

Ratings: Moody's "Applied For"
PSF Guarantee: "Applied For"
(See "RATINGS" and "THE PERMANENT SCHOOL
FUND GUARANTEE PROGRAM")

PRELIMINARY OFFICIAL STATEMENT

Dated: July 31, 2015

NEW ISSUE: BOOK-ENTRY-ONLY

In the opinion of McCall, Parkhurst & Horton L.L.P., interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations.

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

\$23,335,000*

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT

(A political subdivision of the State of Texas located in San Patricio County, Texas)

UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2015

Dated Date: August 1, 2015

Due: August 15, as shown on page 2

Interest Accrual Date: Date of Delivery

The Odem-Edroy Independent School District (the "District") is issuing its \$23,335,000* Unlimited Tax School Building Bonds, Series 2015 (the "Bonds") in accordance with the Constitution and general laws of the State of Texas, including, particularly, Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on May 9, 2015 (the "Election") and a bond order (the "Order") to be adopted by the Board of Trustees (the "Board") of the District on August 10, 2015.

The Bonds constitute direct obligations of the District and are payable as to principal and interest from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the District. **An application has been filed by the District with, and conditional approval has been received from, the Texas Education Agency for the Bonds to be guaranteed by the Texas Permanent School Fund Guarantee which guarantee will automatically become effective when the Attorney General of the State of Texas approves the Bonds (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").**

Interest on the Bonds will accrue from the date they are initially delivered to the initial purchasers thereof named below (the "Underwriters"), and will be payable on August 27, 2015, and semiannually thereafter on each succeeding February 15 and August 15 of each year until stated maturity or prior redemption. The Bonds will be issued in principal denominations of \$5,000 or any integral multiple thereof within a maturity. Interest accruing on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months (see "THE BONDS – General Description").

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

Proceeds from the sale of the Bonds will be used (i) for the acquisition, construction and equipment of school buildings in the District; (ii) to fund capitalized interest on the Bonds; and (iii) to pay costs of issuance related to the Bonds (see "THE BONDS – Purpose").

CUSIP PREFIX: 675813 / MATURITY SCHEDULE & 9 DIGIT CUSIP – See Schedule on Page 2

The Bonds are offered when, as and if issued, and accepted by the Underwriters, subject to the approving opinion of the Attorney General of the State of Texas and the opinions of McCall, Parkhurst & Horton L.L.P., and Walsh, Gallegos, Treviño, Russo & Kyle, P.C., both of San Antonio, Texas, Co-Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Bracewell & Giuliani LLP, San Antonio, Texas. The Bonds are expected to be available for initial delivery through the services of DTC on or about August 20, 2015 (the "Date of Delivery").

FirstSouthwest

Frost Bank

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

MATURITY SCHEDULE*

Maturity Date (8/15)	Principal Amount*	Interest Rate	Initial Yield	CUSIP Suffix^(A)
2016	\$ 70,000	%	%	
2017	100,000			
2018	165,000			
2019	235,000			
2020	305,000			
2021	315,000			
2022	330,000			
2023	330,000			
2024	345,000			
2025	360,000			
2026	370,000			
2027	380,000			
2028	400,000			
2029	410,000			
2030	605,000			
2031	635,000			
2032	925,000			
2033	965,000			
2034	1,010,000			
2035	1,060,000			
2036	1,115,000			
2037	1,170,000			
2038	1,230,000			
2039	1,290,000			
2040	1,355,000			
2041	1,420,000			
2042	1,495,000			
2043	1,570,000			
2044	1,645,000			
2045	1,730,000			

(Interest to accrue from Date of Delivery)

REDEMPTION*...The Bonds maturing on or after August 15, 20__, are subject to redemption prior to maturity, at the option of the District, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 20__, or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption (see “THE BONDS – Redemption Provisions”). If two or more serial maturities of the Bonds are grouped into a single maturity (the “Term Bonds”) by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with applicable provisions of the Order.

* Preliminary, subject to change.

^(A) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor’s Financial Services LLC on behalf of the American Bankers Association. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the owners of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the District, the Financial Advisor or the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

USE OF INFORMATION IN OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 (the “Rule”) of the United States Securities and Exchange Commission, as amended, this document constitutes an “official statement” of the District with respect to the Bonds that has been deemed “final” by the District as of its date except for the omission of no more than the information permitted by the Rule.

No dealer, broker, salesman or other person has been authorized to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the District, the Financial Advisor or the Underwriters.

Certain information set forth herein has been obtained from the District and other sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness, and it is not to be construed as a representation by the Financial Advisor or the Underwriters.

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

Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. See “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 (“TEA”) and the District, respectively, to provide certain information on a continuing basis.

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

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

None of the District, the Financial Advisor, or the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company (“DTC”) or its book-entry-only system described under “BOOK-ENTRY-ONLY SYSTEM” or the affairs of the TEA described under “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” as such information has been provided by DTC and TEA, respectively.

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 their respective responsibilities to investors under federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

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

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

TABLE OF CONTENTS

MATURITY SCHEDULE	2	Collateral Federal Income Tax Consequences	30
USE OF INFORMATION IN OFFICIAL STATEMENT	3	State, Local and Foreign Taxes.....	31
TABLE OF CONTENTS	4	Future and Proposed Legislation	31
SELECTED DATA FROM THE OFFICIAL STATEMENT	5	REGISTRATION AND QUALIFICATION OF BONDS FOR	
ELECTED OFFICIALS	7	SALE.....	31
CERTAIN DISTRICT OFFICIALS.....	7	STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN	
CONSULTANTS AND ADVISORS	7	TEXAS.....	32
INTRODUCTORY STATEMENT	8	Litigation Relating to the Texas Public School Finance	
THE BONDS.....	8	System	32
Authorization	8	Funding Changes in Response to West Orange-Cove II.....	33
Purpose.....	8	Possible Effects of Litigation and Changes in Law on	
General Description	8	District Bonds	33
Security	9	Current Litigation Related to the Texas Public School	
Permanent School Fund Guarantee.....	9	Finance System.....	33
Redemption Provisions	9	2013 Legislative Session	34
Notice of Redemption	9	CURRENT PUBLIC SCHOOL FINANCE SYSTEM.....	35
Legality	10	Overview	35
Payment Record.....	10	Local Funding for School Districts.....	35
Defeasance of Bonds.....	10	State Funding for School Districts.....	36
Amendments	11	2006 Legislation	37
Sources and Uses of Funds	11	2015 Legislation	37
THE PERMANENT SCHOOL FUND GUARANTEE		Wealth Transfer Provisions	38
PROGRAM	12	Possible Effects of Wealth Transfer Provisions on the	
History and Purpose	12	District’s Financial Condition.....	39
The Total Return Constitutional Amendment	13	AD VALOREM TAX PROCEDURES	39
Management and Administration of the Fund.....	15	Property Tax Code and County-Wide Appraisal District	39
Capacity Limits for the Guarantee Program.....	16	Property Subject to Taxation by the District.....	39
The School District Bond Guarantee Program.....	17	Valuation of Property for Taxation.....	40
Charter District Bond Guarantee Program	18	Residential Homestead Exemption.....	41
Ratings of Bonds Guaranteed Under the Guarantee Program	19	District and Taxpayer Remedies.....	41
Valuation of the PSF and Guaranteed Bonds.....	20	Public Hearing and Rollback Tax Rate.....	42
Discussion and Analysis Pertaining to Fiscal Year Ended		Levy and Collection of Taxes.....	42
August 31, 2014	21	District’s Rights in the Event of Tax Delinquencies.....	42
2011 Constitutional Amendment	22	THE PROPERTY TAX CODE AS APPLIED TO THE	
Other Events and Disclosures	22	DISTRICT.....	43
PSF Continuing Disclosure Undertaking	23	TAX RATE LIMITATIONS.....	44
Annual Reports	23	RATINGS	45
Material Event Notices.....	24	LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE	
Availability of Information	24	PUBLIC FUNDS IN TEXAS.....	45
Limitations and Amendments	24	INVESTMENT AUTHORITY AND INVESTMENT	
Compliance with Prior Undertakings.....	25	OBJECTIVES OF THE DISTRICT.....	45
SEC Exemptive Relief	25	Current Investments.....	47
REGISTERED OWNERS’ REMEDIES	25	EMPLOYEES’ BENEFIT PLANS	47
BOOK-ENTRY-ONLY SYSTEM	26	CONTINUING DISCLOSURE OF INFORMATION.....	48
Use of Certain Terms in Other Sections of this Official		Annual Reports	48
Statement	27	Notices of Certain Events	48
Effect of Termination of Book-Entry-Only System.....	27	Availability of Information from MSRB	49
REGISTRATION, TRANSFER AND EXCHANGE.....	27	Limitations and Amendments.....	49
Paying Agent/Registrar	27	Compliance with Prior Undertakings.....	49
Future Registration.....	28	LITIGATION.....	49
Record Date for Interest Payment	28	FINANCIAL ADVISOR.....	50
Limitation on Transfer of Bonds.....	28	UNDERWRITING.....	50
Replacement Bonds.....	28	FORWARD-LOOKING STATEMENTS.....	50
LEGAL MATTERS	29	CONCLUDING STATEMENT	50
TAX MATTERS	29	MISCELLANEOUS.....	51
Opinion	29		
Federal Income Tax Accounting Treatment of Original Issue			
Discount.....	30		

FINANCIAL INFORMATION REGARDING THE DISTRICT	Appendix A
GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY	Appendix B
FORMS OF LEGAL OPINIONS OF CO-BOND COUNSEL	Appendix C
EXCERPTS FROM THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2014	Appendix D

The cover page hereof, the section entitled “Selected Data from the Official Statement,” this Table of Contents and Appendices attached hereto are part of this Official Statement.

SELECTED DATA FROM THE OFFICIAL STATEMENT

The selected data 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 page from this Official Statement or to otherwise use it without the entire Official Statement.

The District	Odem-Edroy Independent School District (the “District”) is a political subdivision of the State of Texas located in San Patricio County, Texas. The District is governed by a seven-member Board of Trustees (the “Board”). 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. For more information regarding the District, see “Appendix A – FINANCIAL INFORMATION REGARDING THE DISTRICT” and “Appendix B – GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY.”
Authority for Issuance	The District’s Unlimited Tax School Building Bonds, Series 2015 (the “Bonds”) are being issued pursuant to the Constitution and general laws of the State, including particularly, Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on May 9, 2015 (the “Election”) and a bond order (the “Order”) authorizing the issuance of the Bonds to be adopted by the Board on August 10, 2015 (see “THE BONDS – Authorization”).
The Bonds	The Bonds shall mature on the dates, in the amounts and at the interest rates set forth on page 2 of this Official Statement (see “THE BONDS – General Description”).
Payment of Interest	Interest on the Bonds will accrue from the date of their initial delivery to the initial purchasers thereof (the “Underwriters”) and will be payable on August 27, 2015 and semiannually thereafter on each succeeding February 15 and August 15 of each year until stated maturity or prior redemption (see “THE BONDS – General Description”).
Security	The Bonds constitute direct obligations of the District, payable as to principal and interest from an annual ad valorem tax levied against all taxable property located within the District, without legal limit as to rate or amount (see “THE BONDS – Security”). Also see “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS” and “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” for a discussion of recent developments in State law affecting the financing of school districts in the State. Additionally, an application has been filed with, and the District has received conditional approval from, the Texas Education Agency for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas which guarantee will automatically become effective when the Attorney General of the State of Texas approves the Bonds (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).
Use of Proceeds	Proceeds from the sale of the Bonds will be used (i) for the acquisition, construction and equipment of school buildings in the District; (ii) to fund capitalized interest on the Bonds; and (iii) to pay costs of issuance related to the Bonds (see “THE BONDS – Purpose”).
Redemption Provisions*	The Bonds maturing on or after August 15, 20__, are subject to redemption prior to maturity, at the option of the District, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 20__, or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption (see “THE BONDS – Redemption Provisions”). If two or more serial maturities of the Bonds are grouped into a single maturity (the “Term Bonds”) by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with applicable provisions of the Order.
Tax Exemption	In the opinion of McCall, Parkhurst & Horton L.L.P., interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under “TAX MATTERS” herein, including the alternative minimum tax on corporations. The opinion of Walsh, Gallegos, Treviño, Russo & Kyle, P.C., Co-Bond Counsel, does not address any federal income tax matters.

* Preliminary, subject to change.

- Ratings** Moody’s Investors Service (“Moody’s”) has assigned a municipal bond rating of “___” to the Bonds based upon the Permanent School Fund Guarantee. Moody’s generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas “Aaa” (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” and “RATINGS”).
- The District’s underlying rating for the Bonds (without consideration of the Permanent School Fund Guarantee or other credit enhancement) is “___” by Moody’s (see “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 (“DTC”) pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000, or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. The principal of and interest on the Bonds at maturity or on a prior redemption date 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 “BOOK-ENTRY-ONLY SYSTEM”).
- Paying Agent/Registrar** The initial Paying Agent/Registrar for the Bonds is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see “REGISTRATION, TRANSFER AND EXCHANGE – Paying Agent/Registrar”).
- Continuing Disclosure of Information** Pursuant to the Order, the District is obligated to provide certain updated financial information and operating data annually, and to provide timely notice of certain specified events which will be available to investors as described in the section captioned “CONTINUING DISCLOSURE OF INFORMATION.” Also see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking” for a description of the undertaking of the Texas Education Agency to provide certain information on a continuing basis.
- Payment Record** The District has never defaulted on the payment of its bonded indebtedness.
- Legality** Delivery of the Bonds is subject to the approval by the Attorney General of Texas and the rendering of opinions as to legality by McCall, Parkhurst & Horton L.L.P., and Walsh, Gallegos, Treviño, Russo & Kyle, P.C., both of San Antonio, Texas, Co-Bond Counsel.

For additional information regarding the District, please contact:

<p>Ms. Lisa A. Gonzales Superintendent of Schools Odem-Edroy Independent School District One Owl Square Odem, Texas 78370 Phone: (361) 368-8121</p>	<p>or</p>	<p>Joshua McLaughlin or Alison Long BOSC, Inc. 333 West Campbell Road, Suite 350 Richardson, Texas 75080 Phone: (214) 576-0878</p>
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**ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
OFFICIALS, STAFF AND CONSULTANTS**

ELECTED OFFICIALS

<u>Name</u>	<u>Term Expires</u>	<u>Occupation</u>
Jon Whatley, President	2017	Farmer
Johnny Nino, Vice President	2019	Retired
Janie Vargas, Secretary	2017	Medical / Radiologic Technologist
Benjamin Brewer, Member	2017	Refinery
Josh Rogers, Member	2019	Jeweler
Manuel Lunoff III, Member	2017	Retired
Jacob Romero, Member	2019	Refinery

CERTAIN DISTRICT OFFICIALS

<u>Name</u>	<u>Position</u>
Lisa A. Gonzales	Superintendent of Schools
Tonya Romero	Business Manager

CONSULTANTS AND ADVISORS

Auditors.....	Gowland, Streal, Morales & Company PLLC Corpus Christi, Texas
Co-Bond Counsel.....	McCall, Parkhurst & Horton L.L.P. Walsh, Gallegos, Treviño, Russo & Kyle, P.C. San Antonio, Texas
Financial Advisor.....	BOSC, Inc. Richardson, Texas

PRELIMINARY OFFICIAL STATEMENT RELATING TO
\$23,335,000*
ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in San Patricio County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2015

INTRODUCTORY STATEMENT

This Official Statement, including Appendices A, B and D, has been prepared by the Odem-Edroy Independent School District located in San Patricio County, Texas (the "District"), in connection with the offering by the District of its Unlimited Tax School Building Bonds, Series 2015 (the "Bonds"), identified on the cover page hereof.

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

There follows in this Official Statement descriptions of the Bonds and the Order (as defined herein), and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request by electronic mail or upon payment of reasonable copying, mailing, and handling charges by writing the District's Financial Advisor, BOSC, Inc., 333 West Campbell Road, Suite 350, Richardson, Texas 75080.

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

THE BONDS

Authorization

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on May 9, 2015 (the "Election") and a bond order authorizing the issuance of the Bonds (the "Order") to be adopted by the District's Board of Trustees (the "Board") on August 10, 2015. Capitalized terms used herein have the same meanings assigned to such terms in the Order, except as otherwise indicated.

Purpose

The Bonds represent obligations approved by voters of the District at the Election for the acquisition, construction and equipment of school buildings in the District. A portion of the proceeds of the Bonds will also be used to fund capitalized interest and pay costs related to the issuance of the Bonds. After the issuance of the Bonds, the District will have no authorized but unissued unlimited ad valorem tax bonds remaining from the Election (see "Table 12 – Authorized But Unissued Bonds" in Appendix A).

General Description

The Bonds shall be dated August 1, 2015 and interest accruing on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months. Interest on the Bonds will accrue from the date of their initial delivery to the Underwriters, at the interest rates shown on page 2 hereof and such interest shall be payable to the registered owners thereof commencing on August 27, 2015, and semiannually thereafter on each succeeding February 15 and August 15 until stated maturity or prior redemption. The Bonds are to mature on the dates and in the principal amounts shown on page 2 hereof. The Bonds will each be issued as fully registered obligations in principal denominations of \$5,000 or any integral multiple thereof within a maturity. The paying agent and transfer agent (the "Paying Agent/Registrar") for the Bonds is initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas.

* Preliminary, subject to change.

Initially, the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the beneficial owners. The principal of and interest on the Bonds at maturity or upon prior redemption will be payable by the Paying Agent/Registrar to Cede & Co., which will distribute the amounts paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM” for a more complete description of such system.

Interest on the Bonds will be payable to the registered owner whose name appears on the bond registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined) and such accrued interest will be paid by (i) check sent by United States mail, first class, postage prepaid, to the address of the registered owner appearing on such registration books of the Paying Agent/Registrar or (ii) such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The record date (the “Record Date”) for the interest payable on any interest payment date for the Bonds is the close of business on the last business day of the month next preceding such interest payment date (see “REGISTRATION, TRANSFER AND EXCHANGE – Record Date for Interest Payment”). The principal of the Bonds at maturity or on a prior redemption date will be payable only upon presentation of such Bonds at the designated office of the Paying Agent/Registrar upon maturity or prior redemption, as applicable; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under “BOOK-ENTRY-ONLY SYSTEM” herein.

Security

The Bonds are direct obligations of the District and are payable as to principal and interest from an annual ad valorem tax levied on all taxable property within the District, without legal limit as to rate or amount, as provided in the Order. Additionally, the District has applied for and received from the Texas Education Agency conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas which guarantee will automatically become effective when the Attorney General of the State of Texas approves the Bonds (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM,” “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS” and “CURRENT PUBLIC SCHOOL FINANCE SYSTEM”).

Permanent School Fund Guarantee

In connection with the sale of the Bonds, the District has applied for and received conditional approval from the Texas Commissioner of Education for guarantee of the Bonds under the Texas Permanent School Fund Guarantee Program (Chapter 45, Subchapter C of the Texas Education Code, as amended). Subject to satisfying certain conditions discussed under the heading “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein, the Bonds will be absolutely and unconditionally guaranteed by the corpus of the Permanent School Fund of the State of Texas.

In the event of default, registered owners will receive all payments due on the Bonds from the corpus of the Permanent School Fund. The Permanent School Fund Guarantee will terminate with respect to Bonds that are defeased (see “THE BONDS – Defeasance of Bonds”).

Redemption Provisions*

The Bonds maturing on or after August 15, 20__, are subject to redemption prior to maturity, at the option of the District, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 20__, or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. If less than all of the Bonds are to be redeemed, the District shall determine the principal amount and maturities to be redeemed and shall direct the Paying Agent/Registrar to select by lot or other customary method that results in a random selection, the Bonds or portions thereof within a maturity, to be redeemed.

If two or more serial maturities of the Bonds are grouped into a single maturity (the “Term Bonds”) by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with applicable provisions of the Order.

Notice of Redemption

At least 30 days prior to the date fixed for any such redemption of Bonds, the District shall cause a written notice of such redemption to be deposited in the United States mail, first-class postage prepaid, addressed to each registered owner at the address shown on the Registration Books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

* Preliminary, subject to change

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. UPON THE GIVING OF THE NOTICE OF REDEMPTION AND ANY OTHER CONDITION TO REDEMPTION SATISFIED, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND INTEREST ON SUCH BONDS OR PORTION THEREOF SHALL CEASE TO ACCRUE, IRRESPECTIVE OF WHETHER SUCH BONDS ARE SURRENDERED FOR PAYMENT.

With respect to any optional redemption of the Bonds, unless moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed shall have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption is conditional upon the receipt of such moneys by the Paying Agent/Registrar on or prior to the date fixed for such redemption, or upon the satisfaction of any prerequisites set forth in such notice of redemption; and, if 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.

The Paying Agent/Registrar and the District, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Order or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the beneficial owners. Any such selection of Bonds to be redeemed will not be governed by the Order and will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds selected for redemption (see "BOOK-ENTRY-ONLY SYSTEM").

Legality

The Bonds are offered when, as and if issued, and subject to the approval of legality by the Attorney General of the State of Texas and the opinions of McCall, Parkhurst & Horton L.L.P., and Walsh, Gallegos, Treviño, Russo & Kyle, P.C., both of San Antonio, Texas (see "LEGAL MATTERS" and "Appendix C – FORMS OF LEGAL OPINIONS OF CO-BOND COUNSEL").

Payment Record

The District has never defaulted with respect to the payment of its bonded indebtedness.

Defeasance of Bonds

The Order provides for the defeasance of the Bonds when the payment on the Bonds to the due date thereof (whether such due date be by reason of maturity or otherwise) is provided by irrevocably depositing with the Paying Agent/Registrar or authorized escrow agent, in trust (1) money sufficient to make such payment and/or (2) Defeasance Securities, that mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, and thereafter the District will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The Order provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by Texas law that are eligible to discharge obligations such as the Bonds. Current Texas law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the District authorizes the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the District authorizes the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. There is no assurance that current Texas law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Order does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as

those currently permitted under Texas law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or those for any other Defeasance Security will be maintained at any particular rating category.

The District has the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance, and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance. After firm banking and financial arrangements for the defeasance of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or to take any action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the defeasance of the Bonds, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of such banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Upon defeasance, such defeased Bonds shall no longer be regarded to be outstanding or unpaid and such defeased Bonds will no longer be guaranteed by the Texas Permanent School Fund.

Amendments

In the Order, the District has reserved the right to amend the Order without the consent of any holder for the purpose of amending or supplementing the Order to (i) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the holders, (ii) grant additional rights or security for the benefit of the holders, (iii) add events of default as shall not be inconsistent with the provisions of the Order that do not materially adversely affect the interests of the holders, (iv) qualify the Order under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect or (v) make such other provisions in regard to matters or questions arising under the Order that are not inconsistent with the provisions thereof and which, in the opinions of Co-Bond Counsel for the District, do not materially adversely affect the interests of the holders.

The Order further provides that the holders of the Bonds aggregating in original principal amount a majority of outstanding Bonds that are the subject of a proposed amendment shall have the right from time to time to approve any amendment not described above to the Order if it is deemed necessary or desirable by the District; provided, however, that without the consent of 100% of the holders in original principal amount of the then outstanding Bonds, no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Bonds; (ii) reducing the rate of interest borne by any of the outstanding Bonds; (iii) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Bonds; (iv) modifying the terms of payment of principal or of interest or redemption premium on outstanding Bonds, or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment. Reference is made to the Order for further provisions relating to the amendment thereof.

Sources and Uses of Funds

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

Sources:		
Principal Amount of the Bonds		\$
Net Original Issue Premium on the Bonds		
Total Sources of Funds		<u>\$</u>
 Uses:		
Deposit to Construction Fund		\$
Costs of Issuance and Underwriters' Discount		
Deposit to Interest and Sinking Fund ^(A)		
Total Uses of Funds		<u>\$</u>

^(A) Represents excess premium used for capitalized interest.

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THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

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

History and Purpose

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

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

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

In 2011, Senate Bill 1 (“SB 1”) was enacted by the Legislature. Among other provisions, SB 1 established the Charter District Bond Guarantee Program as a new component of the Guarantee Program, and authorized the use of the PSF to guarantee revenue bonds issued by or for the benefit of certain open-enrollment charter schools that are designated as “charter districts” by the Commissioner. On approval by the Commissioner, bonds properly issued by a charter district participating in the Program are fully guaranteed by the corpus of the PSF. As described below, the implementation of the Charter District Bond Guarantee Program was deferred pending receipt of guidance from the Internal Revenue Service (the “IRS”) which was received in September 2013, and the establishment of regulations to govern the program, which regulations were published for public comment on December 20, 2013, approved on January 30, 2014 and became effective on March 3, 2014. See “The Charter District Bond Guarantee Program.”

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

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

The sole purpose of the PSF is to assist in the funding of public education for present and future generations. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividends produced by Fund investments flowed into the Available School Fund (the “ASF”), where they are distributed to local school districts and open-enrollment charter schools based on average daily attendance. Any net gains from investments of the Fund accrue to the corpus of the PSF. Prior to the approval by the voters of the State of the Total Return Constitutional Amendment, costs of administering the PSF were allocated to the ASF. With the approval of the Total Return Constitutional Amendment, the administrative costs of the Fund have shifted from the ASF to the PSF. In fiscal year 2014, distributions to the ASF amounted to \$175.43 per student and the total amount distributed to the ASF was \$838.67 million.

Audited financial information for the PSF is provided annually through the PSF Annual Report (the “Annual Report”), which is filed with the Municipal Securities Rulemaking Board (“MSRB”). The Annual Report includes the Message of the Executive Administrator of the Fund (the “Message”) and the Management’s Discussion and Analysis (“MD&A”). The Annual Report for the year ended August 31, 2014, 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, 2014 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, 2014 and for a description of the financial results of the PSF for the year ended August 31, 2014, the most recent year for which audited financial information regarding the Fund is available. The 2014 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2014 Annual Report or any other Annual Report. The TEA posts each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, the most recent disclosure for the Guarantee Program, the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (the “Investment Policy”), monthly updates with respect to the capacity of the Guarantee Program (collectively, the “Web Site Materials”) on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/ and with the MSRB at www.emma.msrb.org. Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund’s holdings of securities specified in Section 13(f), including exchange-traded (e.g., NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at www.sec.gov/edgar.shtml. A list of the Fund’s equity and fixed income holdings as of August 31 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund’s securities lending program. Such list, when filed, is incorporated herein and made a part hereof for all purposes.

The Total Return Constitutional Amendment

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

the biennium, subject to the limit of 6% in any one fiscal year. Any shortfall in the transfer that results from such events from one biennium may not be paid over to the ASF in a subsequent biennium as the SBOE would make a separate payout determination for that subsequent biennium.

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

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

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

With respect to the management of the Fund’s financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE generally reviews the asset allocations during its summer meeting in even numbered years. The first asset allocation policy adopted by the SBOE following the Total Return Constitutional Amendment was in February 2004, and the policy was reviewed and modified or reaffirmed in the summers of 2006, 2008, 2010, 2012 and 2014. The Fund’s investment policy provides for minimum and maximum ranges among the components of each of the three general asset classifications: equities, fixed income and alternative asset investments. The 2004 asset allocation policy decreased the fixed income target from 45% to 25% of Fund investment assets and increased the allocation for equities from 55% to 75% of investment assets. In July 2006, the SBOE modified its asset allocation to reduce the equity allocation, including both domestic and foreign equity portfolios, to a target of 53% of Fund assets, further reduced the fixed income allocation target to 19% and added an alternative asset allocation, which included real estate, real return, absolute return and private equity components, totaling 28% of the Fund’s asset target. Alternative asset classes diversify the SBOE-managed assets and are not as correlated to traditional asset classes, which is intended to increase investment returns over the long run while reducing risk and return volatility of the portfolio. In July 2010, the SBOE decreased the equity allocation to 50%, and the fixed income allocation to 15%, while increasing the alternative asset allocation (which may include equity and fixed income investments as part of a variety of alternative investment strategies) to 35%. In July 2012, the SBOE modified the asset allocation policy by decreasing the equity allocation to 46%, increasing the fixed income allocation to 17%, and increasing the alternative asset allocation (which may include equity and fixed income investments as part of a variety of alternative investment strategies) to 37%. The changes made to the asset allocation in 2012 decreased the target for large cap equity investments from 21% to 18%, replaced a 4% allocation for international small cap equities with a 3% allocation for emerging international equities, reduced core fixed income bond investments from 15% to 12% and added a new 5% allocation for emerging market debt in the fixed income portfolio. The 2014 changes (i) decreased the equity allocation to 40% (by decreasing the target for large cap equities from 18% to 16%, the target for small/mid cap equities from 7% to 5% and the target for emerging and international large cap equities from 18% to 16%), (ii) increased the fixed income allocation from 17% to 19% (by increasing the 5% allocation for emerging market debt to 7%) and (iii) increased the alternative asset allocation from 37% to 41%, which included an increase in the private equity allocation of alternative assets from 6% to 10%.

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

In July 2012 and April 2013, the SBOE also realigned the management of certain of the investment portfolios within the absolute return allocation of the alternative investments and its private equity asset class. These alignments in investment portfolios have created strategic relationships between the external manager and investment staff of the PSF, which has reduced administrative costs with respect to those portfolios. In response to a legal opinion request made by the Chair of the SBOE in October 2012, the Attorney General has advised the SBOE in Op. Tex. Att’y Gen. No. GA-0998 (2013) (“GA-0998”), that the PSF is not subject to requirements of certain State competitive bidding laws with respect to the selection of investments. In GA-0998, the Attorney General also advised that the SBOE generally must use competitive bidding for the selection of investment managers and other third party providers of investment services, such as record keeping and insurance, but excluding certain professional services, such as accounting services, as State law prohibits the use of competitive bidding for specified professional services. GA-0998 provides guidance to the SBOE in connection with the direct management of alternative investments through investment vehicles to be created by the SBOE, in lieu of contracting with external managers for such services, as has been the recent practice of the PSF. The PSF staff and the Fund’s investment advisor are tasked with advising the SBOE with respect to the implementation of the 2010 Asset Allocation Policy, including the timing and manner of the selection of any external managers and other consultants.

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

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

Management and Administration of the Fund

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

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

Texas law assigns control of the Fund’s land and mineral rights to the three-member SLB, which consists of the elected Commissioner of the General Land Office (“GLO”), an appointee of the Governor, and an appointee of the Attorney General. Administrative duties related to the land and mineral rights reside with the GLO, which is under the guidance of the Commissioner of the GLO. In 2007, the Legislature established the real estate special fund account of the PSF (the “Real Estate Account”) consisting of proceeds and revenue from land, mineral or royalty interest, real estate investment, or other interest, including revenue received from those sources, that is set apart to the PSF under the Texas Constitution and laws, together with the mineral estate in riverbeds, channels, and the tidelands, including islands. The investment of the Real Estate Account is subject to the sole and exclusive management and control of the SLB and the Land Commissioner, who is also the head of the GLO. The 2007 legislation presented constitutional questions regarding the respective roles of the SBOE and the SLB relating to the disposition of proceeds of real estate transactions to the ASF, among other

questions. Amounts in the investment portfolio of the PSF are taken into account by the SBOE for purposes of determining the Distribution Rate. An amendment to the Texas Constitution was approved by State voters on November 8, 2011, which permits the SLB to make transfers directly to the ASF, see “2011 Constitutional Amendment” below.

The SBOE contracts with its securities custodial agent to measure the performance of the total return of the Fund’s financial assets. A consultant is typically retained for the purpose of providing consultation with respect to strategic asset allocation decisions and to assist the SBOE in selecting external fund management advisors. The SBOE also contracts with financial institutions for custodial and securities lending services. The SBOE has established the Committee of Investment Advisors, which consists of independent investment experts each appointed by a member of the SBOE to closely advise the respective SBOE member on investment issues.

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

Capacity Limits for the Guarantee Program

The capacity of the Fund to guarantee bonds under the Guarantee Program is limited in two ways: by State law (the “State Capacity Limit”) and by regulations and a notice issued by the IRS (the “IRS Limit”). Prior to May 20, 2003, the State Capacity Limit was equal to two times the lower of cost or fair market value of the Fund’s assets, exclusive of real estate. During the 78th Regular Session of the Legislature in 2003, legislation was enacted that increased the State Capacity Limit by 25%, to two and one half times the lower of cost or fair market value of the Fund’s assets as estimated by the SBOE and certified by the State Auditor, and eliminated the real estate exclusion from the calculation. Prior to the issuance of the IRS Notice (defined below), the capacity of the program under the IRS Limit was limited to two and one-half times the lower of cost or fair market value of the Fund’s assets adjusted by a factor that excluded additions to the Fund made since May 14, 1989. During the 2007 Texas Legislature, Senate Bill 389 (“SB 389”) was enacted providing for additional increases in the capacity of the Guarantee Program, and specifically providing that the SBOE may by rule increase the capacity of the Guarantee Program from two and one-half times the cost value of the PSF to an amount not to exceed five times the cost value of the PSF, provided that the increased limit does not violate federal law and regulations and does not prevent bonds guaranteed by the Guarantee Program from receiving the highest available credit rating, as determined by the SBOE. SB 389 further provides that the SBOE shall at least annually consider whether to change the capacity of the Guarantee Program. Since 2005, the Guarantee Program has twice reached capacity under the IRS Limit, and in each instance the Guarantee Program was closed to new bond guarantee applications until relief was obtained from the IRS. The most recent closure of the Guarantee Program commenced in March 2009 and the Guarantee Program reopened in February 2010 on the basis of receipt of the IRS Notice.

On December 16, 2009, the IRS published Notice 2010-5 (the “IRS Notice”) stating that the IRS will issue proposed regulations amending the existing regulations to raise the IRS limit to 500% of the total cost of the assets held by the PSF as of December 16, 2009. In accordance with the IRS Notice, the amount of any new bonds to be guaranteed by the PSF, together with the then outstanding amount of bonds previously guaranteed by the PSF, must not exceed the IRS limit on the sale date of the new bonds to be guaranteed. The IRS Notice further provides that the IRS Notice may be relied upon for bonds sold on or after December 16, 2009, and before the effective date of future regulations or other public administrative guidance affecting funds like the PSF.

On September 16, 2013, the IRS published proposed regulations (the “Proposed IRS Regulations”) that, among other things, would enact the IRS Notice. The preamble to the Proposed IRS Regulations provides that issuers may elect to apply the Proposed IRS Regulations, in whole or in part, to bonds sold on or after September 16, 2013, and before the date that final regulations become effective.

The IRS Notice and the Proposed IRS Regulations establish a static capacity for the Guarantee Program based upon the cost value of Fund assets on December 16, 2009 multiplied by five. On December 16, 2009, the cost value of the Guarantee Program was \$23,463,730,608 (estimated and unaudited), thereby producing an IRS Limit of approximately \$117.3 billion. The State Capacity Limit is determined on the basis of the cost value of the Fund from time to time multiplied by the capacity multiplier determined annually by the SBOE, but not to exceed a multiplier of five. The capacity of the Guarantee Program will be limited to the lower of the State Capacity Limit 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.

PSF staff have been tasked with undertaking due diligence with the rating agencies that currently rate the Bond Guarantee Program (see “Ratings of Bonds Guaranteed Under the Guarantee Program” below) regarding ratings maintenance for the Fund in anticipation of consideration by the SBOE of an amendment to the SDBGP Rules and CDBGP Rules (as defined below) to provide for an increase in the multiplier that establishes the State law capacity limitation. Such an amendment may be considered at meetings to be held in July and September 2015 (two readings of the amended SDBGP Rules and CDBGP Rules would be required to effect the change in the multiplier, if any is made).

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

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

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

The School District Bond Guarantee Program

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

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

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

described in State law as a “bond enhancement agreement” or a “credit agreement,” unless the right to payment of such third party is directly as a result of such third party being a bondholder.

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

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

Charter District Bond Guarantee Program

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

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

Subject to clarifying advice that the TEA anticipates may be received from the Attorney General in accordance with the opinion request described below, the capacity of the Charter District Bond Guarantee Program is limited to the amount that equals the result of the percentage of the number of students enrolled in open-enrollment charter schools in the State compared to the total number of students enrolled in all public schools in the State multiplied by the available capacity of the Guarantee Program. Available capacity is defined as the maximum amount under SBOE rules, less Capacity Reserve and minus existing guarantees. The CDBGP Rules authorize the Commissioner to determine that ratio based on information provided to the TEA by school districts and open-enrollment charter schools, and the calculation will be made annually, on or about March 1 of each year. As of May 2015 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 4.36%. As of February, 2015, there were 195 active open-enrollment charter schools in the State, and there were 659 charter school campuses operating under such charters. Section 12.101, Texas Education Code, as amended by the Legislature in 2013, provides that the Commissioner may grant not more than 215 charters through the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters permitted by the statute. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see “Capacity Limits for the Guarantee Program.” The Act provides that the Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

With respect to the Charter District Bond Guarantee Program, the Act establishes a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Each charter district that has a bond guaranteed must annually remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10% (or such higher amount as may be determined by the Commissioner) of the savings to the charter district that result from the lower interest rate on the bond due to the guarantee by the PSF. The Commissioner has approved a rule governing the calculation and payment of savings into the Charter District Reserve Fund. That rule has been codified at 19 TAC 33.1001, and is available at <http://ritter.tea.state.tx.us/rules/tac/chapter033/ch033aa.html#33.1001>.

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

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

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

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

Ratings of Bonds Guaranteed Under the Guarantee Program

Moody's Investors Service, Standard & Poor's Rating Service, a Standard & Poor's Financial Service LLC business, and Fitch Ratings rate bonds guaranteed by the PSF "Aaa," "AAA" and "AAA," respectively. Not all districts apply for multiple ratings on their bonds, however. See "RATINGS" herein.

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations		
<u>Fiscal Year Ended 8/31</u>	<u>Book Value⁽¹⁾</u>	<u>Market Value⁽¹⁾</u>
2010	\$ 23,653,185,489	\$ 27,066,200,259
2011	24,701,156,685	29,643,439,794
2012	25,161,994,845	31,284,851,266
2013	25,596,193,826	33,131,028,540
2014	27,592,932,952 ⁽²⁾	38,441,759,636 ⁽²⁾

⁽¹⁾ SLB managed assets are included in the market value and book value of the Fund. In determining the market value of the PSF from time to time during a fiscal year, the TEA uses current, unaudited values for TEA managed investment portfolios and cash held by the SLB. With respect to SLB managed assets shown in the table above, market values of land and mineral interests, internally managed real estate, investments in externally managed real estate funds and cash are based upon information reported to the PSF by the SLB. Beginning in fiscal year 2009, the SLB reported that information to the PSF on a quarterly basis. The valuation of such assets at any point in time is dependent upon a variety of factors, including economic conditions in the State and nation in general, and the values of these assets, and, in particular, the valuation of mineral holdings administered by the SLB, can be volatile and subject to material changes from period to period. At August 31, 2014, land, mineral assets, internally managed discretionary real estate, external discretionary real estate investments and cash managed by the SLB had unaudited book values of approximately \$47.3 million, \$13.4 million, \$307.0 million, \$1.8 billion and \$2.0 billion, respectively, and unaudited market values of approximately \$372.5 million, \$3.3 billion, \$291.1 million, \$1.8 billion and \$2.0 billion, respectively.

⁽²⁾ At April 30, 2015 the PSF had a book value of \$28,474,932,664 and a market value of \$38,788,935,540 (April 30, 2015 values are based on unaudited data).

Permanent School Fund Guaranteed Bonds	
<u>At 8/31</u>	<u>Principal Amount⁽¹⁾</u>
2010	\$ 49,301,683,338
2011	52,653,930,546
2012	53,634,455,141
2013	55,218,889,156
2014 ⁽¹⁾	58,364,350,783 ⁽²⁾

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

⁽²⁾ As of August 31, 2014, the TEA expected that the principal and interest to be paid by school districts over the remaining life of the bonds guaranteed by the Guarantee Program is \$96,019,918,371, of which \$37,655,567,587 represents interest to be paid. At April 30, 2015, there were \$60,693,832,494 of bonds guaranteed under the Guarantee Program and the capacity of the Guarantee Program was \$85,424,797,992 based on the three times cost value multiplier approved by the SBOE on May 21, 2010. Such capacity figures include the Reserve Capacity.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾						
<u>School District Bonds</u>			<u>Charter District Bonds</u>		<u>Totals</u>	
<u>At 8/31</u>	<u>Number of Issues</u>	<u>Principal Amount Guaranteed</u>	<u>Number of Issues</u>	<u>Principal Amount Guaranteed</u>	<u>Number of Issues</u>	<u>Principal Amount Guaranteed</u>
2014 ⁽²⁾	2,869	\$58,061,805,783	10	\$302,545,000	2,879	\$58,364,350,783

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

⁽²⁾ Fiscal 2014 was the first year of operation of the Charter District Bond Guarantee Program. At April 30, 2015 (based upon unaudited data), there were \$60,693,832,494 of bonds guaranteed under the Guarantee Program, representing 2,982 school district issues, aggregating \$60,237,979,494 in principal amount and 17 charter district issues, aggregating \$455,853,000 in principal amount. At April 30, 2015, the capacity of the Charter District Bond Guarantee Program was \$892,044,036.

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

The following discussion is derived from the Annual Report for the year ended August 31, 2014, including the Message of the Executive Administrator of the Fund and the Management's Discussion and Analysis contained therein. Reference is made to the Annual Report, when filed, for the complete Message and MD&A. Investment assets managed by the fifteen member SBOE are referred to throughout this MD&A as the PSF(SBOE) assets. As of August 31, 2014, the Fund's land, mineral rights and certain real assets are managed by the three-member SLB and these assets are referred to throughout as the PSF(SLB) assets. The 2014 SBOE Asset Allocation Policy includes an allocation for real estate investments, and as such investments are made, and become a part of the PSF investment portfolio, those investments will be managed by the SBOE and not the SLB.

At the end of fiscal 2014, the total Fund balance was \$34.96 billion. Fund balance increased \$4.35 billion from the prior year, primarily attributable to the increase in the fair value of the PSF(SBOE) equities and alternative investments, the PSF(SLB) real assets investments and the continued recovery of invested markets. During the year, the SBOE continued implementing its revised long term strategic asset allocation to diversify and strengthen the PSF(SBOE) investment assets of the Fund. The revised allocation is projected to increase returns over the long run while reducing risk and return volatility of the portfolio. The one year, three year, five year and ten year annualized total returns for the PSF(SBOE) assets were 15.94%, 11.81%, 11.30% and 7.77% respectively (total return takes into consideration the change in the market value of the Fund during the year as well as the interest and dividend income generated by the Fund's investments). In addition, the SLB continued its shift into externally managed real asset investment funds and the one year, three year, and five year annualized total returns for the PSF(SLB) real assets, including cash, were 9.73%, 9.67%, and 7.00% respectively.

The market value of the Fund's assets is directly impacted by the performance of the various financial markets in which the assets are invested. The most important factors affecting investment performance are the asset allocation decisions made by the SBOE and SLB. The current SBOE long term asset allocation policy allows for diversification of the PSF(SBOE) portfolio into alternative asset classes whose returns are not as correlated to traditional asset classes. The implementation of the long term asset allocation will occur over several fiscal years and is expected to provide incremental total return at reduced risk. As of August 31, 2014, the PSF(SBOE) portion of the Fund had diversified into emerging market large cap international equities, absolute return funds, real estate, private equity, risk parity, real return Treasury Inflation-Protected Securities, real return commodities, and emerging market debt. Emerging international equities securities will be strategically added commensurate with the economic environment and the goals and objectives of the SBOE. As of August 31, 2014, the SBOE had approved and the PSF(SBOE) made capital commitments to real estate investments in the amount of \$1.58 billion and capital commitments to four private equity limited partnerships in the total amount of \$2.23 billion. Unfunded commitments at August 31, 2014 were \$519.6 million in real estate and \$1.27 billion in private equity.

The PSF(SLB) portfolio is generally characterized by three broad categories: (1) discretionary real assets investments, (2) sovereign and other lands, and (3) mineral interests. Discretionary real assets investments consist of externally managed real estate, infrastructure, and energy/minerals investment funds; internally managed direct real estate investments, and cash. Sovereign and other lands consist primarily of the lands set aside to the PSF when it was created. Mineral interests consist of all of the minerals that are associated with PSF lands. The investment focus of PSF(SLB) discretionary real assets investments has shifted from internally managed direct real estate investments to externally managed real assets investment funds. The PSF(SLB) makes investments in certain limited partnerships that legally commit it to possible future capital contributions. At August 31, 2014, the remaining commitments totaled approximately \$1.37 billion.

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

For fiscal year 2014, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled \$5.2 billion, an increase of \$2.1 billion from fiscal year 2013 earnings of \$3.2 billion. This increase reflects the performance of the securities markets in which the Fund was invested in fiscal year 2014. In fiscal year 2014, revenues earned by the Fund included lease payments, bonuses and royalty income received from oil, gas and mineral leases; lease payments from commercial real estate; surface lease and easement revenues; revenues from the resale of natural and liquid gas supplies; dividends, interest, and securities lending revenues; the net change in the fair value of the investment portfolio; and, other miscellaneous fees and income.

Expenditures are paid from the Fund before distributions are made under the total return formula. Such expenditures include the costs incurred by the SLB to manage the land endowment, as well as operational costs of the Fund, including external management fees paid from appropriated funds. Total operating expenditures, net of security lending rebates and fees, increased 12.2% for the fiscal year ending August 31, 2014. This increase is primarily attributable to the operational costs related to managing alternative investments due to diversification of the Fund.

The Fund supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. For fiscal years 2013 and 2014, the distribution from the SBOE to the ASF totaled \$1.021 billion and \$838.7 million, respectively. Additionally, the SLB provided \$300 million to the ASF in fiscal year 2013.

At the end of the 2014 fiscal year, PSF assets guaranteed \$58.364 billion in bonds issued by 821 local school districts and charter districts, the latter of which entered into the Program during the 2014 fiscal year. Since its inception in 1983, the Fund has guaranteed 5,603 school district and charter district bond issues totaling \$120.7 billion in principal amount. During the 2014 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program increased by 90, or 3.2%. The dollar amount of guaranteed school and charter bond issues outstanding increased by \$3.15 billion or 5.7%. The guarantee capacity of the Fund increased by \$1.85 billion, or 2.4%, during fiscal year 2014 due to the investment performance of the Fund.

2011 Constitutional Amendment

During the Regular Session of the 82nd Legislature, which concluded May 30, 2011, a joint resolution (“HJR 109”) was enacted proposing amendments to various sections of the Texas Constitution that pertain to the PSF. In accordance with HJR 109, a referendum was held in the State on November 8, 2011. At that referendum, voters of State approved non-substantive changes to the Texas Constitution to clarify references to the Fund, and, in addition, approved an amendment that effects an increase to the base amount used in calculating the Distribution Rate from the Fund to the ASF. The amendments approved at the referendum include an increase to the base used to calculate the Distribution Rate by adding to the calculation base certain discretionary real assets and cash in the Fund that is managed by entities other than the SBOE (at present, by the SLB). The value of those assets were already included in the value of the Fund for purposes of the Guarantee Program, but prior to the amendment had not been included in the calculation base for purposes of making transfers from the Fund to the ASF. While the amendment provides for an increase in the base for the calculation of approximately \$2 billion, no new resources were provided for deposit to the Fund. As described under “The Total Return Constitutional Amendment” the SBOE is prevented from approving a Distribution Rate or making a pay out from the Fund if the amount distributed would exceed 6% of the average of the market value of the Fund, excluding real property in the Fund, but including discretionary real asset investments on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium or if such pay out would exceed the Ten Year Total Return. The new calculation base is required to be used to determine all payments to the ASF from the Fund beginning with the 2012-13 biennium. As described under “The Total Return Constitutional Amendment” the SBOE approved a Distribution Rate of 4.2% in January 2011 based on a commitment of the SLB to transfer \$500 million to the PSF during the biennium. In November 2012, the SBOE established a 3.3% Distribution Rate for the 2014-15 biennium.

The constitutional amendments approved on November 8, 2011 also provides authority to the GLO or other entity other than the SBOE that has responsibility for the management of land or other properties of the Fund to determine in its sole discretion whether to transfer each year from Fund assets to the ASF revenue derived from such land or properties, an amount not to exceed \$300 million. Any amount transferred to the ASF by an entity other than the SBOE is excluded from the 6% Distribution Rate limitation applicable to SBOE transfers.

The impact of the increase in the base against which the Distribution Rate is applied will be an increase in the distributions from the PSF to the ASF, provided that there are no reductions in the percentage established biennially by the SBOE to be the Distribution Rate. For the 2012-13 biennium, the Distribution Rate has been set by the SBOE at 4.2%. Given the increase in the calculation base effected by the November 8, 2011 constitutional amendment, the effect on transfers made by the SBOE in 2012-13 will be an increase in the total return distribution by an estimated \$73.7 million in each year of the biennium. Going forward, it may be necessary for the SBOE to reduce the Distribution Rate in order to preserve the corpus of the Fund in accordance with its management objective of preserving intergenerational equity, and the Distribution Rate for the 2014-15 biennium has been reduced to 3.3%, as described above. If the SBOE were to maintain a Distribution Rate in future years at the level set for 2012-13, prior to the enactment of the 2011 constitutional amendment, as the value of the real assets investments increase annually, distributions to the ASF would increase in the out years. The increased amounts distributed from the Fund will be a loss to either the investment corpus of the PSF managed by SBOE or, should the SLB increase its transfers to the SBOE to cover this share of the distribution, to the assets managed by the SLB. In addition, the changes made by the amendment will reduce the compounding interest in the Fund that would be derived from these assets remaining in the corpus of the Fund. Other factors that may affect the corpus of the Fund that are associated with this change include the decisions that are made by the SLB or others that are or may in the future be authorized to make transfers of funds from the PSF to the ASF. While the SBOE has oversight of the Guarantee Program, it will not have the decision making power with respect to all transfers to the ASF, as it has had in the past, which could adversely affect the ability of the SBOE to optimally manage its portion of the PSF assets.

Other Events and Disclosures

The State Investment Ethics Code governs the ethics and disclosure requirements for financial advisors and other service providers who advise certain State governmental entities, including the PSF. In accordance with the provisions of the State Investment Ethics Code, the SBOE periodically modifies its code of ethics, which occurred most recently in May 2010. The SBOE code of ethics includes prohibitions on sharing confidential information, avoiding conflict of interests and requiring disclosure filings with respect to contributions made or received in connection with the operation or management of the Fund. The code of ethics applies to members of the SBOE as

well as to persons who are responsible by contract or by virtue of being a TEA PSF staff member for managing, investing, executing brokerage transactions, providing consultant services, or acting as a custodian of the PSF, and persons who provide investment and management advice to a member of the SBOE, with or without compensation under certain circumstances. The code of ethics is codified in the Texas Administrative Code at 19 TAC sections 33.5 et seq., and is available on the TEA web site at <http://ritter.tea.state.tx.us/rules/tac/chapter033/index.html>.

Since 2007, TEA has made supplemental appropriation requests to the Legislature for the purpose of funding the implementation of the 2008 Asset Allocation Policy, but those requests have been denied or partly funded. In the 2011 legislative session, the Legislature approved an increase of 31 positions in the full-time equivalent employees for the administration of the Fund, which was funded as part of an \$18 million appropriation for each year of the 2012-13 biennium, in addition to the operational appropriation of \$11 million for each year of the biennium. The TEA has begun increasing the PSF administrative staff in accordance with the 2011 legislative appropriation, and the TEA received an appropriation of \$30.0 million for the administration of the PSF for each year of the 2014-15 biennium.

As of August 31, 2013, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property, and other litigation arising in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

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

PSF Continuing Disclosure Undertaking

The SBOE has adopted an investment policy rule (the "TEA Rule") pertaining to the PSF and the Guarantee Program. The TEA Rule is codified in Section I of the TEA Investment Procedure Manual, which relates to the Guarantee Program and is posted to the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/. The most recent amendment to the TEA Rule was adopted by the SBOE on November 19, 2010, and is summarized below. Through the adoption of the TEA Rule and its commitment to guarantee bonds, the SBOE has made the following agreement for the benefit of the issuers, holders and beneficial owners of guaranteed bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an "obligated person," within the meaning of Rule 15c2-12, with respect to guaranteed bonds. Nothing in the TEA Rule obligates the TEA to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the TEA under the TEA Rule pertain solely to the Guarantee Program. The issuer or an "obligated person" of the guaranteed bonds has assumed the applicable obligation under Rule 15c-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such undertakings. Under the TEA agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

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

Annual Reports

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

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

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

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

Material Event Notices

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

Availability of Information

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

Limitations and Amendments

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

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

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

REGISTERED OWNERS’ REMEDIES

The Order provides that if the District defaults in the payment of the Bonds when due, or defaults in the observation or performance of any other covenants, or obligations set forth in the Order and the continuation thereof for a period of 60 days after notice of such default is given by any registered owner to the District, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. Because it is unclear whether the Texas legislature has effectively waived the District’s sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants in the absence of District action. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District’s property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is 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 ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of 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 opinions of Co-Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and may be limited by general principles of equity which permit the exercise of judicial discretion.

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. Initially, the only registered owner of the Bonds will be Cede & Co., as DTC’s nominee. See “BOOK-ENTRY-ONLY SYSTEM” herein for a description of the duties of DTC with regard to ownership of Bonds.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and principal of, premium, if any, redemption payments and interest on the Bonds are to be paid to and credited by DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District, the Financial Advisor and the Underwriters believe the source of such information to be reliable, but none of the District, the Financial Advisor or the Underwriters takes any responsibility for the accuracy or completeness thereof.

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered 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 certificate will be issued for each stated maturity of Bonds, as set forth on page 2 hereof, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 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 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within 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 MMI 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).

All 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 Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

Use of Certain Terms in Other Sections of this Official Statement

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

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, has been named to serve as initial Paying Agent/Registrar for the Bonds. In the Order the District retains the right to replace the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a legally qualified bank, trust company, financial institution or other agency duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

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

Future Registration

In the event the Book-Entry-Only System is discontinued, printed Bond certificates will be delivered to the owners of the Bonds and thereafter the Bonds may be transferred, registered and assigned on the registration books only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar, and such registration and transfer 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 and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment must be acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bond or 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. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer 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 authorized denominations and for a like kind and aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" for a description of the system to be utilized initially in regard to the ownership and transferability of the Bonds.

Record Date for Interest Payment

The record date ("Record Date") for determining the person to whom is payable the interest on the Bonds on any interest payment date means the close of business on the last business day of the month next preceding such interest payment date. In the event of a nonpayment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a Bond appearing on the 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.

Limitation on Transfer of Bonds

The Paying Agent/Registrar shall not be required to make any transfer or exchange with respect to Bonds (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) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 30 days prior to its redemption date, provided, however, such limitation on transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Replacement Bonds

If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same principal amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and in substitution for a Bond which has been destroyed, stolen or lost, such new Bond will be delivered only (a) upon filing with the Paying Agent/Registrar of satisfactory evidence to the effect that such Bond has been destroyed, stolen or lost and proof of the ownership thereof, and (b) upon furnishing the District and the Paying Agent/Registrar with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

LEGAL MATTERS

The District will furnish to 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 the State of Texas to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinions of McCall, Parkhurst & Horton L.L.P., and Walsh, Gallegos, Treviño, Russo & Kyle, P.C., Co-Bond Counsel, with respect to the Bonds being issued in compliance with the provisions of applicable law and the opinion of McCall, Parkhurst & Horton L.L.P. to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under “TAX MATTERS” herein, including the alternative minimum tax on corporations. The forms of Co-Bond Counsel’s opinions are attached hereto as Appendix C.

Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Co-Bond Counsel has been engaged by and only represents the District in connection with the issuance of the Bonds. McCall, Parkhurst & Horton L.L.P. also advises the TEA in connection with its disclosure obligations under the federal securities laws, but McCall, Parkhurst & Horton L.L.P. has not passed upon any TEA disclosures contained in this Official Statement. Except as noted below, Co-Bond Counsel did not take part in the preparation of the Official Statement, and such firms have not assumed any responsibility with respect hereto or undertaken independently to verify any of the information contained herein except that in its capacity as Co-Bond Counsel, such firms have reviewed the information appearing under the captions, “THE BONDS” (except under the subcaptions “Permanent School Fund Guarantee,” “Payment Record”, “Sources and Uses of Funds” and the fourth paragraph under the subcaption “Notice of Redemption”), “REGISTRATION, TRANSFER AND EXCHANGE,” “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS,” “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” (excluding the information under the subcaption “Possible Effects of Wealth Transfer Provisions on the District’s Financial Condition”), “LEGAL MATTERS” (except for the last two sentences of the second paragraph thereof), “TAX MATTERS” (McCall, Parkhurst & Horton L.L.P. only), “TAX RATE LIMITATIONS” (first paragraph only), “LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS,” “REGISTRATION AND QUALIFICATION OF BONDS FOR SALE” and “CONTINUING DISCLOSURE OF INFORMATION” (except under the subcaption “Compliance with Prior Undertakings”) and such firms are of the opinion that the information relating to the Bonds and legal matters contained under such captions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal fee to be paid Co-Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, Bracewell & Giuliani LLP, San Antonio, Texas. The legal fee of such firm is contingent upon the sale and delivery of the Bonds.

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

TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Co-Bond Counsel to the District, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof (“Existing Law”), (1) interest on the Bonds for federal income tax purposes will be excludable from the “gross income” of the holders thereof and (2) the Bonds will not be treated as “specified private activity bonds” the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the “Code”). Except as stated above, McCall, Parkhurst & Horton L.L.P. will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds (see “Appendix C – FORMS OF LEGAL OPINIONS OF CO-BOND COUNSEL”).

In rendering its opinion, McCall, Parkhurst & Horton L.L.P. will rely upon (a) certain information and representations of the District, including information and representations contained in the District’s federal tax certificate and (b) covenants of the District contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of McCall, Parkhurst & Horton L.L.P. is conditioned on compliance by the District

with such requirements, and McCall, Parkhurst & Horton L.L.P. has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

McCall, Parkhurst & Horton L.L.P.'s opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. McCall, Parkhurst & Horton L.L.P.'s opinion is not a guarantee of a result. Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds or the Refunded Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds. McCall, Parkhurst & Horton L.L.P.'s opinion is not binding on the Internal Revenue Service. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see the discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with accumulated earnings and

profits and excess passive investment income, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Interest on the Bonds will be includable as an adjustment for “adjusted current earnings” to calculate the alternative minimum tax imposed on corporations by section 55 of the Code.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a “market discount” and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to “market discount bonds” to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A “market discount bond” is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the “revised issue price” (i.e., the issue price plus accrued original issue discount). The “accrued market discount” is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

State, Local and Foreign Taxes

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

Future and Proposed Legislation

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

It is the obligation of the Underwriters to register or qualify the sale of the Bonds under the securities laws of any jurisdiction which so requires. The District agrees to cooperate, at the Underwriters’ written request and sole expense, in registering or qualifying the Bonds or in obtaining an exemption from registration or qualification in any state where such action is necessary; provided, however, that the District shall not be required to qualify as a foreign corporation or to execute a general or special consent to service of process in any jurisdiction.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

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

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

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

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

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

Funding Changes in Response to West Orange-Cove II

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

Possible Effects of Litigation and Changes in Law on District Bonds

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

In the future, the Legislature could enact additional changes to the Finance System which could benefit or be a detriment to a school district depending upon a variety of factors, including the financial strategies that the district has implemented in light of past State funding systems. Among other possibilities, a district’s boundaries could be redrawn, taxing powers restricted, State funding reallocated, or local ad valorem taxes replaced with State funding subject to biennial appropriation. In Edgewood IV, the Supreme Court stated that any future determination of unconstitutionality “would not, however, affect the district’s authority to levy the taxes necessary to retire previously issued bonds, but would instead require the Legislature to cure the system’s unconstitutionality in a way that is consistent with the Contract Clauses of the U.S. and Texas Constitutions” (collectively, the “Contract Clauses”). Consistent with the Contract Clauses, in the exercise of its police powers, the State may make such modifications in the terms and conditions of contractual covenants related to the payment of the Bonds as are reasonable and necessary for the attainment of important public purposes.

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

Current Litigation Related to the Texas Public School Finance System

As described below, during 2011 and 2012, several lawsuits were filed in district courts of Travis County, Texas, which alleged that the Finance System, as modified by legislation enacted by the Legislature since the decision in West Orange Cove II, and in particular, as modified by Senate Bill 1 in 2011, has resulted in a funding system that violates principles established in West Orange Cove I and West Orange Cove II, and prior decisions of the Supreme Court relating to the constitutionality of the Finance System, and several provisions of the Texas Constitution. In general, each suit presented the legal perspectives and arguments of the different coalitions of school districts represented, but as a general matter, each group challenged the adequacy of funding provided by the Legislature for the Finance System, and the plaintiffs in each suit sought to have an injunction issued to the State and its officials to prevent the distribution of any funds under the current Finance System until a constitutional system is created and sought a declaration that changes in funding for the Finance System since the enactment of HB 1 have effectively converted the local M&O tax into a State property tax in violation of the Texas Constitution. The defendants in the suits include State officials and the State Board of Education (the “State Defendants”). The first suit was filed on October 10, 2011, styled *The Texas Taxpayer & Student Fairness Coalition, et al. vs. Robert Scott, Commissioner of Education et al.* A second suit was filed on December 9, 2011, styled *Calhoun County Independent School District, et al. v. Robert Scott, Commissioner of Education, et al.* A third suit was filed on December 13, 2011, styled *Edgewood Independent School District, et al. v. Robert Scott, Commissioner of Education, et al.* A fourth suit was filed on December 23, 2011, styled *Fort Bend Independent School District, et al. v. Robert Scott, Commissioner of Education, et al.* (the “Fort Bend Suit”). The State Defendants filed an answer with respect to each of the first four suits filed, denying the plaintiffs’ allegations, and all of such suits were assigned to the District Court. On February 24, 2012 a plea of intervention to the Fort Bend Suit was filed by seven parents and a group named “Texans for Real Efficiency and Equity in Education.” The intervenors asserted that the Finance System is qualitatively inefficient, and that the Finance System is unconstitutional, in part based on arguments made by other plaintiffs. A fifth suit was filed on June 26, 2012 by individuals and the Texas Charter School Association, styled *Flores, et al. v. Robert Scott, Commissioner of Education, et al.* (the “Charter School Suit”). The petition for the Charter School Suit agreed with the arguments of

the school districts in the first four suits filed that the Finance System is unconstitutional and also sought to have an injunction issued against the State Defendants in the same manner as the first four suits. The Charter School Suit added additional grounds that relate to the circumstances of charter schools as a basis for holding the Finance System unconstitutional, including that charter schools receive no funding for facilities and that the statutory cap on charter schools is unconstitutionally arbitrary. The State Defendants also filed a general denial in the Charter School Suit.

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

On August 28, 2014, the District Court rendered its final ruling, finding the current Finance System unconstitutional for the following reasons: (i) the Finance System effectively imposes a Statewide property tax in violation of the Texas Constitution because school districts lack “meaningful discretion” in the levy, assessment and disbursement of property taxes; (ii) the Finance System is structured, operated and funded in such a manner that prevents it from providing “a constitutionally adequate education for all Texas schoolchildren”; (iii) the Finance System “is constitutionally inadequate because it cannot accomplish, and has not accomplished, a general diffusion of knowledge for all students due to insufficient funding”; and (iv) the Finance System “is financially inefficient because all Texas students do not have substantially equal access to the educational funds necessary to accomplish a general diffusion of knowledge.”

In the final ruling, the District Court enjoined the State from (i) enforcing Chapters 41 and 42 and Section 12.106 of the Education Code and (ii) distributing any money under the current Finance System until the constitutional violations are remedied. However, the District Court stayed the injunction until July 1, 2015, to give the 84th Texas Legislature, which convened on January 13, 2015, an opportunity to cure the constitutional deficiencies in the Finance System. The injunction does not and will not impair the District’s ability to levy, assess and collect ad valorem taxes, at the full rate and in the full amount authorized by law, necessary to make payments on the Bonds and, to the extent the District is entitled to receive State funding assistance for the payment of the Bonds under the current Finance System, the District will continue to be entitled to receive such State funding assistance. In addition, in response to arguments on behalf of the State’s charter schools, the District Court held in its final ruling that it is within the discretion of the Legislature, and not unconstitutional, to fund charter schools differently from other public schools.

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

The Supreme Court noted probable jurisdiction on January 23, 2015 and set the following briefing schedule: Appellants’ briefs were due (and were submitted on) April 13, 2015, Appellees’ briefs were due (and were submitted on) July 2, 2015, and replies are due August 11, 2015. It should be noted that the briefing schedule extends beyond the stayed injunction. Though pursuant to its terms, the District Court stayed its injunction until July 1, 2015, the Appellants’ have taken the position that this stay has been automatically extended pending a final ruling by the Texas Supreme Court. See *Neeley v. W. Orange-Cove Consol. Indep. Sch. District*, 176 S.W.3d 746, 754 & n.19 (Tex. 2005) (noting the district court’s injunction was stayed by the State’s notice of appeal and citing as authority Tex. Civ. Prac. & Rem Code 6.01, which exempts the State from filing a supersedeas bond). Oral arguments before the Texas Supreme Court are scheduled for September 1, 2015.

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

2013 Legislative Session

The 83rd Texas Legislature concluded its regular session on May 27, 2013. During the session, the Legislature adopted a biennial budget that “restored” \$3.2 billion of the \$4 billion that was cut from basic state aid for the Finance System during the 82nd Texas Legislature and some \$100 million of the \$1.3 billion cut from grant programs during the 82nd Texas Legislature. The revenues that were added back to the Finance System do not take into account growing student enrollments in the State. The Legislature did not materially change the Finance System during the session. The District has not made a comprehensive analysis of the effects of the funding changes within the biennial State budget for the period commencing September 1, 2013.

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview

The following description of the Finance System is a summary of the Reform Legislation and the changes made by the State Legislature to the Reform Legislation since its enactment, including modifications made during subsequent legislative sessions. 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"). As noted above, because property values vary widely among school districts, the amount of local funding generated by the same tax rate is also subject to wide variation among school districts.

The Reform Legislation, which generally became effective at the beginning of the 2006–07 fiscal year, made substantive changes to the Finance System, which are summarized below. While each school district's funding entitlement was calculated based on the same formulas that were used prior to the 2006–07 fiscal year, the Reform Legislation made changes to local district funding by reducing each district's 2005 M&O tax rate by one-third over two years through the introduction of the "State Compression Percentage," with M&O tax levies declining by approximately 11% in fiscal year 2006–07 and approximately another 22% in fiscal year 2007–08. (Prior to the Reform Legislation, the maximum M&O tax rate for most school districts was \$1.50 per \$100 of taxable assessed valuation. Because most school districts levied an M&O rate of \$1.50 in 2005, the application of the Reform Legislation compression formula reduced the majority of school districts' M&O tax rates to \$1.00.) Subject to local referenda, a district may increase its local M&O tax rate from \$1.04 up to the statutory limit, which is \$1.17 for most 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. As noted above, prior to the Reform Legislation, the maximum M&O tax rate for most school districts was generally limited to \$1.50 per \$100 of taxable value, and the majority of school districts were levying an M&O tax rate of \$1.50 per \$100 of taxable value at the time the Reform Legislation was enacted. The Reform Legislation required each school district to "compress" its tax rate by an amount equal to the "State Compression Percentage." For fiscal years 2007–08 through 2014–15, the State Compression Percentage has been set at 66.67%, effectively setting the maximum compressed M&O tax rate for most school districts at \$1.00 per \$100 of taxable value. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. School districts are permitted, however, to generate additional local funds by raising their M&O tax rate by up to \$0.04 above the compressed tax rate without voter approval (for most districts, up to \$1.04 per \$100 of taxable value). In addition, if the voters approve a tax rate increase through a local referendum, districts may, in general, increase their M&O tax rate up to a maximum M&O tax rate of \$1.17 per \$100 of taxable value and receive State equalization funds for such taxing effort (see "AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate"). 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").

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 \$55.5 million for IFA allotments.

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

As described above, the cost of the basic program is based on an allotment per student known as the “Basic Allotment”. For fiscal year 2014-15, the Basic Allotment is \$5,040, and 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. As noted above, the Reform Legislation was intended to lower M&O tax rates in order to give school districts "meaningful discretion" in setting their M&O tax rates, while holding school districts harmless by providing them with the same level of overall funding they received prior to the enactment of the Reform Legislation. Under the Target Revenue system, each school district is generally entitled to receive the same amount of revenue per student as it did in either the 2005-2006 or 2006-07 fiscal year (under existing laws prior to the enactment of the Reform Legislation), as long as the district adopted an M&O tax rate that was at least equal to its compressed rate. The reduction in local M&O taxes resulting from the mandatory compression of M&O tax rates under the Reform Legislation, by itself, would have significantly reduced the amount of local revenue available to fund the Finance System. To make up for this shortfall, the Reform Legislation authorized Additional State Aid for Tax Reduction ("ASATR") for each school district in an amount equal to the difference between the amount that each district would receive under the Foundation School Program and the amount of each district's Target Revenue funding level. 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

On January 13, 2015, the 84th Texas Legislature convened in regular session, which ended on June 1, 2015. 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, proposes 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. If approved by the voters at an election to be held on November 3, 2015, the proposed amendment to the Constitution will be 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, makes provisions based on the election outcome of the constitutional amendment proposed in Senate Joint Resolution 1 for either (1) additional state aid to hold school districts harmless for tax revenue losses resulting from the increased homestead exemption, if the constitutional amendment passes or (2) the tax assessor for a school district to mail a supplemental tax bill to taxpayers in the district to account for the difference in taxable assessed value of the residence homestead based on the lower exemption amount provided under current law, if the constitutional amendment fails.

If Senate Joint Resolution 1 is approved by the voters, Senate Bill 1 would also prohibit 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 running through December 31, 2019. An optional homestead exemption reduces both the tax revenue and State aid received by a school district.

Wealth Transfer Provisions

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

The equalized wealth levels that subject Chapter 41 districts to wealth equalization measures for fiscal year 2014–15 are set at (i) \$504,000 per student in WADA with respect to that portion of a district’s M&O tax effort that does not exceed its compressed tax rate (for most districts, the first \$1.00 per \$100 of taxable value) and (ii) \$319,500 per WADA with respect to that portion of a district’s M&O tax effort that is beyond its compressed rate plus \$.06 (for most districts, M&O taxes levied above \$1.06 per \$100 in taxable value). For the 2015-16 fiscal year, the first equalized wealth level increases from \$504,000 to \$514,000, however the second equalized wealth level remains at \$319,500. M&O taxes levied above \$1.00 but below \$1.07 per \$100 of taxable value are not subject to the wealth equalization provisions of Chapter 41. Chapter 41 districts with a wealth per student above the lower equalized wealth level but below the higher equalized wealth level must equalize their wealth only with respect to the portion of their M&O tax rate, if any, in excess of \$1.06 per \$100 of taxable value. Chapter 41 districts may be entitled to receive ASATR from the State in excess of their recapture liability of \$514,000 for the 2015-16 and 2016-17 school years, and certain of such districts may use their ASATR funds to offset their recapture liability.

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

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

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

The District's estimated wealth per student for fiscal year 2014-15 is approximately \$203,486, which is less than the equalized wealth value. Accordingly, the District has not been required to exercise one of the permitted wealth equalization options. As a district with wealth per student less than the equalized wealth value, the District may benefit by agreeing to accept taxable property or funding assistance from or agreeing to consolidate with a property-rich district to enable such district to reduce its wealth per student to the permitted level. For a detailed discussion of State funding for school districts, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts."

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

AD VALOREM TAX PROCEDURES

Property Tax Code and County-Wide Appraisal District

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

Property Subject to Taxation by the District

Except for certain exemptions provided by State law, all real and certain tangible personal property with a tax situs in the District is subject to taxation by the District. Principal categories of exempt property (including certain exemptions which are subject to local option by the Board of Trustees of the District) include property owned by the State or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain improvements to real property and certain tangible personal property located in designated reinvestment zones on which the District has agreed to abate ad valorem taxes; certain household goods, family supplies and personal effects; farm products owned by the producers; certain real property and tangible personal property owned by a non-profit community business organization or a charitable organization; and designated historic sites. Other principal categories of exempt property include tangible personal property not held or used for production of income; solar and windpowered energy devices; most individually owned automobiles; \$10,000 exemption to residential homesteads of disabled persons or persons ages 65 or over; an exemption from \$5,000 to a maximum of \$12,000 for real or personal property of disabled veterans or the surviving spouses (so long as the surviving spouse remains unmarried) or children (under 18 years of age) of a deceased veteran who died while on active duty in the armed forces, with veterans who are 100% disabled (being a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability) entitled to an exemption from taxation of the total appraised value of the veteran's residential homestead; \$15,000 in market value for all residential homesteads; and certain classes of intangible property. Furthermore, effective January 1, 2012, the surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries. In addition, except for increases attributable to certain improvements, the District is prohibited by State law from increasing the total ad valorem tax of the residence homestead of persons 65 years of age or older above the amount of tax imposed in the year such residence qualified for an exemption based on age of the owner. The freeze on ad valorem taxes on the homesteads of persons 65 years of age or older is also transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as (i) the taxpayer died in a year in which he or she qualified for the exemption, (ii) the surviving spouse was at least 55 years of age when the taxpayer died and (iii) the property was the residence homestead of the surviving spouse when the taxpayer died and the property remains the residence homestead of the surviving spouse. The freeze on taxes paid on residence homesteads of persons 65 years of age and older was extended to include the resident homesteads of "disabled" persons, including the right to transfer the freeze to a different residence homestead. A "disabled" person is one who is "under a disability for purposes of payment of disability insurance benefits under the Federal Old Age, Survivors and Disability Insurance." Pursuant to a constitutional amendment approved by the voters on May 12, 2007, legislation was enacted to reduce the school property tax limitation imposed by the freeze on taxes paid on

residence homesteads of persons 65 years of age or over or of disabled persons to correspond to reductions in local school district tax rates from the 2005 tax year to the 2006 tax year and from the 2006 tax year to the 2007 tax year (see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Overview”). The school property tax limitation provided by the constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years. Owners of agricultural and open space land, under certain circumstances, may request valuation of such land on the basis of productive capacity rather than market value.

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

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of “goods-in-transit.” “Goods-in-transit” is defined by Section 11.253 of the Tax Code as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. Section 11.253 of the Tax Code permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax “goods-in-transit” during the following tax year. A taxpayer may only receive either the freeport exemption or the “goods-in-transit” exemption for items of personal property. See “Appendix A – FINANCIAL INFORMATION REGARDING THE DISTRICT” and “THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT” for a schedule of exemptions allowed by the District.

A city or county may create a tax increment financing district (“TIF”) within the city or county with defined boundaries and establish a base value of taxable property in the TIF at the time of its creation. Overlapping taxing units, including school districts, may agree with the city or county to contribute all or part of future ad valorem taxes levied and collected against the “incremental value” (taxable value in excess of the base value) of taxable real property in the TIF to pay or finance the costs of certain public improvements in the TIF, and such taxes levied and collected for and on behalf of the TIF are not available for general use by such contributing taxing units. Prior to September 1, 2001, school districts were allowed to enter into tax abatement agreements to encourage economic development. Under such agreements, a property owner agrees to construct certain improvements on its property. The school district in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. Effective September 1, 2001, school districts may not enter into tax abatement agreements under the general statute that permits cities and counties to initiate tax abatement agreements. In addition, credit will not be given by the Commissioner of Education in determining a district’s property value wealth per student for (1) the appraised value, in excess of the “frozen” value, of property that is located in a TIF created after May 31, 1999 (except in certain limited circumstances where the municipality creating the tax increment financing zone gave notice prior to May 31, 1999 to all other taxing units that levy ad valorem taxes in the TIF of its intention to create the TIF and the TIF was created and had its final project and financing plan approved by the municipality prior to August 31, 1999), or (2) for the loss of value of abated property under any abatement agreement entered into after May 31, 1993. Notwithstanding the foregoing, in 2001 the Legislature enacted legislation known as the Texas Economic Development Act, which provides incentives for school districts to grant limitations on appraised property values and provide ad valorem tax credits to certain corporations and limited liability companies to encourage economic development within the district. Generally, during the last eight years of the ten-year term of a tax limitation agreement, the school district may only levy and collect ad valorem taxes for maintenance and operation purposes on the agreed-to limited appraised property value. The taxpayer is entitled to a tax credit from the school district for the amount of taxes imposed during the first two years of the tax limitation agreement on the appraised value of the property above the agreed-to limited value. Additional State funding is provided to a school district for each year of such tax limitation in the amount of the tax credit provided to the taxpayer. During the first two years of a tax limitation agreement, the school district may not adopt a tax rate that exceeds the district’s rollback tax rate (see “AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate”).

Valuation of Property for Taxation

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

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

appraised value for the preceding tax year, (b) the appraised value of the property for the preceding tax year; and (c) the market value of all new improvements to the property.

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

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

Residential Homestead Exemption

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

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

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 residence homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption 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.

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

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

District and Taxpayer Remedies

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

Public Hearing and Rollback Tax Rate

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

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

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

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

Levy and Collection of Taxes

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

District's Rights in the Event of Tax Delinquencies

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

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

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

The Appraisal District has the responsibility for appraising property in the District as well as other taxing units in San Patricio County. The Appraisal District is governed by a board of directors appointed by voters of the governing bodies of various political subdivisions in San Patricio County. The District’s taxes are collected by the San Patricio County Tax Assessor-Collector.

The District grants a State mandated \$15,000 general residence homestead exemption.

The District grants a State mandated \$10,000 residence homestead exemption for persons 65 years of age or older or the disabled.

The District grants a State mandated residence homestead exemption for disabled veterans.

The District grants a local option, additional exemption of \$3,000 for persons who are 65-years of age or older above the amount of the State-mandated exemption.

The District has not granted a local option, additional exemption of up to 20% of the market value of residence homesteads.

The District does not tax non-business personal property.

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

The District does exempt “freeport property” from taxation.

The District has taken action to continue taxing “goods-in-transit.”

The District is not currently a participant in any Tax Increment Reinvestment Zone.

The District is not currently a participant in any tax abatement agreements. However, the District is currently a participant in a tax limitation agreement as described herein. To promote economic development within the District, the Board has adopted a policy for entering into assessed value limitation agreements under Chapter 313, as amended, Texas Tax Code, which limits the assessed valuation of property of a particular taxpayer for purposes of levying the District’s M&O tax (but not the interest and sinking fund tax). To date, the District has entered into such an agreement with an existing taxpayer, EC&R Papalote Creek I, LLC (see “Table 8 – Historical Top Ten Taxpayers” in Appendix A), which has a term of ten years.

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

<u>Date</u>	<u>Cumulative Penalty</u>	<u>Cumulative Interest</u>	<u>Total</u>
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12	6	18

After July, the penalty remains at 12%, and interest accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such penalty is to compensate the taxing unit for revenue lost because of the delinquency. In addition, if an account is delinquent in July, an attorney’s collection fee of up to 20% may be added to the total tax penalty and interest charge.

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

TAX RATE LIMITATIONS

A school district is authorized to levy 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 May 18, 1963 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 7.66% of the District’s current taxable assessed valuation of property (see “Table 3 – Estimated General Obligation Overlapping Debt Statement” in Appendix A).

The maximum M&O tax rate per \$100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) \$1.50, or such lower rate as described in the preceding paragraph, and (B) the sum of (1) the rate of \$0.17, and (2) the product of the “State Compression Percentage” multiplied by \$1.50. The State Compression Percentage has been set, and will remain, at 66.67% for fiscal years 2007-08 through 2014-15. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For a more detailed description of the State Compression Percentage, see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Funding for School Districts”. Furthermore, a school district cannot annually increase its tax rate in excess of the district’s “rollback tax rate” without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate (see “AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate”). On November 5, 2013, voters in the District approved an increase in the District’s M&O tax rate by thirteen cents to \$1.17 per \$100 of taxable assessed valuation through a tax ratification election (see “Table 6 – Tax Rate Distribution” in Appendix A for details regarding the District’s current 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”).

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

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

RATINGS

Moody's Investors Service ("Moody's") has assigned a municipal bond rating of "___" to the Bonds based upon the Permanent School Fund Guarantee. Moody's generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas "Aaa". The District's underlying rating for the Bonds (without consideration of the Permanent School Fund Guarantee or other credit enhancement) is "___" by Moody's.

An explanation of the significance of any rating may be obtained from the company furnishing the rating. The rating reflects only the view of such organization and the District makes no representation as to the appropriateness of the rating. There is no assurance that any rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating company, if in the judgment of such company, circumstances so warrant. Due to the ongoing political uncertainty regarding the United States of America debt limit, obligations issued by State and local governments in the United States, such as the Bonds, could be subject to a rating downgrade. Additionally, if a significant default or other financial crisis should occur in the affairs of the United States of America or of any of its agencies or political subdivisions, then such event could also adversely affect the ratings of, market for, and market value of outstanding debt obligations, including the Bonds. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201, as amended), the Bonds are (i) negotiable instruments, (ii) investment securities to which Chapter 8 of the Texas Business and Commerce Code applies, and (iii) legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds (see "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 at least \$1 million of capital and savings and loan associations.

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

INVESTMENT AUTHORITY AND INVESTMENT OBJECTIVES OF THE DISTRICT

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

office in the State of Texas and is selected from a list adopted by the District as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less; (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (11) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (12) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and, (13) no-load mutual funds registered with the United States Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

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.

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

Under Texas law, the District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." At least quarterly the District's investment officers must submit an investment report to the Board of Trustees detailing: (1) the investment position of the District, (2)

that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value and the fully accrued interest for the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest District funds without express written authority from the Board of Trustees.

Under State law, the District is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt by written instrument a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Trustees; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the District's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (6) provide specific investment training for the Treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

Current Investments ^(A)

As of May 31, 2015, the District's investable funds were invested in the following investment instruments:

<u>Investment Instrument</u>	<u>Book Value</u>	<u>Percentage</u>
First State Bank of Odem Money Market Account	\$ 1,494,896	53.94%
Lone Star Investment Pool ("Lone Star") ^(B)	1,276,385	46.06%
Texas Local Investment Pool ("TexPool") ^(B)	10	0.00%
Total	<u>\$ 2,771,291</u>	<u>100.00%</u>

^(A) Unaudited.

^(B) Lone Star and TexPool operate pursuant to Chapter 2256 of the Texas Government Code, as amended. Lone Star and TexPool operate as a money market equivalent, in a manner consistent with the SEC's Rule 2a-7 under the Investment Company Act of 1940. No funds of the District are invested in derivative securities, i.e. securities whose rate or return is determined by reference to some other instrument, index or commodity.

EMPLOYEES' BENEFIT PLANS

The District's employees participate in a retirement plan (the "Plan") with the State of Texas. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. For the year ended August 31, 2014, the State contributed \$406,510 to TRS on behalf of the District's employees and the District contributed an additional \$71,288 on the portion of the employees' salaries that exceeded the statutory minimum. For more detailed information concerning the Plan, see Note H to the District's audited financial statements attached hereto as Appendix D.

In addition to its participation in the TRS, the District contributes to the Texas Public School Retired Employees Group Insurance Program (the "TRS-Care Retired Plan"), a cost-sharing multiple-employer defined benefit post-employment health care plan. The TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the TRS. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. For more detailed information concerning the District's funding policy and contributions in connection with the TRS-Care Retired Plan, see Note I to the District's audited financial statements attached hereto as Appendix D.

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

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

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 certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for a description of the TEA's continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State, as the case may be, and to provide timely notice of certain specified events related to the guarantee to the MSRB.

Annual Reports

The District will provide certain updated financial information and operating data annually to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement in Tables 1 through 20 in "Appendix A – FINANCIAL INFORMATION REGARDING THE DISTRICT" and in Appendix D, which is the District's annual audited financial report. The District will update and provide the annual financial information appearing in the numbered tables described in the preceding sentence within six months after the end of each fiscal year ending in and after 2015 and, if not submitted as part of the annual financial information, the District will provide its audited annual financial report when and if available, and in any event, within 12 months after the end of each fiscal year. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District will file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix D or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation.

The District's current fiscal year end is August 31. Accordingly, the District must provide updated information included in the above-referenced tables by the last day of February in each year, and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) must be provided by August 31 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the District otherwise would be required to provide financial information and operating data as set forth above.

All financial information, operating data, financial statements and notices required to be provided to the MSRB shall be provided in an electronic format and be accompanied by identifying information prescribed by the MSRB. Financial information and operating data to be provided as set forth above may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document) available to the public on the MSRB's Internet Web site or filed with the Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

Notices of Certain Events

The District will also provide timely notices of certain events to the MSRB. The District will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District 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) appointment of a successor or additional trustee or the change of name of a trustee, if material. In addition, the District will provide timely notice of any failure by the District to provide annual financial

information in accordance with their agreement described above under “Annual Reports”. Neither the Bonds nor the Order provide for debt service reserves, liquidity enhancement, or credit enhancement (except with respect to the Permanent School Fund Guarantee).

For these purposes, any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and 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 as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

Limitations and Amendments

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

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (1) the agreement, as amended would have permitted an underwriter to purchase or sell the Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances, and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provisions of the Order that authorizes such 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 interest of the registered owners and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in type of information and data provided.

Compliance with Prior Undertakings

During the last five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

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 condition or operations of the District.

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

FINANCIAL ADVISOR

BOSC, Inc. 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. In the normal course of business, the Financial Advisor may also from time to time sell investment securities to the District for the investment of debt proceeds or other funds of the District, upon the request of the District.

BOSC, Inc., in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

UNDERWRITING

The Underwriters have agreed, subject to certain customary conditions, to purchase the Bonds at a price equal to the initial offering price to the public, as shown on page 2 of this Official Statement, less an underwriting discount of \$ _____, and no accrued interest. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

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

FORWARD-LOOKING STATEMENTS

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

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

CONCLUDING STATEMENT

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

MISCELLANEOUS

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 Official Statement for purposes of, and as that term is defined in, SEC Rule 15c2-12.

The Order will approve (i) the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and (ii) the Underwriters' use of this Official Statement in connection with the public offering and the sale of the Bonds in accordance with the provisions of the Rule.

President, Board of Trustees
Odem-Edroy Independent School District

ATTEST:

Secretary, Board of Trustees
Odem-Edroy Independent School District

APPENDIX A

FINANCIAL INFORMATION REGARDING THE DISTRICT

FINANCIAL INFORMATION REGARDING THE DISTRICT

**Table 1
ASSESSED VALUATION ^(A)**

2014/15 Total Assessed Valuation.....	\$ 483,322,028
2014/15 Taxable Assessed Valuation.....	\$ 365,523,018
<u>Exemption</u>	<u>Total</u>
Residential Homestead.....	\$ 15,447,689
10% Residential Homestead Cap.....	3,766,531
Over 65.....	5,140,970
Disabled Persons.....	402,310
Disabled/Deceased Veterans.....	1,907,016
Freeport Exemption.....	57,730
Protest Value.....	1,653,100
Productivity Loss.....	89,423,664
Total (24.37% of Total Assessed Valuation).....	<u>\$ 117,799,010</u>

(A) Source: San Patricio County Appraisal District. Certified values are subject to change throughout the year as contested values are resolved and the San Patricio County Appraisal District updates records.

**Table 2
TAX DEBT OUTSTANDING ^{(A)(B)}**

Unlimited Tax Obligations:

Unlimited Tax Debt Outstanding (As of August 1, 2015).....	\$ 4,659,997 ^(C)
Plus: The Bonds (Dated: August 1, 2015).....	<u>23,335,000 ^(D)</u>
TOTAL UNLIMITED TAX DEBT OUTSTANDING.....	\$ 27,994,997 ^(C)
Less: Interest & Sinking Fund Balance (As of August 31, 2014).....	<u>107,303</u>
NET UNLIMITED TAX DEBT OUTSTANDING.....	<u>\$ 27,887,694 ^(C)</u>

Limited Tax Obligations:

Limited Tax Obligations Outstanding (As of August 1, 2015).....	\$ 180,000 ^(E)
NET LIMITED TAX DEBT OUTSTANDING.....	<u>\$ 180,000 ^(E)</u>

(A) See discussion under "TAX RATE LIMITATIONS" in the Official Statement.

(B) Excludes interest accreted on outstanding capital appreciation bonds.

(C) Does not include any limited tax debt obligations payable from the District's Maintenance & Operations tax rate (see "Table 15 - Limited Tax Debt Service Requirements" and "Table 17 - Capital Lease").

(D) Preliminary, subject to change.

(E) Limited tax obligations are payable from the District's Maintenance & Operations tax rate (see "Table 15 - Limited Tax Debt Service Requirements").

2015 Population Estimate	4,510	Per Capita Total Assessed Valuation	\$ 107,167
2014/15 Enrollment	1,007	Per Capita Taxable Assessed Valuation	\$ 81,047
Area (square miles)	114.59	Per Capita Total Unlimited Tax Debt	\$ 6,207

Table 3
ESTIMATED GENERAL OBLIGATION OVERLAPPING DEBT STATEMENT

<u>Taxing Body</u>	<u>Gross Dollar Amount</u> ^(A)	<u>As Of</u>	<u>Percent Overlap</u>	<u>Dollar Overlap</u>
Odem, City of	\$ 2,025,000	08/01/15	100.00%	\$ 2,025,000
San Patricio County	16,215,000	08/01/15	7.40%	1,199,910
Odem-Edroy ISD	27,994,997 ^{(B)(C)}	08/01/15	100.00%	27,994,997 ^{(B)(C)}
Total Direct and Overlapping Debt.....				\$ 31,219,907
Ratio of Direct Debt to Taxable Assessed Valuation.....				7.66%
Ratio of Direct and Overlapping Debt to Taxable Assessed Valuation.....				8.54%
Ratio of Direct and Overlapping Debt to Total Assessed Valuation.....				6.46%
Per Capita Direct and Overlapping Debt.....				\$6,922

^(A) Excludes interest accreted on outstanding capital appreciation bonds.

^(B) Does not include any limited tax obligations payable from the District's Maintenance & Operations tax rate (see "Table 15 - Limited Tax Debt Service Requirements" and "Table 17 - Capital Lease").

^(C) Includes the Bonds. Preliminary, subject to change.

Source: Texas Municipal Reports.

Table 4
2014/15 TOTAL TAX RATES OF OVERLAPPING POLITICAL ENTITIES

Odem, City of.....	\$0.830000
San Patricio County.....	\$0.510000

Source: San Patricio County Appraisal District.

Table 5
PROPERTY TAX RATES AND COLLECTIONS

<u>Tax Year</u>	<u>Taxable Assessed</u>		<u>Percent Collections</u> ^(A)		<u>Fiscal Year Ended</u>
	<u>Valuation</u>	<u>Tax Rate</u>	<u>Current</u>	<u>Total</u>	
2009	\$ 219,265,205	\$1.29240	93.80%	99.94%	8-31-10
2010	278,811,958	1.22650	95.72%	100.69%	8-31-11
2011	251,746,044	1.29250	95.92%	105.44%	8-31-12
2012	283,254,537	1.16670	95.73%	99.61%	8-31-13
2013	336,985,287	1.28730	<u>95.34%</u>	<u>97.97%</u>	8-31-14
	Five Year Average.....		<u>95.30%</u>	<u>100.73%</u>	
2014	\$ 365,523,018	\$1.29832	94.51% ^(B)	97.53% ^(B)	8-31-15

^(A) Excludes Penalties and Interest.

^(B) Unaudited, partial collections as of May 31, 2015.

Source: District's Audited Financial Statements, San Patricio County Appraisal District and District records. Certified values are subject to change throughout the year as contested values are resolved and the San Patricio County Appraisal District updates records.

Table 6
TAX RATE DISTRIBUTION ^{(A)(B)}

	<u>2014/15</u>	<u>2013/14</u>	<u>2012/13</u>	<u>2011/12</u>	<u>2010/11</u>
Local Maintenance	\$1.17000	\$1.17000	\$1.04000	\$1.17000	\$1.12090
Interest & Sinking	<u>0.12832</u>	<u>0.11730</u>	<u>0.12670</u>	<u>0.12250</u>	<u>0.10560</u>
Total	<u>\$1.29832</u>	<u>\$1.28730</u>	<u>\$1.16670</u>	<u>\$1.29250</u>	<u>\$1.22650</u>

^(A) See discussion under "TAX RATE LIMITATIONS" in the Official Statement.

^(B) The levy of a \$1.17 tax rate for maintenance and operations was approved by the voters in the District at a tax ratification election held on November 5, 2013. Prior to such ratification, the District was limited to a \$1.04 tax rate for maintenance and operations. See discussion under "TAX RATE LIMITATIONS" in the Official Statement.

Source: District's Audited Financial Statements and District records.

Table 7
VALUATION AND UNLIMITED TAX DEBT HISTORY

<u>Fiscal Year</u>	<u>Taxable Assessed Valuation</u>	<u>Percent Increase/ (Decrease) In Taxable Assessed Valuation Over Prior Year</u>	<u>Principal Amount Of Unlimited Tax Debt Outstanding At Year End</u> ^{(A)(B)}	<u>Ratio Of Unlimited Tax Debt To Taxable Assessed Valuation</u> ^{(A)(B)}
2010/11	\$ 278,811,958	27.16%	\$5,364,997	1.92%
2011/12	251,746,044	(9.71%)	5,139,997	2.04%
2012/13	283,254,537	12.52%	4,904,997	1.73%
2013/14	336,985,287	18.97%	4,659,997	1.38%
2014/15	365,523,018	8.47%	27,739,997 ^(C)	7.59% ^(C)

^(A) Does not include any limited tax obligations payable from the District's Maintenance & Operations tax rate (see "Table 15 - Limited Tax Debt Service Requirements" and "Table 17 - Capital Lease").

^(B) Excludes the interest accreted on outstanding capital appreciation bonds.

^(C) Projected, as of August 31, 2015, subject to change. Includes the Bonds.

Source: District records and San Patricio County Appraisal District.

Table 8
HISTORICAL TOP TEN TAXPAYERS ^(A)

PRINCIPAL TAXPAYERS AND THEIR 2014/15 TAXABLE ASSESSED VALUATIONS

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Taxable Assessed Valuation</u>	<u>Percent Of T.A.V.</u>
Trican Well Services	Oil & Gas	\$ 56,674,080	15.50%
EC&R Papalote Creek I LP	Electric Utility	54,418,000	14.89%
Union Pacific Railroad Company	Railroad	14,188,270	3.88%
AEP Texas Central Company	Electric Utility	9,543,157	2.61%
Flint Hills Resources CC (TPL)	Oil & Gas	8,692,580	2.38%
Pumpco, Inc.	Pipeline	5,658,264	1.55%
Kinder Morgan Tejas Pipeline	Pipeline	4,992,480	1.37%
Wagner Oil Company	Oil & Gas	4,455,570	1.22%
Smith Gin Co-op	Cotton Ginning	3,048,132	0.83%
Arrowhead Eagle Ford Pipeline	Pipeline	2,159,930	0.59%
Totals.....		\$ 163,830,463	44.82%

PRINCIPAL TAXPAYERS AND THEIR 2013/14 TAXABLE ASSESSED VALUATIONS

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Taxable Assessed Valuation</u>	<u>Percent Of T.A.V.</u>
EC&R Papalote Creek I LP	Electric Utility	\$ 56,000,880	16.62%
Trican Well Services	Oil & Gas	47,123,620	13.98%
Union Pacific Railroad Company	Railroad	12,681,290	3.76%
Flint Hills Resources CC (TPL)	Oil & Gas	8,218,570	2.44%
AEP Texas Central Company	Electric Utility	7,640,247	2.27%
Southern Bay Operating LLC	Oil & Gas	6,496,900	1.93%
Kinder Morgan Tejas Pipeline	Pipeline	5,682,940	1.69%
Professional Wireline Rentals	Oil & Gas	4,336,800	1.29%
Smith Gin Co-op	Cotton Ginning	3,603,797	1.07%
Harvest Pipeline Co.	Pipeline	3,238,620	0.96%
Totals.....		\$ 155,023,664	46.00%

PRINCIPAL TAXPAYERS AND THEIR 2012/13 TAXABLE ASSESSED VALUATIONS

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Taxable Assessed Valuation</u>	<u>Percent Of T.A.V.</u>
EC&R Papalote Creek I LP	Electric Utility	\$ 53,990,560	19.06%
Union Pacific Railroad Company	Railroad	11,412,980	4.03%
Trican Well Services	Oil & Gas	11,348,860	4.01%
Southern Bay Operating LLC	Oil & Gas	8,051,700	2.84%
Flint Hills Resources CC (TPL)	Oil & Gas	6,995,880	2.47%
AEP Texas Central Company	Electric Utility	6,084,487	2.15%
Kinder Morgan Tejas Pipeline	Pipeline	5,318,930	1.88%
Smith Gin Co-op	Cotton Ginning	4,100,674	1.45%
Professional Wireline Rentals	Oil & Gas	2,700,600	0.95%
XOG Operating, LLC	Oil & Gas	2,162,240	0.76%
Totals.....		\$ 112,166,911	39.60%

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

Source: San Patricio County Appraisal District.

Table 9
CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY

<u>Property Use Category</u>	<u>2014/15</u>	<u>2013/14</u>	<u>2012/13</u>	<u>2011/12</u>	<u>2010/11</u>
Real Property:					
Single-Family Residential	\$ 135,065,740	\$ 124,897,183	\$ 114,407,579	\$ 107,783,061	\$ 120,388,354
Multi-Family Residential	809,864	872,369	734,918	713,067	743,771
Vacant Lots/Tracts	4,518,312	4,526,955	4,432,530	3,601,799	3,747,453
Acreage (Land Only)	106,975,256	106,376,108	72,090,208	58,972,091	58,398,842
Farm & Ranch Improvements	25,326,703	22,723,157	17,158,240	15,466,993	14,548,870
Commercial and Industrial	76,025,908	77,539,982	75,393,232	67,586,453	78,723,178
Minerals, Oil and Gas	12,014,210	12,292,840	15,213,450	14,092,700	16,037,270
Inventory	245,741	326,598	104,047	98,916	721,636
Tangible Personal Property:					
Business	68,226,732	56,681,591	21,617,876	9,484,426	8,967,781
Other	2,804,712	2,582,944	2,444,773	1,745,499	1,975,293
Real & Tangible Personal Property:					
Utilities	51,308,850	49,820,970	42,134,430	38,579,780	37,173,450
Total Assessed Valuation	\$ 483,322,028	\$ 458,640,697	\$ 365,731,283	\$ 318,124,785	\$ 341,425,898
Less Exemptions:					
Residential Homestead	\$ 15,447,689	\$ 14,955,395	\$ 15,560,388	\$ 15,216,387	\$ 15,368,205
10% Residential Homestead Cap Over 65	3,766,531	3,932,996	3,239,769	1,098,974	2,864,488
Disabled Persons	5,140,970	4,642,444	4,444,045	4,143,872	3,995,101
Disabled/Deceased Veterans	402,310	458,763	540,227	489,874	507,613
Freepoint Exemption	1,907,016	1,509,459	1,410,816	1,149,674	1,251,330
Other Exempt Value Losses	57,730	140,250	1,465,500	1,029,670	-
Protest Value	-	7,772	29,756	25,917	-
Productivity Loss	1,653,100	8,527,662	2,627,889	2,215,253	-
Total Exemptions	\$ 117,799,010	\$ 121,655,410	\$ 82,476,746	\$ 66,378,741	\$ 62,613,940
Taxable Assessed Valuation	\$ 365,523,018	\$ 336,985,287	\$ 283,254,537	\$ 251,746,044	\$ 278,811,958

Source: San Patricio County Appraisal District. Certified values are subject to change throughout the year as contested values are resolved and the San Patricio County Appraisal District updates records.

Table 10
PERCENTAGE OF TOTAL ASSESSED VALUATION BY CATEGORY

<u>Property Use Category</u>	<u>2014/15</u>	<u>2013/14</u>	<u>2012/13</u>	<u>2011/12</u>	<u>2010/11</u>
Real Property:					
Single-Family Residential	27.95%	27.23%	31.28%	33.88%	35.26%
Multi-Family Residential	0.17%	0.19%	0.20%	0.22%	0.22%
Vacant Lots/Tracts	0.93%	0.99%	1.21%	1.13%	1.10%
Acreage (Land Only)	22.13%	23.19%	19.71%	18.54%	17.10%
Farm & Ranch Improvements	5.24%	4.95%	4.69%	4.86%	4.26%
Minerals, Oil and Gas	2.49%	2.68%	4.16%	4.43%	4.70%
Inventory	0.05%	0.07%	0.03%	0.03%	0.21%
Tangible Personal Property:					
Business	14.12%	12.36%	5.91%	2.98%	2.63%
Other	0.58%	0.56%	0.67%	0.55%	0.58%
Real & Tangible Personal Property:					
Utilities	<u>10.62%</u>	<u>10.86%</u>	<u>11.52%</u>	<u>12.13%</u>	<u>10.89%</u>
Total	<u>84.27%</u>	<u>83.09%</u>	<u>79.39%</u>	<u>78.75%</u>	<u>76.94%</u>

Source: San Patricio County Appraisal District.

Table 11
OUTSTANDING UNLIMITED TAX DEBT SERVICE ^(A)

<u>Year</u>	<u>Outstanding Debt Requirements</u>		<u>Plus: The Bonds - Debt Requirements ^(B)</u>		<u>Total</u>	<u>Percent</u> <u>Of Principal</u> <u>Retired</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u> <u>Requirements</u>	
2014/15	\$ 255,000.00	\$ 191,222.50	\$ -	\$ 20,968.89	\$ 467,191.39	
2015/16	265,000.00	180,372.50	70,000.00	1,042,453.33	1,557,825.83	
2016/17	160,646.50	288,316.00	100,000.00	1,076,300.00	1,625,262.50	
2017/18	27,106.35	420,041.15	165,000.00	1,073,300.00	1,685,447.50	
2018/19	22,244.25	424,903.25	235,000.00	1,068,350.00	1,750,497.50	4.64%
2019/20	285,000.00	162,147.50	305,000.00	1,061,300.00	1,813,447.50	
2020/21	295,000.00	150,747.50	315,000.00	1,052,150.00	1,812,897.50	
2021/22	305,000.00	138,947.50	330,000.00	1,042,700.00	1,816,647.50	
2022/23	325,000.00	126,747.50	330,000.00	1,032,800.00	1,814,547.50	
2023/24	335,000.00	113,747.50	345,000.00	1,022,900.00	1,816,647.50	15.97%
2024/25	345,000.00	100,012.50	360,000.00	1,012,550.00	1,817,562.50	
2025/26	360,000.00	85,867.50	370,000.00	1,001,750.00	1,817,617.50	
2026/27	375,000.00	71,017.50	380,000.00	986,950.00	1,812,967.50	
2027/28	390,000.00	55,267.50	400,000.00	971,750.00	1,817,017.50	
2028/29	410,000.00	38,887.50	410,000.00	955,750.00	1,814,637.50	29.54%
2029/30	250,000.00	21,462.50	605,000.00	939,350.00	1,815,812.50	
2030/31	255,000.00	10,837.50	635,000.00	915,150.00	1,815,987.50	
2031/32	-	-	925,000.00	889,750.00	1,814,750.00	
2032/33	-	-	965,000.00	852,750.00	1,817,750.00	
2033/34	-	-	1,010,000.00	804,500.00	1,814,500.00	46.13%
2034/35	-	-	1,060,000.00	754,000.00	1,814,000.00	
2035/36	-	-	1,115,000.00	701,000.00	1,816,000.00	
2036/37	-	-	1,170,000.00	645,250.00	1,815,250.00	
2037/38	-	-	1,230,000.00	586,750.00	1,816,750.00	
2038/39	-	-	1,290,000.00	525,250.00	1,815,250.00	67.08%
2039/40	-	-	1,355,000.00	460,750.00	1,815,750.00	
2040/41	-	-	1,420,000.00	393,000.00	1,813,000.00	
2041/42	-	-	1,495,000.00	322,000.00	1,817,000.00	
2042/43	-	-	1,570,000.00	247,250.00	1,817,250.00	
2043/44	-	-	1,645,000.00	168,750.00	1,813,750.00	93.82%
2044/45	-	-	1,730,000.00	86,500.00	1,816,500.00	100.00%
TOTAL	\$ 4,659,997.10	\$ 2,580,545.40	\$ 23,335,000.00	\$ 23,713,972.22	\$ 54,289,514.72	

^(A) Preliminary, subject to change.

^(B) Interest on the Bonds has been projected at an assumed interest rate for illustration purposes only. Preliminary, subject to change.

Note: Table 11 does not include any potential funding the District may receive from the State of Texas pursuant to the Instructional Facilities Allotment and/or Existing Debt Allotment Programs. For fiscal year ending August 31, 2014, the District received \$49,680 of State funding assistance from a combination of these programs and has not budgeted to receive any funding assistance from these programs during fiscal year 2014/15. The amount of State funding aid for debt service may substantially differ from year to year, depending on a number of factors, including amounts, if any, appropriated for that purpose by the Texas Legislature from time to time (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM"). Table 11 does not include any limited tax obligations payable from the District's Maintenance & Operations tax rate (see "Table 15 - Limited Tax Debt Service Requirements" and "Table 17 - Capital Lease").

Table 12
AUTHORIZED BUT UNISSUED BONDS

At an election held on May 9, 2015 (the "Election"), the qualified voters of the District approved a bond proposition in the amount of \$24,500,000 for the purpose of the acquisition, construction and equipment of school buildings in the District. After the issuance of the Bonds, the District will have no authorized but unissued bonds remaining from its Election. Except for possible refundings for debt service savings, the District does not anticipate the issuance of additional unlimited tax bonds within the next 12-months.

In addition to unlimited tax bonds, the District may 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.

Table 13
INTEREST & SINKING FUND BUDGET INFORMATION

Tax Supported Debt Service Requirements, Fiscal Year Ending August 31, 2015.....	\$	468,691	(A)
Interest and Sinking Fund Balance as of August 31, 2014.....	\$	107,303	
Estimated Capitalized Interest on the Bonds.....		20,969	
Local Taxes and Other Revenues.....		<u>446,773</u>	
	\$	<u>575,045</u>	
Projected Interest and Sinking Fund Balance at August 31, 2015.....	\$	<u>106,354</u>	

(A) Includes paying agent/registrar fees and other bond related expenses.

Table 14
TAX ADEQUACY - UNLIMITED TAX DEBT SERVICE REQUIREMENTS

Year 2014/15 Principal And Interest Requirements.....	\$	467,191	
\$0.1342 Tax Rate At 95.30% Collections Produces.....	\$	467,477	(A)
Maximum Principal And Interest Requirements, Year 2032/33.....	\$	1,817,750	(B)
\$0.5219 Tax Rate At 95.30% Collections Produces.....	\$	1,818,004	(A)(C)

(A) Based upon 2014/15 taxable assessed valuation of \$365,523,018.

(B) Includes the Bonds. Preliminary, subject to change.

(C) In connection with the issuance of the Bonds, the District, to the extent required by the Texas Attorney General during its review of the Bonds, may covenant to deposit into the Interest and Sinking Fund, prior to the adoption of its tax rate each year, the amount of Tier One funds received from the State (up to the amount needed to pass the \$0.50 tax rate test described under "TAX RATE LIMITATIONS" for the year of maximum aggregate debt service) which will allow its bond tax rate to be \$0.50 or less.

Note: Table 14 does not include any potential funding the District may receive from the State of Texas pursuant to the Instructional Facilities Allotment and/or Existing Debt Allotment Programs. For fiscal year ending August 31, 2014, the District received \$49,680 of State funding assistance from a combination of these programs and has not budgeted to receive any funding assistance from these programs during fiscal year 2014/15. The amount of State funding aid for debt service may substantially differ from year to year, depending on a number of factors, including amounts, if any, appropriated for that purpose by the Texas Legislature from time to time (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM"). Table 14 does not include any limited tax obligations payable from the District's Maintenance & Operations tax rate (see "Table 15 - Limited Tax Debt Service Requirements" and "Table 17 - Capital Lease").

Table 15
LIMITED TAX DEBT SERVICE REQUIREMENTS ^(A)

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service Requirements</u>	<u>Percent Of Principal Retired</u>
2014/15	\$ 60,000.00	\$ 3,270.00	\$ 63,270.00	
2015/16	60,000.00	2,454.00	62,454.00	
2016/17	60,000.00	1,302.00	61,302.00	100.00%
TOTAL	\$ 180,000.00	\$ 7,026.00	\$ 187,026.00	

^(A) Payable from the District's Maintenance & Operations tax rate.

Table 16
TAX ADEQUACY - LIMITED TAX DEBT SERVICE REQUIREMENTS ^(A)

Year 2014/15 Principal And Interest Requirements.....	\$ 63,270
\$0.0182 Tax Rate At 95.30% Collections Produces.....	\$ 63,399 ^(B)

^(A) Payable from the District's Maintenance & Operations tax rate.

^(B) Based upon 2014/15 taxable assessed valuation of \$365,523,018.

Table 17
CAPITAL LEASE

The District financed two 71 passenger busses through a capital lease for \$178,972 during the year ended August 31, 2014. Debt service requirements to maturity for the capital lease are as follows:

<u>Year Ending August 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2015	\$ 58,369	\$ 2,835	\$ 61,204
2016	59,765	1,437	61,202
	<u>\$ 118,134</u>	<u>\$ 4,272</u>	<u>\$ 122,406</u>

Source: District's Audited Financial Statements and District records.

Table 18
COMBINED GENERAL FUND BALANCE SHEET

	Fiscal Years Ending August 31, 2010 - 2014				
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets:					
Cash and Cash Equivalents	\$ 865,278	\$ (303,812)	\$ 283,017	\$ 752,399	\$ 217,704
Taxes Receivable, Net	192,903	157,917	168,332	216,400	238,588
Due from Other Governments	316,760	702,686	621,931	475,650	726,725
Due from Other Funds	130,254	88,450	173,003	168,152	12,560
Other Receivables	36,276	33,362	85,948	30,185	21,611
Inventories	-	-	2,396	3,174	3,111
Unrealized Expenditures	122,988	121,225	116,444	101,724	168,782
Total Assets	<u>\$ 1,664,459</u>	<u>\$ 799,828</u>	<u>\$ 1,451,071</u>	<u>\$ 1,747,684</u>	<u>\$ 1,389,081</u>
Liabilities, Deferred Inflows of Resources and Fund Balances:					
<i>Liabilities:</i>					
Accounts Payable	\$ 137,499	\$ 30,415	\$ 157,024	\$ 85,066	\$ 25,388
Payroll Deductions & Withholdings Payable	8,028	11,368	27,197	3,629	768
Accrued Wages Payable	324,289	332,793	332,075	366,148	281,520
Due to Other Funds	40,913	29,845	107,843	106,049	11,387
Due to Other Student Groups	-	-	466	-	-
Unearned Revenues	130,699	-	172,757	677,700	238,588
Total Liabilities	<u>\$ 641,428</u>	<u>\$ 404,421</u>	<u>\$ 797,362</u>	<u>\$ 1,238,592</u>	<u>\$ 557,651</u>
<i>Deferred Inflows of Resources:</i>					
Deferred Revenue	\$ 192,903	\$ 157,917	\$ -	\$ -	\$ -
Total Deferred Inflows of Resources	<u>\$ 192,903</u>	<u>\$ 157,917</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<i>Fund Balances:</i>					
Committed Fund Balance:					
Capital Expenditures for Equipment	\$ 100,000	\$ 100,000	\$ -	\$ -	\$ -
Unassigned Fund Balance:	730,128	137,490	653,709	509,092	831,430
Total Fund Balances ^(A)	<u>\$ 830,128</u>	<u>\$ 237,490</u>	<u>\$ 653,709</u>	<u>\$ 509,092</u>	<u>\$ 831,430</u>
Total Liabilities, Deferred Inflows of Resources & Fund Balances	<u>\$ 1,664,459</u>	<u>\$ 799,828</u>	<u>\$ 1,451,071</u>	<u>\$ 1,747,684</u>	<u>\$ 1,389,081</u>

^(A) The District estimates that its Ending General Fund Balance as of August 31, 2015 will be approximately \$1,330,128 (unaudited). Source: District's Audited Financial Statements and District records.

Table 19
COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES

	Fiscal Years Ending August 31, 2010 - 2014				
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Beginning General Fund Balance ^(A)	\$ 237,491	\$ 653,709	\$ 509,092	\$ 831,430	\$ 1,277,808
Revenues:					
Local and Intermediate Sources	\$ 3,476,583	\$ 2,614,437	\$ 2,691,703	\$ 3,319,057	\$ 2,647,851
State Program Revenues	6,205,093	5,870,744	5,853,860	5,967,655	6,773,635
Federal Program Revenues	66,582	214,990	201,403	253,559	300,519
Total Revenues	\$ 9,748,258	\$ 8,700,171	\$ 8,746,966	\$ 9,540,271	\$ 9,722,005
Expenditures:					
Instruction	\$ 4,425,714	\$ 4,491,184	\$ 4,303,545	\$ 4,449,681	\$ 4,787,519
Instructional Resources and Media Services	129,908	146,380	156,207	276,682	292,074
Curriculum and Staff Development	145,684	154,022	162,983	267,423	295,681
Instructional Leadership	74,438	73,611	70,074	12,012	-
School Leadership	581,735	616,317	595,001	615,736	668,744
Guidance, Counseling and Evaluation Services	212,889	231,610	233,588	321,824	324,707
Health Services	116,389	116,393	116,771	118,715	115,110
Student Transportation	583,440	277,262	298,476	316,571	305,307
Food Service	4,181	3,267	2,710	4,082	6,081
Cocurricular/Extracurricular Activities	608,946	621,591	607,696	652,104	674,378
General Administration	574,257	569,768	557,276	752,714	669,938
Facilities Maintenance and Operations	1,549,573	1,563,988	1,833,705	1,690,014	2,092,986
Security and Monitoring Services	29,014	8,631	9,308	8,434	10,186
Data Processing Services	143,429	130,020	63,460	89,333	81,105
Community Services	-	-	-	56,190	50,125
Debt Service - Principal on Long-Term Debt	240,838	170,000	110,000	105,000	100,000
Debt Service - Interest on Long-Term Debt	8,850	13,429	13,214	17,235	20,363
Debt Service - Bond Issuance Costs and Fees	1,299	1,310	28,310	800	800
Payments to Shared Service Arrangements	-	-	-	117,000	111,806
Other Intergovernmental Charges	68,266	70,316	28,764	33,898	44,282
Total Expenditures	\$ 9,498,850	\$ 9,259,099	\$ 9,191,088	\$ 9,905,448	\$ 10,651,192
Other Resources and (Uses):					
Other Resources	\$ 428,248	\$ 227,728	\$ 588,739	\$ -	\$ 12,665
Other Uses	(85,019)	(85,019)	-	-	-
Total Other Resources (Uses)	\$ 343,229	\$ 142,709	\$ 588,739	\$ -	\$ 12,665
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	\$ 592,637	\$ (416,219)	\$ 144,617	\$ (365,177)	\$ (916,522)
Prior Period Adjustment	\$ -	\$ -	\$ -	\$ 42,839	\$ 470,144
Ending General Fund Balance ^{(A)(B)(C)}	\$ 830,128	\$ 237,490	\$ 653,709	\$ 509,092	\$ 831,430

(A) Differences in Beginning and Ending General Fund Balance due to rounding.

(B) Ending General Fund Balance includes Committed and Unassigned Fund Balance.

(C) The District estimates that its Ending General Fund Balance as of August 31, 2015 will be approximately \$1,330,128 (unaudited).

Source: District's Audited Financial Statements and District records.

Table 20
CHANGE IN NET POSITION ^(A)

	Fiscal Years Ending August 31, 2010 - 2014				
Revenues:	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Program Revenues					
Charges for Services	\$ 222,883	\$ 172,476	\$ 203,527	\$ 176,883	\$ 161,082
Operating Grants and Contributions	<u>2,053,697</u>	<u>2,421,549</u>	<u>2,527,110</u>	<u>3,031,782</u>	<u>3,280,964</u>
Total Program Revenues	\$ 2,276,580	\$ 2,594,025	\$ 2,730,637	\$ 3,208,665	\$ 3,442,046
General Revenues					
Maintenance and Operations Taxes	\$ 3,371,886	\$ 2,486,072	\$ 2,776,660	\$ 3,134,265	\$ 2,433,220
Debt Service Taxes	388,699	357,170	306,855	291,113	255,876
Investment Earnings	1,242	3,036	4,317	21,516	10,695
Grants and Contributions Not Restricted	5,946,521	5,516,201	5,493,387	5,689,349	6,377,083
Miscellaneous Local and Intermediate Revenue	61,663	64,024	78,103	100,198	(39,471)
Special/Extraordinary Items	<u>164,257</u>	<u>142,695</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total General Revenues	\$ 9,934,268	\$ 8,569,198	\$ 8,659,322	\$ 9,236,441	\$ 9,037,403
Total Revenues.....	<u>\$ 12,210,848</u>	<u>\$ 11,163,223</u>	<u>\$ 11,389,959</u>	<u>\$ 12,445,106</u>	<u>\$ 12,479,449</u>
Expenses					
Instruction	\$ 5,352,013	\$ 5,412,451	\$ 5,543,609	\$ 6,178,705	\$ 6,447,913
Instruction Resources and Media Services	133,847	150,867	160,952	285,238	302,017
Curriculum and Staff Development	387,111	421,421	298,432	419,276	505,938
Instructional Leadership	271,986	287,136	237,946	205,573	170,568
School Leadership	599,254	635,085	612,662	634,777	691,510
Guidance, Counseling and Evaluation Services	303,816	327,097	333,347	351,516	353,468
Health Services	119,894	119,937	120,237	122,386	119,029
Student Transportation	334,947	289,540	347,432	326,360	315,700
Food Service	568,136	559,354	564,132	13,128	17,223
Cocurricular/Extracurricular Activities	627,284	635,058	625,734	672,269	655,186
General Administration	591,551	587,118	573,817	777,008	692,744
Facilities Maintenance and Operations	1,596,238	1,613,056	1,701,651	1,746,933	1,811,049
Security and Monitoring Services	29,888	8,894	9,584	8,695	10,533
Data Processing Services	147,747	133,978	65,344	92,095	83,866
Community Services	-	-	-	57,928	51,831
Debt Service - Interest on Long-Term Debt	234,557	247,907	256,031	270,065	283,229
Debt Service - Bond Issuance Cost and Fees	1,697	1,693	28,693	1,793	2,170
Payments Related to Shared Services Arrangements	-	-	-	117,000	244,439
Other Intergovernmental Charges	68,266	70,316	28,764	33,898	44,282
Enterprise Fund - National School Breakfast & Lunch	-	-	-	522,342	568,659
Total Expenses.....	<u>\$ 11,368,232</u>	<u>\$ 11,500,908</u>	<u>\$ 11,508,367</u>	<u>\$ 12,836,985</u>	<u>\$ 13,371,354</u>
Increase/(Decrease) in Net Position	\$ 842,616	\$ (337,685)	\$ (118,408)	\$ (391,879)	\$ (891,905)
Beginning Net Position	2,962,424	3,300,108	3,434,978	3,767,557	4,604,280
Prior Period Adjustment	-	-	(16,464)	42,839	55,184
Ending Net Position	<u>\$ 3,805,040</u>	<u>\$ 2,962,423</u>	<u>\$ 3,300,106</u>	<u>\$ 3,418,517</u>	<u>\$ 3,767,559</u>

^(A) Financial operations for all governmental activities in accordance with GASB Statement No. 34.
Source: District's Audited Financial Statements.

APPENDIX B
GENERAL INFORMATION REGARDING
THE DISTRICT AND ITS ECONOMY

GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY

The Odem-Edroy Independent School District (the “District”) is located in San Patricio County in South Texas approximately seven miles northwest of Corpus Christi on U.S. Highway 77. The District is a petroleum producing and agricultural area. Agricultural products include cotton, grain sorghum, corn, beef, and cattle. The District encompasses an area of 114.59 square miles and includes the City of Odem, a retail center located on U.S. Highway 77. The District has a student enrollment of 1,007 and an estimated 4,510 people live within the District boundaries.

The District is governed by a seven member Board of Trustees (the “Board”). The members of the Board serve three-year staggered terms with at large elections being held every year. Board policy and decisions are decided by a majority vote of the Board. The Superintendent of Schools is selected by the Board; other District officials are employed as a result of action by the Superintendent and the Board.

The District owns and operates 3 instructional facilities which are fully accredited by the Texas Education Agency. Students attend classes in air-conditioned schools complete with cafeterias, library/media centers and gymnasiums. The number and types of instructional facilities are as follows:

Elementary Schools	1
Junior High Schools	1
High Schools	<u>1</u>
Total	<u>3</u>

DISTRICT ENROLLMENT INFORMATION

SCHOLASTIC ENROLLMENT HISTORY

<u>YEAR</u>	<u>ENROLLMENT</u>	<u>INCREASE/ (DECREASE)</u>	<u>PERCENT CHANGE</u>
2004/05	1,187	12	1.02%
2005/06	1,175	(12)	(1.01%)
2006/07	1,173	(2)	(0.17%)
2007/08	1,165	(8)	(0.68%)
2008/09	1,152	(13)	(1.12%)
2009/10	1,134	(18)	(1.56%)
2010/11	1,090	(44)	(3.88%)
2011/12	1,076	(14)	(1.28%)
2012/13	1,044	(32)	(2.97%)
2013/14	1,001	(43)	(4.12%)
2014/15 ^(A)	1,007	6	0.60%

^(A) Enrollment as of October 31, 2014.

Source: District records.

PROJECTED STUDENT ENROLLMENT

<u>YEAR</u>	<u>ENROLLMENT</u>	<u>INCREASE/ (DECREASE)</u>	<u>PERCENT CHANGE</u>
2015/16	1,017	10	0.99%
2016/17	1,032	15	1.47%
2017/18	1,047	15	1.45%
2018/19	1,062	15	1.43%
2019/20	1,077	15	1.41%

Source: District projections.

STUDENT ENROLLMENT BY GRADES – YEARS 2004/05 – 2014/15

<u>YEAR</u>	<u>EC</u>	<u>PK</u>	<u>K</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	<u>TOTAL</u>
2004/05	0	76	78	80	77	95	105	78	78	95	98	99	84	71	73	1,187
2005/06	0	62	101	81	82	86	94	89	79	72	89	96	91	81	72	1,175
2006/07	0	47	95	108	76	80	86	90	93	80	72	99	84	91	72	1,173
2007/08	0	48	84	110	111	73	78	88	91	91	74	77	88	77	75	1,165
2008/09	0	63	73	91	93	102	78	83	83	91	93	80	69	82	71	1,152
2009/10	0	53	92	82	79	89	103	74	83	85	86	99	63	60	86	1,134
2010/11	0	45	79	100	70	78	83	102	68	85	81	88	89	61	61	1,090
2011/12	0	48	62	89	85	64	82	85	97	66	86	91	85	80	56	1,076
2012/13	0	54	71	68	84	78	64	69	82	94	60	84	76	82	78	1,044
2013/14	0	30	72	81	57	81	79	68	75	82	89	60	84	66	77	1,001
2014/15 ^(A)	21	49	52	78	71	62	70	81	65	75	81	95	62	73	72	1,007

^(A) Enrollment as of October 31, 2014.

Source: District records.

STUDENT ENROLLMENT BY SCHOOL TYPE

<u>YEAR</u>	<u>ELEMENTARY SCHOOL (GRADES EC-5)</u>	<u>JUNIOR HIGH SCHOOL (GRADES 6-8)</u>	<u>HIGH SCHOOL (GRADES 9-12)</u>	<u>TOTAL ENROLLMENT</u>
2004/05	589	271	327	1,187
2005/06	595	240	340	1,175
2006/07	582	245	346	1,173
2007/08	592	256	317	1,165
2008/09	583	267	302	1,152
2009/10	572	254	308	1,134
2010/11	557	234	299	1,090
2011/12	515	249	312	1,076
2012/13	488	236	320	1,044
2013/14	468	246	287	1,001
2014/15 ^(A)	484	221	302	1,007

^(A) Enrollment as of October 31, 2014.

Source: District records.

EMPLOYMENT OF THE DISTRICT

<u>STAFF INFORMATION</u>	<u>DISTRICT EMPLOYEES</u>	
	<u>NUMBER</u>	<u>PERCENTAGE</u>
Teachers	69	42.07%
Administrators	11	6.71%
Teacher Aides & Secretaries	30	18.29%
Auxiliary Staff	39	23.78%
Other	15	9.15%
Total Number of Employees	<u>164</u>	<u>100.00%</u>

The District employs a staff of approximately 164. Beginning with the 2014/15 school year, entry level teachers without advanced degrees earn \$38,000 annually. Teachers with longevity or advance degrees can earn between \$38,600 and \$56,000 annually. All teachers receive life and health insurance benefits worth approximately \$226 monthly.

Source: District records.

PRESENT SCHOOL FACILITIES

<u>LOCATION</u>	<u>GRADES SERVED</u>	<u>FUNCTIONAL CAPACITY</u> ^(A)	<u>PRESENT ENROLLMENT</u> ^(B)	<u>FUNCTIONAL CAPACITY LESS PRESENT ENROLLMENT</u>
Odem High School	9 – 12	<u>331</u>	<u>302</u>	<u>29</u>
HIGH SCHOOL TOTAL		<u>331</u>	<u>302</u>	<u>29</u>
Odem Junior High School	6 – 8	<u>384</u>	<u>221</u>	<u>163</u>
JUNIOR HIGH SCHOOL TOTAL		<u>384</u>	<u>221</u>	<u>163</u>
Odem Elementary School	EC/PK – 5	<u>741</u>	<u>484</u>	<u>257</u>
ELEMENTARY SCHOOL TOTAL		<u>741</u>	<u>484</u>	<u>257</u>
TOTALS		<u>1,456</u>	<u>1,007</u>	<u>449</u>

^(A) Includes student capacity of any portable buildings on this campus.

^(B) Enrollment as of October 31, 2014.

Source: District records.

LABOR FORCE STATISTICS

COMPARATIVE UNEMPLOYMENT RATES

<u>Entity</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u> ^(A)
San Patricio County	10.5%	9.7%	7.5%	7.1%	6.2%	6.2%
State of Texas	8.1	7.8	6.7	6.2	5.1	4.4
United States of America	9.6	8.9	8.1	7.4	6.2	5.5

^(A) As of June 2015.

Source: Labor Market Information Department, Texas Workforce Commission.

APPENDIX C

FORMS OF LEGAL OPINIONS OF CO-BOND COUNSEL

LAW OFFICES
M^cCALL, PARKHURST & HORTON L.L.P.

Draft: July 24, 2015

717 NORTH HARWOOD
NINTH FLOOR
DALLAS, TEXAS 75201-6587
TELEPHONE: 214 754-9200
FACSIMILE: 214 754-9250

700 N. ST. MARY'S STREET
1525 ONE RIVERWALK PLACE
SAN ANTONIO, TEXAS 78205-3503
TELEPHONE: 210 225-2800
FACSIMILE: 210 225-2984

600 CONGRESS AVENUE
1800 ONE AMERICAN CENTER
AUSTIN, TEXAS 78701-3248
TELEPHONE: 512 478-3805
FACSIMILE: 512 472-0871

August __, 2015

**ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2015
DATED AS OF AUGUST 1, 2015
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$**

AS BOND COUNSEL FOR THE ODEM-EDROY INDEPENDENT SCHOOL DISTRICT (the "***District***") in connection with the issuance of the bonds described above (the "***Bonds***"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds until maturity or prior redemption at the rates and payable on the dates as stated in the text of the Bonds, and which are subject to redemption, all in accordance with the terms and conditions stated in the text of the Bonds.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas and a transcript of certified proceedings of the District, and other pertinent instruments authorizing and relating to the issuance of the Bonds including (i) the order authorizing the issuance of the Bonds (the "***Order***"), (ii) one of the executed Bonds, and (iii) the District's Federal Tax Certificate of even date herewith.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been authorized, issued and delivered in accordance with law; that the Bonds constitute valid and legally binding general obligations of the District in accordance with their terms except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally; that the District has the legal authority to issue the Bonds and to repay the Bonds; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Bonds, as such interest comes due, and as such principal matures, have been levied and ordered to be levied against all taxable property in the District, and have been pledged for such payment, without limit as to rate or amount.

IN EXPRESSING SUCH OPINION, we have considered the effect of the November 22, 2005, decision by the Texas Supreme Court in *West Orange-Cove Consolidated Independent School District, et al. v. Neeley, et al.*, upholding, in part, a lower court judgment concluding that the local ad valorem maintenance and operation tax authorized under the school finance system then in effect had become a State property tax in violation of article VIII, section 1-e

of the Texas Constitution, in that school districts did not have meaningful discretion in levying the tax. The Court's opinion further noted that the court "...remain convinced...that defects in the structure of the public school finance system expose the system to constitutional challenge. . . . [Such challenges] will repeat until the system is overhauled." Subsequent to such decision, legislation was enacted by the Texas Legislature to address the constitutional issues raised in the court's ruling. Reference is made to the Official Statement for the Bonds for a further description of the rulings and the legislation enacted by the Texas Legislature.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "*Code*"). In expressing the aforementioned opinions, we have relied on, and assumed compliance by the District with, certain representations and covenants regarding the use and investment of the proceeds of the Bonds. We call your attention to the fact that failure by the District to comply with such representations and covenants may cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Bonds, is included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code.

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 (the "*Service*"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer. We observe that the District has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the District, and, in that capacity, we have been engaged by the District 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 from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the District, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the District as to the current outstanding indebtedness of, and assessed valuation of taxable property within, the District. 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.

Respectfully,



August 20, 2015

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2015
DATED AS OF AUGUST 1, 2015
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$_____

AS CO-BOND COUNSEL FOR THE ODEM EDROY INDEPENDENT SCHOOL DISTRICT (the "District") in connection with the issuance of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates and mature on the dates, and are subject to redemption, in accordance with the terms and conditions stated in the text of the Bonds.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas and a transcript of certified proceedings of the District, and other pertinent instruments authorizing and relating to the issuance of the Bonds including (i) the order authorizing the issuance of the Bonds (the "Order") and (ii) the Bond No. ___.

IT IS OUR OPINION that the Bonds have been authorized, issued and delivered in accordance with law; that the Bonds constitute valid and legally binding general obligations of the District in accordance with their terms except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally; that the District has the legal authority to issue the Bonds and to repay the Bonds; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Bonds, as such interest comes due, and as such principal matures, have been levied and ordered to be levied against all taxable property in the District, and have been pledged for such payment, without limit as to rate or amount.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Co-Bond Counsel for the District, and, in that capacity, we have been engaged by the District 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 for no other reason or purpose. The foregoing opinion represents our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinion and is not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the District, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the

marketability of the Bonds and have relied solely on certificates executed by officials of the District as to the current outstanding indebtedness of, and assessed valuation of taxable property within, the District.

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.

Respectfully,

APPENDIX D

**EXCERPTS FROM THE AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014**

The information contained in this Appendix consists of excerpts from the Odem-Edroy Independent School District Annual Financial Report for the Year Ended August 31, 2014, 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.

Gowland, Streatly, Morales & Company

A Professional Limited Liability Company
Certified Public Accountants

Tommy Streatly, CPA
David Morales, CPA
Jerry D. Spence, CPA

Professional Associates & Senior Advisor:
Betty Morales, CPA
Erika M. Post
Greg Morales
Daniel Ibarra
Dudley Gowland, CPA

Independent Auditor's Report

To the Board of Trustees
Odem-Edroy Independent School District
One Owl Square
Odem, Texas 78370

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 Odem-Edroy Independent School District ("the District") as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Odem-Edroy Independent School District as of August 31, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Odem-Edroy Independent School District's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and 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 combining and individual nonmajor fund financial statements and other supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

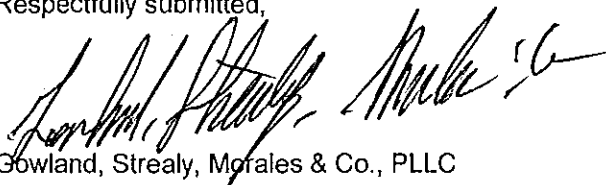
The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2015 on our consideration of Odem-Edroy Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in

accordance with *Government Auditing Standards* in considering Odem-Edroy Independent School District's internal control over financial reporting and compliance.

Respectfully submitted,



Gowland, Streatly, Morales & Co., PLLC

Corpus Christi, Texas
January 16, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Odem-Edroy Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2014. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined Net Position were \$3,805,040 at August 31, 2014 of which the unrestricted portion is \$559,953.
- The general fund reported a fund balance this year of \$830,128 an increase of \$592,637. This increase in fund balance was due to the passing of a T.R.E. (tax ratification election)
- During 2013-2014, the District's General Fund increased its fund balance by \$592,637. The District's final approved budget was an increase to fund balance of 581,637 which is attributed to an increase in student attendance and the passing of the T.R.E.
- The District financed two 71 passenger busses through a capital lease for \$178,972 during the year ended August 31, 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

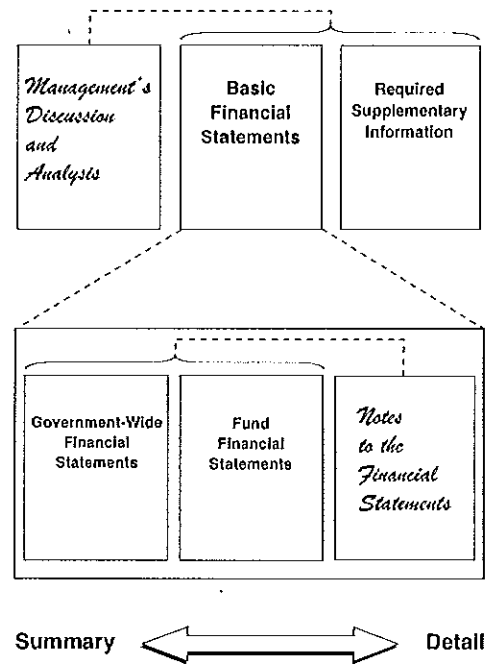


Figure A-2 Major Features of the District's Government-wide and Fund Financial Statements

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 of management's discussion and analysis explains the structure and contents of each of the statements.

Government-wide Statements

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

Type of Statement	Fund Statements			
	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the district that are not proprietary or fiduciary	Activities the district operates similar to private businesses: self insurance	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 & changes in fund balances	• Statement of net position • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows	• Statement of fiduciary net position • Statement of changes in fiduciary net assets
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	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	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, 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 and liabilities—is one way to measure the District's financial health or position.

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

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

Fund Financial Statements

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

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

The District has 2 kinds of funds:

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

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's combined Net Position was approximately \$3,805,040 at August 31, 2014. (See Table A-1).

Table A-1
Odem-Edroy Independent School District's Net Position
(In actual dollars)

	Governmental		Total
	2014	2013	Change 2014-2013
Current assets:			
Cash and cash equivalents	\$ 950,346	\$ (128,587)	\$ 1,078,933
Property Taxes Receivable	213,525	175,363	38,162
Due from Other Governments	488,825	816,425	(327,600)
Due from Fiduciary	66,559	56,085	10,474
Other receivables	36,276	33,362	2,914
Inventories	19,547	17,104	2,443
Deferred expenses	122,989	121,240	1,749
Total current assets:	<u>1,898,067</u>	<u>1,090,992</u>	<u>807,075</u>
Noncurrent assets:			
Land	145,973	145,973	-
Bldg, Furniture and equipment	7,902,507	7,948,160	(45,653)
Total noncurrent assets	<u>8,048,480</u>	<u>8,094,133</u>	<u>(45,653)</u>
Total Assets	<u>9,946,547</u>	<u>9,185,125</u>	<u>761,422</u>
Current liabilities:			
Accounts payable and accrued liabilities	526,288	455,502	70,786
Deferred revenue	130,699	-	130,699
Total current liabilities	<u>656,987</u>	<u>455,502</u>	<u>201,485</u>
Noncurrent Liabilities:			
Due within one year	373,369	425,000	(51,631)
Due in more than one year	5,111,151	5,342,200	(231,049)
Total Liabilities	<u>6,141,507</u>	<u>6,222,702</u>	<u>(81,195)</u>
Net Assets:			
Invested in capital assets	3,090,348	2,829,136	261,212
Restricted for State and Federal Programs	47,436	54,829	(7,393)
Restricted for Debt Service	107,303	115,564	(8,261)
Unrestricted	559,953	(37,106)	597,059
Total Net Assets	<u>\$ 3,805,040</u>	<u>\$ 2,962,423</u>	<u>\$ 842,617</u>

Changes in Net Position. The District's total revenues were \$12,046,591. A significant portion, 31 percent, of the District's revenue comes from taxes. 49 percent comes from State Aid – formula grants. The remainder comes from state and federal programs, investment earnings, charges for services, and miscellaneous other services.

The total cost of all programs and services was \$11,368,232.

Governmental Activities

Table A-2
Changes in Odem-Edroy Independent School District's Net Position
(In actual dollars)

	Governmental Activities		Change 2014-2013
	2014	2013	
Program Revenues:			
Charges for Services	\$ 222,883	\$ 172,476	\$ 50,407
Operating Grants and Contributions	2,053,697	2,421,549	(367,852)
General Revenues			
Property Taxes	3,760,585	2,843,242	917,343
State Aid – Formula	5,946,521	5,516,201	430,320
Investment Earnings	1,242	3,036	(1,794)
Other	61,663	64,024	(2,361)
Total Revenues	<u>12,046,591</u>	<u>11,020,528</u>	<u>1,026,063</u>
Instruction	5,352,013	5,412,451	(60,438)
Instructional Resources and Media Services	133,847	150,867	(17,020)
Curriculum Dev. And Instructional Staff Dev.	387,111	421,421	(34,310)
Instructional Leadership	271,986	287,136	(15,150)
School Leadership	599,254	635,085	(35,831)
Guidance, Counseling and Evaluation Services	303,816	327,097	(23,281)
Health Services	119,894	119,937	(43)
Student (Pupil) Transportation	334,947	289,540	45,407
Food Services	568,136	559,354	8,782
Curricular/Extracurricular Activities	627,284	635,058	(7,774)
General Administration	591,551	587,118	4,433
Plant Maintenance & Oper.	1,596,238	1,613,056	(16,818)
Security and Monitoring Services	29,888	8,894	20,994
Data Processing Services	147,747	133,978	13,769
Interest on Long-term Debt	234,557	247,907	(13,350)
Bond Fees	1,697	1,693	4
Other Intergovernmental Charges	68,266	70,316	(2,050)
Total Expenses	<u>\$ 11,368,232</u>	<u>\$ 11,500,908</u>	<u>\$ (132,676)</u>
Special Items	<u>164,257</u>	<u>142,695</u>	<u>21,562</u>
Change in Net Position	<u>842,616</u>	<u>(337,685)</u>	<u>1,180,301</u>
Net Assets Beginning	<u>2,962,424</u>	<u>3,300,109</u>	<u>(337,685)</u>
Net Assets Ending	<u>\$ 3,805,040</u>	<u>\$ 2,962,424</u>	<u>\$ 842,616</u>

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

- The cost of all *governmental* activities this year was \$11,368,232.
- However, the amount that our taxpayers paid for these activities through property taxes was \$3,760,585.
- Some of the cost was paid by those who directly benefited from the programs \$222,883, or
- By grants and contributions \$2,053,697

Table A-3
Net Cost of Selected District Functions
(in actual dollars)

	Total Cost of Services		% Change	Net Cost of Services		% Change
	2014	2013		2014	2013	
Instruction	\$ 5,352,013	\$ 5,412,451	-1.13%	\$ 4,419,851	\$ 4,345,470	1.68%
School Leadership	599,254	635,085	-5.98%	566,327	593,006	-4.71%
General Administration	591,551	587,118	0.75%	559,047	548,217	1.94%
Plant Maintenance & Operations	1,596,238	1,613,056	-1.05%	1,508,529	1,504,873	0.24%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled \$12,008,429, an increase of 8.8% over the preceding year \$11,036,822.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget to account for increased revenue received. However, the actual revenue received was \$146,775 or 2.13% less than the final estimated revenue. The increase in revenue was due to the passing of the TRE (tax ratification election). The actual final expenditures were less than the appropriations by \$243,775. The district needed to intentionally increase the fund balance and be prepared for potential district emergency needs such as HVAC systems and roofs.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2014, the District had invested a net of \$8,048,480 in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-4.) This amount represents a net decrease (including additions and deductions) of \$45,654.

Table A-4
District's Capital Assets
(in actual dollars)

	Government Activities		Total
	2013	Additions	
Land	\$ 145,973	\$	\$ 145,973
Buildings and improvements	14,813,657		14,813,657
Equipment & Vehicles	2,734,681	308,422	3,043,103
Totals at historical cost	17,694,311	308,422	18,002,733
Total accumulated depreciation	9,600,177	354,076	9,954,253
Net capital assets	\$ 8,094,134	\$ (45,654)	\$ 8,048,480

The District's expenditures for capital projects in fiscal year 2014 consisted of Ethernet routing switch, 2007 Chevy suburban and a John Deere Mower. More detailed information about the District's capital assets is presented in Note 1 to the financial statements.

Long Term Debt

At year-end the District had \$4,659,998 in bonds outstanding as shown in Table A-5. More detailed information about the District debt is presented in the Notes to the Financial Statements.

Table A-5
District's Long Term Debt
(in actual dollars)

	Governmental Activities	
	2014	2013
Bonds Payable	\$ 4,659,998	\$ 4,904,997
Accretion Payable	526,388	502,203
Capital Lease Payable	118,134	
Maintenance Notes	180,000	360,000
	<u>\$ 5,484,520</u>	<u>\$ 5,767,200</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The District's general fund balance increased \$592,637 in 2014 to \$830,128. The increase was due mainly to the passing of a TRE (tax ratification election), and an increase in tax collections
- The District's refined average daily attendance has declined over the past 5 years however with multiple student incentives , the districts ADA is potentially on the rise.
- Additional revenue from a Chapter 313 agreement is expected to be \$249,276 in lieu of taxes.
- State program revenue is expected to remain the same for 2014-2015 due to a tax rate increase approved by voters in November 2013.
- General operating expenditures are expected to decrease due to personnel decreasing.

Estimated revenue available for appropriation in the general fund budget for 2014-2015 is \$9,713,661, an increase of 14.18% from the final 2013-2014 receipts of \$8,695,746.

Expenditures are budgeted to decrease to \$9,713,661 for 2014-2015.

If these estimates are realized, the District's budgetary general fund balance should be increased approximately \$441,312 at close of 2014-2015.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2014

1

Data Control Codes	Governmental Activities
ASSETS:	
1110 <i>Cash and Cash Equivalents</i>	\$ 950,346
1225 <i>Property Taxes Receivable (Net)</i>	213,525
1240 <i>Due from Other Governments</i>	488,825
1267 <i>Due from Fiduciary</i>	66,559
1290 <i>Other Receivables (Net)</i>	36,276
1300 <i>Inventories</i>	19,547
1410 <i>Unrealized Expenses</i>	122,989
Capital Assets:	
1510 <i>Land</i>	145,973
1520 <i>Buildings and Improvements, Net</i>	7,408,297
1530 <i>Furniture and Equipment, Net</i>	494,210
1000 Total Assets	<u>9,946,547</u>
LIABILITIES:	
2110 <i>Accounts Payable</i>	176,137
2165 <i>Accrued Liabilities</i>	350,151
2300 <i>Unearned Revenue</i>	130,699
Noncurrent Liabilities:	
2501 <i>Due Within One Year</i>	373,369
2502 <i>Due in More Than One Year</i>	5,111,151
2000 Total Liabilities	<u>6,141,507</u>
NET POSITION:	
3200 Net Investment in Capital Assets	3,090,348
Restricted For:	
3820 <i>Federal and State Programs</i>	47,436
3850 <i>Debt Service</i>	104,303
3900 <i>Unrestricted</i>	562,953
3000 Total Net Position	<u>\$ 3,805,040</u>

The accompanying notes are an integral part of this statement.

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues		4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
			Charges for Services	Governmental Activities		
	Governmental Activities:					
11	Instruction	\$ 5,352,013	\$ 45,540	\$ 886,622	\$ (4,419,851)	
12	Instructional Resources and Media Services	133,847	1,319	6,060	(126,468)	
13	Curriculum and Staff Development	387,111	1,479	236,877	(148,755)	
21	Instructional Leadership	271,986	756	193,054	(78,176)	
23	School Leadership	599,254	5,907	27,020	(566,327)	
31	Guidance, Counseling, & Evaluation Services	303,816	2,162	91,933	(209,721)	
33	Health Services	119,894	1,182	5,406	(113,306)	
34	Student Transportation	334,947	2,991	13,680	(318,276)	
35	Food Service	568,136	132,046	408,143	(27,947)	
36	Cocurricular/Extracurricular Activities	627,284	6,184	28,284	(592,816)	
41	General Administration	591,551	5,831	26,673	(559,047)	
51	Facilities Maintenance and Operations	1,596,238	15,735	71,974	(1,508,529)	
52	Security and Monitoring Services	29,888	295	1,348	(28,245)	
53	Data Processing Services	147,747	1,456	6,662	(139,629)	
72	Interest on Long-term Debt	234,557	--	49,981	(184,596)	
73	Bond Issuance Costs and Fees	1,697	--	--	(1,697)	
99	Other Intergovernmental Charges	68,266	--	--	(68,266)	
TG	Total Governmental Activities	<u>11,368,232</u>	<u>222,883</u>	<u>2,053,697</u>	<u>(9,091,652)</u>	
TP	Total Primary Government	<u>\$ 11,368,232</u>	<u>\$ 222,883</u>	<u>\$ 2,053,697</u>	<u>(9,091,652)</u>	
	General Revenues:					
MT	Property Taxes, Levied for General Purposes				3,371,886	
DT	Property Taxes, Levied for Debt Service				388,699	
IE	Investment Earnings				1,242	
GC	Grants and Contributions Not Restricted to Specific Programs				5,946,521	
MI	Miscellaneous				61,663	
	Special and Extraordinary Items:					
S1	Special Item Inflow				164,257	
TR	Total General Revenues				<u>9,934,268</u>	
CN	Change in Net Position				<u>842,616</u>	
NB	Net Position - Beginning				<u>2,962,424</u>	
NE	Net Position - Ending				<u>\$ 3,805,040</u>	

The accompanying notes are an integral part of this statement.

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2014

Data Control Codes	10 General Fund	Other Governmental Funds	98 Total Governmental Funds
ASSETS:			
1110	\$ 865,278	\$ 24,560	\$ 889,838
1225	192,903	20,622	213,525
1240	316,760	172,065	488,825
1260	130,254	12,899	143,153
1290	36,276	--	36,276
1300	--	19,547	19,547
1410	122,988	--	122,988
1000	<u>1,664,459</u>	<u>249,693</u>	<u>1,914,152</u>
LIABILITIES:			
Current Liabilities:			
2110	\$ 137,499	\$ 9,892	\$ 147,391
2150	8,028	1,728	9,756
2160	324,289	16,106	340,395
2170	40,913	35,681	76,594
2300	130,699	--	130,699
2000	<u>641,428</u>	<u>63,407</u>	<u>704,835</u>
DEFERRED INFLOWS OF RESOURCES:			
	192,903	20,622	213,525
2600	<u>192,903</u>	<u>20,622</u>	<u>213,525</u>
FUND BALANCES:			
Nonspendable Fund Balances:			
3410	--	19,547	19,547
Restricted Fund Balances:			
3450	--	27,889	27,889
3480	--	107,303	107,303
3490	--	10,925	10,925
Committed Fund Balances:			
3530	100,000	--	100,000
3600	730,128	--	730,128
3000	<u>830,128</u>	<u>165,664</u>	<u>995,792</u>
Total Liabilities, Deferred Inflow			
4000	<u>1,664,459</u>	<u>249,693</u>	<u>1,914,152</u>

The accompanying notes are an integral part of this statement.

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
AUGUST 31, 2014

Total fund balances - governmental funds balance sheet	\$ 995,792
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	8,048,480
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	213,525
The assets and liabilities of internal service funds are included in governmental activities in the SNP.	31,763
Payables for bond principal which are not due in the current period are not reported in the funds.	(4,659,997)
Payables for capital leases which are not due in the current period are not reported in the funds.	(118,134)
Payables for notes which are not due in the current period are not reported in the funds.	(180,000)
Other long-term liabilities which are not due and payable in the current period are not reported in the funds.	(526,388)
Rounding difference	(1)
Net position of governmental activities - Statement of Net Position	<u>\$ 3,805,040</u>

The accompanying notes are an integral part of this statement.

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes	10 General Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES:			
5700 Local and Intermediate Sources	\$ 3,476,583	\$ 531,909	\$ 4,008,492
5800 State Program Revenues	6,205,093	247,112	6,452,205
5900 Federal Program Revenues	66,582	1,481,150	1,547,732
5020 Total Revenues	<u>9,748,258</u>	<u>2,260,171</u>	<u>12,008,429</u>
EXPENDITURES:			
Current:			
0011 Instruction	4,425,714	768,855	5,194,569
0012 Instructional Resources and Media Services	129,908	26	129,934
0013 Curriculum and Staff Development	145,684	230,110	375,794
0021 Instructional Leadership	74,438	189,597	264,035
0023 School Leadership	581,735	--	581,735
0031 Guidance, Counseling, & Evaluation Services	212,889	82,045	294,934
0033 Health Services	116,389	--	116,389
0034 Student Transportation	583,440	--	583,440
0035 Food Service	4,181	547,346	551,527
0036 Cocurricular/Extracurricular Activities	608,946	--	608,946
0041 General Administration	574,257	--	574,257
0051 Facilities Maintenance and Operations	1,549,573	--	1,549,573
0052 Security and Monitoring Services	29,014	--	29,014
0053 Data Processing Services	143,429	--	143,429
0071 Principal on Long-term Debt	240,838	245,000	485,838
0072 Interest on Long-term Debt	8,850	201,523	210,373
0073 Bond Issuance Costs and Fees	1,299	398	1,697
0099 Other Intergovernmental Charges	68,266	--	68,266
6030 Total Expenditures	<u>9,498,850</u>	<u>2,264,900</u>	<u>11,763,750</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	<u>249,408</u>	<u>(4,729)</u>	<u>244,679</u>
Other Financing Sources and (Uses):			
7913 Issuance of Capital Leases	178,972	--	178,972
7949 Other Resources	249,276	--	249,276
8949 Other Uses	(85,019)	--	(85,019)
7080 Total Other Financing Sources and (Uses)	<u>343,229</u>	<u>--</u>	<u>343,229</u>
1200 Net Change in Fund Balances	<u>592,637</u>	<u>(4,729)</u>	<u>587,908</u>
0100 Fund Balances - Beginning	237,491	170,393	407,884
3000 Fund Balances - Ending	<u>\$ 830,128</u>	<u>\$ 165,664</u>	<u>\$ 995,792</u>

The accompanying notes are an integral part of this statement.

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2014

Net change in fund balances - total governmental funds	\$ 587,908
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	308,422
The depreciation of capital assets used in governmental activities is not reported in the funds.	(354,076)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	38,163
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	245,000
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	60,838
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	180,000
The accretion of interest on capital appreciation bonds is not reported in the funds.	(24,184)
The net revenue (expense) of internal service funds is reported with governmental activities.	(20,482)
Proceeds of leases do not provide revenue in the SOA, but are reported as current resources in the funds.	(178,972)
Rounding difference	(1)
Change in net position of governmental activities - Statement of Activities	<u>\$ 842,616</u>

The accompanying notes are an integral part of this statement.

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT*STATEMENT OF NET POSITION**INTERNAL SERVICE FUND**AUGUST 31, 2014*

Nonmajor Internal Service Fund

Insurance Fund

Data Control Codes

ASSETS:

Current Assets:

1110	Cash and Cash Equivalents	\$	60,509
	Total Current Assets		60,509
1000	Total Assets		60,509

LIABILITIES:

Current Liabilities:

2110	Accounts Payable	\$	28,746
	Total Current Liabilities		28,746
2000	Total Liabilities		28,746

NET POSITION:

3900	Unrestricted		31,763
3000	Total Net Position	\$	31,763

The accompanying notes are an integral part of this statement.

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT*STATEMENT OF REVENUES, EXPENSES, AND CHANGES**IN FUND NET POSITION - INTERNAL SERVICE FUND**FOR THE YEAR ENDED AUGUST 31, 2014*

Data Control Codes		Nonmajor Internal Service Fund
		Insurance Fund
	OPERATING REVENUES:	
5700	<i>Local and Intermediate Sources</i>	\$ 38,693
5020	Total Revenues	<u>38,693</u>
	OPERATING EXPENSES:	
6100	<i>Payroll Costs</i>	4,221
6200	<i>Professional and Contracted Services</i>	26,880
6400	<i>Other Operating Costs</i>	28,074
6030	Total Expenses	<u>59,175</u>
1300	Change in Net Position	(20,482)
0100	Total Net Position - Beginning	52,245
3300	Total Net Position - Ending	<u>\$ 31,763</u>

The accompanying notes are an integral part of this statement.

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED AUGUST 31, 2014

	Internal Service Funds
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ --
Cash Received from Grants	--
Cash Receipts (Payments) for Quasi-external Operating Transactions with Other Funds	38,693
Cash Payments to Employees for Services	(4,221)
Cash Payments to Other Suppliers for Goods and Services	(53,854)
Cash Payments for Grants to Other Organizations	--
Other Operating Cash Receipts (Payments)	--
Net Cash Provided (Used) by Operating Activities	<u>(19,382)</u>
Cash Flows from Non-capital Financing Activities:	
Transfers From (To) Other Funds	--
Net Cash Provided (Used) by Non-capital Financing Activities	<u>--</u>
Cash Flows from Capital and Related Financing Activities:	
Contributed Capital	--
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>--</u>
Cash Flows from Investing Activities:	
Interest and Dividends on Investments	--
Net Cash Provided (Used) for Investing Activities	<u>--</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(19,382)
Cash and Cash Equivalents at Beginning of Year	79,891
Cash and Cash Equivalents at End of Year	<u>\$ 60,509</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ (20,482)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	--
Provision for Uncollectible Accounts	--
Change in Assets and Liabilities:	
Decrease (Increase) in Receivables	--
Decrease (Increase) in Prepaid Expenses	--
Increase (Decrease) in Accounts Payable	1,100
Increase (Decrease) in Interfund Payables	--
Increase (Decrease) in Accrued Expenses	--
Total Adjustments	<u>1,100</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (19,382)</u>

The accompanying notes are an integral part of this statement.

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT*STATEMENT OF FIDUCIARY NET POSITION**FIDUCIARY FUNDS**AUGUST 31, 2014*

Data Control Codes		Private-purpose Trust Fund	Agency Fund
		Scholarship Fund	Student Activity
ASSETS:			
1110	<i>Cash and Cash Equivalents</i>	\$ 606,113	\$ 104,746
1000	Total Assets	<u>606,113</u>	<u>104,746</u>
LIABILITIES:			
Current Liabilities:			
2110	<i>Accounts Payable</i>	\$ 225	\$ --
2170	<i>Due to Other Funds</i>	--	66,559
2190	<i>Due to Student Groups</i>	--	38,187
2400	<i>Payable from Restricted Assets</i>	603,858	--
2000	Total Liabilities	<u>604,083</u>	<u>104,746</u>
NET POSITION:			
3800	<i>Held in Trust</i>	2,030	--
3000	Total Net Position	<u>\$ 2,030</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014

	Private- Purpose Trusts
Additions:	
Investment Income	\$ --
Net (Decrease) in Fair Value of Investments	--
Employer Contributions	--
Plan Member Contributions	--
Total Additions	<u> --</u>
Deductions:	
Scholarship Awards	--
Benefits	--
Refunds of Contributions	--
Administrative Expenses	--
Total Deductions	<u> --</u>
Change in Net Position	--
Net Position-Beginning of the Year	2,030
Net Position-End of the Year	<u>\$ 2,030</u>

The accompanying notes are an integral part of this statement.

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

A. Summary of Significant Accounting Policies

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

1. Reporting Entity

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

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

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

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

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

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

The District reports the following major governmental funds:

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

In addition, the District reports the following fund types:

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

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

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

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

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

b. **Measurement Focus, Basis of Accounting**

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

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

3. **Financial Statement Amounts**

a. **Cash and Cash Equivalents**

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

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

b. Property Taxes

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

	General Fund	Debt Service Fund	Total
Delinquent Taxes	\$ 492,729	\$ 52,674	\$ 545,403
Allowance for Uncollectible Accounts	(299,826)	(32,052)	(331,878)
Net Taxes	\$ 192,903	\$ 20,622	\$ 213,525

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

c. Inventories and Prepaid Items

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

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

d. Capital Assets

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50
Building Improvements	20
Vehicles	10
Office Equipment	7
Computer Equipment	7

e. Deferred Outflows and Inflows of Resources

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

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

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

f. **Receivable and Payable Balances**

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

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

g. **Interfund Activity**

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

h. **Use of Estimates**

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

i. **Data Control Codes**

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

j. **Fund Balances - Governmental Funds**

Fund balances of the governmental funds are classified as follows:

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

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

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

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

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

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

k. Net Position Flow Assumption

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

l. Fund Balance Flow Assumptions

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

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

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

Expenditures exceeded budget:

	Budget	Actual	Variance
<u>General Fund:</u>			
0013 Curriculum and Staff Development	143,865	145,684	(1,819)
0023 School Leadership	568,765	581,735	(12,970)
0031 Guidance, Counseling & Evaluation	212,390	212,889	(499)
0035 Food Services	4,000	4,181	(181)
0036 Cocurricular/Extracurricular Activities	568,601	608,946	(40,345)
0051 Plant Maintenance and Operations	1,527,151	1,549,573	(22,422)
0053 Data Processing	142,640	143,429	(789)
0073 Bond Issuance Costs and Fees	800	1,299	(499)
<u>National School Breakfast and Lunch Program</u>			
0035	530,620	547,346	(16,726)

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

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

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

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

C. Deposits and Investments

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

1. Cash Deposits:

At August 31, 2014, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$874,830 and the bank balance was \$1,032,647. The District's cash deposits at August 31, 2014 and during the year ended August 31, 2014, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

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

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

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

The District's investments at August 31, 2014 are shown below.
 These investments are included with Cash and Cash Equivalents.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Credit Rate</u>
Lone Star Investment	N/A	\$ 786,366	AAAm
TexPool	N/A	10	AAAm
Total Investments		<u>\$ 786,376</u>	

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

3. Analysis of Specific Deposit and Investment Risks

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

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

b. Custodial Credit Risk

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

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

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

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

Investment Accounting Policy

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Public Funds Investment Pools

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

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

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

D. Capital Assets

Capital asset activity for the year ended August 31, 2014, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 145,973	\$ --	\$ --	\$ 145,973
Total capital assets not being depreciated	<u>145,973</u>	<u>--</u>	<u>--</u>	<u>145,973</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	14,813,657	--	--	14,813,657
Equipment	1,939,734	19,500	--	1,959,234
Vehicles	794,947	288,922	--	1,083,869
Total capital assets being depreciated	<u>17,548,338</u>	<u>308,422</u>	<u>--</u>	<u>17,856,760</u>
Less accumulated depreciation for:				
Buildings and improvements	(7,118,187)	(287,173)	--	(7,405,360)
Equipment	(1,818,892)	(26,474)	--	(1,845,366)
Vehicles	(663,098)	(40,429)	--	(703,527)
Total accumulated depreciation	<u>(9,600,177)</u>	<u>(354,076)</u>	<u>--</u>	<u>(9,954,253)</u>
Total capital assets being depreciated, net	<u>7,948,161</u>	<u>(45,654)</u>	<u>--</u>	<u>7,902,507</u>
Governmental activities capital assets, net	<u>\$ 8,094,134</u>	<u>\$ (45,654)</u>	<u>\$ --</u>	<u>\$ 8,048,480</u>

Depreciation was charged to functions as follows:

Instruction	\$ 156,462
Instructional Resources and Media Services	3,913
Curriculum and Staff Development	11,317
Instructional Leadership	7,951
School Leadership	17,519
Guidance, Counseling, & Evaluation Services	8,882
Health Services	3,505
Student Transportation	40,429
Food Services	16,609
Extracurricular Activities	18,338
General Administration	17,294
Plant Maintenance and Operations	46,665
Security and Monitoring Services	874
Data Processing Services	4,318
	<u>\$ 354,076</u>

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

E. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2014, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	General Fund (Payroll Clearing)	\$ 28,164	Short-term loans
General Fund	Other Governmental Funds	35,531	Short-term loan: Short-term loans
General Fund	Agency Fund	66,559	Short-term loan: Short-term loans
Other Governmental Funds	General Fund	12,749	Short-term loan: Short-term loans
Other Governmental Funds	Other Governmental Funds	150	Short-term loan: Short-term loans
	Total	\$ 143,153	

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

F. Long-Term Obligations

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

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2014, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Unlimited Tax Refunding Bonds, Series 2006, 4.0%	\$ 4,369,998	\$ --	\$ 120,000	\$ 4,249,998	\$ 125,000
Unlimited Tax Refunding Bonds, Series 2001, 6.25%	535,000		125,000	410,000	130,000
Total Bonds	4,904,998	--	245,000	4,659,998	255,000
Maintenance Tax Notes					
Series 2009 3.83%	120,000		120,000	--	
Series 2012 .085%	240,000		60,000	180,000	60,000
Capital Lease					
2.4% Capital Lease-buses		178,972	60,838	118,134	58,369
Capital Appreciation Bonds:					
Accretion on 2006 Refunding Bonds	\$ 502,203	\$ 24,185		\$ 526,388	
Total Long-term Liabilities	\$ 5,767,201	\$ 203,157	\$ 485,838	\$ 5,484,520	\$ 373,369
				\$ 5,111,151	

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

<u>Liability</u>	<u>Activity Type</u>	<u>Fund</u>
Compensated absences	Governmental	General Fund
Claims and judgments	Governmental	General Fund

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2014, are as follows:

<u>Year Ending August 31,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 255,000	\$ 191,223	\$ 446,223
2016	265,000	180,372	445,372
2017	160,647	288,316	448,963
2018	27,106	420,041	447,147
2019	22,245	424,903	447,148
2020-2024	1,545,000	692,338	2,237,338
2025-2029	1,880,000	351,052	2,231,052
2030-2034	505,000	32,300	537,300
Totals	<u>\$ 4,659,998</u>	<u>\$ 2,580,545</u>	<u>\$ 7,240,543</u>

<u>Year Ending August 31,</u>	<u>Governmental Activities - Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 60,000	\$ 3,270	\$ 63,270
2016	60,000	2,454	62,454
2017	60,000	1,302	61,302
Totals	<u>\$ 180,000</u>	<u>\$ 7,026</u>	<u>\$ 187,026</u>

<u>Year Ending August 31,</u>	<u>Capital Lease</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 58,369	\$ 2,835	\$ 61,204
2016	59,765	1,437	61,202
Totals	<u>\$ 118,134</u>	<u>\$ 4,272</u>	<u>\$ 122,406</u>

G. Risk Management

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

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

H. Pension Plan

1. Plan Description

The District contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by downloading the report from the TRS internet website, www.trs.state.tx.us, under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701.

2. Funding Policy

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system. (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2014, 2013 and 2012, and a state contribution rate of 6.8% for fiscal year 2014, 6.4% for fiscal year 2013, and 6.0% for fiscal year 2012. In certain instances the reporting district is required to make all or a portion of the state's contribution. State contributions to TRS made on behalf of the District's employees for the years ending August 31, 2014, 2013 and 2012 were \$406,510, \$357,377 and \$360,473, respectively. The District paid additional state contributions for the years ending August 31, 2014, 2013 and 2012 in the amount of \$71,288, \$84,143 and \$74,505, respectively, on portion of the employees' salaries that exceeded the statutory minimum.

I. Retiree Health Care Plans

1. TRS-Care

a. Plan Description

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

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

b. Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. The State of Texas contribution rates was 0.5% for fiscal year 2014, 0.5% for fiscal year 2013 and 1.0% for fiscal year 2012 and the active public school payroll, respectively, with school districts For the years ended August 31, 2014, 2013, and 2012, the State's contributions to TRS-Care were \$48,728, \$43,548, and \$42,260, respectively, the active member contributions were \$41,286, \$33,497, and \$35,758, respectively, and the District's contributions were \$21,678, \$18,067, and \$17,046, respectively, which equaled the required contributions each year.

2. Medicare Part D Subsidies

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2014, 2013, and 2012, the subsidy payments received by TRS-Care on behalf of the District were \$16,597, \$18,067, and \$17,046, respectively.

J. Employee Health Care Coverage

During the year ended August 31, 2014, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$225 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a third party administrator, acting on behalf of the licensed insurer. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

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

K. Commitments and Contingencies

1. Contingencies

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

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

L. Shared Services Arrangements

Shared Services Arrangement - Membership

The District participates in a shared services arrangement ("SSA") for Carl Perkins Grant and the 21st Century Grant with the following school districts:

Member Districts

Carl Perkins Grant - Region II Education Service Center
21st Century Grant - Robstown ISD

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

M. Special Items

The District has entered into a Chapter 313 of the Texas Tax Code Agreement with EC&R Papalote Creek I, LLC. The transactions relating to the agreement are being reported as Special Items in Exhibit B-1 and Other Resources and Other Uses in Exhibit C-2.

In accordance with the agreement, the District received a payment in Lieu of Taxes from the Company of \$249,276 during the fiscal year ending August 31, 2014. However, beginning with the Tax Year 2012, and in each of the subsequent six years, the District has to begin to pay back the Company \$85,019 per year as a refund against the credit.