)	-
1200	Net Change in Fund Balances	-	-	508,587	508,587
0100	Fund Balance - September 1 (Beginning)	4,119,161	4,119,161	4,119,161	-
3000	Fund Balance - August 31 (Ending)	$ 4,119,161	$ 4,119,161	$ 4,627,748	$ 508,587

EXHIBIT G-2

JOURDANTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2016

	2016	2015
District's Proportion of the Net Pension Liability (Asset)	0.000094827%	0.000060084%
District's Proportionate Share of Net Pension Liability (Asset)	$ 3,352,008	$ 1,604,926
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	5,928,650	5,233,836
Total	$ 9,280,658	$ 6,838,762
District's Covered-Employee Payroll	$ 9,651,681	$ 9,632,422
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	34.73%	16.67%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.43%	83.25%

Note: GASB 68, Paragraph 81 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2015 for Year 2016 and August 31, 2014 for 2015.

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

EXHIBIT G-3

JOURDANTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR FISCAL YEAR 2016

	2016	2015
Contractually Required Contribution	$ 279,607	$ 268,708
Contribution in Relation to the Contractually Required Contribution	(279,607)	(268,708)
Contribution Deficiency (Excess)	$ -0-	$ -0-
District's Covered-Employee Payroll	$ 9,829,458	$ 9,651,681
Contributions as a Percentage of Covered-Employee Payroll	2.84%	2.78%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31, 2014 for Fiscal Year 2015 and August 31, 2015 for Fiscal Year 2016.

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

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.

The following are changes to the actuarial assumptions or other inputs that affected the measurement of the total pension liability since the prior measurement period.

Economic Assumptions

1. The inflation assumption was decreased from 3.00% to 2.50%.
2. The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%.
3. In accordance with the observed experience, there were small adjustments in the service-based promotional/longevity component of the salary scale.
4. The payroll growth assumption was lowered from 3.50% to 2.50%.

Mortality Assumptions

5. The post-retirement mortality tables for non-disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
6. The post-retirement mortality tables for disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
7. The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.

Other Demographic Assumptions

8. Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.
9. There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
10. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.

11. Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
12. For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

Actuarial Methods and Policies

13. The method of using celled data in the valuation process was changed to now using individual data records to allow for better reporting of some items, such as actuarial gains and losses by source.

COMBINING AND OTHER STATEMENTS

JOURDANTON INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2016

Data Control Codes		211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	294 SSA Head Start
	ASSETS				
1110	Cash and Cash Equivalents	$ (25,090)	$ 90,895	$ (13,180)	$ 3,337
1240	Receivables from Other Governments	49,545	28,546	13,180	9,250
1260	Due from Other Funds	-	-	-	-
1290	Other Receivables	-	476	-	-
1300	Inventories	-	7,444	-	-
1000	Total Assets	$ 24,455	$ 127,361	$ -	$ 12,587
	LIABILITIES				
2110	Accounts Payable	$ -	$ 42,715	$ -	$ -
2160	Accrued Wages Payable	22,316	17,148	-	11,473
2200	Accrued Expenditures	2,139	324	-	1,114
2300	Unearned Revenues	-	13,925	-	-
2000	Total Liabilities	24,455	74,112	-	12,587
	FUND BALANCES				
	Nonspendable Fund Balance:				
3410	Inventories	-	7,444	-	-
	Restricted Fund Balance:				
3450	Federal or State Funds Grant Restriction	-	45,805	-	-
	Committed Fund Balance:				
3545	Other Committed Fund Balance	-	-	-	-
3600	Unassigned Fund Balance	-	-	-	-
3000	Total Fund Balances	-	53,249	-	-
4000	Total Liabilities and Fund Balances	$ 24,455	$ 127,361	$ -	$ 12,587

331 SSA - Career & Technical - Basic Grant	410 State Textbook Fund	459 Special Education Unit	461 Campus Activity Funds	483 Virginia Steinle Fund	484 Billy & Alberta Mueller Fund	Total Nonmajor Governmental Funds
$ (1,293)	$ 1,736	$ 9,455	$ 42,725	$ 20,153	$ 3,190	$ 131,928
-	-	-	-	-	-	100,521
2,127	-	-	-	-	-	2,127
-	-	-	-	-	-	476
-	-	-	-	-	-	7,444
$ 834	$ 1,736	$ 9,455	$ 42,725	$ 20,153	$ 3,190	$ 242,496
$ -	$ -	$ -	$ 2,101	$ -	$ -	$ 44,816
-	-	5,074	-	-	-	56,011
-	-	91	-	-	-	3,668
834	1,736	4,290	-	-	-	20,785
834	1,736	9,455	2,101	-	-	125,280
-	-	-	-	-	-	7,444
-	-	-	-	-	-	45,805
-	-	-	40,624	-	-	40,624
-	-	-	-	20,153	3,190	23,343
-	-	-	40,624	20,153	3,190	117,216
$ 834	$ 1,736	$ 9,455	$ 42,725	$ 20,153	$ 3,190	$ 242,496

JOURDANTON INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes		211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	294 SSA Head Start
	REVENUES:				
5700	Total Local and Intermediate Sources	$ -	$ 306,120	$ -	$ -
5800	State Program Revenues	-	4,380	-	-
5900	Federal Program Revenues	294,036	688,214	68,659	98,559
5020	Total Revenues	294,036	998,714	68,659	98,559
	EXPENDITURES:				
	Current:				
0011	Instruction	263,062	-	68,659	98,559
0013	Curriculum and Instructional Staff Development	-	-	-	-
0033	Health Services	30,974	-	-	-
0035	Food Services	-	1,132,634	-	-
0036	Extracurricular Activities	-	-	-	-
0051	Facilities Maintenance and Operations	-	118	-	-
6030	Total Expenditures	294,036	1,132,752	68,659	98,559
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(134,038)	-	-
	OTHER FINANCING SOURCES (USES):				
7915	Transfers In	-	152,000	-	-
1200	Net Change in Fund Balance	-	17,962	-	-
0100	Fund Balance - September 1 (Beginning)	-	35,287	-	-
3000	Fund Balance - August 31 (Ending)	$ -	$ 53,249	$ -	$ -

331 SSA - Career & Technical - Basic Grant	410 State Textbook Fund	459 Special Education Unit	461 Campus Activity Funds	483 Virginia Steinle Fund	484 Billy & Alberta Mueller Fund	Total Nonmajor Governmental Funds
$ -	$ -	$ 65,330	$ 160,119	$ 9	$ 3,190	$ 534,768
-	172,437	-	-	-	-	176,817
4,808	-	-	-	-	-	1,154,276
4,808	172,437	65,330	160,119	9	3,190	1,865,861
-	172,437	65,330	-	1,000	-	669,047
4,808	-	-	-	-	-	4,808
-	-	-	-	-	-	30,974
-	-	-	-	-	-	1,132,634
-	-	-	163,258	-	-	163,258
-	-	-	-	-	-	118
4,808	172,437	65,330	163,258	1,000	-	2,000,839
-	-	-	(3,139)	(991)	3,190	(134,978)
-	-	-	-	-	-	152,000
-	-	-	(3,139)	(991)	3,190	17,022
-	-	-	43,763	21,144	-	100,194
$ -	$ -	$ -	$ 40,624	$ 20,153	$ 3,190	$ 117,216

EXHIBIT H-3

JOURDANTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED AUGUST 31, 2016

	BALANCE SEPTEMBER 1 2015	ADDITIONS	DEDUCTIONS	BALANCE AUGUST 31 2016
STUDENT ACTIVITY ACCOUNT				
Assets:				
Cash and Temporary Investments	$ 107,889	$ 220,579	$ 240,353	$ 88,115
Liabilities:				
Accounts Payable	$ 587	$ 210,727	$ 210,836	$ 478
Due to Student Groups	107,302	220,579	240,244	87,637
Total Liabilities	$ 107,889	$ 431,306	$ 451,080	$ 88,115
TOTAL AGENCY FUNDS				
Assets:				
Cash and Temporary Investments	$ 107,889	$ 220,579	$ 240,353	$ 88,115
Liabilities:				
Accounts Payable	$ 587	$ 210,727	$ 210,836	$ 478
Due to Student Groups	107,302	220,579	240,244	87,637
Total Liabilities	$ 107,889	$ 431,306	$ 451,080	$ 88,115

T.E.A. REQUIRED SCHEDULES

JOURDANTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2016

Last 10 Years Ended August 31		(1) Tax Rates	(2)	(3) Assessed/Appraised Value for School Tax Purposes
		Maintenance	Debt Service	
2007	and prior years	Various	Various	$ Various
2008		1.170000	0.000000	385,610,186
2009		1.170000	0.000000	410,324,964
2010		1.170000	0.000000	437,900,121
2011		1.170000	0.000000	453,741,129
2012		1.170000	0.000000	453,384,530
2013		1.122100	0.000000	529,953,569
2014		1.046000	0.000000	748,026,482
2015		1.170000	0.000000	804,674,701
2016	(School year under audit)	1.170000	0.000000	864,535,812
1000	TOTALS			

(10) Beginning Balance 9/1/2015	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2016
$ 306,167	$ -	$ 8,158	$ -	$ (16,378)	$ 281,631
33,836	-	4,684	-	(1,556)	27,596
43,416	-	5,013	-	(1,286)	37,117
44,041	-	6,525	-	(1,173)	36,343
44,247	-	9,149	-	142	35,240
53,017	-	13,690	-	1,504	40,831
65,985	-	12,250	-	(86)	53,649
160,813	-	46,917	-	(1,341)	112,555
260,486	-	136,571	-	(25,706)	98,209
-	10,115,069	10,172,357	-	367,818	310,530
$ 1,012,008	$ 10,115,069	$ 10,415,314	$ -	$ 321,938	$ 1,033,701

EXHIBIT J-2

JOURDANTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
	REVENUES:				
5700	Total Local and Intermediate Sources	$ 336,017	$ 306,119	$ 306,120	$ 1
5800	State Program Revenues	4,200	4,380	4,380	-
5900	Federal Program Revenues	718,470	693,086	688,214	(4,872)
5020	Total Revenues	1,058,687	1,003,585	998,714	(4,871)
	EXPENDITURES:				
0035	Food Services	1,058,687	1,155,585	1,132,634	22,951
0051	Facilities Maintenance and Operations	-	-	118	(118)
6030	Total Expenditures	1,058,687	1,155,585	1,132,752	22,833
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(152,000)	(134,038)	17,962
	OTHER FINANCING SOURCES (USES):				
7915	Transfers In	-	152,000	152,000	-
1200	Net Change in Fund Balances	-	-	17,962	17,962
0100	Fund Balance - September 1 (Beginning)	35,287	35,287	35,287	-
3000	Fund Balance - August 31 (Ending)	$ 35,287	$ 35,287	$ 53,249	$ 17,962

FEDERAL SECTION

COLEMAN, HORTON & COMPANY, LLP
Certified Public Accountants
400 E. NOPAL ST.
UVALDE, TEXAS 78801-5305

ROBERT O.COLEMAN, CPA
STEPHEN L. HORTON, CPA
DEBORAH V. McDONALD, CPA
DEREK L. WALKER, CPA
DUSTY R. ROUTH, CPA

830-278-6276
FAX 830-278-6868
chc@colemanhortoncpa.com

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

To the Board of Trustees of
Jourdanton Independent School District
200 Zanderson
Jourdanton, Texas 78026

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 the Jourdanton Independent School District, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the Jourdanton Independent School District's basic financial statements, and have issued our report thereon dated November 28, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Jourdanton 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.

Coleman, Horton, & Company, LLP

Certified Public Accountants
Uvalde, Texas
November 28, 2016

COLEMAN, HORTON & COMPANY, LLP
Certified Public Accountants
400 E. NOPAL ST
UVALDE, TEXAS 78801-5305

ROBERT O.COLEMAN, CPA
STEPHEN L. HORTON, CPA
DEBORAH V. McDONALD, CPA
DEREK L. WALKER, CPA
DUSTY R. ROUTH, CPA

830-278-6276
FAX 830-278-6868
chc@colemanhortoncpa.com

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Trustees of
Jourdanton Independent School District
200 Zanderson
Jourdanton, Texas 78026

Report on Compliance for Each Major Federal Program

We have audited Jourdanton Independent School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Jourdanton Independent School District's major federal programs for the year ended August 31, 2016. Jourdanton Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Jourdanton 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Jourdanton 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 Jourdanton Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Jourdanton 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 for the year ended August 31, 2016.

Report on Internal Control Over Compliance

Management of the Jourdanton 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 Jourdanton 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 the Uniform Guidance, 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 Jourdanton 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 deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Coleman, Horton, & Company, LLP
Certified Public Accountants
Uvalde, Texas
Novembr 28, 2016

JOURDANTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2016

A. Summary of the Auditor's Results

1. Financial Statements

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
Control deficiency(ies) identified?	___ Yes	X No
Control deficiency(ies) identified that are not considered to be material weaknesses?	___ Yes	X None reported
Noncompliace material to financial statements noted?	___ Yes	X No

2. Federal Awards

Internal control over major programs:		
Control deficiency(ies) identified?	___ Yes	X No
Control deficiency(ies) identified that are not considered to be material weaknesses?	___ Yes	X None reported
Type of auditor's report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with section 200.56 of the Uniform Guidance?	___ Yes	X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
CFDA #84.010A	ESEA, Title I, Part A

Dollar threshold used to distinguish between type A and type B programs:	$ 750,000	
Auditee qualified as low-risk auditee?	X Yes	___ No

JOURDANTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2016

B. Financial Statement Findings

------None Noted------

C. Federal Award Findings and Questioned Costs

------None Noted------

JOURDANTON INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2016

Finding/Recommendation

----- None Noted -----

JOURDANDTON INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2016

----- None Noted -----

JOURDANTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2016

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through Region XX Service Center			
SSA - Career and Technical - Basic Grant	84.048	16-420006007902	$ 4,808
Total Passed through Region XX Service Center			$ 4,808
Passed Through State Department of Education			
*ESEA, Title I, Part A - Improving Basic Programs	84.010A	16-610101007902	$ 265,390
*ESEA, Title I, Part D - Subpart 2	84.010A	16-610103007902	28,646
Total CFDA Number 84.010A			294,036
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	16-694501007902	68,659
Total Passed Through State Department of Education			$ 362,695
TOTAL U.S. DEPARTMENT OF EDUCATION			$ 367,503
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through BCFS Education Services			
SSA - Head Start	93.600	N/A	$ 98,559
Total Passed through BCFS Education Services			$ 98,559
Passed Through Texas Dept of Human Services			
Medicaid Administrative Claiming Program - MAC	93.778		$ 217,153
Total Passed Through Texas Dept of Human Services			$ 217,153
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			$ 315,712
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through the State Department of Agriculture			
*School Breakfast Program	10.553	71401601	$ 248,169
*National School Lunch Program - Cash Assistance	10.555	71301601	399,720
*National School Lunch Prog. - Non-Cash Assistance	10.555		40,325
Total CFDA Number 10.555			440,045
Total Child Nutrition Cluster			688,214
Total Passed Through the State Department of Agriculture			$ 688,214
TOTAL U.S. DEPARTMENT OF AGRICULTURE			$ 688,214
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,371,429

*Clustered Programs
**Schedule does not include federal revenue reported in the General Fund consisting of SHARS of $334,470.

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

JOURDANTON INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2016

- For all Federal programs, the District uses the fund types specified in Texas Education Agency's ***Financial Accountability System Resource Guide***. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund.

- The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund which is a Governmental Fund type.

  With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

  Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.

- The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

- CFDA number 10.550 pertains to food commodities distributed by USDA under the following categorical programs (as applicable): the National School Lunch Program (CFDA 10.555), the Child and Adult Care Food Program (CFDA 10.558), the Summer Food Service Program (CFDA 10.559), the Commodity Supplemental Food Program (CFDA 10.565), and the Food Distribution Program on Indian Reservations (CFDA 10.567). USDA deleted this number from the CFDA on May 6, 2008. The audit covering Jourdanton Independent School District fiscal year beginning September 1 2015, and future audits, will therefore identify commodity assistance by the CFDA numbers of the programs under which USDA donated the commodities.

SCHOOLS FIRST QUESTIONNAIRE

Jourdanton Independent School District — Fiscal Year 2016

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 on the financial statements as a whole?	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 government 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?	No
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	$-0-
SF11	Net Pension Assets (1920) at fiscal year-end.	$-0-
SF12	Net Pension Liabilities (2540) at fiscal year-end.	$3,352,008
SF13	Pension Expense (6147) at fiscal year-end.	$275,076

APPENDIX C

FORM OF CO-BOND COUNSEL OPINIONS

Orrick, Herrington & Sutcliffe LLP
1301 McKinney Street
Suite 4100
Houston, TX 77010

+1 713 658 6400

orrick.com

April 5, 2017

We have acted as Co-Bond Counsel in connection with the issuance by the Jourdanton Independent School District (the "District") of its Unlimited Tax School Building Bonds, Series 2017 (the "Bonds"), dated April 5, 2017, in the aggregate principal amount of $19,490,000. The Bonds are issuable in fully registered form only, in denominations of $5,000 or integral multiples thereof, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the order adopted by the Board of Trustees of the District authorizing their issuance executed of the date of the sale of the Bonds finalizing the terms thereof (the "Order").

We have acted as Co-Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income under federal income tax law. In such capacity, we have examined the Constitution and laws of the State of Texas; federal income tax law; and a transcript of certain certified proceedings pertaining to the issuance of the Bonds. The transcript contains certified copies of certain proceedings of the District; certain certifications and representations and other material facts within the knowledge and control of the District, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds. We have also examined executed Bond No. R-1.

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

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

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

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

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

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

In providing the opinion set forth in the foregoing paragraph, we are assuming continuing compliance with the Covenants (as hereinafter defined) by the District. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the Bonds in order for interest on the Bonds to be and remain excludable from gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, restrictions on the use, expenditure and investment of the proceeds of the Bonds and the use of the property financed by the Bonds, limitations on the source of the payment of and the security for the Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the Bonds to the United States Treasury. The Order and the District's tax certificate for the Bonds (the "Tax Certificate") contain covenants (the "Covenants") under which the District has agreed to comply with such requirements. If the District fails to comply with the Covenants interest on the Bonds could become includable in gross income for federal income tax purposes retroactively to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Bonds from becoming includable in gross income for federal income tax purposes. We have no responsibility to monitor compliance with the Covenants after the date of issue of the Bonds.

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

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

April 5, 2017

We have acted as Co-Bond Counsel in connection with the issuance by the Jourdanton Independent School District (the "District") of its Unlimited Tax School Building Bonds, Series 2017 (the "Bonds"), dated April 5, 2017, in the aggregate principal amount of $19,420,000. The Bonds are issuable in fully registered form only, in denominations of $5,000 or integral multiples thereof, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the order adopted by the Board of Trustees of the District authorizing their issuance executed of the date of the sale of the Bonds finalizing the terms thereof (the "Order").

We have acted as Co-Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas. In such capacity, we have examined the Constitution and laws of the State of Texas and a transcript of certain certified proceedings pertaining to the issuance of the Bonds. The transcript contains certified copies of certain proceedings of the District; certain certifications and representations and other material facts within the knowledge and control of the District, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds. We have also examined executed Bond No. R-1.

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

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

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

(2) The Bonds are payable, both as to principal and interest, from the receipts of all annual ad valorem tax levied, without legal limit as to rate or amount, upon taxable

property located within the District, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Order executed by the District in connection with the issuance of the Bonds, excluding covenants and agreements relating to the federal income tax treatment of interest on the Bonds, and we provide no opinion regarding federal tax consequences arising with respect to 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; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.