OFFICIAL STATEMENT
Dated May 31, 2017

Ratings:
Moody's: "Aaa" / "Aaa"
Fitch: "AAA" / "AA+"

See "OTHER INFORMATION - RATINGS" & "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.

NEW ISSUES – Book-Entry-Only

In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX EXEMPTION" herein, and is not includable in the alternative minimum taxable income of individuals. See "TAX EXEMPTION" for a discussion of the opinion of Bond Counsel, including the alternative minimum tax consequences for corporations.

AUSTIN INDEPENDENT SCHOOL DISTRICT
(Travis County, Texas)
$218,960,000
UNLIMITED TAX SCHOOL BUILDING AND REFUNDING BONDS, SERIES 2017

Interest accrues from the Delivery Date **Due: August 1, as shown on page 2**

PAYMENT TERMS . . . The Austin Independent School District Unlimited Tax School Building and Refunding Bonds, Series 2017 (the "Bonds"), will be issued in denominations of $5,000 principal amount or any integral multiple thereof. Interest on the Bonds will accrue from their date of initial delivery to the Underwriters ("Delivery Date") and will be payable on February 1, 2018 and on each August 1 and February 1 thereafter to maturity or redemption prior to 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 Austin Independent School District (the "District") intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on behalf of DTC to discontinue such system. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 per series or integral multiples thereof. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., as the nominee of DTC, which will make distribution of the amounts so paid to the beneficial owners of the Bonds (see "THE BONDS - BOOK-ENTRY-ONLY SYSTEM"). The initial Paying Agent/Registrar for the Bonds is The Bank of New York Mellon Trust Company, N.A. (see "THE BONDS - PAYING AGENT/REGISTRAR").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Chapter 45, Texas Education Code, as amended, Chapters 1207 and 1371, Texas Government Code, as amended, and elections held within the District on May 10, 2008 and May 11, 2013, and an order (the "Bond Order") adopted on April 24, 2017 by the Board of Trustees (the "Board") of the District in which the Board delegated to certain officers of the District authority to complete the sale of the Bonds through the execution of a "Pricing Certificate" (the Bond Order and Pricing Certificate are jointly referred to herein as the "Order"). The Bonds are direct obligations of the District and are payable as to principal and interest from the proceeds of a continuing, direct annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the District (see "THE BONDS - SECURITY AND SOURCE OF PAYMENT"). An application has been filed and the District has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed by the Texas Permanent School Fund (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

PURPOSE . . . Proceeds from the sale of the Bonds will be used (i) for construction, acquisition and equipment of school buildings and to purchase the necessary sites therefor, (ii) to currently refund a portion of the District's outstanding commercial paper notes, issued for a variety of purposes, including construction, acquisition and equipment of school buildings and to purchase the necessary sites therefor (the "Refunded Notes") and (iii) to pay the cost of issuance of the Bonds. See "PLAN OF FINANCING – PURPOSE" and "- SOURCES AND USES OF PROCEEDS".

MATURITY SCHEDULE
See Page 2

LEGALITY . . . 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 opinion of the Attorney General of Texas and the approval of certain legal matters by Andrews Kurth Kenyon LLP, Austin, Texas, Bond Counsel (see APPENDIX C - "FORM OF BOND COUNSEL'S OPINION"). Certain legal matters will be passed upon for the Underwriters by their counsel, Bracewell LLP, Houston, Texas.

DELIVERY . . . It is expected that the Bonds will be available for initial delivery through the services of DTC on or about June 21, 2017 (the "Delivery Date").

Piper Jaffray & Co.

Estrada Hinojosa | Jefferies
RBC Capital Markets | Siebert Cisneros Shank & Co., L.L.C

AUSTIN INDEPENDENT SCHOOL DISTRICT
$218,960,000 Unlimited Tax School Building and Refunding Bonds, Series 2017

MATURITY SCHEDULE

Maturity (August 1)	Principal Amount	Interest Rate	Initial Yield (1)	CUSIP Number (2)	Maturity (August 1)	Principal Amount	Interest Rate	Initial Yield (1)	CUSIP Number (2)
2018	$ 10,440,000	2.500%	0.900%	052430 NY7	2028	$ 7,750,000	5.000%	2.170%	052430 PJ8
2019	46,795,000	5.000%	1.000%	052430 NZ4	2029	8,140,000	5.000%	2.270%	052430 PK5
2020	20,905,000	5.000%	1.080%	052430 PA7	2030	8,545,000	5.000%	2.350%	052430 PL3
2021	5,510,000	5.000%	1.200%	052430 PB5	2031	8,975,000	4.000%	2.680%	052430 PM1
2022	5,785,000	5.000%	1.390%	052430 PC3	2032	9,335,000	4.000%	2.750%	052430 PN9
2023	6,075,000	5.000%	1.490%	052430 PD1	2033	9,705,000	4.000%	2.850%	052430 PP4
2024	6,380,000	5.000%	1.650%	052430 PE9	2034	10,095,000	5.000%	2.660%	052430 PQ2
2025	6,695,000	5.000%	1.790%	052430 PF6	2035	10,600,000	5.000%	2.710%	052430 PR0
2026	7,030,000	5.000%	1.950%	052430 PG4	2036	11,130,000	5.000%	2.740%	052430 PS8
2027	7,385,000	5.000%	2.070%	052430 PH2	2037	11,685,000	5.000%	2.760%	052430 PT6

(Interest accrues from Delivery Date)

(1) The initial yields are established by and are the sole responsibility of the Underwriters, and may subsequently be changed. Initial yields are calculated to the earlier of maturity or the first optional redemption date.
(2) CUSIP numbers have been assigned to this issue by the CUSIP Global Services, which is managed on behalf of the American Banker Association by S&P Global Market Intelligence, and are included solely for the convenience of the owners of the Bonds. None of the District, the Financial Advisor or the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set for herein.

OPTIONAL REDEMPTION . . . The District reserves the right, at its option, to redeem Bonds having stated maturities on and after August 1, 2027, in whole or in part, on August 1, 2026, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

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

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

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

The information set forth herein has been obtained from the District and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor or the Underwriters. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM-PSF CONTINUING DISCLOSURE UNDERTAKING" and "CONTINUING DISCLOSURE OF INFORMATION" for a description of the undertakings of the Texas Education Agency (the "TEA") and of the District, respectively.

The Underwriters have approved the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement pursuant to their responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

All of the summaries of the statutes, orders, contracts, records, and engineering and other related reports set forth in the Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the Financial Advisor, for further information.

None of the District, the Underwriters, or the Financial Advisor make any representation as to the accuracy, completeness, or adequacy of the information supplied by DTC regarding its book-entry-only system or by the Texas Education Agency regarding the Permanent School Fund for use in this Official Statement.

CUSIP numbers have been assigned to this issue by the CUSIP Global Services, which is managed on behalf of the American Banker Association by S&P Global Market Intelligence, and are included solely for the convenience of the owners of the Bonds. None of the District, the Underwriters or the Financial Advisor shall be responsible for the selection or the correctness of the CUSIP numbers shown on page 2.

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

DISTRICT OFFICIALS, STAFF AND CONSULTANTS

BOARD OF TRUSTEES

		Term Expires November
Edmund Gordon	District 1	2018
Jayme Mathias	District 2	2020
Ann Teich	District 3	2020
Julie Cowan, Secretary	District 4	2018
Amber Elenz	District 5	2020
Vacant[(1)]	District 6	2018
Yasmin Wagner	District 7	2018
Cindy Anderson	At Large, Position 8	2020
Kendall Pace, President	At Large, Position 9	2018

(1) The Board of Trustees voted to appoint a trustee to fill the District 6 vacancy created by the recent resignation of Trustee Paul Saldaña in April 2017. The Board has accepted applications from people interested in being appointed to represent District 6 and expects to fill the vacancy on June 12, 2017.

ADMINISTRATIVE OFFICERS

Paul Cruz, Ed.D., Superintendent of Schools

Nicole Conley Johnson	Chief Financial Officer
Edmund Oropez	Chief Officer for Teaching and Learning
Dr. Fernando Medina	Chief Human Capital Officer
Ylise Janssen	General Counsel

CONSULTANTS AND ADVISORS

Auditor .... RSM US. LLP
Austin, Texas

Bond Counsel .... Andrews Kurth Kenyon LLP
Austin, Texas

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

For additional information regarding the District, please contact:

Nicole Conley Johnson Chief Financial Officer Austin ISD 1111 West 6th Street, Suite A380 Austin, Texas 78703 (512) 414-2323	or	Chris W. Allen Managing Director FirstSouthwest, a Division of Hilltop Securities Inc. 300 West 6th Street, Suite 1940 Austin, Texas 78701 (512) 481-2000

District Directors

Craig Shapiro	Assoc. Superintendent – High Schools
Gilbert Hicks	Assoc. Superintendent – Elementary Schools, Area 2
Dr. Terrence Eaton	Assoc. Superintendent – Middle Schools
Sandra Creswell	Assoc. Superintendent – Elementary Schools, Area 1
Elisabeth Goodnow	Executive Director – Academics and Social Emotional Learning
Kimiko Krekel	Executive Director – Educator Quality
Jean Bahney	Executive Director – Special Education
Dr. Dora Fabelo	Executive Director – Human Resources
Kevin Schwartz	Technology Officer for Learning and Systems
Michelle Wallis	Executive Director – Office of Innovation and Development
David Edgar	Executive Director – Financial Services
Paul Turner	Executive Director – Facilities
Reyne Telles	Executive Director – Communications & Community Engagement
Gloria Williams	Executive Director – School, Family & Community Education
Debra Ready	Executive Director – Accountability & Assessment
Gordon King	Executive Director – Construction Management

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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 Austin Independent School District (the "District") is a political subdivision of the State of Texas located in Travis County, Texas. The District is governed by a nine-member Board of Trustees (the "Board") who serve staggered four-year terms with elections being held in November of each even-numbered year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools, who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. The District is approximately 230 square miles in area (see "INTRODUCTION – DESCRIPTION OF THE DISTRICT" and APPENDIX A - "GENERAL INFORMATION REGARDING THE DISTRICT").

THE BONDS .... The Austin Independent School District Unlimited Tax School Building and Refunding Bonds, Series 2017 (the "Bonds") will bear interest from the Delivery Date. The Bonds shall mature on the dates and in the amounts set forth on page 2 of this Official Statement (see "THE BONDS - DESCRIPTION OF THE BONDS").

AUTHORITY FOR ISSUANCE ... The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, including Chapter 45, Texas Education Code, as amended, Chapters 1207 and 1371, Texas Government Code, as amended, elections held within the District on May 10, 2008 and May 11, 2013, and an order passed on April 24, 2017 by the Board (the "Bond Order"). In the Bond Order, the Board delegated to certain officers of the District authority to complete the sale of the Bonds. The terms of the sale will be included in a "Pricing Certificate," which, in conjunction with the bond purchase agreement with the Underwriters, will complete the sale of the Bonds. The Bond Order and the Pricing Certificate are collectively referred to herein as the "Order" (see "THE BONDS - AUTHORITY FOR ISSUANCE").

SECURITY FOR THE BONDS.... The Bonds constitute direct obligations of the District, payable from a continuing, direct annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property within the District, as provided in the Order. Additionally, the Bonds will be guaranteed by the Permanent School Fund of Texas (see "THE BONDS - SECURITY AND SOURCE OF PAYMENT" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

PERMANENT SCHOOL FUND GUARANTEE……………… An application has been filed and conditional approval has been received by the District for the Bonds to be guaranteed by the Permanent School Fund of Texas (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

OPTIONAL REDEMPTION .... The District reserves the right, at its option, to redeem Bonds having stated maturities on and after August 1, 2027, in whole or in part, on August 1, 2026, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

TAX MATTERS .... In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX EXEMPTION" herein, and is not includable in the alternative minimum taxable income of individuals. See "TAX EXEMPTION" for a discussion of the opinion of Bond Counsel, including the alternative minimum tax consequences for corporations.

USE OF PROCEEDS.............. Proceeds from the sale of the Bonds will be used (i) for construction, acquisition and equipment of school buildings and to purchase the necessary sites therefor, (ii) to currently refund a portion of the District's outstanding commercial paper notes, issued for a variety of purposes, including construction, acquisition and equipment of school buildings and to purchase the necessary sites therefor (the "Refunded Notes") and (iii) to pay the cost of issuance of the Bonds. See "PLAN OF FINANCING – PURPOSE" and "- SOURCES AND USES OF PROCEEDS".

RATINGS .... The presently outstanding unenhanced tax-supported debt of the District is rated "Aaa" by Moody's Investors Service, Inc. ("Moody's"), "AA+" by Fitch Ratings ("Fitch"), and "AA+" by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"). The Bonds received an underlying rating of "Aaa" by Moody's and "AA+" by Fitch. The District's currently outstanding bonds that are guaranteed by the Permanent School Fund are also rated "Aaa" by Moody's, "AAA" by Fitch, and "AAA" by S&P by virtue of the guarantee of the Permanent School Fund. The Bonds are guaranteed by the Permanent School Fund and are also rated "Aaa" by Moody's and "AAA" by Fitch by virtue of the guarantee of the Permanent School Fund (see "OTHER INFORMATION - RATINGS").

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

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

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SELECTED FINANCIAL INFORMATION

Fiscal Year Ended [(1)]	Estimated District Population[(2)]	Taxable Assessed Valuation [(3)]	Per Capita Taxable Assessed Valuation	Tax Supported Debt Outstanding at End of Year [(4)]	Ratio of Tax Supported Debt to Taxable Assessed Valuation	Tax Supported Debt Per Capita	% Total Collections
2013	1,095,805	$ 58,975,819,636	$ 53,820	$ 796,971,452	1.35%	$ 727	99.32%
2014	1,120,954	63,276,389,520	56,449	731,547,675	1.16%	653	99.72%
2015	1,141,655	70,761,307,078	61,981	803,873,329	1.14%	704	99.44%
2016	1,173,051	81,637,501,365	69,594	882,082,966	1.08%	752	99.07%
2017	1,209,415	94,059,079,559	77,772	1,032,623,287 [(5)]	1.10% [(5)]	854 [(5)]	98.73% [(6)]

(1) The fiscal year end for the District changed from August 31 to June 30 effective in fiscal year 2016.
(2) Source: City of Austin Planning/Growth Department.
(3) As reported by the Travis Central Appraisal District on the District's annual State Property Tax Reports. The total values are dated as of August 31, 2016. Such values are subject to change during the ensuing year.
(4) Excludes the District's Commercial Paper Notes, Series A.
(5) Includes the Bonds.
(6) Reflects collections through April 30, 2017.

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OFFICIAL STATEMENT
RELATING TO

AUSTIN INDEPENDENT SCHOOL DISTRICT
(Travis County, Texas)

$218,960,000
UNLIMITED TAX SCHOOL BUILDING AND REFUNDING BONDS, SERIES 2017

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of the $218,960,000 Austin Independent School District Unlimited Tax School Building and Refunding Bonds, Series 2017 (the "Bonds"). Capitalized terms used in this Official Statement that are not otherwise defined herein have the same meanings assigned to such terms in the Order (hereinafter defined) authorizing the issuance and sale of the Bonds, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the Austin Independent School District (the "District") and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District's Financial Advisor, FirstSouthwest, a Division of Hilltop Securities Inc., Austin, Texas, by electronic mail or upon payment of reasonable copying, handling, and delivery charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the final Official Statement pertaining to the Bonds, will be deposited with the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access ("EMMA") system. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

DESCRIPTION OF THE DISTRICT . . . The District is a political subdivision of the State of Texas, (the "State") located in Travis County, Texas. The District is governed by a nine-member Board of Trustees (the "Board") who serve staggered four-year terms with elections being held in November of each even-numbered year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools, who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. The District is approximately 230 square miles in area.

PLAN OF FINANCING

PURPOSE . . . Proceeds from the sale of the Bonds will be used (i) for construction, acquisition and equipment of school buildings and to purchase the necessary sites therefor, (ii) to currently refund a portion of the District's outstanding commercial paper notes, issued for a variety of purposes, including construction, acquisition and equipment of school buildings and to purchase the necessary sites therefor (the "Refunded Notes") and (iii) to pay the cost of issuance of the Bonds. See "- SOURCES AND USES OF PROCEEDS".

REFUNDED NOTES. . . A portion of the proceeds from the sale of the Bonds, together with other available funds of the District, if any, will be deposited on the Delivery Date directly with the issuing and paying agent for the Refunded Notes, U.S. Bank National Association, in an amount sufficient to pay all principal of and interest on the Refunded Notes due on their maturity dates. Such funds deposited with the issuing and paying agent for the Refunded Notes will not be available to pay debt service on the Bonds.

In the opinion of Bond Counsel, in reliance upon the sufficiency certificate of FirstSouthwest, a Division of Hilltop Securities Inc. ("FirstSouthwest"), by making the deposit described above and required by the Order, the District will have made firm banking and financial arrangements for the discharge and final payment of the Refunded Notes pursuant to the provisions of Chapter 1207, Texas Government Code, as amended, and the order authorizing the issuance of the Refunded Notes.

SOURCES AND USES OF PROCEEDS . . . The proceeds from the sale of the Bonds and other available funds of the District will be applied approximately as follows:

Sources:	
Par Amount of Bonds	$ 218,960,000.00
Net Premium on Bonds	32,509,006.30
Total Sources	$ 251,469,006.30
Uses:	
Deposit to Construction Fund	$ 225,000,000.00
Deposit to Payment Account for the Refunded Notes (1)	25,000,000.00
Underwriter's Discount	801,061.78
Costs of Issuance and Rounding Amount	667,944.52
Total Uses	$ 251,469,006.30

(1) The District will deposit the interest portion due on the Refunded Notes from other legally available funds.

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds will be issued in principal denominations of $5,000 or any integral multiple thereof and will mature on August 1 in the years shown on page 2. Interest on the Bonds will accrue from the Delivery Date and will be payable on February 1, 2018 and on each August 1 and February 1 thereafter until maturity or prior redemption. Interest accruing on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months.

The District intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York ("DTC"), but reserves the right on its behalf and on behalf of DTC to discontinue such system. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., as nominee of DTC, which will make distribution of the amounts so paid to the beneficial owners of the Bonds (see "THE BONDS - BOOK-ENTRY-ONLY SYSTEM").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued and the tax levied for their payment pursuant to authority conferred by the Constitution and the laws of the State of Texas, including Chapter 45, Texas Education Code, as amended, Chapters 1207 and 1371, Texas Government Code, as amended, and elections held within the District on May 10, 2008 and May 11, 2013, and by the order (the "Bond Order") passed by the Board. In the Bond Order, the Board delegated to certain officers of the District authority to complete the sale of the Bonds. The terms of the sale will be included in a "Pricing Certificate," which, in conjunction with the bond purchase agreement with the Underwriters, will complete the sale of the Bonds (the Bond Order, as supplemented by the Pricing Certificate, is referred to herein as the "Order").

SECURITY AND SOURCE OF PAYMENT . . . The Bonds constitute direct obligations of the District, payable from a continuing, direct annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property within the District, sufficient to provide for the payment of principal of and interest on all Bonds. Additionally, the District has received conditional approval for the payment of the Bonds to be guaranteed by the Permanent School Fund.

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

TAX RATE LIMITATION . . . For debt service of unlimited tax debt: Sections 45.001, 45.003(b)(1) and 45.0031, Texas Education Code, provide for an unlimited tax to secure payment of obligations incurred pursuant to such authority; provided, however, with respect to "new debt," the District must demonstrate to the Attorney General of Texas (the "Attorney General") that it has the ability to pay all "new debt" with a debt service tax not to exceed $0.50 per $100 assessed valuation. After the Bonds are issued, the District is required to establish a tax rate, without limitation, sufficient to pay debt service on all of its outstanding unlimited tax debt (see "TAX RATE LIMITATIONS").

OPTIONAL REDEMPTION . . . The District reserves the right, at its option, to redeem Bonds having stated maturities on and after August 1, 2027, in whole or in part, on August 1, 2026, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds of a series and a maturity are to be redeemed, the Paying Agent/Registrar will determine by customary random selection method the particular Bonds, or portions thereof, within such maturity to be redeemed. Bonds of a denomination larger than $5,000 may be redeemed in part ($5,000 or any integral multiple thereof). Any Bond to be partially redeemed may be surrendered in exchange for one or more new Bonds in authorized denominations, stated maturity and interest rate for the unredeemed portion of the principal of such Bond.

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

With respect to any optional redemption of the Bonds, unless all prerequisites to such redemption required by the Order have been met, including moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed having been received by the Paying Agent/Registrar prior to the giving of notice of such redemption, such notice shall state that said redemption may, at the option of the District, be conditional upon the satisfaction of all prerequisites and receipt of such moneys by the Paying Agent/Registrar on or prior to the date fixed for such redemption, and if such prerequisites to the redemption and sufficient moneys are not received, such notice shall be of no force and effect, the District shall not redeem such Bonds and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

DTC REDEMPTION PROVISIONS…The Paying Agent/Registrar and the District, so long as a book-entry-only system is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Order or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC Participant, or of any Direct Participant or Indirect Participant (each hereinafter defined) to notify the beneficial owner shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Bonds held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds and such redemption will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC Participants, Indirect Participants or the persons for whom DTC Participants act as nominees with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or beneficial owners of the selection of portions of the Bonds for redemption (see "THE BONDS - BOOK-ENTRY-ONLY SYSTEM").

DEFEASANCE. . . The Order provides for the defeasance of the Bonds when payment of the principal amount of and interest on the Bonds to their due date (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with the Paying Agent/Registrar, or a trust company or commercial bank authorized to serve as Escrow Agent, (a) cash in an amount sufficient to make such payment or (b) pursuant to an escrow or trust agreement, cash and/or (1) direct, non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, and (2) non-callable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Board adopts or approves the proceedings authorizing the issuance of the refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, the principal 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 money, if any, held in such escrow, will be sufficient to provide for the timely payment of the principal of and interest on such Bonds to their due date. Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding obligations for purposes of applying any limitation on indebtedness or for purposes of taxation.

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 Bonds have been made as described above, all rights of the District to initiate proceedings to call such Bonds for redemption or take any other action amending the terms of such Bonds are extinguished; provided, however, that the right to call such 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 such Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the respective Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Upon such deposit, the Permanent School Fund Guarantee will terminate with respect to the Bonds defeased in the manner described above.

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 accredited by DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the book-entry-only system has been provided by sources the District, Underwriters, and Financial Advisor believe to be reliable, but the District, Underwriters, and Financial Advisor take no responsibility for the accuracy thereof.*

The District, the Underwriters, and the Financial Advisor 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 in 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 (the "SEC") and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate per series and maturity will be issued 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 3.6 million issues of United States and non-United States 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 United States and non-United States 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 United States and non-United States 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 SEC. More information about DTC can be found at www.dtcc.com.

Purchases of the 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 Participants' 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 Participant 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 Participants and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 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 the 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 Participants 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 a series of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

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

Principal, interest and redemption payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District, or the Paying Agent/Registrar, on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Direct Participants and Indirect 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 Direct Participant or Indirect 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. 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 Participants 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, certificates for the Bonds are required to be printed and delivered.
The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC.

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

Information concerning DTC and the book-entry-only system has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the District, the Financial Advisor or the Underwriters.

Effect of Termination of Book-Entry-Only System . . .In the event that the Book-Entry-Only System is discontinued by DTC or the use of the book-entry-only system is discontinued by the District, printed Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under "THE BONDS - TRANSFER, EXCHANGE AND REGISTRATION" below.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A.. Interest on and principal of the Bonds will be payable, and transfer functions will be performed, at the designated office for payment of the Paying Agent/Registrar in Dallas, Texas (the "Designated Payment/Transfer Office"), and, in the case of a successor Paying Agent/Registrar, at such location as may be designated by such successor. In the Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a legally-qualified bank, trust company, financial institution or other agency organized under the laws of the State or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the book-entry-only system should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than seventy-two (72) hours after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "THE BONDS - BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Neither the District nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or (ii) called for redemption, in whole or in part, within forty-five (45) days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the fifteenth (15^{th}) calendar day of the preceding month.

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

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

See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due.

AMENDMENTS TO THE ORDER . . . In the Order, the District has reserved the right to amend the Order without the consent of or notice to any Owners in any manner not detrimental to the interest of the Owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein.

In addition, the District may, with the consent of Owners who own in the aggregate a majority of the principal amount, as applicable and by series, of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Order; provided that, without the consent of all Owners of Outstanding Bonds of the particular series to be affected, no such amendment, addition, or rescission shall (i) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, reduce the principal amount thereof, the redemption price or the rate of interest thereon, or in any other way modify the terms of payment of principal of, premium, if any, 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 Owners for consent to any such amendment, addition, or rescission.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM [1]

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."

[1] An application has been filed, and the District has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed by the Texas Permanent School Fund.

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 Finance 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.

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

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

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

LOCAL FUNDING FOR SCHOOL DISTRICTS . . . The primary source of local funding for school districts is collections from ad valorem taxes levied against taxable property located in each school district. Prior to reform legislation that became effective during the 2006-2007 fiscal year (the "Reform Legislation"), the maximum M&O tax rate for most school districts was generally limited to $1.50 per $100 of taxable value. At the time the Reform Legislation was enacted, the majority of school districts were levying an M&O tax rate of $1.50 per $100 of taxable value. The Reform Legislation required each school district to "compress" its tax rate by an amount equal to the "State Compression Percentage." For fiscal years 2007–08 through 2016-17, the State Compression Percentage has been set at 66.67%, effectively setting the maximum compressed M&O tax rate for most school districts at $1.00 per $100 of taxable value. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. School districts are permitted, however, to generate additional local funds by raising their M&O tax rate by up to $0.04 above the compressed tax rate without voter approval (for most districts, up to $1.04 per $100 of taxable value). In addition, if the voters approve a tax rate increase through a local referendum, districts may, in general, increase their M&O tax rate up to a maximum M&O tax rate of $1.17 per $100 of taxable value and receive State equalization funds for such taxing effort (see "TAX INFORMATION – Public Hearing and Rollback Tax Rate" herein). Elections authorizing the levy of M&O taxes held in certain school districts under older laws, however, may subject M&O tax rates in such districts to other limitations (see "TAX RATE LIMITATIONS" herein).

STATE FUNDING FOR SCHOOL DISTRICTS . . . State funding for school districts is provided through the Foundation School Program, which provides each school district with a minimum level of funding (a "Basic Allotment") for each student in average daily attendance ("ADA"). The Basic Allotment is calculated for each school district using various weights and adjustments based on the number of students in average daily attendance and also varies depending on each district's compressed tax rate. This Basic Allotment formula determines most of the allotments making up a district's basic level of funding, referred to as "Tier One" of the Foundation School Program. The basic level of funding is then "enriched" with additional funds known as "Tier Two" of the Foundation School Program. Tier Two provides a guaranteed level of funding for each cent of local tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates above $1.00 per $100 of taxable value). The Finance System also provides an Existing Debt Allotment ("EDA") to subsidize debt service on eligible outstanding school district bonds and an Instructional Facilities Allotment ("IFA") to subsidize debt service on newly issued bonds. IFA primarily addresses the debt service needs of property-poor school districts. A New Instructional Facilities Allotment ("NIFA") also is available to help pay operational expenses associated with the opening of a new instructional facility; however, NIFA awards were not funded by the Legislature for either the 2012–13 or the 2014-15 State fiscal biennium. In 2015, the 84th Texas Legislature did appropriate funds in the amount of $1,445,100,000 for the 2016-17 State fiscal biennium for an increase in the Basic Allotment, EDA, IFA, and NIFA support, as further described below.

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

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

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

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

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

In addition to the operations funding components of the Foundation School Program discussed above, the Foundation School Program provides a facilities funding component consisting of the Instructional Facilities Allotment (IFA) program and the Existing Debt Allotment (EDA) program. These programs assist school districts in funding facilities by, generally, equalizing a district's I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the "IFA Guaranteed Yield") in State and local funds for each cent of tax effort to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The guaranteed yield per cent of local tax effort per student in ADA has been $35 since this program first began in 1997. To receive an IFA award, a school district must apply to the Commissioner in accordance with rules adopted by the Commissioner before issuing the bonds to be paid with IFA state assistance. The total amount of debt service assistance over a biennium for which a district may be awarded is limited to the lesser of (1) the actual debt service payments made by the district in the biennium in which the bonds are issued; or (2) the greater of (a) $100,000 or (b) $250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. For the fiscal years 2011-12 through 2015-16, no funds were appropriated for new IFA awards by the Texas Legislature, although all prior awards were funded throughout such periods. The 84th Texas Legislature appropriated funds in the amount of $55,500,000 for new IFA awards to be made during the 2016-17 fiscal year only.

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

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

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

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

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

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

2017 LEGISLATION…On January 10, 2017, the 85th Texas Legislature convened in general session, which is scheduled to end May 29, 2017. Thereafter, the Governor may call one or more additional special sessions, which can last no more than thirty days, and for which the Governor sets the agenda. During this time, the Texas Legislature may enact laws that materially change school district finance, appropriations, or statutory authority related thereto. In addition, future legislatures may consider bills that could have a direct impact on the District. The District can make no representations or predictions concerning the substance or the effect of any legislation that may be passed in the future or how any such legislation could affect the 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 and 2017-18 are set at (i) $514,000 per student in WADA with respect to that portion of a district's M&O tax effort that does not exceed its compressed tax rate (for most districts, the first $1.00 per $100 of taxable value) and (ii) $319,500 per WADA with respect to that portion of a district's M&O tax effort that is beyond its compressed rate plus $.06 (for most districts, M&O taxes levied above $1.06 per $100 in taxable value). M&O taxes levied above $1.00 but below $1.07 per $100 of taxable value are not subject to the wealth equalization provisions of Chapter 41. Chapter 41 districts with a wealth per student above the lower equalized wealth level but below the higher equalized wealth level must equalize their wealth only with respect to the portion of their M&O tax rate, if any, in excess of $1.06 per $100 of taxable value. Chapter 41 districts may be entitled to receive ASATR from the State in excess of their recapture liability of $514,000 for the 2015-16 and 2016-17 school years, and certain of such districts may use their ASATR funds to offset their recapture liability.

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

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

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

The District's wealth per student for the 2016-17 school year is in excess of the equalized wealth level. Accordingly, the District has been required to exercise one of the permitted wealth equalization options. Pursuant to an agreement with the Texas Education Agency, the District has reduced its wealth per student for the 2016-17 school year by purchasing attendance credits pursuant to the equalization provisions of the State system of public school finance. In the 2015-16 school year, the District paid $266.1 million to purchase attendance credits, and the District expects to pay $406.1 million in the 2016-17 school year for the purchase of attendance credits. The District estimates it will pay approximately $533 million to purchase attendance credits in the 2017-18 school year. The Texas Education Agency has approved the District's election of this option to achieve the equalized wealth level.

As long as the District's wealth per student continues to exceed the maximum permitted level in future school years, the District 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 (see "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS – POSSIBLE EFFECTS OF CHANGES IN LAW ON DISTRICT OBLIGATIONS").

TAX RATE LIMITATIONS

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the succeeding paragraphs. The maximum voted M&O tax rate for the District is $1.50 per $100 of assessed valuation as approved by the voters at an election held on October 17, 1959, 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 1.10% of the District's current taxable assessed valuation of property (see "TAX INFORMATION – Table 1 Valuation, Exemptions and Tax Supported Debt").

The maximum tax rate per $100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) $1.50, or such lower rate as described in the preceding paragraph, and (B) the sum of (1) the rate of $0.17, and (2) the product of the "State Compression Percentage" multiplied by $1.50. The State Compression Percentage has been set, and will remain, at 66.67% for fiscal year 2016-17. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For a more detailed description of the State Compression Percentage, see "CURRENT PUBLIC

SCHOOL FINANCE SYSTEM – Local Funding for School Districts." Furthermore, a school district cannot annually increase its tax rate in excess of the district's "rollback tax rate" without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate (see "TAX INFORMATION – Public Hearing and Rollback Tax Rate").

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

Section 45.0031, 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, ("Chapter 1207") are not subject to the $0.50 tax rate test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the $0.50 threshold tax rate test when applied to subsequent bond issues. The Bonds are issued as "new money" bonds and is 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 Texas Attorney General must find that the district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the $0.50 threshold tax rate test from a tax rate of $0.45 per $100 of valuation. The District has not used State assistance other than EDA or IFA allotment funding or projected property values to satisfy this threshold test.

TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the District is the responsibility of the Travis Central Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Texas Property Tax Code to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraisers is to be used. State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount that would not exceed the lesser of (1) the property's market value in the most recent tax year in which it was assessed or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value in the preceding tax year, plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The District may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the District by petition filed with the Appraisal Review Board.

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

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

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

$25,000 for all residence homesteads; and an additional

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

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

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

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

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

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

Following the approval by the voters at a November 5, 2013 statewide election, a partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled to an exemption equal to the percentage of the veteran's disability, if the residence was donated at no cost to the veteran by a charitable organization.

Also approved by the November 5, 2013 election, was a constitutional amendment providing that the surviving spouse of a member of the armed forces who is killed in action is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residences homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

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

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

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

Under Section 11.253 of the Texas Tax Code, "goods-in-transit", representing a category of tangible personal property that is distinguished from "freeport goods", are exempt from taxation unless a taxing unit opts out of the exemption. Goods-in-transit are defined as tangible personal property that: (i) is acquired in or imported into the state to be forwarded to another location in the state or outside the state; (ii) is detained at a location in the state in which the owner of the property does not have a direct or indirect ownership interest for assembling, storing, manufacturing, processing, or fabricating purposes by the person who acquired or imported the property; and (iii) is transported to another location in the state or outside the state not later than 175 days after the date the person acquired the property in or imported the property into the state. Goods-in-transit does not include oil, natural gas, petroleum products, aircraft, dealer's motor vehicle inventory, dealer's vessel and outboard motor inventory, dealer's heavy equipment inventory, or retail manufactured housing inventory. The decision to tax goods-in-transit or to exempt them from taxation can be made on an annual basis after a public hearing is conducted to be effected for the following calendar year (though an election to opt out of the exemption remains in effect until repealed). A tax payer may receive only one of the freeport or goods-in-transit exemptions for tangible personal property. The District has adopted a resolution to tax tangible personal property in transit which would otherwise be exempt pursuant to Texas Tax Code, Section 11.253.

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; however, 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 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 M&O purposes on the agreed-to limited appraised property value. The taxpayer is entitled to a tax credit from the school district for the amount of taxes imposed during the first two years of the tax limitation agreement on the appraised value of the property above the agreed-to limited value. Additional State funding is provided to a school district for each year of such tax limitation in the amount of the tax credit provided to the taxpayer. During the first two years of a tax limitation agreement, the school district may not adopt a tax rate that exceeds the district's rollback tax rate (see "TAX INFORMATION – PUBLIC HEARING AND ROLLBACK TAX RATE").

PROPERTY ASSESSMENT AND TAX PAYMENT . . . Property within the District is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses 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 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 of age or older are permitted by State law to pay taxes on homesteads in four installments with the first installment due on February 1 of each year and the final installment due on August 1.

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

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

(a) Includes additional penalty of up to 20% assessed after July 1 in order to defray attorney collection expenses.
(b) Interest continues to accrue after July 1 at the rate of 1% per month until paid.

Taxes levied by the District are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each taxing unit, including the District, having the power to tax the property. The District's tax lien is on parity with tax liens of all other such taxing units. A tax lien on real property has 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. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty and interest. At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. A taxpayer who is 65 years of age or older or is disabled may defer the collection of delinquent property taxes on his or her residence homestead and prevent the filing of a lawsuit to collect delinquent taxes until the 181st day after the taxpayer no longer owns and occupies the property as a residence homestead. However, taxes and interest continue to accrue against the property, and the delinquent taxes incur a penalty of 8% per annum with no additional penalties or interest assessed. The lien securing such taxes and interest remains in existence during the deferral or abatement period. The ability of the District to collect delinquent taxes by foreclosure may be adversely affected by the amount of taxes owed to other taxing units, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of a taxpayer's debt**. Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.**

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.

District Application of Tax Code . . . The District grants disabled person, disabled veterans, homestead and over age 65 exemptions as mandated by State law. The District also grants an additional $15,000 local option exemption to disabled persons and an additional $25,000 local option exemption to persons over age 65 (see "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS – 2015 Legislative Session").

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

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

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

The District does not tax nonbusiness personal property; and Travis County Tax Office collects taxes for the District.

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

The District does tax freeport property and goods-in-transit.

The District has adopted a tax abatement policy.

TABLE 1 - VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT

2016/2017 Market Valuation Established by Travis Central Appraisal District (1)		$ 127,128,637,364
Less Exemptions/Reductions at 100% Market Value:		
Homestead Cap Adjustment	$3,460,549,275	
Productivity Loss	336,905,752	
Homestead Exemption (State)	2,836,034,711	
Over 65 Exemption (State and Local)	1,078,976,462	
Disabled Persons	52,147,375	
Disabled Veterans	227,227,440	
Solar Exemption	15,423,200	
Exempt Property	15,798,884,554	
Pollution Control	33,069,380	
Historic/Other	230,928,922	
Freeze Loss	8,982,218,101	
Transfer Adjustment	17,192,633	33,069,557,805
2016/2017 Taxable Assessed Valuation (1)		$ 94,059,079,559
Debt Payable from Ad Valorem Taxes as of 05/15/2017 (2) (3)		
Outstanding Unlimited Tax Bonds	$ 813,663,287	
The Bonds	218,960,000	$ 1,032,623,287
Interest and Sinking Fund as of 04/28/2017		$ 131,931,109
Ratio of Tax Supported Net Debt to Taxable Assessed Valuation		1.10%

AISD 2016 - 2017 Enrollment - 83,060
2017 (City) Estimated Population - 1,209,415
Per Capita Taxable Assessed Valuation - $77,772
Per Capita General Obligation Debt Payable from Ad Valorem Taxes - $854
Land Area - 230 Square Miles

(1) Certified values are subject to change throughout the year as contested values are resolved and the Travis Central Appraisal District updates records.
(2) Excludes the District's Commercial Paper Notes. The Commercial Paper Notes may be issued from time to time up to an aggregate principal amount of $150 million outstanding at any time.
(3) Includes Qualified Zone Academy Bonds ("QZAB"), Series 2005B, Series 2006, Series 2008, and Qualified School Construction Bonds, Series 2015.

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TABLE 2 - TOTAL APPRAISED VALUATIONS BY CATEGORY

	Taxable Appraised Value, Fiscal Year Ended,					
	2017 (1)		2016		2015	
Category	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 57,526,632,368	45.25%	$ 51,845,342,494	47.17%	$ 45,621,996,704	49.36%
Real, Residential, Multi-Family	18,057,815,929	14.20%	15,100,813,328	13.74%	12,364,853,328	13.38%
Real, Vacant Lots/Tracts	1,202,626,203	0.95%	1,026,708,971	0.93%	956,767,663	1.04%
Real, Acreage (Land Only)	589,785,378	0.46%	559,913,919	0.51%	434,698,306	0.47%
Real, Commercial/Industrial	28,133,399,279	22.13%	22,951,983,420	20.88%	18,608,304,279	20.13%
Real and Tangible Personal, Utilities	483,553,880	0.38%	577,865,686	0.53%	551,032,125	0.60%
Tangible Personal, Commercial/Industrial	4,779,030,500	3.76%	4,676,556,132	4.25%	4,454,068,771	4.82%
Mobile Homes	51,626,129	0.04%	53,747,635	0.05%	53,292,102	0.06%
Special Inventory	478,087,375	0.38%	401,414,983	0.37%	350,497,563	0.38%
Totally Exempt Property	15,826,080,323	12.45%	12,714,081,479	11.57%	9,033,126,152	9.77%
Total Appraised Value Before Exemptions	$ 127,128,637,364	100.00%	$ 109,908,428,047	100.00%	$ 92,428,636,993	100.00%
Less: Total Exemptions/Reductions	33,069,557,805		28,270,926,682		21,667,329,915	
Taxable Assessed Value	$ 94,059,079,559		$ 81,637,501,365		$ 70,761,307,078	

	Taxable Appraised Value, Fiscal Year Ended,			
	2014		2013	
Category	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 39,833,583,879	49.26%	$ 37,318,390,026	49.75%
Real, Residential, Multi-Family	10,269,099,469	12.70%	8,955,429,811	11.94%
Real, Vacant Lots/Tracts	815,808,908	1.01%	812,513,136	1.08%
Real, Acreage (Land Only)	431,704,593	0.53%	407,032,214	0.54%
Real, Commercial/Industrial	16,684,401,030	20.63%	15,706,964,842	20.94%
Real and Tangible Personal, Utilities	578,132,518	0.72%	506,094,796	0.67%
Tangible Personal, Commercial/Industrial	4,344,226,274	5.37%	4,036,125,210	5.38%
Mobile Homes	52,439,863	0.06%	54,276,624	0.07%
Special Inventory	427,885,770	0.53%	472,845,006	0.63%
Totally Exempt Property	7,419,017,200	9.18%	6,742,224,142	8.99%
Total Appraised Value Before Exemptions	$ 80,856,299,504	100.00%	$ 75,011,895,807	100.00%
Less: Total Exemptions/Reductions	17,579,909,984		16,036,076,171	
Taxable Assessed Value	$ 63,276,389,520		$ 58,975,819,636	

(1) Certified values are subject to change throughout the year as contested values are resolved and the Travis Central Appraisal District updates records.

TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY

Fiscal Year Ended [(1)]	Estimated District Population[(2)]	Taxable Assessed Valuation[(3)]	Per Capita Taxable Assessed Valuation	Tax Supported Debt Outstanding at End of Year [(4)]	Ratio of Tax Supported Debt to Taxable Assessed Valuation	Tax Supported Debt Per Capita
2013	1,095,805	$ 58,975,819,636	$ 53,820	$ 796,971,452	1.35%	$ 727
2014	1,120,954	63,276,389,520	56,449	731,547,675	1.16%	653
2015	1,141,655	70,761,307,078	61,981	803,873,329	1.14%	704
2016	1,173,051	81,637,501,365	69,594	882,082,966	1.08%	752
2017	1,209,415	94,059,079,559	77,772	1,032,623,287 (5)	1.10% (5)	854 (5)

(1) The fiscal year end for the District changed from August 31 to June 30 effective 2016.
(2) Source: City of Austin Planning/Growth Department.
(3) As reported by the Travis Central Appraisal District on the District's annual State Property Tax Reports. The total values are dated as of August 31, 2016. Such values are subject to change during the ensuing year.
(4) Excludes the District's Commercial Paper Notes, Series A.
(5) Includes the Bonds.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended [(1)]	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy [(2)]	% Current Collections	% Total Collections
2013	$ 1.242	$ 1.079	$ 0.163	$ 812,589,338	98.65%	99.32%
2014	1.242	1.079	0.163	834,996,431	99.24%	99.72%
2015	1.222	1.079	0.143	922,356,681	98.93%	99.44%
2016	1.202	1.079	0.123	1,039,299,288	98.78%	99.07%
2017	1.192	1.079	0.113	1,183,195,146	98.48% (3)	98.73% (3)

(1) The fiscal year end for the District changed from August 31 to June 30 effective in fiscal year 2016.
(2) Levies are subject to change during the ensuing year as contested values are resolved and the Travis Central Appraisal District updates records.
(3) Reflects collections through April 30, 2017.

Property within the District is assessed as of January 1 of each year (except for business inventory which may, at the option of the taxpayer, be assessed as of September 1); taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Split payments are not permitted. Discounts are not allowed. Taxpayers 65 years of age 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.

TABLE 5 - TEN LARGEST TAXPAYERS[(1)]

Name of Taxpayer	Nature of Property	2016/2017 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Columbia/St. David's Health Care	Health Care	$ 622,408,970	0.66%
PKY-San Jacinto Center LLC	Real Estate	507,233,792	0.54%
Finley Company	Real Estate	405,591,643	0.43%
CSHV-401 Congress LLC	Real Estate	366,968,435	0.39%
Domain Retail Property Owner LP	Real Estate	345,527,232	0.37%
CSHV-300 West 6th Street LLC	Real Estate	295,552,476	0.31%
Freescale	Manufacturing	311,952,022	0.33%
Domain Mall LLC	Retail	276,178,093	0.29%
7171 SW Parkway Associates LP	Real Estate	269,343,040	0.29%
HEB Grocery Company LP	Grocery	261,409,890	0.28%
		$ 3,662,165,593	3.89%

(1) Preliminary 2017 values. These numbers are subject to change.
Source: Travis Central Appraisal District.

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TABLE 6 - ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the District are paid out of ad valorem taxes levied by such entities on properties within the District. Such entities are independent of the District and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax bonds ("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 bonds since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the District.

Taxing Jurisdiction	Outstanding Tax Supported Debt (1)	As of	Estimated % Overlapping	Amount Overlapping
Austin CCD	$ 304,153,659	3/31/2017	57.15%	$ 173,823,816
Austin, City of	1,477,564,994	3/31/2017	76.60%	1,131,814,785
Shady Hollow MUD	2,685,000	3/31/2017	100.00%	2,685,000
Sunfield MUD # 1	22,615,000	3/31/2017	0.02%	4,523
Travis Co	636,071,179	3/31/2017	62.18%	395,509,059
Travis Co ESD # 3	2,305,000	3/31/2017	100.00%	2,305,000
Travis Co Healthcare Dist.	10,380,000	3/31/2017	62.18%	6,454,284
Travis Co MUD # 3	39,849,050	3/31/2017	100.00%	39,849,050
Travis Co MUD # 4 Master	8,206,922	3/31/2017	100.00%	8,206,922
Travis Co MUD # 5	17,669,669	3/31/2017	100.00%	17,669,669
Travis Co MUD # 6	10,024,109	3/31/2017	100.00%	10,024,109
Travis Co MUD # 8	6,550,289	3/31/2017	100.00%	6,550,289
Total Overlapping Debt:				$ 1,794,896,507
Austin ISD		3/31/2017		1,101,042,966 (2)
Total Direct and Overlapping Debt:				$ 2,895,939,473
Total Direct and Overlapping Debt % of A.V.:				3.08%
Total Direct and Overlapping Debt per Capita:				$ 2,394

(1) Gross Debt.
(2) Includes the Bonds.
Source: Municipal Advisory Council of Texas.

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DEBT INFORMATION

TABLE 7 - TAX SUPPORTED DEBT SERVICE REQUIREMENTS

Year Ended 6/30	Outstanding Debt Service (1) Principal	Outstanding Debt Service (1) Interest (2)	Outstanding Debt Service (1) Total	The Series 2017 Bonds Principal	The Series 2017 Bonds Interest	The Series 2017 Bonds Total	Total General Obligation Debt Service	% of Principal Retired
2017	$ 68,419,679	$ 34,437,591	$ 102,857,270	$ -	$ -	$ -	$ 102,857,270	
2018	67,611,632	35,413,698	103,025,329	-	6,359,741.67	6,359,741.67	109,385,071	
2019	58,571,632	31,940,857	90,512,488	10,440,000	10,276,350.00	20,716,350.00	111,228,838	
2020	35,306,632	29,981,352	65,287,984	46,795,000	8,975,975.00	55,770,975.00	121,058,959	
2021	33,532,170	28,506,121	62,038,291	20,905,000	7,283,475.00	28,188,475.00	90,226,766	31.02%
2022	34,559,965	26,966,691	61,526,656	5,510,000	6,623,100.00	12,133,100.00	73,659,756	
2023	36,099,965	25,375,377	61,475,343	5,785,000	6,340,725.00	12,125,725.00	73,601,068	
2024	37,629,965	23,745,356	61,375,321	6,075,000	6,044,225.00	12,119,225.00	73,494,546	
2025	39,082,332	22,016,699	61,099,031	6,380,000	5,732,850.00	12,112,850.00	73,211,881	
2026	39,112,332	20,205,362	59,317,694	6,695,000	5,405,975.00	12,100,975.00	71,418,669	50.73%
2027	40,772,332	18,347,128	59,119,460	7,030,000	5,062,850.00	12,092,850.00	71,212,310	
2028	43,522,332	16,391,751	59,914,084	7,385,000	4,702,475.00	12,087,475.00	72,001,559	
2029	44,757,332	14,355,380	59,112,712	7,750,000	4,324,100.00	12,074,100.00	71,186,812	
2030	47,397,332	12,228,837	59,626,170	8,140,000	3,926,850.00	12,066,850.00	71,693,020	
2031	49,517,332	9,952,263	59,469,595	8,545,000	3,509,725.00	12,054,725.00	71,524,320	74.78%
2032	43,920,000	7,727,460	51,647,460	8,975,000	3,116,600.00	12,091,600.00	63,739,060	
2033	36,720,000	5,950,826	42,670,826	9,335,000	2,750,400.00	12,085,400.00	54,756,226	
2034	38,135,000	4,468,388	42,603,388	9,705,000	2,369,600.00	12,074,600.00	54,677,988	
2035	33,790,000	3,023,963	36,813,963	10,095,000	1,923,125.00	12,018,125.00	48,832,088	
2036	24,540,000	1,829,599	26,369,599	10,600,000	1,405,750.00	12,005,750.00	38,375,349	95.29%
2037	16,055,000	977,950	17,032,950	11,130,000	862,500.00	11,992,500.00	29,025,450	
2038	6,360,000	477,500	6,837,500	11,685,000	292,125	11,977,125	18,814,625	
2039	6,670,000	161,750	6,831,750	-	-	-	6,831,750	100.00%
	$ 882,082,966	$ 374,481,898	$ 1,256,564,865	$ 218,960,000	$97,288,516.67	$316,248,516.67	$ 1,572,813,381	

(1) Excludes the District's Commercial Paper Notes, Series A, which may be issued from time to time up to an aggregate principal amount of $150 million outstanding at any time.

(2) Excludes 32% of each interest payment on the District's Unlimited Tax School Building and Refunding Bonds, Taxable Series 2010B (Direct Subsidy-Build America Bonds), which is equal to the amount of the Build America Bond subsidy payment that the District expects to receive from the federal government in connection with each such interest payment after taking into account the impact of "sequestration" (see "EFFECTS OF SEQUESTRATION ON CERTAIN OBLIGATIONS").

TABLE 8 - INTEREST AND SINKING FUND BUDGET PROJECTION

Tax Supported Debt Service Requirements, Fiscal Year Ending 6/30/2017		$ 102,857,270 (1)
Interest and Sinking Fund Balance, 6/30/2016 (2)	137,670,940	
Budgeted Interest and Sinking Fund Tax Levy	111,850,078	249,521,018
Estimated Balance, 6/30/2017		$ 146,663,748

(1) Excludes the Bonds and the District's Commercial Paper Notes.
(2) The fiscal year end for the District changed from August 31 to June 30 effective in fiscal year 2016.

OTHER OBLIGATIONS . . . See "Notes to the Financial Statements" in APPENDIX B.- "EXCERPTS FROM THE DISTRICT'S ANNUAL FINANCIAL REPORT."

TABLE 9 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

At elections held on September 11, 2004, May 10, 2008 and May 11, 2013 (collectively, the "Elections"), voters in the District approved the issuance of an aggregate principal amount of $1,352,975,435 of unlimited tax bonds for a variety of purposes, including new construction and rehabilitation and renovation of existing facilities. Prior to the issuance of the Bonds, the District has issued commercial paper notes (excluding the Refunded Notes) and unlimited tax bonds in the approximate aggregate principal amount of $1,003,014,246 pursuant to authority provided by the Elections. The Bonds are being issued, in part, as new money bonds in an approximate aggregate principal amount of $225,000,000 (1) to finance new projects and, in part, as refunding bonds to provide permanent financing for various projects that were originally financed pursuant to the Elections through the issuance of the Refunded Notes, in the approximate aggregate principal amount of $25,000,000(1). Following the issuance of the Bonds, approximately $99,961,189 of authorized but unissued unlimited tax bonds will remain from the Elections. The District expects to continue issuing its Commercial Paper Notes, Series A, to provide interim financing for projects authorized by the Elections. The District is authorized to issue such commercial paper notes from time to time up to an aggregate principal amount of $150 million outstanding at any time.

In addition to unlimited tax bonds, the District may issue or incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

ANTICIPATED ISSUANCE OF UNLIMITED TAX DEBT . . . The District does not anticipate the issuance of additional long term unlimited tax debt within the next twelve months.

PENSION FUND . . . Pension funds for employees of State school districts, and any employee in public education in the State, are administered by the Teacher Retirement System of Texas (the "System"). The individual employees contribute a fixed amount of their salary to the System, currently 6.4%, and the State contributes funds to the System based on statutory required minimum salary for certified personnel, except any District personnel paid by Federally funded programs. (For more detailed information concerning the retirement plan, see Note 11 in APPENDIX B - "EXCERPTS FROM THE ANNUAL FINANCIAL REPORT").

Other than its participation in TRS-Care, (see Note 12 in Appendix B- "EXCERPTS FROM THE ANNUAL FINANCIAL REPORT"), the District generally does not offer any post-employment retirement benefits and has no liabilities for "Other Post Employment Retirement Benefits" as defined in GASB Statement No. 45.

(1) Includes premium charged against voted authority.

FINANCIAL INFORMATION

TABLE 10 - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Years Ended				
	6/30/2016 (1)	8/31/2015	8/31/2014	8/31/2013	8/31/2012
REVENUES:					
Local and Intermediate Sources	$ 935,923,424	$ 818,924,395	$ 733,130,919	$ 681,210,937	$ 657,285,559
State Program Revenues	50,329,570	62,523,918	62,544,644	101,842,960	152,343,733
Federal Program Revenues	26,554,292	24,204,869	22,198,036	21,198,081	20,290,853
Total Revenues	$ 1,012,807,286	$ 905,653,182	$ 817,873,599	$ 804,251,978	$ 829,920,145
EXPENDITURES:					
Instruction & Instructional Related Services	$ 398,943,657	$ 427,924,247	$ 423,874,474	$ 415,475,503	$ 393,262,588
Instructional & School Leadership	63,551,621	76,065,763	75,278,222	69,958,070	69,352,191
Pupil Services	73,611,388	78,114,446	75,289,506	73,521,192	70,771,925
Administration	15,309,497	17,689,045	17,279,030	17,762,523	15,869,304
Support Services	95,636,156	112,918,127	110,249,045	109,952,344	102,315,440
Ancillary Services	4,404,619	4,973,026	4,641,614	4,747,400	4,719,914
Debt Service	372,020	507,085	333,608	812,565	1,046,903
Capital Outlay	1,957,830	2,212,410	1,101,730	(548,380)	3,096,226
Intergovernmental Charges	274,496,992	188,912,365	130,172,295	126,338,029	129,763,309
Total Expenditures	$ 928,283,780	$ 909,316,514	$ 838,219,524	$ 818,019,246	$ 790,197,800
Excess (Deficiency) of Revenues Over Expenditures	$ 84,523,506 (1)	$ (3,663,332)	$ (20,345,925)	$ (13,767,268)	$ 39,722,345
OTHER FINANCING SOURCES (USES)					
Other Resources	$ 20,584	$ 425,852	$ 1,074,968	$ 1,662,005	$ 992,241
Transfers In	-	-	555	-	-
Transfers Out	(10,000,000)	-	-	-	(7,000,000)
Other (Uses)	-	-	-	-	(44,255)
Excess (Deficiency) of Revenues Over Expenditures and Other Uses	$ 74,544,090	$ (3,237,480)	$ (19,270,402)	$ (12,105,263)	$ 33,670,331
Fund Balance-Beginning	217,722,928	220,960,408	240,230,810	252,336,073	218,665,742
Fund Balance-Ending	$ 292,267,018 (1)	$ 217,722,928	$ 220,960,408	$ 240,230,810	$ 252,336,073

Source: The District's Annual Financial Reports.
(1) At the June 22, 2015 Board Meeting, the District changed its fiscal year end from August 31st, to June 30th.

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FINANCIAL POLICIES

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Government-wide and Fund Financial Statements . . . The governmental-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Basis of Presentation . . . The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and 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 have been met.

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 50 days of the end of the current fiscal period, with the exception of intergovernmental revenues, which have a one-year period of availability. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, landfill closure/post closure costs, are recorded only when the liability has matured.

Property taxes, sales taxes, franchise fees and licenses, intergovernmental revenues, certain charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the District receives the cash as the resulting receivables are deemed immaterial.

District Budget Process . . . In 1994, the District began developing the annual budget using a program budget process. The basic premise of the process is to allow the District's budget to be driven by the instructional programs and the services needed to support the instructional needs of the students.

Four basic objectives guide this process:

- Engagement of teachers, principals, central staff, and community in the budget development process;
- Focus of resources on those programs of the District that are essential to ensure that all students are learning at high levels;
- Prudence in using resources of the District to achieve maximum efficiency and effectiveness; and
- Alignment of resources to meet the needs of the students.

The process includes the establishment of a budget council made up of a cross section of representatives from teachers, administrators, other employees, PTAs, parents, and others from the community. It is the charge of the budget council to review each program, the related expenditures, the proposed plan for the program, and the resources recommended to successfully achieve the goals of the program. Based on the review, the budget council makes recommendations for programmatic changes that result in additions and reductions to the budget.

The recommendations of the budget council are presented to the Superintendent's Cabinet. The Cabinet analyzes the recommendations of the budget council, the needs of the students of the District, and develops recommendations that best utilize available resources to achieve the District's goals.

The Budget is presented to the Board for final revision and adoption.

The budget process and adoption continue to meet the requirements of applicable State laws and District policies.

Fund Balance Position . . . The District's Board has adopted policy that the District shall maintain an unassigned fund balance sufficiently adequate for fiscal cash liquidity purposes (i.e., fiscal reserve) that will provide for sufficient cash flow to minimize the potential of short-term tax anticipation borrowing. This amount shall be equal to not less than 20 percent of the combined budgeted expenditures of the District's general fund.

INVESTMENTS

Under State law, the District is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) (a) certificates of deposit and share certificates that are issued by a depository institution that has its main office or a branch office in the State that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, 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 (b) certificates of deposit where (i) the funds are invested by the District through (A) a broker that has its main office or branch office in the State and is selected from a list adopted, at least annually, by the District as required by law or (B) a depository institution that has its main office or branch office in the State (ii) that 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, (iii) 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 (iv) the District appoints the depository institution selected by the District, an entity described by Section 2257.041(d), Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC 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 fully secured by a combination of cash and obligations described in clause (1) and require the security being purchased 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 a third party selected and approved by the District and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State, (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District and held in the District's name; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less, (10) certain bankers' acceptances with a stated maturity of 270 days or less from the date of issuance, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency, (11) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (12) no-load money market mutual funds registered with and regulated by the SEC that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share, and (13) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations described in clause (1) above in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

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

As a school district that qualifies as an issuer under Chapter 1371, Texas Government Code, as amended, the District is also authorized to purchase, sell, and invest its funds in corporate bonds that, at the time of purchase, are rated by a nationally recognized investment rating firm "AA-" or the equivalent and have a stated final maturity that is not later than the third anniversary of the date the corporate bonds were purchased. Texas law defines "corporate bonds" as senior secured debt obligations issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm. The term does not include a debt obligation that is convertible into stocks or shares in the entity issuing the bond (or an affiliate or subsidy thereof) or any unsecured debt. Corporate bonds must finally mature not later than 3 years from their date of purchase by the school district. A school district may not (1) invest more than 15% of its monthly average fund balance (excluding bond proceeds, reserves, and other funds held for the payment of debt service) in corporate bonds; or (2) invest more than 25% of the funds invested in corporate bonds in any one domestic business entity (including subsidiaries and affiliates thereof). Corporate bonds held by a school district must be sold if they are at any time downgraded below "AA-" (or the equivalent thereof) or, with respect to a corporate bond rated "AA-" (or the equivalent thereof), such corporate bond is placed on negative credit watch. Corporate bonds are not an eligible investment for a public funds investment pool. To invest in corporate bonds, an eligible school district must first (i) amend its investment policy to authorize corporate bonds as an eligible investment, (ii) adopt procedures for monitoring rating changes in corporate bonds and liquidating an investment in corporate bonds, and (iii) identify funds eligible to be invested in corporate bonds. The District has, to date, taken no such action to permit its investment in corporate bonds.

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

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

Under State 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 mutual funds in the aggregate to no more than 80% of the Distict's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds 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.

TABLE 11 – CURRENT INVESTMENTS [(1)]

As of April 30, 2017, the District's investable funds were invested in the following:

Description	Percent of Total	Market Value	Book Value
Lone Star	46.44%	$ 392,336,501	$ 392,336,501
Tex Pool	11.71%	98,912,977	98,912,977
Texas Daily	13.08%	110,498,509	110,498,509
TexStar	3.33%	28,150,581	28,150,581
U.S. Treasury Notes	25.44%	214,962,125	215,085,281

(1) Unaudited.

LEGAL MATTERS

LEGAL OPINIONS . . . The District will furnish the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Andrews Kurth Kenyon LLP ("Bond Counsel") with respect to the Bonds issued in compliance with the provisions of the Order, the form of which is attached to this Official Statement as APPENDIX C. Bond Counsel has been engaged by and only represents the District in connection with the issuance of the Bonds. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds which would affect the provision made for their payment or security, or in any manner questioning the validity of said Bonds will also be furnished. Except as noted below, Bond Counsel was not requested to participate, and did not take part, in the preparation of this Official Statement, and Bond Counsel has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under captions or subcaptions "PLAN OF FINANCING" (other than information under the caption "SOURCES AND USES OF PROCEEDS"), "THE BONDS" (other than information under the subcaptions "PERMANENT SCHOOL FUND GUARANTEE," "- DTC REDEMPTION PROVISIONS," "- BOOK-ENTRY-ONLY SYSTEM" and "- BONDHOLDERS' REMEDIES"), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM," "TAX RATE LIMITATIONS," "TAX EXEMPTION," "TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT AND PREMIUM BONDS," "CONTINUING DISCLOSURE OF INFORMATION" (other than information under the subcaption "- COMPLIANCE WITH PRIOR UNDERTAKINGS"), and under the subcaptions "OTHER INFORMATION - REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," and "OTHER INFORMATION - LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS" and in APPENDIX C, and Bond Counsel is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the provisions of the Order. Certain legal matters will be passed upon for the Underwriters by their counsel, Bracewell LLP, Houston, Texas.

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.

TAX EXEMPTION

In the opinion of Bond Counsel, interest on the Bonds is (1) excludable from gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (2) not includable in the alternative minimum taxable income of individuals or, except as described below, corporations.

The foregoing opinions of Bond Counsel are based on the Code and the regulations, rulings and court decisions thereunder in existence on the date of issue of the Bonds. Such authorities are subject to change and any such change could prospectively or retroactively result in the inclusion of the interest on the Bonds in the gross income of the owners thereof or change the treatment of such interest for purposes of computing alternative minimum taxable income.

In rendering its opinions, Bond Counsel has assumed continuing compliance by the District with certain covenants of the Order and has relied on representations by the District with respect to matters solely within the knowledge of the District, which Bond Counsel has not independently verified. The covenants and representations relate to, among other things, the use of Bond proceeds and any facilities financed therewith, the source of repayment of the Bonds, the investment of Bond proceeds and certain other amounts prior to expenditure, and requirements that excess arbitrage earned on the investment of Bond proceeds and certain other amounts be paid periodically to the United States and that the District file an information report with the IRS. If the District should fail to comply with the covenants in the Order, or if its representations relating to the Bonds that are contained in the Order should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

Interest on the Bonds owned by a corporation (other than an S corporation, a regulated investment company, a real estate investment trust (REIT), a real estate mortgage investment conduit (REMIC) or a financial asset securitization investment trust (FASIT)) will be included in such corporation's adjusted current earnings for purposes of calculating such corporation's alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by the Code is computed.

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

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the IRS with respect to the matters addressed in the opinions of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the District as the "taxpayer," and the owners of the Bonds may have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Under the Code, taxpayers are required to provide information on their returns regarding the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. Such prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

PROPOSED TAX LEGISLATION. . . Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to state income taxation, or otherwise prevent the beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. For example, future legislation to resolve certain federal budgetary issues may significantly reduce the benefit of, or otherwise affect, the exclusion of gross income for federal income tax purposes of interest on all state and local obligations including the Bonds. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and its impact on their individual situations, as to which Bond Counsel expresses no opinion.

TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE PREMIUM BONDS

PREMIUM BONDS . . . Certain of the Bonds may be offered at an initial offering price which exceeds the stated redemption price payable at the maturity of such Bonds. If a substantial amount of any maturity of the Bonds is sold to members of the public (which for this purpose excludes bond houses, brokers and similar persons or entities acting in the capacity of wholesalers or underwriters) at such initial offering price, each of the Bonds of such maturity ("Premium Bonds") will be considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis for federal income tax purposes of a Premium Bond in the hands of an initial purchaser who purchases such Bond in the initial offering must be reduced each year and upon the sale or other taxable disposition of the Bond by the amount of amortizable bond premium. This reduction in basis will increase the amount of any gain (or decrease the amount of any loss) recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Bond by the initial purchaser. Generally, no corresponding deduction is allowed for federal income tax purposes, for the reduction in basis resulting from amortizable bond premium on a Premium Bond. The amount of bond premium on a Premium Bond which is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined under special tax accounting rules which use a constant yield throughout the term of the Premium Bond based on the initial purchaser's original basis in such Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition by an owner of Premium Bonds that are not purchased in the initial offering or which are purchased at an amount representing a price other than the initial offering price for the Premium Bonds of the same maturity may be determined according to rules which differ from those described above. Moreover, all prospective purchasers of Premium Bonds should consult their tax advisors with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of Premium Bonds.

EFFECTS OF SEQUESTRATION ON CERTAIN OBLIGATIONS

The Budget Control Act of 2011 amended the Balanced Budget and Emergency Deficit Control Act of 1985 to require certain automatic reductions in federal spending ("sequestration reductions") effective as of March 1, 2013. These sequestration reductions include a reduction to refundable credits under section 6431 of the Internal Revenue Code (the "Code") applicable to certain qualified bonds, including Build America Bonds ("direct pay subsidy bonds"). As of October 1, 2016, the sequestration reduction rate for direct pay subsidy bonds was 6.9% to payments made on or after October 1, 2016 and before October 1, 2017, or intervening Congressional action, at which time the sequestration reduction rate is subject to change. Absent Congressional action, the sequestration reductions will continue through and including fiscal year 2021.

The District has previously issued its Unlimited Tax School Building and Refunding Bonds, Taxable Series 2010B (Direct Subsidy - Build America Bonds) (the "Affected Obligations"), which Affected Obligations are outstanding in the principal amount of $58,315,000. The District anticipates that federal payments to it with respect to the Affected Obligations will be reduced as described above. Pursuant to the order authorizing the issuance of the Affected Obligations, the District is required to make interest and principal payments on the Affected Obligations regardless of whether any federal funding is received. If the sequestration reduction continues, the District may be required to increase ad valorem tax rates in order to pay additional debt service expenses on the Affected Obligations resulting from decreased federal funding. The District can make no prediction as to the length or long-term effects of the sequestration reductions.

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the MSRB.

ANNUAL REPORTS . . . The District will provide certain updated financial information and operating data annually to the MSRB, or any successor, through its EMMA system. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement in Tables numbered 1 through 5, and 7 through 11 and the portion of the financial statements of the District set forth in APPENDIX B hereto. The District will update and provide this information within six (6) months after the end of each fiscal year ending in or after 2017. If audited financial statements are not available when the information is provided, the District will provide audited financial statements when and if they become available and unaudited financial statements within 12 months after fiscal year end, unless audited financial statements are sooner provided. 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 may provide updated information in full text or may incorporate by reference documents available on EMMA or filed with the SEC.

At its June 22, 2015 meeting, the District changed its fiscal year end from August 31 to June 30 therefore, the District's current fiscal year end is June 30. Accordingly, it must provide updated financial information and operating data by the last day of December in each year and audited financial statements for the preceding year (or unaudited financial statements if the audited financial statements are not yet available) must be provided by June 30 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

EVENT NOTICES . . . The District will also provide to the MSRB timely notice (not in excess of ten (10) business days after the occurrence of the event) 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 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 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) the 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 or liquidity enhancement, but the Bonds are guaranteed by the Permanent School Fund. 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".

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

AVAILABILITY OF INFORMATION FROM MSRB . . . The District has agreed to provide the foregoing information only to the MSRB. The MSRB intends to make the information available to the public without charge through its EMMA internet portal at www.emma.msrb.org.

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 Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

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 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 registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Order that authorizes such an amendment) 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 interests 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 Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 are invalid, and the District also may amend the provisions of this continuing disclosure agreement in its discretion in any other manner or circumstance, 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 operating data provided in accordance with its agreement described above under "ANNUAL REPORTS" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five years, the District has complied in all material respects with its continuing disclosure agreements entered into pursuant to Rule 15c2-12.

OTHER INFORMATION

RATINGS . . . The presently outstanding unenhanced tax supported debt of the District have underlying ratings of "Aaa" by Moody's, "AA+" by Fitch, and "AA+" by S&P. The Bonds received an underlying rating of "Aaa" by Moody's and "AA+" by Fitch. The District's currently outstanding bonds that are guaranteed by the Permanent School Fund are also rated "Aaa" by Moody's, "AAA" by Fitch, and "AAA" by S&P by virtue of the guarantee of the Permanent School Fund. The Bonds are guaranteed by the Permanent School Fund and are also rated "Aaa" by Moody's and "AAA" by Fitch by virtue of the guarantee of the Permanent School Fund (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"). An explanation of the significance of such ratings, including any recalibrations, may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the District makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by any of such rating companies, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

LITIGATION . . . The District is not a party to any litigation or other proceeding pending or to its knowledge, threatened, 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 position of the District or the District's ability to issue and deliver the Bonds.

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

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

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

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

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

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. The District's actual results could differ materially from those discussed in such forward-looking statements.

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

UNDERWRITING . . . The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District, at a price equal to par amount of the Bonds as shown on page 2 of this Official Statement plus a premium of $32,509,006.30 and less an underwriting discount of $801,061.78, and no accrued interest. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

Jefferies LLC ("Jefferies"), an Underwriter of the Bonds, has entered into an agreement (the "Agreement") with E*TRADE Securities LLC ("E*TRADE") for the retail distribution of municipal securities. Pursuant to the Agreement, Jefferies will sell Bonds to E*TRADE and will share a portion of its selling concession compensation with E*TRADE.

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

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

This Official Statement has been approved by the Pricing Officer, on behalf of the Board of Trustees of the District for distribution in accordance with the provisions of Rule 15c2-12, as amended.

/s/ Nicole Conley Johnson
Pricing Officer
Austin Independent School District

APPENDIX A

GENERAL INFORMATION REGARDING THE DISTRICT

The Austin Independent School District

The District was created in 1955, when all properties and operations of the City of Austin public free school system were transferred from the control of the City's governing body to the District, and all outstanding bonds previously issued by the City of Austin for public free school purposes were assumed by the District.

During a period of several years following the incorporation of the District, several adjoining independent and common school districts were annexed into the District. The outstanding bonds of these school districts were likewise assumed by, and consolidated into the bonded indebtedness of the District.

At the present time, the District comprises an area of approximately 230 square miles located entirely within Travis County, Texas. Its boundaries extend several miles beyond the corporate limits of Austin to the north and south, but there are small areas to the east and west where the city limits extend beyond the District boundaries. Because the District is surrounded by other suburban districts, it is likely to remain approximately the same size and configuration for the foreseeable future.

The District operates under policies established by a nine-member Board of Trustees. Seven members of the Board are elected from single member districts and two members are elected at large. All members of the Board are elected for four-year staggered terms. The staff of the District includes 5,689 teachers, 1,002 professional support personnel, 467 campus administrators, 63 central office administrators, 908 educational aides, and 3,177 auxiliary staff.

Basic Teacher Salary
2016-2017

Experience	Bachelor's Degree	Master's Degree/PhD.
0	$46,810	$47,737
1	47,064	47,992
2	47,184	48,111
3	47,289	48,216
4	47,289	48,216
5	47,289	48,216
6	47,289	48,216
7	47,408	48,336
8	47,513	48,440
9	47,633	48,560
10	47,752	48,665
11	47,977	48,889
12	47,977	48,889
13	48,306	49,223
14	48,650	49,562
15	48,979	49,907
16	49,652	50,580
17	50,340	51,253
18	51,014	51,926
19	51,687	52,614
20	52,360	53,288
21	53,033	53,961
22	53,706	54,634
23	54,380	55,307
24	55,068	55,980
25	55,741	56,654
26	56,414	57,342
27	57,087	58,015
28	57,761	58,688
29	58,434	59,361
30	59,107	60,034
31	59,795	60,708
32	60,468	61,381
33	61,142	62,742
34	61,815	63,415
35	62,488	64,089

The District offers a well-rounded school program which includes an emphasis on basic skills in addition to a wide variety of elective courses.

The District's elementary schools offer a basic skills curriculum and a variety of enrichment activities in the areas of art and music. A district-wide program in language arts and mathematics is in place for students gifted in these areas. Limited English proficiency students participate in a bilingual education program. In addition, there is a trained librarian at each school. Teachers and administrators are involved in revising and improving the elementary curriculum which includes language arts (reading, handwriting, creative writing, spelling and grammar), mathematics, science, social studies, art, physical education, music, health and computer education.

The District provides a full-day kindergarten program for children who turn five on or before September 1. Kindergarten is viewed as an important part of the total school program and serves as the basis on which to build future successful learning experiences. The District's kindergarten program has received recognition by the Secretary of Education. Beginning with the 2016-17 academic year, the District began offering half-day, Pre-Kindergarten programs for 3-year olds in 26 of the District's elementary schools.

The District's secondary education program emphasizes the continuing development of basic skills learned at the elementary level and provides opportunities to broaden the scope of instruction through additional course offerings. Annual curriculum evaluations result in program changes when necessary.

High School graduation requirements for all students are based on number of credits and include three plans for graduation from high school.

Graduation Plans
(Entered 9th grade in 2013 - 2014)

Curriculum Subject Areas	Minimum Plan	Recommended Plan	Distinguished Achievement Program
English	4.0 Credits	4.0 Credits	4.0 Credits
Mathematics	3.0 Credits	4.0 Credits	4.0 Credits
Science	2.0 Credits	4.0 Credits	4.0 Credits
Social Studies	3.0 Credits	4.0 Credits	4.0 Credits
Physical Education	1.0 Credits	1.0 Credits	1.0 Credits
Health	.5 Credits	.5 Credits	.5 Credits
Languages Other Than English	none	2.0 Credits	3.0 Credits
Fine Arts	1.0 Credits	1.0 Credits	1.0 Credits
Speech	.5 Credits	.5 Credits	.5 Credits
Academic Elective	1.0 Credits	none	none
Elective (SBOE Approved)	6.0 Credits	5.0 Credits	4.0 Credits
Total Credits	22.0 Credits	26.0 Credits	26.0 Credits

Graduation Plans
(Entered 9th grade in 2014 and beyond)

Curriculum Subject Areas	Foundation	Foundation + Endorsement	Foundation + Endorsement + Distinguished
English	4.0 Credits	4.0 Credits	4.0 Credits
Mathematics	3.0 Credits	4.0 Credits	4.0 Credits
Science	3.0 Credits	4.0 Credits	4.0 Credits
Social Studies	3.0 Credits	3.0 Credits	3.0 Credits
Physical Education	1.0 Credits	1.0 Credits	1.0 Credits
Health	.5 Credits	.5 Credits	.5 Credits
Languages Other Than English	2.0 Credits	2.0 Credits	2.0 Credits
Fine Arts	1.0 Credits	1.0 Credits	1.0 Credits
Elective (SBOE approved)	4.5 Credits	6.5 Credits	6.5 Credits
Total Credits	22.0 Credits	26.0 Credits	26.0 Credits

Number and Types of Schools

Elementary (PreK Only)	3
Elementary (Grades PreK-K)	1
Elementary (Grades PreK-2)	1
Elementary (Grades PreK-5)	62
Elementary (Grades PreK-6)	3
Elementary (Grades K-5)	10
Elementary (Grades K-6)	4
Elementary (Grades 1-5)	1
Middle Schools (Grades 6-8)	18
Ann Richards School for Young Women (Grades 6-12)	1
International High School (Grades 9-10)	1
Senior High Schools (Grades 9-12)	14
Special Campuses	11
Total	130

Special Education Units

Lucy Read Pre-Kindergarten	1
Rosedale Development Center	1
Jerry Mac Clifton Center	1
Austin State Hospital	1
Homebound	1

Scholastic Membership 1994 through 2017

Year	Enrollment	Increase(Decrease)
1993-94	71,796	2,007
1994-95	73,299	1,386
1995-96	74,864	932
1996-97	76,403	1,056
1997-98	76,590	187
1998-99	77,589	999
1999-00	77,315	(274)
2000-01	77,648	333
2001-02	78,050	402
2002-03	78,308	258
2003-04	78,499	191
2004-05	79,707	1,208
2005-06	81,155	1,448
2006-07	82,063	908
2007-08	82,739	676
2008-09	83,730	991
2009-10	84,996	1,266
2010-11	85,929	933
2011-12	86,124	195
2012-13	86,516	392
2013-14	85,502	(1,014)
2014-15	84,191	(1,311)
2015-16	83,628	(563)
2016-17	83,070	(558)

APPENDIX B

EXCERPTS FROM THE

AUSTIN INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2016

The information contained in this APPENDIX consists of excerpts from the Austin Independent School District Annual Financial Report for the Year Ended June 30, 2016, and is not intended to be a complete statement of the District's financial condition. Reference is made to the complete Report for further information.

Austin Independent School District

Basic Financial Statements and
Independent Auditor's Report
With Accompanying Information

Ten Month Period Ended June 30, 2016

Austin Independent School District

Ten Months Ended June 30, 2016

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Austin Independent School District

Ten Months Ended June 30, 2016

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(Continued)

Introductory Section

Austin Independent School District

Certificate of Board

June 30, 2016

Austin Independent School District	Travis	227-901-13
Name of School District	County	County District Number

We, the undersigned, certify that the attached annual financial report of the above-named school district was reviewed and (check one) _________ approved __________ disapproved for the ten month period ended June 30, 2016 at a meeting of the Board of Trustees of such school district on the ______ day of _____________, 2016.

Signature of Board Secretary	Signature of Board President

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

Financial Section

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Austin Independent School District (the "District") as of and for the ten month period ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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AUSTIN, TEXAS 78704
512 476 0717

HOUSTON
1980 POST OAK BOULEVARD, SUITE 1100
HOUSTON, TEXAS 77056
713 335 8630

SAN ANTONIO
100 N.E. LOOP 410, SUITE 1100
SAN ANTONIO, TEXAS 78216
210 828 6281

TOLL FREE: 800 879 4966
WEB: PADGETT-CPA.COM

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the ten month period then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described in Note 3(C) to the financial statements, effective September 1, 2015, the District implemented Governmental Accounting Standards Board ("GASB") Statement No. 72, *Fair Value Measurement and Application,* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants.* Our opinion is not modified with respect to these matters.

As described in Note 1 to the financial statements, the District changed its fiscal year from a year end of August 31 to June 30 effective this reporting period. As such, the financial statements are presented for a ten month period of September 1, 2015 through June 30, 2016. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Schedule – General Fund, Schedule of the District's Proportionate Share of the Net Pension Liability, and Schedule of District Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Other Supplementary Information, as listed in the table of contents, and the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Other Supplementary Information 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 Other Supplementary Information and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Padgett, Stratemann + Co., L.L.P.

Austin, Texas
November 15, 2016

Austin Independent School District

Management's Discussion and Analysis

June 30, 2016

This section of Austin Independent School District's (the "District") annual financial report presents our discussion and analysis of the District's financial performance during the ten month period ended June 30, 2016. Please read it in conjunction with the District's financial statements, which follow this section.

House Bill 98 enacted by the 76th Legislature of the state of Texas allowed school districts to change their fiscal year-end from August 31 to June 30 beginning with the 2001-2002 fiscal year. The District elected to take advantage of this opportunity and chose to change its fiscal year beginning with the 2015-2016 reporting period. As such, the financial statements are presented for a ten-month period of September 1, 2015 through June 30, 2016.

FINANCIAL HIGHLIGHTS

- The assets plus deferred outflows of resources of the District exceeded its liabilities plus deferred inflows of resources at the close of the ten month period ended June 30, 2016. Net position was $330.0 million. Net investment in capital assets was $54.6 million. The District's restricted net position was $129.7 million. Unrestricted net position was $145.7 million.

- During the year, the District's expenses were $92.5 million less than the $1,236.5 million generated in taxes and other revenues for governmental activities. Expenditures totaled $983.7 million after charges for services and operating grants and contributions (revenue). Total revenue from property taxes, state aid, unrestricted grants and contributions, investment income, and miscellaneous revenues is $1,076.2 million.

- At the end of the current fiscal year, the unassigned fund balance for the general fund was $266.2 million, or 29% of the total general fund expenditures.

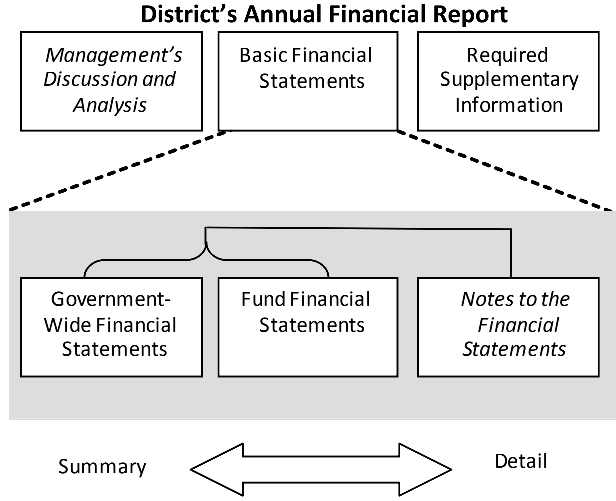
- The District issued $24.1 million in bonds during the fiscal year 2015-2016, and ended the year with $100.0 million outstanding in commercial paper.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- 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.

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



- The Governmental Funds statements tell how general government services were financed in the short term, as well as what remains for future spending.
- The Proprietary Fund statements provide information about the District's internal service funds, which are used to accumulate expenses to be charged to the governmental funds.
- Fiduciary Fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources in question belong.

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

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

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

Type of Statement	Government-Wide	Governmental Funds	Fiduciary Funds
Scope	Entire District's government (except fiduciary funds)	The activities of the District that are not propriety or fiduciary	Instances in which the District is the trustee or agent for someone else's resources
Required Financial Statements	• Statement of net position • Statement of activities	• Balance sheet • Statement of revenues, expenditures, and changes in fund balances	• Statement of fiduciary net position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included
Type of Inflow/Outflow Information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after year-end, expenditures when goods or services have been received and payment is due during the year or soon thereafter	Agency funds do not report revenue and expenditures

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 the government's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All the current year's revenues and expenses are accounted for in the statement of activities on the accrual basis, 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, the difference between the District's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, are one way to measure the District's financial position.

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

- To assess the overall financial health of the District, one must consider additional factors, such as changes in the District's tax base.

The government-wide financial statements of the District include the governmental activities. All 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 major funds, rather than the District as a whole. Funds are a governmental accounting tool 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 resources for specific purposes or to delineate the use of certain taxes and grants.

The District has three kinds of funds:

- *Governmental Funds* – Most of the District's basic services are included in Governmental Funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) on the balances left at year-end that are available for spending. Consequently, the Governmental Funds statements provide a detailed short-term view that helps determine the availability of financial resources to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the Governmental Funds statement, or on the subsequent page, that explains the relationship (or differences) between them. These include debt financing and capital projects.

- *Proprietary Funds* – Services for which the District charges internal departments a fee are generally reported in Proprietary Funds. Proprietary Funds, like the government-wide statements, provide both long and short-term financial information. In the District, internal service funds are used to report activities that provide supplies and services for the District's other programs and activities, such as the District's Self Insurance Fund.

- *Fiduciary Funds* – The District is the trustee, or fiduciary, for certain funds. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in 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.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a Budgetary Comparison Schedule – General Fund, Schedule of the District's Proportionate Share of the Net Position Liability, and the Schedule of the District's Contributions. The Budgetary Comparison Schedule – General Fund provides detailed comparisons of expenditures and intra-agency transfers at the legal level of control. Comparisons can be made between the original budget, final budget, and actual costs for the year. The Schedule of the District's Proportionate Share of the Net Position Liability and Schedule of the District's Contributions disclose covered payroll and related comparison information, as required by GASB Statement No. 68, as of June 30, 2016.

Financial Analysis of the District as a Whole

Net Position – The District's combined net position was approximately $330.0 million at June 30, 2016. The following is a schedule of the District's net position:

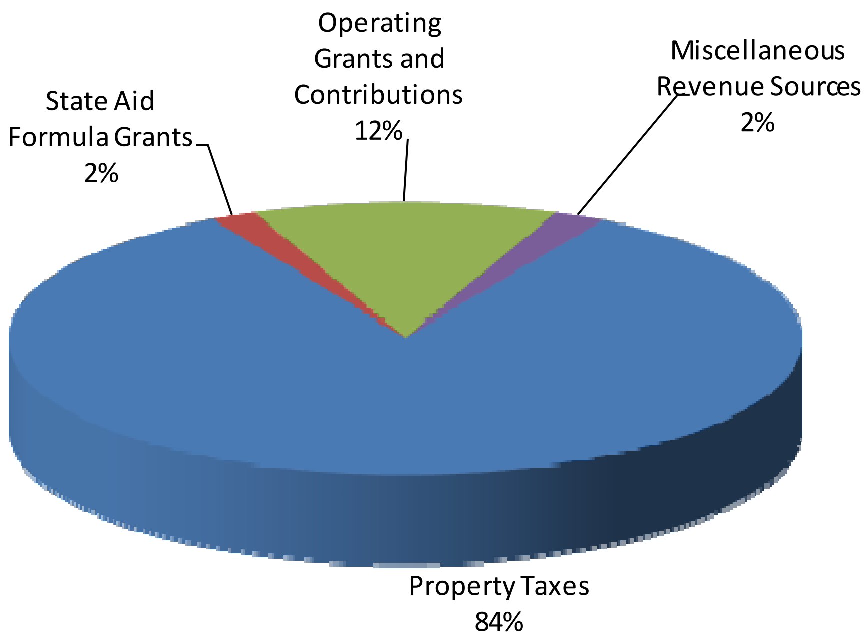
Table A-1
The District's Net Position
(In Millions of Dollars)

	Governmental Activities		
	2016	**2015**	**Percentage Change**
Current and other assets	$ 686.3	$ 432.6	59%
Capital assets	965.3	952.6	1%
Total assets	1,651.6	1,385.2	19%
Deferred loss on refunding	8.2	8.7	(6%)
Deferred outflow for TRS pension liability	40.5	17.4	133%
Total deferred outflows of resources	48.7	26.1	87%
Current liabilities	402.5	241.9	66%
Long-term liabilities	919.2	900.6	2%
Total liabilities	1,321.7	1,142.5	16%
Deferred inflow for TRS pension liability	48.7	31.3	56%
Total deferred inflows of resources	48.7	31.3	56%
Net position:			
Net investment in capital assets	54.6	141.5	(61%)
Restricted	129.7	52.7	146%
Unrestricted	145.7	43.3	236%
Total net position	$ 330.0	$ 237.5	39%

Changes in Net Position

The District's total revenues were $1,236.5 million. A significant portion, 84%, of the District's revenue comes from taxes; 2% comes from state aid formula grants, while 12% is related to other operating grants and contributions; the remaining 2% comes from miscellaneous revenue sources (see Figure A-3 below).

Figure A-3
Sources of Revenues for Fiscal Year 2016



The total cost of all programs was $1,144.0 million and $1,129.8 million for the ten month period ended June 30, 2016 and year ended August 31, 2015, respectively. When adjusted for the $268.8 million in expenses in 2016 and $183.6 million in expenses in 2015 related to Chapter 41 and other pass-through costs, 73.3% and 72.1%, respectively, of these costs are for instructional and student services.

The total of all program and service costs for school leadership was 5.4% in 2016 and 6.4% in 2015, and 7.2% and 9.1% in 2016 and 2015, respectively, for plant maintenance and operations (including security services).

Table A-2
Changes in the District's Net Position
(In Millions of Dollars)

	Governmental Activities		
	2016	2015	Percentage Change
Revenues			
Program revenues:			
Charges for services	$ 6.2	$ 6.2	1%
Operating grants and contributions	154.0	167.1	(8%)
General revenues:			
Property taxes	1,033.7	921.2	12%
State aid – formula	22.9	34.1	(33%)
Investment earnings	2.1	0.8	165%
Other	17.5	17.6	(1%)
Total revenues	1,236.5	1,147.0	8%
Expenses			
Instruction and instructional related	487.0	505.5	(4%)
Instructional resources and media related	12.3	13.8	(11%)
Curriculum and staff development	19.9	30.4	(35%)
Instructional leadership	13.2	16.8	(21%)
School leadership	48.8	55.6	(12%)
Guidance, counseling, and evaluation services	23.1	26.9	(14%)
Social work services	5.1	5.0	2%
Health services	6.9	6.8	2%
Student transportation	31.5	33.6	(6%)
Food services	39.0	42.6	(8%)
Extracurricular activities	16.7	17.9	(7%)
General administration	16.8	19.1	(12%)
Plant maintenance and operations	73.2	93.2	(21%)
Security and monitoring services	9.6	10.0	(4%)
Data processing services	18.5	19.9	(7%)
Community services	15.7	17.6	(11%)
Debt service	31.3	25.0	25%
Payments to fiscal agent/member districts – shared service	268.8	183.6	46%
Other governmental charges	5.7	5.3	8%
Depreciation – exclusive of functional amounts	0.9	1.2	(23%)
Total expenses	1,144.0	1,129.8	1%
Change in net position	92.5	17.2	438%
Net position at beginning of period	237.5	220.3	8%
Net position at end of period	330.0	237.5	39%

Table A-3 presents the cost of the District's largest functions, as well as each function's net cost (total costs less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded directly by state revenues, as well as local tax dollars.

- The cost of all governmental activities in 2016 was $1,144.0 million and, in 2015, was $1,129.8 million.
- However, the amount the District's taxpayers paid for these activities through property taxes was only $1,033.7 million in 2016 and $921.2 million in 2015.
- Those who directly benefited paid some costs of the programs ($6.2 million in 2016 and $6.2 million in 2015), with grants and contributions ($154.0 million in 2016 and $167.1 million in 2015) sharing the load.

Table A-3
Net Cost of Selected District Functions
(In Millions of Dollars)

	Total Cost of Services			Net Cost of Services		
	2016	2015	Percentage Change	2016	2015	Percentage Change
Instruction	$ 519.1	$ 549.7	(6%)	$ 445.6	$ 466.7	(5%)
School leadership	62.0	72.3	(14%)	55.4	64.6	(14%)
Plant maintenance and operations	73.2	93.2	(21%)	71.5	91.5	(22%)

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, bond covenants, and segregation for particular purposes.

Governmental Funds

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

At the end of the current fiscal year, the District's Governmental Funds reported combined ending fund balances of $347.4 million. Approximately 77% percent of this total amount ($266.2 million) is available for spending at the government's discretion (General Fund unassigned fund balance). The remainder of the fund balance is nonspendable, restricted, or assigned to indicate it is not available for new spending because it has already been committed for various purposes, including capital projects, repayment of debt, food service, wastewater plant, and investment in inventories.

The General Fund is the primary operating fund of the District. At the end of the current fiscal year, the fund balance of the General Fund was $292.3 million. Of this amount, $24.6 million is assigned for various projects, and $1.4 million is nonspendable for investment in inventories. As a measure of the General Fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. The total General Fund balance represents approximately 31% of total fund expenditures. The fund balance increased by $74.5 million during the current fiscal year period.

The Debt Service Fund had an increase in fund balance of $89.5 million during the current year to bring the year end fund balance to $137.7 million. The increase is primarily the result of the timing of principal and interest payments from 2015 to 2016 due to the change in the fiscal year end. Approximately $85.3 million in principal and interest payments are due on August 1, 2016.

The Capital Projects Fund accounts for the construction of school buildings and improvements. At the end of the current fiscal year, the fund balance was a negative $91.2 million, due to outstanding payables related to construction costs of $9.5 million and $100.0 million in outstanding commercial paper. The District finances construction costs with commercial paper until bonded debt is issued at a later date.

General Fund Budgetary Highlights (See Exhibit G-1)

Differences between the final general operating fund budget and the actual amounts are explained as follows:

Revenues

- An unfavorable variance in local and state sources were due to the following adjustments:
  - Local property tax collections, including current year, prior year, and penalty and interest, were $271,525, or 0.03% lower than anticipated.
  - State revenue including the Foundation School Program and TRS on behalf payments were almost $2.4 million less than anticipated.
  - Federal and grant indirect cost earnings was $19,271 less than anticipated.

Expenditures

- A net favorable variance of almost $21.4 million in expenditures was due to the following variances:
  - Employee payroll, payroll taxes, and benefits, including the related TRS on behalf payment, were $10.2 million less than budgeted.
  - Professional and contracted services were $10.4 million less than estimated.
  - The District spent $1.7 million less on supplies and materials than budgeted. This includes software, equipment, and general supplies.
  - The District spent $0.1 million less on other operating costs. This includes employee travel and insurance and bonding costs.
  - The District spent $1.1 million more on capital outlay for buildings and equipment than budgeted.
  - Other areas of unspent items that were spread across the remaining accounts not covered above, totaling $0.1 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the District had invested $965.3 million in a broad range of capital assets, including land, equipment, buildings, vehicles, and capital lease assets. (See Table A-4 below.)

Table A-4
District's Capital Assets
(In Millions of Dollars)

	Governmental Activities		
	2016	**2015**	**Percentage Change**
Land	$ 70.7	$ 70.7	(0%)
Buildings and improvements	864.0	858.7	1%
Furniture fixtures and equipment	30.6	23.2	32%
	$ 965.3	$ 952.6	1%

During the District's fiscal year 2015-2016, capital spending totaled $63.5 million in building and improvements and capital equipment. At June 30, 2016, the District is committed under contracts in the amount of approximately $11.2 million. The commitments are for remaining work on various construction projects. These commitments are payable from the Capital Projects Fund. For more detailed information on capital assets, refer to Note 7 of the notes to the basic financial statements.

Debt Administration

At June 30, 2016, the District had $879.5 million in long-term debt outstanding, as shown in Table A-5 (on the following page). Additionally, the District is approved for the issuance of Austin Independent School District Commercial Paper Notes, Series A ("Commercial Paper") in an aggregate principal amount not to exceed $150,000,000 for the purpose of funding new construction and rehabilitation and renovation of existing facilities. The Commercial Paper notes mature in not more than 270 days from issuance and are supported by a revolving credit agreement with Sumitomo Mitsui Banking Corporation and Mizuho Bank, Ltd. The Commercial Paper is secured by a pledge of the proceeds of future general obligation bonds or loans issued by the District to pay the principal of the Commercial Paper or proceeds from ad valorem property taxes. The District had $100.0 million in Commercial Paper outstanding in the Capital Projects Fund as of June 30, 2016.

Table A-5
District's Long-Term Debt
(In Millions of Dollars)

	Governmental Activities		Percentage Change
	2016	2015	
Bonds payable	$ 876.2	$ 856.9	2%
Notes and leases payable	3.3	3.6	(7%)
	$ 879.5	$ 860.5	2%

For more information on long-term debt, refer to Note 8 of the notes to the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Assessed values for the 2015-16 school year were $81.3 billion as of August 24, 2015, an increase of 14.7% from the previous year. The values for the 2016-17 school year, as of July 18, 2016, were at $93.8 billion, an increase of 15.4% from 2015-16. The first six week's enrollment for 2016-17 was 83,238 a decrease of 0.6% from 2015-16. Funding from the state is based on Average Daily Attendance ("ADA"). ADA for 2015-16 was 76,454, a decrease of 905, or 1.1% from the prior year. For 2016-17, the District projects an estimated ADA of 75,645 which represents a 1.0% decrease from the 2015-16 school year.

The actual cost per student for 2015-16 was $7,904 and the projected estimated cost per student for 2016-17 is $9,084. The cost per student for 2015-16 was calculated by dividing the total General Fund actual expenditures, net of Chapter 41 payments, with the actual student enrollment. The cost per student for 2016-17 was calculated by dividing the total General Fund adopted budget, net of Chapter 41 payments, with budgeted enrollment. The increase in the cost per student from 2015-16 to 2016-17 is attributed to a combination of increases in the General Fund budget (driven largely by the $20 million salary increase and a 10-month to 12-month fiscal year) combined with decreases in student enrollment.

Increases

- A 4% pensionable increase over the District's fiscal year 2015-16 annualized salary for fiscal year 2016-17. ($20.0 million).
    - Begin accruing for the Professional Pathway for Teachers compensation plan ($3.0 million).
    - Increase the districts minimum wage to $13 per hour for regular employees (1.2 million).
- Increase to meet statutorily required or contractually obligated programs ($3.4 million).
- Baseline increases, including audit fees, election fees, insurance and bonding costs, and tax collection and appraisal fees, utilities, CALT program, software for asset management and the state TRS matching contribution ($3 million). Increase in Chapter 41 payment estimate ($133.3 million).

- Expand the GPS Software for Viewing Bus Arrivals ($75,000).
- UIL Mandated Rate Increase ($75,000).
- Expand campus based technology team from 5 FTEs to 25 FTEs ($1.1 million)
- Expand dyslexia evaluation to all students suspected of having dyslexia - Mandated (3.0 FTEs) ($198,429).
- Increase to meet the National Fire Alarm and Signaling Code (NFPA 72) ($205,848).
- Increase for Career and Technology Education to meet compliance standards ($450,000).
- Health and physical education ($10,000).

Decreases

- Reduction of payroll costs resulting from decrease in enrollment ($3.9 million).
- FTE/CAC/Campus Non-Classroom Positions ($1.5 million).
- Strategic Compensation Initiative ($1.0 million).
- Savings for custodial services including evening schedules net of night differential and others ($615,840).
- Curriculum Writing Cadre Reduction ($298,046).

At the end of the 2015-16 school year, the District had an increase of $74.5 million in the General Fund balance, bringing the District's fund balance from $217.7 million to $292.2 million as of June 30, 2016. Of this amount, $1.4 million is nonspendable, $24.6 million is assigned, and $266.2 million is unassigned. For the 2016-20 school year, General Fund revenues are projected to increase approximately 14.6% and expenditures are projected to increase 24.7%. The District anticipates having a surplus of revenues over expenditures by $3.8 million at the end of the 2016-17 school year. For the 2015-16 and 2016-17 school years, recapture payments totaled $266.1 million and estimated at $406.1 million, respectively. The District's maintenance and operation tax rate is $1.079 per hundred dollars of assessed value for 2015-16 and remained the same for the 2016-17 school year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

Austin Independent School District

Exhibit A-1
Statement of Net Position

June 30, 2016

Data Control Codes		Governmental Activities
	Assets	
1110	Cash, cash equivalents, and temporary investments	$ 648,034,542
1225	Property taxes receivable – net	10,064,258
1240	Due from other governments	22,065,465
1260	Receivables from external parties	734,055
1290	Other receivables – net	1,408,175
1310	Inventories	3,135,187
1410	Prepaids and other assets	867,684
	Capital assets:	
1510	Land	70,698,102
1520	Buildings and improvements – net	796,770,591
1530	Furniture and equipment – net	30,587,808
1580	Construction in progress	67,277,451
1000	**Total assets**	1,651,643,318
	Deferred Outflows of Resources	
1701	Deferred loss on refunding	8,187,123
1705	Deferred outflow for TRS pension liability	40,492,247
	Total deferred outflows of resources	48,679,370
	Liabilities	
2110	Accounts payable	34,077,891
2120	Commercial paper	100,000,000
2150	Payroll deductions and withholdings	13,523,229
2160	Accrued wages payable	34,485,414
2170	Payables to external parties	5,201
2180	Due to other governments	120,697,714
2200	Accrued expenses	15,151,923
2300	Unearned revenues	1,229,319
	Noncurrent liabilities:	
2400	Due within one year	83,320,812
2500	Due in more than one year	810,253,615
2500	Net pension liability – District's share	108,918,334
2000	**Total liabilities**	1,321,663,452
	Deferred Inflows of Resources	
2605	Deferred inflow for TRS pension liability	48,680,273
	Total deferred inflows of resources	48,680,273
	Net Position	
3200	Net investment in capital assets	54,626,903
3800	Restricted for:	
	Retirement of long-term debt	123,562,109
	Federal and state funds grants	6,108,396
3900	Unrestricted	145,681,555
3000	**Total net position**	$ 329,978,963

The accompanying notes are an integral part of this statement.

Austin Independent School District

Exhibit B-1
Statement of Activities

Ten Month Period Ended June 30, 2016

		1	3	4	Net (Expense) Revenue and Changes in Net Position
			Program Revenues		
Data Control Codes	Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
	Government activities:				
11	Instruction	$ 486,966,128	$ 1,520,028	$ 60,547,241	$ (424,898,859)
12	Instructional resources and media services	12,266,216	-	727,312	(11,538,904)
13	Curriculum and instructional staff development	19,909,135	-	10,785,072	(9,124,063)
21	Instructional leadership	13,194,751	-	2,376,643	(10,818,108)
23	School leadership	48,755,251	-	4,189,383	(44,565,868)
31	Guidance, counseling, and evaluation services	23,110,375	-	3,202,424	(19,907,951)
32	Social work services	5,091,628	-	516,315	(4,575,313)
33	Health services	6,942,633	-	23,616,131	16,673,498
34	Student (pupil) transportation	31,507,346	-	1,010,876	(30,496,470)
35	Food services	39,032,345	-	35,988,103	(3,044,242)
36	Curricular/extracurricular activities	16,651,563	701,194	512,426	(15,437,943)
41	General administration	16,813,369	1,558,250	1,069,277	(14,185,842)
51	Plant maintenance and operations	73,162,057	-	1,626,718	(71,535,339)
52	Security and monitoring services	9,625,064	-	421,421	(9,203,643)
53	Data processing services	18,519,875	-	1,231,774	(17,288,101)
61	Community services	15,746,363	2,454,839	6,218,455	(7,073,069)
71	Interest on long-term debt	31,280,410	-	-	(31,280,410)
91	Contracted instructional services between schools	266,073,630	-	-	(266,073,630)
93	Payments related to shared services arrangements	2,701,947	-	-	(2,701,947)
99	Other intergovernmental charges	5,721,415	-	-	(5,721,415)
99	Depreciation – exclusive of functional amounts	928,450	-	-	(928,450)
TG	Total governmental activities	1,143,999,951	6,234,311	154,039,571	(983,726,069)
TP	Total primary government	$ 1,143,999,951	$ 6,234,311	$ 154,039,571	(983,726,069)
	General revenues:				
MT	Property taxes – levied for general purposes				927,959,364
DT	Property taxes – levied for debt service				105,731,761
SF	State aid – formula grants				22,888,895
GC	Grants and contributions not restricted to specific programs				3,123,055
IE	Investment earnings				2,121,188
MI	Miscellaneous				14,379,956
TG	Total general revenues				1,076,204,219
CN	Change in net position				92,478,150
NB	Net position at beginning of period				237,500,813
NE	Net position at end of period				$ 329,978,963

The accompanying notes are an integral part of this statement.

Austin Independent School District

Exhibit C-1
Balance Sheet – Governmental Funds

June 30, 2016

Data Control Codes		General Fund	Debt Service Fund	Capital Projects Funds	Nonmajor Governmental Funds	Total Governmental Funds
	Assets					
1110	Cash, cash equivalents, and temporary investments	$ 447,814,100	$ 137,727,961	$ 23,137,226	$ 13,679,420	$ 622,358,707
1220	Property taxes – delinquent	33,782,285	4,783,541	-	-	38,565,826
1230	Allowance for uncollectible taxes	(24,808,165)	(3,693,403)	-	-	(28,501,568)
1240	Due from other governments	4,909,232	-	-	17,156,233	22,065,465
1260	Due from other funds	15,041,910	34,206	208,980	16,349	15,301,445
1290	Other receivables	704,743	6,611	-	696,701	1,408,055
1300	Inventories	513,043	-	-	2,546,480	3,059,523
1410	Prepaids and other assets	867,684	-	-	-	867,684
1000	**Total assets**	$ 478,824,832	$ 138,858,916	$ 23,346,206	$ 34,095,183	$ 675,125,137
	Liabilities					
2110	Accounts payable	$ 19,785,948	$ 14,167	$ 9,470,550	$ 4,773,750	$ 34,044,415
2120	Loans payable	-	-	100,000,000	-	100,000,000
2150	Payroll deductions and withholdings	13,523,229	-	-	-	13,523,229
2160	Accrued wages payable	29,718,552	-	11,379	3,533,326	33,263,257
2170	Due to other funds	81,846	130,640	5,073,809	10,080,214	15,366,509
2180	Due to other governments	114,758,835	-	-	5,938,879	120,697,714
2300	Unearned revenues	115,104	77	-	1,114,138	1,229,319
2000	**Total liabilities**	177,983,514	144,884	114,555,738	25,440,307	318,124,443
	Deferred inflows of resources					
2600	Unavailable revenue – property taxes	8,574,300	1,043,092	-	-	9,617,392
	Total deferred inflows of resources	8,574,300	1,043,092	-	-	9,617,392
	Fund Balances					
3410	Nonspendable	1,380,727	-	-	2,546,480	3,927,207
3490	Restricted	-	137,670,940	-	6,108,396	143,779,336
3500	Assigned	24,643,922	-	-	-	24,643,922
3600	Unassigned	266,242,369	-	(91,209,532)	-	175,032,837
3000	**Total fund balances**	292,267,018	137,670,940	(91,209,532)	8,654,876	347,383,302
4000	**Total liabilities, deferred inflows of resources, and fund balances**	$ 478,824,832	$ 138,858,916	$ 23,346,206	$ 34,095,183	$ 675,125,137

The accompanying notes are an integral part of this statement.

Austin Independent School District

Exhibit C-2
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position

June 30, 2016

Data Control Codes		
	Total fund balances – Governmental Funds balance sheet	$ 347,383,302
	Amounts reported for governmental activities in the statement of net position (Exhibit A-1) are different because:	
1	Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	965,333,952
2	Amount of interest on debt payable in August is required to be recognized in the statement of net position.	(15,151,923)
3	Revenue in governmental activities is recognized in the period earned.	9,617,392
4	Internal Service Funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The assets and liabilities of Internal Service Funds are included in governmental activities in the statement of net position.	12,428,609
5	Bonds and loans payable are not due and payable in the current period and, therefore, are not reported in the funds.	(879,500,455)
6	The accrual of vacation leave is not due and payable in the current period and, therefore, is not reported as expenditures in the governmental funds.	(1,212,677)
7	Unamortized loss on bond refunding in governmental activities, not reported in the governmental funds	8,187,123
8	Recognition of the District's proportionate share of the net pension liability required by GASB Statement. No 68 ($108,918,334), a deferred inflow of resources ($48,680,273), and a deferred outflow of resources ($40,492,247).	(117,106,360)
19	Net position of governmental activities	$ 329,978,963

The accompanying notes are an integral part of this statement.

Austin Independent School District

Exhibit C-3
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

Ten Month Period Ended June 30, 2016

Data Control Codes		General Fund	Debt Service Fund	Capital Projects Funds	Nonmajor Governmental Funds	Total Governmental Funds
	Revenues					
5700	Local and intermediate sources	$ 935,923,424	$ 106,248,492	$ 66,987	$ 16,386,753	$ 1,058,625,656
5800	State program revenues	50,329,570	1,502,682	-	4,743,070	56,575,322
5900	Federal program revenues	26,554,292	458,761	-	89,407,037	116,420,090
5020	Total revenues	1,012,807,286	108,209,935	66,987	110,536,860	1,231,621,068
	Expenditures					
	Current:					
0011	Instruction	389,399,804	-	-	41,123,981	430,523,785
0012	Instructional resources and media services	9,543,853	-	-	389,441	9,933,294
0013	Curriculum and instructional staff development	9,035,047	-	-	10,747,149	19,782,196
0021	Instructional leadership	10,941,590	-	-	2,153,219	13,094,809
0023	School leadership	43,574,984	-	-	2,275,783	45,850,767
0031	Guidance, counseling, and evaluation services	20,177,938	-	-	2,404,634	22,582,572
0032	Social work services	4,614,858	-	-	417,517	5,032,375
0033	Health services	6,225,201	-	-	446,192	6,671,393
0034	Student (pupil) transportation	28,318,982	-	340,260	-	28,659,242
0035	Food services	-	-	-	35,398,826	35,398,826
0036	Curricular/extracurricular activities	14,274,409	-	-	128,202	14,402,611
0041	General administration	15,309,497	-	-	587,870	15,897,367
0051	Plant maintenance and operations	69,700,769	-	3,577,398	265,583	73,543,750
0052	Security and monitoring services	9,183,864	-	-	21,003	9,204,867
0053	Data processing services	16,751,523	-	2,285,296	857,681	19,894,500
0061	Community services	4,404,619	-	-	11,496,722	15,901,341
0071	Principal on long-term debt	289,052	152,633	-	-	441,685
0072	Interest on long-term debt	82,968	17,954,056	-	-	18,037,024
0073	Bond issuance costs and fees	-	601,922	-	-	601,922
0081	Capital outlay	1,957,830	-	72,107,920	923,911	74,989,661
0091	Contracted instructional services between schools	266,073,630	-	-	-	266,073,630
0093	Payments related to shared services arrangements	2,701,947	-	-	-	2,701,947
0099	Other intergovernmental charges	5,721,415	-	-	-	5,721,415
6030	Total expenditures	928,283,780	18,708,611	78,310,874	109,637,714	1,134,940,979
1100	Excess (deficiency) of revenues over (under) expenditures	84,523,506	89,501,324	(78,243,887)	899,146	96,680,089
	Other Financing Sources and (Uses)					
7911	Capital-related debt issued (regular bonds)	-	24,078,000	-	-	24,078,000
7912	Sales of real or personal property	20,584	-	-	-	20,584
7915	Transfers in	-	-	24,078,000	-	24,078,000
8911	Transfers out	(10,000,000)	(24,078,000)	-	-	(34,078,000)
7080	Total other financing sources and (uses)	(9,979,416)	-	24,078,000	-	14,098,584
1200	Net change in fund balances	74,544,090	89,501,324	(54,165,887)	899,146	110,778,673
0100	Fund balances at beginning of period	217,722,928	48,169,616	(37,043,645)	7,755,730	236,604,629
3000	Fund balances at end of period	$ 292,267,018	$ 137,670,940	$ (91,209,532)	$ 8,654,876	$ 347,383,302

The accompanying notes are an integral part of this statement.

Austin Independent School District

Exhibit C-4
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities

Ten Month Period Ended June 30, 2016

Net change in fund balances – total Governmental Funds	$ 110,778,673
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay ($63,542,509) exceeded depreciation expense ($50,749,522) and net asset removal ($66,045) in the current period.	12,726,942
Bond and noncurrent loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond and noncurrent loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which repayments of principal and loan principal ($441,686) were exceeded by debt and loan proceeds ($24,078,000).	(23,636,314)
Governmental funds report the effect of premiums when the debt is first issued whereas these amounts are deferred and amortized over the life of the bonds in the statement of activities. This is the amount by which the current year bond premium ($0) was exceeded by amortization ($4,648,145).	4,648,145
The amount of interest which is accrued, but not yet paid, for bond payments due in August is not recognized in the governmental funds. This is the net change in amount of interest payable.	(12,159,869)
Losses on refundings are not reported in the governmental funds, but are amortized over the life of the debt in the statement of activities. This is the amount of net change in the deferred loss on refunding between 2016 and 2015.	(481,600)
Delinquent property taxes do not provide current financial resources in the funds, and as such, are recognized as unearned revenue in the governmental funds. This is the net change between 2016 and 2015, as well as amounts from 2015 received and earned in 2016.	1,668,779
The revenues and expenses of the Internal Service Fund are distributed in the statement of activities and are not considered a governmental fund. The difference is the amount of net loss ($9,952,468), plus transfers in ($10,000,000).	47,532
Costs associated with the accrual of vacation leave are recognized as expenditures in the governmental funds when matured. This is the amount of net change in the vacation accrual between 2016 and 2015.	(199,873)
GASB Statement No. 68 requires that certain expenditures be de-expended and recorded as deferred resources. This is the amount by which pension expense ($14,092,021) and amortization of prior year deferred inflows and outflows of resources ($1,622,747) exceeded the prior year contributions ($9,123,735) and additional deferred items recognized in the current year ($5,676,768).	(914,265)
Change in net position of governmental activities – statement of activities	$ 92,478,150

The accompanying notes are an integral part of this statement.

Austin Independent School District

Exhibit D-1
Statement of Net Position – Proprietary Funds

June 30, 2016

Data Control Codes			Governmental Activities – Internal Service Fund
	Assets		
	Current assets:		
	Cash and cash equivalents	$	628,160
	Temporary investments		25,047,675
	Due from other funds		796,994
	Other receivable		120
	Inventories		75,664
	Total current assets		26,548,613
1000	**Total assets**	$	26,548,613
	Liabilities		
	Current liabilities:		
	Accounts payable	$	33,476
	Accrued expenditures		9,480
	Due to other funds		3,076
	Claims payable – due within one year		10,512,872
	Total current liabilities		10,558,904
	Noncurrent liabilities:		
	Claims payable – due in more than one year		3,561,100
2000	**Total liabilities**		14,120,004
	Unrestricted net position		12,428,609
3000	**Total net position**	$	12,428,609

The accompanying notes are an integral part of this statement.

Austin Independent School District

Exhibit D-2
Statement of Revenues, Expenses, and Changes in Net Position –
Proprietary Funds

Ten Month Period Ended June 30, 2016

Data Control Codes		Governmental Activities – Internal Service Fund
	Operating Revenues	
5700	Local and intermediate sources	$ 62,809,527
	Total revenues	62,809,527
	Operating Expenses	
6400	Other operating expenses	72,836,390
6030	**Total expenses**	72,836,390
	Operating loss	(10,026,863)
	Nonoperating Revenues	
	Investment earnings and other	74,395
	Total nonoperating revenues	74,395
	Loss before transfers	(9,952,468)
7915	Transfers in	10,000,000
	Change in net position	47,532
0100	Net position at beginning of period	12,381,077
3300	Net position at end of period	$ 12,428,609

The accompanying notes are an integral part of this statement.

Austin Independent School District

Exhibit D-3
Statement of Cash Flows – Proprietary Funds

Ten Month Period Ended June 30, 2016

	Governmental Activities – Internal Service Fund
Cash Flows From Operating Activities	
Payments to suppliers	$ (4,219,206)
Payments to employee salaries and benefits	(1,396,687)
Payments from other funds	64,690,980
Claims paid	(66,916,188)
Net cash used in operating activities	(7,841,101)
Cash Flows From Noncapital Financing	
Transfers from other funds	10,000,000
Net cash provided by noncapital financing	10,000,000
Cash Flows From Investing Activities	
Proceeds from sales and maturities of investments	62,247,193
Outlays for purchase of investments	(64,379,282)
Interest income	74,395
Net cash used in investing activities	(2,057,694)
Net increase in cash and cash equivalents	101,205
Cash and cash equivalents at beginning of period	526,955
Cash and cash equivalents at end of period	$ 628,160
Reconciliation of Operating Loss to Net Cash Used In Operating Activities	
Operating loss	$ (10,026,863)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Changes in:	
Decrease in due from other funds	4,790,300
Decrease in inventory	12,301
Decrease in other assets	212,920
Decrease in accounts payable and accrued expenditures	(603,413)
Decrease in due to other funds	(2,908,847)
Increase in claims payable	682,501
Net cash used in operating activities	$ (7,841,101)

The accompanying notes are an integral part of this statement.

Austin Independent School District

Exhibit E-1
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds

June 30, 2016

Data Control Codes		Agency Funds
	Assets	
1110	Cash and cash equivalents	$ 6,401,857
	Temporary investments	6,733,888
	Due from other funds	5,201
	Other receivables	17,263
1000	**Total assets**	$ 13,158,209
	Liabilities	
	Accounts payable	$ 585,964
	Due to other governments	3,486,348
	Due to other funds	734,055
2190	Due to student groups	8,335,562
	Other liabilities	16,280
2000	**Total liabilities**	$ 13,158,209

The accompanying notes are an integral part of this statement.

1. Reporting Entity

This report includes the financial statements of the funds required to account for those activities, organizations, and functions which are related to the Austin Independent School District (the "District") and which are controlled by or dependent upon the District's governing body, the Board of Trustees (the "Board"). The Board, a nine-member group as a body corporate, has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the State Board of Education are reserved for the Board, and TEA may not substitute its judgment for the lawful exercise of those powers and duties of the Board.

The District receives funding from local, state, and federal government sources and must comply with the applicable requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity," as defined by the Governmental Accounting Standards Board's ("GASB") *Codification of Governmental Accounting and Financial Reporting Standards*, since Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters. There are no component units with the reporting entity. The District is a governmental entity exempt from federal income taxation under Internal Revenue Code Section 115.

House Bill 98 enacted by the 76th Legislature of the state of Texas allowed school districts to change their fiscal year-end from August 31 to June 30 beginning with the 2001-2002 fiscal year. The District elected to take advantage of this opportunity and chose to change its fiscal year beginning with the 2015-2016 reporting period. As such, the financial statements are presented for a ten-month period of September 1, 2015 through June 30, 2016.

2. Government-Wide and Fund Financial Statements

The government-wide financial statements consist of the statement of net position and the statement of activities. These statements report information on all nonfiduciary activities of the District. The effect of the interfund activity has been removed from these statements. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Program revenues include charges to customers and grants used for operational requirements. Governmental activities are supported by tax revenues, state aid, charges for services, investment earnings, and intergovernmental revenues such as grants.

Direct expenses are those that are clearly identifiable with a specific function. All capital asset depreciation, other than depreciation of the District's central administration building, is reported as a direct expense of the functional program that benefits from the use of the capital assets. Depreciation expense related to the District's central administrative building is reported as unallocated in the statement of activities. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

2. Government-Wide and Fund Financial Statements (continued)

The fund financial statements provide information about the District's funds, with separate statements for Governmental Funds, Proprietary Funds, and Fiduciary Funds even though the latter are excluded from the government-wide financial statements. Major individual Governmental Funds are reported as separate columns in the fund financial statements.

3. Summary of Significant Accounting Policies

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), as applied to governmental units in conjunction with TEA's *Financial Accountability System Resource Guide* ("FAR"). GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to, and accounted for the purpose of, carrying on specific activities in accordance with laws, regulations, or other appropriate requirements.

Governmental Fund Types

The District reports the following major Governmental Funds:

The General Fund is the fund that accounts for financial resources in use for general types of operations. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. This is a budgeted fund, and any fund balances are considered as resources available for current operations. Fund balances may be appropriated by the Board to implement its responsibilities.

The Debt Service Fund is the fund that accounts for the use of debt service taxes and other revenues collected for the purposes of retiring bond principal and paying interest on long-term general obligation debt and other long-term debt for which a tax has been dedicated. This is a budgeted fund.

The Capital Projects Fund is the fund that accounts for proceeds from sales of bonds and other revenues to be used for Board-authorized acquisition, construction, or renovations, as well as furnishing and equipping major capital facilities. Upon completion of a project, any unused bond proceeds are transferred to the Debt Service Fund and are used to retire related bond principal. This fund is budgeted on a project basis.

3. Summary of Significant Accounting Policies (continued)

A. Fund Accounting (continued)

Governmental Fund Types (continued)

Additionally, the District reports the following nonmajor funds:

The Special Revenue Funds are the funds that account for state and federally financed programs or expenditures legally restricted for specified purposes or where unused balances are returned to the grantor at the close of specified project periods. This fund type also includes the following funds which are allowed to maintain a fund balance: child care operations, food concessions, scholarships, and food service operations. The Food Service Fund is the only Special Revenue Fund that is required to be budgeted and balances are to be used exclusively for allowable child nutrition program purposes. For all other funds in this fund-type, project accounting is employed to maintain integrity for the various sources of funds.

Proprietary Fund Types

The Internal Service Fund, an unbudgeted fund, is the fund that accounts for the District's self-funding of workers' compensation claims, Campus Police, Print Shop, Laundry Services, and Health Services. Revenues are generated in the Internal Service Fund through charges to various funds of the District. Expenses result from the administration and funding of District workers' compensation and health claims and other activities of Internal Service Funds. Internal Service Funds inherently create redundancy because their expenses are recorded a second time in the funds that are billed for the services they provide. Therefore, on the government-wide financial statements, the operations of the Internal Service Funds are consolidated and interfund transactions are eliminated.

Fiduciary Fund Types

Agency Funds, unbudgeted funds, are the funds that account for activities of student groups and other types of activities requiring clearing accounts. An Agency Fund is also used to account for the District's activities as successor-in-interest of the Travis County Education District. This fund type has no equity, assets are equal to liabilities, and do not include revenues and expenditures for general operations of the District.

B. Measurement Focus

The government-wide financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund type financial statements. All Governmental Funds are accounted for on a "spending" or "financial flow" measurement focus and the modified accrual basis of accounting. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance of Governmental Funds is considered a measure of "available spendable resources." The Fiduciary Fund financial statement does not have a measurement focus.

3. Summary of Significant Accounting Policies (continued)

C. Basis of Accounting

The government-wide financial statements and Proprietary Fund and Fiduciary Fund type financial statements follow the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, state aid, and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider are met and qualifying expenditures have been incurred.

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 available and measurable). Revenues other than grants are considered to be available when they are expected to be collected during the current budgetary period, or within 60 days thereafter, to pay liabilities outstanding at the close of the budgetary period. Revenues from state and federal grants are recognized as earned when the related program expenditures are incurred and all eligibility requirements have been met, except in the Food Service Special Revenue Fund where revenue recognized is based on the number of students served. Funds received, but unearned, are reflected as unearned revenues, and funds expended, but not yet received, are shown as receivables. Interest revenue and building rentals are recorded when earned, since they are measurable and available. Other revenues such as fees, tuition, local food service revenue, and miscellaneous revenues are recognized when measurable and available.

The District reports the following types of Governmental Fund balances: committed, nonspendable, restricted, assigned, and unassigned.

- The committed fund balance consists of funds that may be used only for a specific purpose, pursuant to constraints imposed by a formal action of the District's Board. The purpose for the funds can be changed only by formal action of the District's Board.

- Nonspendable fund balances are those that are not in a spendable form.

- Restricted fund balances are those that have constraints placed on the use of their resources. These constraints can be: (a) externally imposed by creditors (i.e., debt covenants), grantors, contributors, or laws/regulations of other governments or (b) imposed by law through constitutional provision or enabling legislation. Both constraints are legally enforceable by an external party.

- Assigned fund balances are those that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Assigned fund balances do not require District Board formal action and may be specified as "intent" simply through the budgeting process that the resources from these funds be spent for specific purposes within the fund. By Board policy, the assigned fund balance may be designated by the Board or by the Board's designees, the Superintendent, or the Chief Financial Officer.

3. Summary of Significant Accounting Policies (continued)

C. Basis of Accounting (continued)

- Unassigned fund balances are those within the General Fund and represent fund balances that have not been restricted, committed, or assigned.

The District maintains a stabilization arrangement sufficiently adequate for fiscal cash liquidity purposes that will provide for sufficient cash flow to minimize the potential of short-term tax anticipation borrowing. This amount shall be equal to not less than 20% of the combined budgeted expenditures of the District's General Fund.

The stabilization arrangement balance represents balances available for appropriation at the discretion of the District's Board. However, the Board shall make every reasonable effort to use these unassigned funds for the following purposes, listed in order of priority:

1. To increase committed fund balances, as deemed necessary.

2. To increase assigned fund balances, as deemed necessary.

3. To use as beginning cash balance in support of the annual budget.

The District's Board recognizes that any such funds should be appropriated for nonrecurring expenditures, as they represent prior year surpluses that may or may not materialize in subsequent fiscal years.

When the District incurs an expenditure for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources. When expenditures are incurred for which assigned or unassigned fund balances are available, the District considers amounts to have been spent out of assigned funds and then unassigned, as needed, unless the District's Board has provided otherwise in its assignment actions.

Expenditures are recognized in the accounting period in which the fund liability is incurred, except expenditures for debt service, including unmatured interest on long-term debt and compensated absences. Expenditures for principal and interest on long-term debt and compensated absences are recognized when matured.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as program revenues include operating grants and contributions, food service user charges, and other charges. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

3. Summary of Significant Accounting Policies (continued)

C. Basis of Accounting (continued)

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Proprietary Fund's principal ongoing operations. The principal operating revenues of the District's Internal Service Funds are health and workers' compensation insurance premiums to participate in the District's self-insured health and workers' compensation programs. The principal operating expenses for the Internal Service Funds include the cost of health and workers' compensation claims and administrative charges. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Effective September 1, 2015, the District implemented GASB Statement No. 72, *Fair Value Measurement and Application* (Statement No. 72), and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* (Statement No. 79). Statement No. 72 addresses the accounting and reporting issues related to fair value measurements. Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The adoption of these standards did not have a significant impact on the District's financial statements.

D. Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand, bank deposit accounts, investments in local government investment pools, and certificates of deposit ("CDs") owned with original stated maturities of three months or less.

E. Investments

State statutes and Board policy authorize the District to invest any and all of its funds in fully collateralized CDs, direct debt securities of the United States of America or the state of Texas, other obligations the principal and interest of which are unconditionally guaranteed by the state of Texas or the United States, fully collateralized direct repurchase agreements, bankers' acceptances, local government investment pools, money market mutual funds, and other investments specifically allowed by Chapter 2256 of the Texas Government Code (the "Public Funds Investment Act") and Sections 23.80 and 20.42 of the Texas Education Code. The District participates in several local government investment pools and money market mutual funds. The District accrues interest on temporary investments based on the terms and effective interest rates of the specific investments. The District's policy is to report local government investment pools, Securities and Exchange Commission ("SEC") registered money market mutual funds, and repurchase agreements at amortized cost based on published net asset values ("NAV") per share. The District carries investments in debt securities at fair value using other observable significant inputs including but not limited to quoted prices for similar securities, interest rates, prepayment speeds, and credit risk.

3. Summary of Significant Accounting Policies (continued)

F. Due From (To) Other Funds

Interfund receivables and payables arise from interfund receipts or disbursements of cash and are recorded in all affected funds in the period in which transactions are executed in the normal course of operations.

G. Inventories

Inventory of materials and supplies are carried on the basis of the last invoice cost, which approximates first-in, first-out cost, and are subsequently charged to budgetary expenditures when consumed. Inventories include plant maintenance and operating supplies, as well as instructional materials. These inventories are offset at year-end by a nonspendable fund balance, which indicates they do not represent “available spendable resources.”

Donated commodities inventory is recorded as unearned revenue at year-end. Revenue is recognized when the commodities are distributed to the schools. Donated commodities in inventory at June 30, 2016 totaled $955,528.

H. Capital Assets

Capital assets, which include land, buildings and improvements, furniture and equipment, and construction in progress, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined 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 the donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset’s life are not capitalized.

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

Asset Class	Estimated Useful Lives
Buildings and improvements	30 years
Furniture and equipment	5-10 years
Vehicles	5-7 years
Property under capital leases	10 years
Buses	8-10 years
Computer software and equipment	3-7 years
Portable buildings	10 years

3. Summary of Significant Accounting Policies (continued)

I. Compensated Absences

The state of Texas has created a minimum sick leave program consisting of five days of personal leave per year that may be used for illness or discretionary personal leave with no limit on accumulation and transferability among districts for every eligible employee regularly employed in Texas public schools.

Each district's local Board of Education is required to establish a sick leave plan. Local school districts may provide additional sick leave beyond the state minimum. The District's policy provides six to eight additional sick leave days per year depending on the number of duty days scheduled to work during the school year.

Accumulated state leave at the end of the year remains in the employee's state personal leave account. Additional sick leave days provided by the District do not vest; therefore, at fiscal year-end, no liability exists.

Teachers do not receive paid vacation, but are paid only for the number of days they are required to work each year. All regular employees are entitled to an annual vacation. In the government-wide financial statements, the District has a liability for unused vacation pay for regular employees for all vacation earned as of June 30, 2016. The District allows unused vacation days to carry over through December 31.

J. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to employees; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

The District participates in the Texas Association of School Boards Modified Self-Funded program for its vehicle liability insurance. The District has commercial insurance for all other risks of loss, except vehicle liability insurance and workers' compensation, including employee health benefits and employee life and dental and accident insurance.

During the ten month period ended June 30, 2016, employees of the District were covered by a self-funded health insurance plan. During the 2011 plan year, the District established a self-funded health insurance program utilizing a plan provided by Blue Cross Blue Shield of Texas (BCBS). District employees had a choice of three PPO plans, one of which offered a health savings account. As of January 1, 2015 the district switched providers from BCBS to Aetna. Under the Aetna health plan, employees how have a choice of four plans, including two PPO plans and two ACO plans, one of which offers a health savings account.

Claims administration is contracted from a third-party administrator. Health benefit consultant services are contracted from an outside entity. The District maintains individual stop-loss coverage for catastrophic losses exceeding $600,000 per claim.

3. Summary of Significant Accounting Policies (continued)

J. Risk Management (continued)

The District is self-insured up to $500,000 per occurrence for losses related to workers' compensation. The District has purchased excess coverage through a commercial insurer licensed in the state of Texas.

K. Encumbrances

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance, but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at June 30 and encumbrances outstanding at that time are either cancelled or appropriately provided for in the subsequent year's budget.

Outstanding encumbrances at June 30, 2016 that were subsequently provided for in the 2017 budget as July and August amendments for Board approval totaled $29,799,999 in the General Fund, $67,191,142 in the Capital Projects Fund, and $9,682,446 in the Nonmajor Fund.

L. Fund Balance

In the Governmental Fund financial statements, unassigned fund balances indicate available amounts for the budgeting of future operations. Restricted and assigned fund balances are that portion of fund balance which is not available for appropriation, or which has been legally separated for specific purposes. Designations of fund balance as nonspendable, restricted, committed, assigned, or unassigned are the representations of management for the utilization of financial resources in future periods.

M. Data Control Totals

Data control codes refer to the account code structure prescribed by TEA in the FAR. TEA requires school districts to display these codes in the financial statements filed with the agency in order to ensure accuracy in building a statewide database for policy development and funding plans.

N. Unearned Revenue

The unearned revenue on the balance sheet of the General Fund, Debt Service Fund, and the nonmajor Governmental Funds primarily relates to donated commodity inventory, pre-payments for school lunch tickets in the child nutrition program special revenue fund, and unearned grant revenues.

3. Summary of Significant Accounting Policies (continued)

O. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

P. Use of Estimates

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

Q. Prepaid Wages Payable

Depending on the district calendar and timing of the end of the school year, the actual number of days most employees work in June is less than 30. In order for these employees' pay streams to be unaffected, most of which are teachers, they are still paid one-twelfth of their yearly contract amount in June, thus creating a "prepaid" in wages payable at June 30, which is classified in Data Control Code 1410 – prepaids and other assets.

R. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the Statement of Net Position includes separate sections for deferred outflows/inflows of resources. These separate financial statement elements represent a consumption/ acquisition of net position that applies to a future period(s) and will not be recognized as an outflow/inflow of resources (expense/revenue) until that time. Governments are only permitted to report deferred outflows/ inflows of resources in circumstances specifically authorized by the GASB. Typical deferred outflows/inflows of resources for school districts relate to pensions and deferred charges on refunded debt.

The deferred inflows of resources on the balance sheet of the General Fund and Debt Service Fund primarily relates to uncollected property taxes, less the allowance for doubtful accounts.

S. Deferred Resources Related to Pensions

The fiduciary net position of the Teachers 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.

4. Deposits and Investments

Deposits

The District's policies and state law require the District's funds to be deposited under the terms of a depository contract, the terms of which are set out in depository contract law. The depository bank may either place approved pledged securities for safekeeping with the District's agent or file a corporate surety bond in an amount greater than or equal to the District's deposits. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation ("FDIC") coverage.

At June 30, 2016, all District deposits were with the contracted depository bank in accounts which were secured at the balance sheet date by FDIC coverage and by pledged securities, as approved by the School Depository Act, held by the District's agent, Bank of New York Mellon, in the name of the District.

At June 30, 2016, the District had a general ledger balance of ($9,673,872), excluding student activity fund balances of $6,401,857, due to outstanding checks, while the total of bank balances equaled $13,001,562. Of the bank balances, $500,000 is covered by federal depository insurance, and the remainder was covered by $12,501,562 of collateral pledged in the District's name.

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

1. Name of bank: Bank of New York Mellon

2. The amount of bond and/or security pledged as of the date of the highest combined balance on deposit was $34,863,636.

3. The largest deposit combined account balance amounted to $35,363,636 and occurred during the month of December 2015.

4. Total amount of FDIC coverage at the time of the largest combined balance was $500,000.

4. Deposits and Investments (continued)

Investments

The District's temporary investments, including restricted assets, at June 30, 2016 are as follows:

	June 30, 2016	Level 1	Level 2	Level 3
Investments by fair value level:				
Debt securities				
U.S. Treasuries and agencies	$ 14,855,938	$ -	$ 14,855,938	$ -
Total debt securities	14,855,938	-	14,855,938	-
Total investments by fair value level	$ 14,855,938			
Investments measured at net asset value ("NAV"):				
LoneStar	$ 252,441,450			
Texas Term	254,009,486			
TexPool	87,091,498			
TexStar	54,346,046			
Total investments measured at NAV	647,888,480			
Total investments measured at fair value	$ 662,744,418			
Investments measured at amortized cost:				
Money market funds	$ 543,272			
Certificates of deposit	1,006,257			
Savings accounts	148,357			
Total investments	$ 664,442,304			

Debt securities classified as Level 2 of the fair value hierarchy are valued using other observable significant inputs including but not limited to quoted prices for similar securities, interest rates, prepayment speeds, and credit risk. Investments in local investment pools are measured at NAV per share determined by the pool. The investments held by the local investment pools are measured at amortized cost.

Investment Objectives

The primary objective of the District's investment activity is to provide the highest reasonable market return with the maximum security, while meeting daily cash flow requirements and conforming to all applicable state laws.

The District's investment policy contains investment strategies for each accounting fund of the District. The investment portfolio shall be diversified to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issue, a specific class of securities, or a specific institution.

4. Deposits and Investments (continued)

Credit Risk

As of June 30, 2016, the District's investment in U.S. Government securities were rated AA+ by Standard & Poor's.

Interest Rate Risk

As a means of limiting the exposure to fair value losses that could occur from rising interest rates, the District's investment policy limits the maturity of investments to no longer than one year, except for the Capital Projects Fund, which is one and one-half years. The District's General Fund did not hold U.S. Government Treasury Bills or agency securities at June 30, 2016. The District's Debt Service Fund holds $14,855,938 in U.S. Government Treasury and agency securities at June 30, 2016, all of which mature in more than one year.

Texas Local Government Investment Pool

Texas Local Government Investment Pool ("TexPool") is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed both of participants in TexPool and of other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, TexPool is rated AAAm by Standard & Poor's.

Although TexPool is not registered with the SEC as an investment company, the District believes it meets the requirements of GASB Statement No. 79, and as such, measures its investments at amortized cost. The district, as a participant in the local investment pools, measures its investment in the pool at NAV per share determined by the pool.

Lone Star Investment Pool

The Lone Star Investment Pool ("Lone Star") is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Chapter 791, of the Texas Government Code, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. Lone Star is managed by an 11-member board of trustees and, pursuant to the investment agreement, the board of trustees is authorized and directed to adopt and maintain bylaws consistent with the bylaws of the Texas School Cash Management Program. Pursuant to Section 2256.016(g) of the Public Funds Investment Act, Lone Star has established an advisory board. The purpose of the advisory board is to gather and exchange information from participants and nonparticipants relating to Lone Star's operations. The Board has entered into an agreement with the Texas Association of School Boards ("TASB"), a Texas nonprofit corporation, pursuant to which TASB serves as administrator of Lone Star's operations. Standard & Poor's rates money market funds and has rated Lone Star as AAA.

4. Deposits and Investments (continued)

Lone Star Lone Star Investment Pool (continued)

Although Lone Star is not registered with the SEC as an investment company, the District believes it meets the requirements of GASB Statement No. 79, and as such, measures its investments at amortized cost. The district, as a participant in the local investment pools, measures its investment in the pool at NAV per share determined by the pool.

TexasTERM (TexasDAILY) Investment Pool

TexasDAILY is a public funds investment pool established by the TexasTERM Local Government Investment Pool ("TexasTERM") advisory board, pursuant to provisions of the TexasTERM Common Investment Contract that established the TexasTERM Local Government Investment Pool and the series known as TexasDAILY. TexasDAILY was organized in conformity with the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. An advisory board, composed of participants and nonparticipant members elected by the participant shareholders of TexasTERM, is responsible for the overall management of TexasTERM, including formulation and implementation of its investment and operating policies. In addition, the advisory board members select and oversee the activities of the investment advisor and custodian of TexasTERM and monitor investment performance and the method of valuing the shares. The investment advisor and administrator for TexasDAILY is PFM Asset Management, LLC. TexasTERM and TexasDAILY are rated AAAm by Standard & Poor's.

Although TexasTERM is not registered with the SEC as an investment company, the District believes it meets the requirements of GASB Statement No. 79, and as such, measures its investments at amortized cost. The district, as a participant in the local investment pools, measures its investment in the pool at NAV per share determined by the pool.

TexSTAR Investment Pool

TexSTAR is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, of the Texas Government Code, and the Public Funds Investment Act, chapter 2256, of the Texas Government Code. The pool was created through a contract among its participating governmental units, and is governed by a board of directors to provide for the joint investment of participants' public funds and funds under their control. TexSTAR is managed by J.P. Morgan Investment Management, Inc., an affiliate of JPMorgan Chase Bank, N.A. a national banking association, and First Southwest Asset Management, Inc., an affiliate of Texas based First Southwest Company. TexSTAR's investment manager will maintain the dollar-weighted average maturity of sixty (60) days or less, and the maximum stated maturity for any obligation of the United States, its agencies, or instrumentalities is limited to 397 days for fixed rate securities and 24 months for variable rate notes. TexSTAR is rated AAAm by Standard and Poor's.

4. Deposits and Investments (continued)

TexSTAR Investment Pool (continued)

Although TexSTAR is not registered with the SEC as an investment company, the District believes it meets the requirements of GASB Statement No. 79, and as such, measures its investments at amortized cost. The district, as a participant in the local investment pools, measures its investment in the pool at NAV per share determined by the pool.

5. Property Taxes

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

The final assessed value at January 1, 2015, upon which the October 2015 levy was based, was $89,259,003,447.

The tax rates assessed for the ten month period ended June 30, 2016 to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were $1.079 and $0.123 per $100 valuation, respectively, for a total of $1.202 per $100 of assessed valuation.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectibles within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written-off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

As of June 30, 2016, property taxes receivable, net of estimated uncollectible taxes, totaled $8,974,120 and $1,090,138 for the General and Debt Service Funds, respectively.

6. Receivables From Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the state through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of June 30, 2016 for the District's major fund and nonmajor funds are summarized below. All federal grants shown below are passed through TEA and are reported in the basic financial statements as receivable from other governments.

Fund	Local Entities	State Grants and Other	Federal Grants	Total
General Fund	$ -	$ 4,909,232	$ -	$ 4,909,232
Nonmajor fund	1,761,464	15,207,011	187,758	17,156,233
	$ 1,761,464	$ 20,116,243	$ 187,758	$ 22,065,465

7. Changes in Capital Assets

The following summarizes the change in capital assets for the ten month period ended June 30, 2016:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 70,679,124	$ 18,978	$ -	$ 70,698,102
Construction in progress	76,228,054	62,547,030	(71,497,633)	67,277,451
Total capital assets not being depreciated	146,907,178	62,566,008	(71,497,633)	137,975,553
Capital assets being depreciated:				
Buildings and improvements	1,472,115,084	59,786,555	-	1,531,901,639
Furniture and equipment	95,066,629	12,687,579	(3,374,220)	104,379,988
Total capital assets being depreciated	1,567,181,713	72,474,134	(3,374,220)	1,636,281,627
Less accumulated depreciation for:				
Buildings and improvements	(689,655,433)	(45,475,615)	-	(735,131,048)
Furniture and equipment	(71,826,448)	(5,273,907)	3,308,175	(73,792,180)
Total accumulated depreciation	(761,481,881)	(50,749,522)	3,308,175	(808,923,228)
Total capital assets being depreciated – net	805,699,832	21,724,612	(66,045)	827,358,399
Governmental activities capital assets – net	$ 952,607,010	$ 84,290,620	$ (71,563,678)	$ 965,333,952

7. Changes in Capital Assets (continued)

Depreciation expense for the ten month period ended June 30, 2016 was charged to functions/programs of primary government activities as follows:

Instruction	$ 33,414,319
Instructional resources and media services	2,247,667
Curriculum and staff development	892
Instructional leadership	11,815
School leadership	2,338,866
Guidance, counseling, and evaluation services	247,060
Health services	82,033
Student (pupil) transportation	2,491,039
Food services	3,155,151
Curricular/extracurricular activities	2,383,035
General administration	8,875
Plant maintenance and operations	1,634,112
Security and monitoring services	159,421
Data processing services	849,624
Community services	33,540
Facilities acquisition and construction	763,623
Depreciation – exclusive of functional amounts	928,450
	$ 50,749,522

8. Long-Term Obligations

Long-term obligations include par bonds and loans, leases, self-insurance claims payable, and net pension liability. At June 30, 2016, the District's debt limitation under local policies, which represents 10.0% of the District's total assessed property value for school tax purposes, is $89,259,003,447, and the District's legal debt margin is 0.9%.

The following is a summary of changes in long-term obligations (including general obligation bonds, loans, self-insurance claims payable, and net pension liability) for the ten month period ended June 30, 2016:

	Bonds Payable	Loans Payable	Self-Insurance Claims Payable	Net Pension Liability
Balance – as reported at August 31, 2015	$ 856,887,935	$ 3,624,351	$ 13,391,471	$ 102,327,301
Current year claims and/or changes in estimates	-	-	68,281,190	-
Bond issuances	24,078,000	-	-	-
Retirements	(152,633)	(289,053)	-	-
Claim payments	-	-	(67,598,689)	-
Amortized bond premium	(4,648,145)	-	-	-
Additions – net pension expense	-	-	-	14,092,021
Reductions – net deferred resources	-	-	-	1,622,747
Reductions – prior year contributions	-	-	-	(9,123,735)
Balance at June 30, 2016	$ 876,165,157	$ 3,335,298	$ 14,073,972	$ 108,918,334
Amount due within one year	$ 72,412,617	$ 395,323	$ 10,512,872	$ -

The District primarily liquidates debt through the Debt Service Fund. Self-insurance liabilities are liquidated through the Internal Service Fund. The net pension liability will be liquidated in future years by the General Fund.

8. Long-Term Obligations (continued)

The following is a summary of the interest rates and original issue amounts for the District's long-term debt as of June 30, 2016:

Description	Interest Rate Payable	Amounts Original Issue
Bonded indebtedness:		
1998 Unlimited Tax Refunding Bonds	3.10-5.00%	$ 130,397,389
2002 Unlimited Tax School Qualified Zone Academy Bonds	4.11%	5,082,652
2004 Unlimited Tax Refunding Building Bonds	5.00-5.25%	111,935,000
2005B Unlimited Tax School Qualified Zone Academy Bonds	3.01%	4,491,923
2006 Unlimited Tax Refunding Bonds	5.00-5.25%	54,375,000
2006 Unlimited Tax School Qualified Zone Academy Bonds	2.69%	6,408,071
2006A Unlimited Tax Refunding Building Bonds	4.00-5.00%	90,000,000
2006B Unlimited Tax Refunding Bonds	4.00-5.00%	31,460,000
2007 Unlimited Tax Refunding Bonds	3.00-5.00%	135,000,000
2008 Unlimited Tax School Qualified Zone Academy Bonds	0.00%	2,442,131
2008 Unlimited Tax Refunding Bonds	4.00-5.25%	100,000,000
2009 Unlimited Tax Refunding Bonds	2.00-5.00%	99,495,000
2010A Unlimited Tax Refunding Bonds	2.50-5.00%	25,165,000
2010B Unlimited Tax Refunding Bonds	3.68-5.24%	58,315,000
2011 Unlimited Tax Refunding Bonds	2.00-5.00%	91,625,000
2013A Unlimited Tax Refunding Bonds	1.50-5.50%	101,100,000
2013B Unlimited Tax Refunding Bonds	0.443-2.333%	8,555,000
2014A Unlimited Tax Refunding Bonds	2.00-5.00%	54,815,000
2014B Unlimited Tax Refunding Bonds	5.00%	89,595,000
2015A Unlimited Tax Refunding Bonds	3.15-5.00%	63,110,000
2015B Unlimited Tax Refunding Bonds	5.00%	87,295,000
2015 Unlimited Tax Qualified School Construction Bonds	4.85%	24,078,000
		$ 1,374,740,166

8. Long-Term Obligations (continued)

Description	Amounts Outstanding August 31, 2015	Additions Current Year	Retired Current Year	Amounts Outstanding June 30, 2016
Bonded indebtedness:				
Building bonds:				
1998 Unlimited Tax Refunding	$ 18,720,000	$ -	$ -	$ 18,720,000
2002 Unlimited Tax School Qualified Zone Academy	5,082,652	-	-	5,082,652
2004 Unlimited Tax Refunding	18,230,000	-	-	18,230,000
2005B Unlimited Tax School Qualified Zone Academy	4,491,923	-	-	4,491,923
2006 Unlimited Tax Refunding	7,130,000	-	-	7,130,000
2006 Unlimited Tax School Qualified Zone Academy	6,408,071	-	-	6,408,071
2006A Unlimited Tax Refunding	3,400,000	-	-	3,400,000
2006B Unlimited Tax Refunding	24,185,000	-	-	24,185,000
2007 Unlimited Tax Refunding	24,885,000	-	-	24,885,000
2008 Unlimited Tax School Qualified Zone Academy	1,373,700	-	(152,633)	1,221,067
2008 Unlimited Tax Refunding	45,380,000	-	-	45,380,000
2009 Unlimited Tax Refunding	81,170,000	-	-	81,170,000
2010 Unlimited Tax Refunding	70,640,000	-	-	70,640,000
2011 Unlimited Tax Refunding	82,315,000	-	-	82,315,000
2013A Unlimited Tax Refunding	99,365,000	-	-	99,365,000
2013B Unlimited Tax Refunding	8,250,000	-	-	8,250,000
2014A Unlimited Tax Refunding	49,965,000	-	-	49,965,000
2014B Unlimited Tax Refunding	89,595,000	-	-	89,595,000
2015A Unlimited Tax Refunding	63,110,000	-	-	63,110,000
2015B Unlimited Tax Refunding	87,295,000	-	-	87,295,000
2015 Unlimited Tax Qualified School Construction Bonds	-	24,078,000	-	24,078,000
Bond premium	65,896,589	-	(4,648,145)	61,248,444
Total bond indebtedness	$ 856,887,935	$ 24,078,000	$ (4,800,778)	$ 876,165,157

8. Long-Term Obligations (continued)

Presented below is a summary of general obligation bonds requirements to maturity:

	Principal	Interest	Total
Year ending June 30,			
2017	$ 72,412,617	$ 34,781,521	$ 107,194,138
2018	48,739,965	32,211,962	80,951,927
2019	41,354,965	30,401,521	71,756,486
2020	36,711,888	28,939,806	65,651,694
2021	37,518,036	27,557,358	65,075,394
2022-2026	191,654,562	115,231,711	306,886,273
2027-2031	200,349,680	71,278,544	271,628,224
2032-2036	160,995,000	23,235,006	184,230,006
2037-2041	25,180,000	1,569,501	26,749,501
	$ 814,916,713	$ 365,206,930	$ 1,180,123,643

In fiscal year 2016, the District issued one new series of bonded indebtedness as follows:

- The District entered into a contract, which was approved by the Board on September 28, 2015, to issue $24,078,000 of Unlimited Tax Qualified School Construction Bonds, Series 2015 and delivered such bonds on November 9, 2015. The District used the $24,078,000 to pay for costs of the construction or rehabilitation of public school facilities and the acquisition of land and equipment.

In prior years, the District legally defeased certain bonds by placing the proceeds of new bond issues in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the legally defeased bonds are no longer reported in the District's financial statements. There are no bonds defeased in-substance as of June 30, 2016.

There are a number of limitations and restrictions contained in the District's general obligation bond indenture. Management of the District believes it is in compliance with all significant limitations and restrictions at June 30, 2016.

8. Long-Term Obligations (continued)

The District entered into a loan agreement in March 2012 with the State Energy Conservation Office – General Services Commission. The District will repay the loan amount, plus interest at 2%. The loan will be repaid as follows:

Fiscal Year	Principal	Interest	Total
2017	$ 34,281	$ 1,484	$ 35,765
2018	34,972	793	35,765
2019	16,450	132	16,582
	$ 85,703	$ 2,409	$ 88,112

The District entered into a loan agreement in April 2012 with the State Energy Conservation Office – General Services Commission. The District will repay the loan amount, plus interest at 3%. The loan will be repaid as follows:

Fiscal Year	Principal	Interest	Total
2017	$ 361,042	$ 99,222	$ 460,264
2018	371,996	88,268	460,264
2019	383,282	76,982	460,264
2020	394,910	65,354	460,264
2021	406,891	53,372	460,263
2022-2015	1,331,474	86,246	1,417,720
	$ 3,249,595	$ 469,444	$ 3,719,039

During fiscal year 2016, interest expense and cash paid for interest totaled $18,037,024.

9. Interfund Receivables and Payables

Interfund balances occur when one fund pays or receives resources for another fund. Interfund balances at June 30, 2016 consisted of the following fund receivables and payables:

	Due From	Due To
Major Fund – General:		
Capital Projects	$ 5,073,809	$ 78,340
Nonmajor	9,968,101	3,470
Fiduciary	-	36
Total General Fund	15,041,910	81,846
Major Fund – Debt Service:		
Capital Projects	-	130,640
Nonmajor	34,206	-
Total Debt Service Fund	34,206	130,640
Major Fund – Capital Projects:		
General	78,340	5,073,809
Debt Service	130,640	-
Total Capital Projects Fund	208,980	5,073,809
Nonmajor Funds:		
General	3,470	9,968,101
Debt Service	-	34,206
Nonmajor	482	482
Internal Service	3,076	77,425
Fiduciary	9,321	-
Total Nonmajor Funds	16,349	10,080,214
Internal Service Fund:		
Nonmajor	77,425	3,076
Fiduciary	719,569	-
Total Internal Service Fund	796,994	3,076
Fiduciary Funds:		
General	36	-
Nonmajor	-	9,321
Internal Service	-	719,569
Fiduciary	5,165	5,165
Total Fiduciary Funds	5,201	734,055
Total all funds	$ 16,103,640	$ 16,103,640

During the year, the Debt Service Fund transferred $24,078,000 to the Capital Projects Fund to pay for the costs of the construction or rehabilitation of public school facilities and the acquisition of land and equipment. During the year, the General Fund transferred $10,000,000 to a non-major Internal Service Fund to partially fund health care costs.

10. Commitments and Contingencies

At June 30, 2016, the District is committed under contracts in the amount of approximately $11 million. The commitments are for remaining work on various construction projects. These commitments are payable from the Capital Projects Fund.

The District participates in a number of federal financial assistance programs. Although the District's grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments and Subpart F of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principals, and Audit Requirements for Federal Awards* through June 30, 2016, these programs are still subject to financial and compliance audits and resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

The District leases certain building facilities and equipment on a year-to-year basis. Total rent expenditures for the ten month period ended June 30, 2016 was $3,498,039. These leases are considered for accounting purposes to be operating leases.

The District has been named in several civil lawsuits. The outcome of these pending cases cannot presently be determined; however, the District plans to vigorously contest each action. In the opinion of management, disposition of these lawsuits will have no material adverse effect on the financial position of the District.

The Travis County Central Appraisal District is a defendant in various lawsuits involving the property values assigned to property located within the District's boundaries on which the District assesses property taxes. Assessed values of property values under suit are as follows:

Tax Year	Property Value
2004	$ 1,241,301
2007	2,477,500
2008	22,317,448
2009	127,826,552
2010	51,556,038
2011	54,008,960
2012	214,326,346
2013	795,341,627
2014	2,231,902,164
2015	8,360,387,276
	$ 11,861,385,212

The District could be required to refund property taxes paid on values which were greater than the ultimate final assessed valuation assigned by the court. Such lawsuits could continue several years into the future.

11. Defined Benefit Pension Plan

A. Plan Description

The 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). It is a defined benefit pension plan established and administered in accordance with the Texas Constitution, Article XVI, Section 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.

B. 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 (CAFR) that includes financial statements and required supplementary information. That report may be obtained by calling (512) 542-6592, on the Internet at http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR; or by writing to TRS at 1000 Red River Street, Austin, Texas, 78701-2698.

C. Benefits Provided

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

11. Defined Benefit Pension Plan (continued)

D. 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 contribution rates for fiscal years 2016 and 2017.

	2016	2015
Member	**7.2%**	6.7%
Non-Employer Contributing Entity (State) ("NECE")	**6.8%**	6.8%
Employers	**6.8%**	6.8%
District's 2015 employer contributions		$ 9,123,735
District's 2015 member contributions		$ 29,509,142
District's 2015 NECE contributions		$ 27,642,692

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

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

11. Defined Benefit Pension Plan (continued)

D. Contributions (continued)

Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

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

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

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

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

In addition to the employer contributions listed above, 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 or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance ("OASDI") Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

11. Defined Benefit Pension Plan (continued)

E. 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
Discount Rate	8.00%
Long-Term Expected Investment Rate of Return	8.00%
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 primarily based on a study of actual experience for the four year period ending August 31, 2014 and adopted on September 24, 2015.

F. 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%. 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.

11. Defined Benefit Pension Plan (continued)

F. Discount Rate (continued)

Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2015 are summarized below:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution 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%
Stable Value Hedge Funds	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 Expectation	0%	0.0%	2.2%
Alpha	0%	0.0%	1.0%
Total	100%		8.7%

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

11. Defined Benefit Pension Plan (continued)

G. 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%)
District's proportionate share of the net pension liability	$ 170,654,500	$ 108,918,334	$ 57,495,944

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

At June 30, 2016, the District reported a liability of $108,918,334 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	$ 108,918,334
State's proportionate share that is associated with the District	329,898,170
Total	$ 438,816,504

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 through August 31, 2015.

At August 31, 2015 the employer's proportion of the collective net pension liability was 0.308126% which was a decrease of 19.57% from its proportion measured as of August 31, 2014.

11. Defined Benefit Pension Plan (continued)

H. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

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 table 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.

11. Defined Benefit Pension Plan (continued)

H. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

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 affect measurement of the total pension liability during the measurement period.

During the measurement period ended August 31, 2015, the District recognized pension expense of $47,005,180 and revenue of $47,005,180 for support provided by the State.

As of the measurement date of August 31, 2015, the 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 Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual economic experience	$ 1,316,134	$ 4,185,829
Changes in actuarial assumptions	5,531,739	3,885,729
Difference between projected and actual investment earnings	26,824,160	23,456,552
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	-	17,152,163
Contributions paid to TRS subsequent to the measurement date	6,820,214	-
Total	$ 40,492,247	$ 48,680,273

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:

	Pension Expense Amount
Year ending June 30:	
2017	$ (4,000,612)
2018	(4,000,612)
2019	(4,000,612)
2020	3,818,239
2021	(2,969,865)
Thereafter	(3,854,778)

12. Health Care Coverage

A. Health Insurance Plan

During the ten month period ended June 30, 2016, employees of the District were covered by a self-funded health insurance plan. During the 2011 plan year, the District established a self-funded health insurance program utilizing a plan provided by Blue Cross Blue Shield of Texas ("BCBS"). As of January 1, 2015 the district switched providers from BCBS to Aetna. Under the Aetna health plan, employees have a choice of four plans, including two PPO plans and two ACO plans, one of which offers a health savings account.

Claims administration is contracted from a third-party administrator. Health benefit consultant services are contracted from an outside entity. The District maintains individual stop-loss coverage for catastrophic losses exceeding $600,000 per claim.

Under Aetna, the District contributed $446 per month, per employee to the plans. All contributions were paid to licensed insurers. The contracts between the District and the licensed insurer provide terms of coverage and contribution costs.

The latest financial statements for the insurance company, available for the year ended December 31, 2015, are filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

B. Medicare Part D

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which became effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program ("TRS-Care") to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments must be recognized as equal revenues and expenditures/expenses by the District. These payments totaled $2,145,399, $2,191,939, and $1,416,537, for fiscal years 2016, 2015, and 2014, respectively.

The Early Retiree Reinsurance Program ("ERRP") is a provision of the Patient Protection and Affordable Care Act ("PPACA") and provides reimbursement to plan sponsors for a portion of the cost of providing health benefits to retirees between the ages of 55-64 and their covered dependents regardless of age. An "early retiree" is defined as a plan participant aged 55-64 who is not eligible for Medicare and is not covered by an active employee of the plan sponsor.

12. Health Care Coverage (continued)

B. Medicare Part D (continued)

This temporary program is available to help employers continue to provide coverage to early retirees. ERRP reimbursement is available on a first-come, first-served basis for qualified employers that apply and become certified for the program. TRS has been certified for this program and has received funds from the ERRP program. These funds are allocated to reporting agencies using the same basis as the Medicare Part D – On Behalf Payments. The temporary program was not available to TRS for the fiscal year ended August 31, 2015 and the ten month period ended June 30, 2016; therefore, there was no allocation required.

C. Retiree Health Plan

Plan Description

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

Funding Policy

Contribution requirements are not actuarially determined, but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2016-2014.

Contribution Rates and Amounts

	Active Member		**State**		**School District**	
Year	**Rate**	**Amount**	**Rate**	**Amount**	**Rate**	**Amount**
2016	0.65%	$ 3,256,814	1.00%	$ 406,270	0.55%	$ 2,755,766
2015	0.65%	3,515,795	1.00%	501,973	0.55%	2,974,903
2014	0.65%	3,448,239	1.00%	584,030	0.55%	2,917,741

13. Self-Insurance

The District participates in the Texas Association of School Boards Modified Self-Funded Program for its vehicle liability insurance. In connection therewith, stop-loss insurance for bodily injury over $100,000 per person, $300,000 per occurrence, and $100,000 for personal property is maintained. The District is responsible for claims up to these amounts.

The District is self-insured for workers' compensation coverage. The District contributes amounts to the Internal Service Fund based on an estimate of the ultimate cost of claims expected to be incurred each year and changes in amounts estimated in prior years. The District's retention under this program is limited to $500,000 per occurrence (all claims relating to an event are considered an occurrence). Through the Texas Association of School Boards Risk Management Fund, the District has contracted with Safety National Casualty Corporation, a commercial insurer licensed in the state of Texas, to provide the coverage per occurrence in excess of $500,000 up to the statutory limit, as described by state law.

During the ten month period ended June 30, 2016, employees of the District were covered by a self-funded health insurance plan. During the 2011 plan year, the District established a self-funded health insurance program utilizing a plan provided by Blue Cross Blue Shield of Texas. As of January 1, 2015 the District switched providers from BCBS to Aetna. Under the Aetna health plan, employees have a choice of four plans, including two PPO plans and two ACO plans, one of which offers a health savings account.

Claims administration is contracted from a third-party administrator. Health benefit consultant services are contracted from an outside entity. The District maintains individual stop-loss coverage for catastrophic losses exceeding $600,000 per claim.

Changes in workers' compensation and health insurance claims liability amounts are as follows:

	2016		2015	
	Workers' Compensation	**Health Insurance**	Workers' Compensation	Health Insurance
Beginning of the year liability	$ 6,391,471	$ 7,000,000	$ 6,414,535	$ 4,932,983
Current year claims	2,368,928	65,229,761	2,164,723	74,430,860
Changes in estimates	169,629	512,872	(23,064)	2,067,017
Claim payments	(2,368,928)	(65,229,761)	(2,164,723)	(74,430,860)
End of the year liability	$ 6,561,100	$ 7,512,872	$ 6,391,471	$ 7,000,000

The end of the year liability includes claims incurred and reported and estimated claims incurred, but not reported based on historical activity. Due to the types of risk self-insured, the ultimate amount to be paid out may be more or less than the amount accrued at June 30, 2016. The District has a contingent liability in the event the insurer is unable to fulfill its responsibility under the contract or the incurred claims exceed the amounts covered by stop-loss coverage. There have been no claim settlements exceeding the District's retention limits in the last three years.

14. Deficit Fund Balance

As of June 30, 2016, the Capital Projects Fund had a deficit fund balance of $91,209,532. The deficit fund balance resulted from capital expenditures incurred in 2013 through 2016, which were being financed by commercial paper and accounts payable on an interim basis. The District is utilizing the commercial paper program, which is more fully described in Note 15, rather than issuing a large amount of bonded indebtedness at the beginning of a construction program. The commercial paper program allows the District to issue smaller increments of short-term debt that more closely matches the size and timing of its construction expenditures and, thus, minimize the total amount of interest cost and bond issuances costs incurred on the construction program. Voters of the District approved the issuance of up to $519.5 million of bonds in an election in September 2004, the issuance of up to $343.7 million of bonds in an election in May 2008, and the issuance of up to $489.7 million of bonds in an election in May 2013. The deficit fund balance will be eliminated by future bond proceeds. As of June 30, 2016, the District has issued $508.8 million of the original $519.5 million bond authorization approved by the voters of the District in September 2004, $300.2 million of the $343.7 million bond authorization approved by voters in May 2008, and $99.1 million of the $489.7 million bond authorization approved by voters in May 2013.

15. Short-Term Debt

In June 2005, the Board approved the issuance of Austin Independent School District Commercial Paper Notes, Series A ("Commercial Paper") in an aggregate principal amount not to exceed $150,000,000 for the purpose of funding new construction and rehabilitation and renovation of existing facilities. The Commercial Paper notes mature in not more than 270 days from issuance and are supported by revolving credit agreements with Mizuho Bank, Ltd. and Sumitomo Mitsui Banking Corporation. The Commercial Paper is secured by a pledge of the proceeds of future general obligation bonds or loans issued by the District to pay the principal of the Commercial Paper or proceeds from ad valorem property taxes. As of June 30, 2016, the District had a $100 million outstanding balance of Commercial Paper. Since the beginning of the Commercial Paper Program, the District has issued approximately $831 million in bonds, using a portion of the proceeds from each of the bond issuances to partially refinance the Commercial Paper. As of June 30, 2016, $815 million of bond proceeds has been used to refinance the Commercial Paper.

Changes in the Commercial Paper are as follows:

	June 30, 2016	August 31, 2015
Beginning of the period liability	$ 20,000,000	$ -
Bonds issued	-	(70,000,000)
Commercial paper issuances	80,000,000	90,000,000
End of the period liability	$ 100,000,000	$ 20,000,000

16. Fund Balance

Designations of governmental fund balance as of June 30, 2016 were as follows:

	General Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Fund balances:					
Nonspendable:					
Inventories	$ 513,043	$ -	$ -	$ 2,546,480	$ 3,059,523
Prepaids	867,684	-	-	-	867,684
Restricted:					
Retirement of long-term debt	-	137,670,940	-	-	137,670,940
Federal and state funds grants	-	-	-	6,108,396	6,108,396
Assigned:					
Administration	470,829	-	-	-	470,829
Community services	32,767	-	-	-	32,767
Health Fund Subsidy	8,000,000				8,000,000
Instructional related	6,615,496	-	-	-	6,615,496
Instructional and school leadership related	133,006	-	-	-	133,006
Library science	108,000	-	-	-	108,000
Special projects (energy conservation and e-rate reimbursements)	6,642,119	-	-	-	6,642,119
Strategic compensation	633,370	-	-	-	633,370
Support services (nonstudent related)	1,998,335	-	-	-	1,998,335
Support services (student related)	10,000	-	-	-	10,000
Unassigned	266,242,369	-	(91,209,532)	-	175,032,837
Total fund balances	$ 292,267,018	$ 137,670,940	$ (91,209,532)	$ 8,654,876	$ 347,383,302

17. Shared Services Arrangements

The District is the fiscal agent for two shared services arrangements ("SSA"). One SSA provides deaf education services to member districts whose students are enrolled in the Regional Day School Program for the Deaf. In addition to the District, other member districts in this SSA include the Del Valle ISD. The other SSAs provide education services to member districts in the Indian Education Formula Grant Consortium. In addition to the District, other member districts in this SSA include Bastrop ISD, Leander ISD, Liberty Hill ISD, and Round Rock ISD.

The District, acting as the fiscal agent, receives monies from the granting agencies and administers the programs. The fiscal agent is responsible for employment of personnel, budgeting, accounting, and reporting. According to guidance provided in TEA's FAR, the District has accounted for the activities of the SSA in the appropriate Special Revenue Funds. Additionally, the SSA's are accounted for using the "Accounting and Reporting Treatment Guidance Section" of FAR.

According to the SSA agreements, costs incurred by the SSA's shall be divided among the member districts in proportion to the number of students each member district has attending the Regional Day School Program and/or receiving services through the Indian Education Formula Grant Consortium.

Expenditures allocated to the SSA members as of June 30, 2016 are summarized below by program:

Indian Education	All Districts	Austin ISD	Bastrop	Leander	Liberty Hill	Round Rock
Number of Students	139	91	9	20	1	18
Fund Year 285.5	$ (1,140)	$ (746)	$ (74)	$ (164)	$ (8)	$ (148)
Number of Students	66	38	10	11	-	7
Fund Year 285.6	47,978	27,624	7,269	7,996	-	5,089
Total	$ 46,838	$ 26,878	$ 7,195	$ 7,832	$ (8)	$ 4,941

17. Shared Services Arrangements (continued)

Regional Day School for the Deaf	All Districts	Austin ISD	Del Valle ISD
Number of Students	96	90	6
Fund Year			
315.6	$ 27,111	$ 25,417	$ 1,694
Discretionary Deaf	27,111	25,417	1,694
316.6	37,735	35,377	2,358
Formula Deaf	37,735	35,377	2,358
317.6	8,861	8,307	554
Preschool Deaf	8,861	8,307	554
340.6	2,849	2,671	178
Early Intervention	2,849	2,671	178
435.5	581	545	36
435.6	468,346	439,074	29,272
State Deaf	468,927	439,619	29,308
Total	$ 545,483	$ 511,391	$ 34,092

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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June 21, 2017

WE HAVE ACTED as Bond Counsel for the Austin Independent School District (the "District") in connection with an issue of bonds (the "Bonds") described as follows:

> AUSTIN INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING AND REFUNDING BONDS, SERIES 2017, dated June 21, 2017, in the aggregate principal amount of $218,960,000, maturing on August 1 in each of the years 2018 through 2037, inclusive. The Bonds are issuable in fully-registered form only, in denominations of $5,000 or integral multiples thereof, are subject to redemption, bear interest, and may be transferred and exchanged as set out in the Bonds, the order (the "Bond Order") adopted by the Board of Trustees of the District (the "Board") and the Pricing Certificate dated as of May 31, 2017 (the "Pricing Certificate" and, together with the Bond Order, the "Order") authorizing their issuance.

WE HAVE ACTED as 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 and the commercial paper notes (the "Refunded Notes") that are being refunded with a portion of the proceeds of the Bonds, as described in the Order. The transcript contains certified copies of certain proceedings of the District and US Bank Corporate Trust Services (the "Issuing and Paying Agent"); the certificate (the "Certificate") of First Southwest Company, a Division of Hilltop Securities, Inc., financial advisor to the District, which verifies the sufficiency of the deposits made with the Issuing and Paying Agent for the defeasance of the Refunded Notes; 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 and the firm banking and financial arrangements for the discharge and final payment of the Refunded Notes. We have also examined executed Bond No. T-1 of this issue.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein. Capitalized terms used herein and not otherwise defined have the meaning assigned in the Order.

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;

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

(3) The deposit with the Issuing and Paying Agent pursuant to the Order and the order authorizing the issuance of the Refunded Notes (the "Refunded Note Order") constitutes the discharge and final payment of the Refunded Notes; in reliance upon the accuracy of the calculations contained in the Certificate, the Refunded Notes, having been discharged and paid, are no longer outstanding and the lien on and pledge of ad valorem taxes and other revenues as set forth in the Refunded Note Order are appropriately and legally defeased; the holders of the Refunded Notes may obtain payment of the principal of and interest in the Refunded Notes only out of the funds provided therefor now held for that purpose by the Issuing and Paying Agent pursuant to the terms of the Order, the Refunded Note Order and the Issuing and Paying Agency Agreement for the Refunded Notes; and, therefore, the Refunded Notes are deemed to be fully paid and no longer outstanding, except for the purpose of being paid from the funds deposited with the Issuing and Paying Agent.

ALSO BASED ON OUR EXAMINATION AS DESCRIBED ABOVE, it is our further opinion that, subject to the restrictions hereinafter described, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes under existing law and is not subject to the alternative minimum tax on individuals or, except as hereinafter described, corporations. The opinion set forth in the first sentence of this paragraph is subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted in the Order to comply with each such requirement.

Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. The Code and the existing regulations, rulings and court decisions thereunder, upon which the foregoing opinions of Bond Counsel are based, are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof for federal income tax purposes.

INTEREST ON the Bonds owned by a corporation (other than an S corporation, a regulated investment company, a real estate investment trust (REIT), a real estate mortgage investment conduit (REMIC) or a financial asset securitization investment trust (FASIT)) will be included in such corporation's adjusted current earnings for purposes of calculating such corporation's alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by the Code is computed.

EXCEPT AS DESCRIBED ABOVE, we express no opinion as to any federal, state or local tax consequences under present law, or future legislation, resulting from the ownership of, receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualified for the earned income tax credit. For the foregoing reasons, prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

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

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