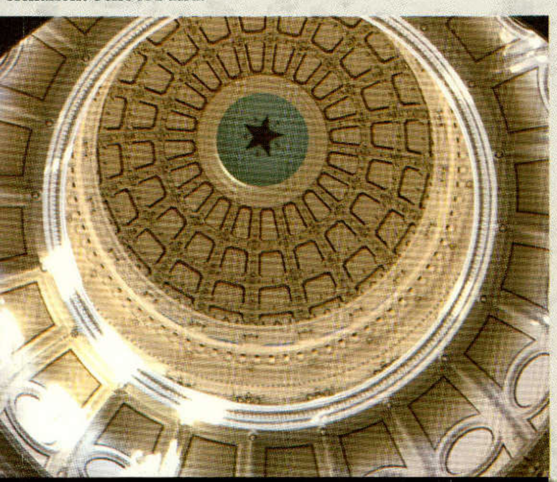
TEXAS PERMANENT SCHOOL FUND

2003

A Constitutional amendment provides for distribution to the Available School Fund based on total return.

1983

A Constitutional amendment provides for guarantee of school district bonds by Permanent School Fund.



1988

A Constitutional amendment authorizes the Permanent School Fund to invest in accordance with "person of ordinary prudence" rule, further diversifying the PSF investment portfolio.

Comprehensive Annual Financial Report For The Fiscal Year Ending August 31, 2017

A Permanent Fund of the State of Texas

Financing Tomorrow's Education with Sound Investments

TEXAS PERMANENT SCHOOL FUND

A Permanent Fund of the State of Texas

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDING AUGUST 31, 2017

Physical Address:
The Texas Permanent School Fund
400 West 15th Street 11th Floor
Austin, Texas 78701-1600

Mailing Address:
Texas Education Agency
1701 North Congress Avenue
Austin, Texas 78701-1494

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Finance and Operations Department
Texas Permanent School Fund

Financial Reporting & Accounting Department
General Land Office

Publication Number FS18 110 01

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Holdings – may be found at
http://tea.texas.gov/Finance_and_Grants/Texas_
Permanent_School_Fund/Texas_Permanent_School_Fund_-_Holdings/

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SECTION ONE

INTRODUCTION

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Message From the Commissioner of Education

December 20, 2017

Dear Governor Abbott, Lieutenant Governor Patrick, Speaker Straus, Members of the Texas Legislature, and Citizens of Texas,

I am pleased to present the Comprehensive Annual Financial Report of the Texas Permanent School Fund (PSF or the Fund) for the fiscal year ending August 31, 2017. Since its creation as a perpetual endowment in 1854, the Fund has provided support for public education in two very important ways: funding to help pay for the cost of public education and as a financial backstop to the bond issues underwritten by individual school districts. During the 2017 fiscal year the fund continued to grow and maintained its position as the largest educational endowment in the nation.

This report is designed to provide an overview, independently audited by the State Auditor's Office, of the Fund's financial statements to the Fund owners, the citizens of Texas, and other interested parties. The Fund's financial statements are audited as a best practice. As required for compliance with the U.S. Securities and Exchange Commission Rule 15c2-12, in the Fund's administration of the Bond Guarantee Program, the Fund discloses these audited financial statements through the Municipal Securities Rulemaking Board.

MANAGEMENT RESPONSIBILITY

This report consists of PSF management's representations regarding PSF financial position, results of operations, and program administration. Management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide reasonable assurance in making these representations, management has established a comprehensive internal control structure that is designed to protect PSF assets from loss, theft, or misuse, and to compile sufficient, reliable, and accurate information for the preparation of PSF financial statements in conformity with generally accepted accounting principles. Because the costs of internal controls should not outweigh related benefits, the PSF's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

FINANCIAL INFORMATION

The basic financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis as stipulated by the Governmental Accounting Standards Board. The Management's Discussion and Analysis (MD&A) includes a narrative introduction, overview, and analysis to accompany the basic financial statements. This letter, in conjunction with the transmittal letter following, is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

My thanks go to the State Board of Education members for their efforts and diligence in fulfilling their fiduciary duty in preserving the value of the Fund for future generations of Texas students. The Texas Education Agency is honored and pleased to work with the State Board of Education on the investments and administration of the Fund. We will continue to work with the Board and the State's legislative leadership to assure the ongoing prudent management of the Fund, and to see that it is well positioned to continue the mission of financing Texas education for the years ahead.

Mike Morath
Commissioner of Education

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MESSAGE FROM THE EXECUTIVE ADMINISTRATOR

December 20, 2017

I am honored to present the Comprehensive Annual Financial Report (CAFR) of the Texas Permanent School Fund (PSF) for the year ended August 31, 2017.

At 163 years old and counting, the Texas Permanent School Fund (PSF or the Fund) continued on its path of growth and financial strength in domestic and global markets, and maintained the tradition and obligation of strong support for public education in Texas during fiscal year 2017.

INVESTMENTS

For the 12-month period ending August 31, 2017, the portion of the PSF managed by the State Board of Education (PSF[SBOE]) achieved a gross return of 11.96%, and the portion of the PSF managed by the School Land Board (PSF[SLB]) achieved a gross total return for the year of 10.35% (18.27% excluding cash). For the past five years, the time-weighted annual return has been 8.26% for the PSF(SBOE) and 7.77% for the PSF(SLB) (13.84% excluding cash).

At the end of fiscal 2017, the Fund balance was $41.4 billion, an increase of $4.2 billion from the prior year. This increase is primarily due to overall increases in value of all asset classes in which the Fund has invested. During the year, the SBOE continued implementing the long term strategic asset allocation, diversifying the PSF(SBOE) to strengthen the Fund. The asset allocation is projected to increase returns over the long run while reducing risk and portfolio return volatility. The Fund is invested in global markets and experiences volatility commensurate with the underlying indices. The Fund is broadly diversified and benefits from the low cost structure of its investment program. Changes continue to be researched, crafted, and implemented to make the cost structure more efficient.

PROGRAMS

The Fund serves Texans in two ways. First, a distribution is made every year from the Fund to pay a portion of educational costs in each school district within the state. During the current 2017 fiscal year, the Fund distributed approximately $1.06 billion for education. Since 1960, the Fund has distributed about $27 billion to help fund the education of Texas students.

Second, the Fund provides a guarantee for bonds issued by participating local school districts. The PSF also guarantees bonds of qualified charter districts. Because of the PSF guarantee, qualified school and charter districts are able to pay lower interest rates when they issue debt since the debt carries an overlay of the PSF's AAA rating provided by the three major rating agencies. At the end of the fiscal year, PSF assets guaranteed $72.85 billion in school district bonds providing cost savings to 843 public school districts in the State, and $1.42 billion in charter district bonds providing cost savings to 15 Texas charter districts.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Texas Permanent School Fund for its CAFR for the fiscal year ended August 31, 2016. This was the third consecutive year that the Fund has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Message From the Executive Administrator

ACKNOWLEDGMENTS

My thanks and gratitude go to the State Board of Education for its wise counsel and stewardship provided to the Permanent School Fund. I also thank Commissioner of Education Mike Morath and Deputy Commissioner Finance Administration, Kara Belew as well for their ongoing support and encouragement. Finally, I want to thank the hard working, committed team of professionals within the PSF and in the other divisions at the Texas Education Agency. The Board and Agency staff are intensely focused on prudent PSF portfolio management and efficient, service-oriented delivery of increased Fund value to the school children and citizens of Texas. It is a privilege to work with professionals such as these who embody such a high level of integrity and devotion to service of the Fund's mission to improve the outlook for all Texans through education of its children.

Sincerely,

B. Holland Timmins, CFA
Executive Administrator and Chief Investment Officer
Texas Permanent School Fund

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Texas Permanent School Fund

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

August 31, 2016

Christopher P. Morrill

Executive Director/CEO

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ADMINISTRATION

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DONNA BAHORICH
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Houston
District 7 (David Bradley)

TEXAS EDUCATION AGENCY COMMISSIONER OF EDUCATION

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(Executive Officer of the State Board of Education)

EXECUTIVE ADMINISTRATOR AND CHIEF INVESTMENT OFFICER

HOLLAND TIMMINS, CFA

DEPUTY CHIEF INVESTMENT OFFICER, DIRECTOR OF FIXED INCOME

CARLOS VEINTEMILLAS

DEPUTY EXECUTIVE ADMINISTRATOR

CATHERINE A. CIVILETTO, CPA

DIRECTOR OF EQUITIES

KARIM HIRANI

DIRECTOR OF GLOBAL RISK CONTROL STRATEGIES

CARLOS CASTRO

DIRECTOR OF PRIVATE MARKETS

JOHN GRUBENMAN, CFA

INVESTMENT COUNSEL

NEPC, LLC

CUSTODIAN AND SECURITIES LENDING AGENT

THE BANK OF NEW YORK MELLON

ORGANIZATIONAL STRUCTURE

Texas Permanent School Fund Financial Assets

- Managed by the elected State Board of Education
- Administered by the Texas Education Agency, which is under the guidance of the Commissioner of Education, an appointee of the Governor

Texas Permanent School Fund Land, Mineral Rights, and Certain Real Assets Investments

- Managed by the School Land Board, which includes the Elected Commissioner of the General Land Office
- Administered by the General Land Office, under the guidance of the Commissioner of the General Land Office

SECTION TWO

FINANCIAL STATEMENTS

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State Auditor's Office

Independent Auditor's Report

Members of the State Board of Education
Members of the School Land Board

Report on the Financial Statements

We have audited the accompanying financial statements of the Permanent School Fund (Fund), as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Austin, Texas 78711-2067

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Fax:
(512) 936-9400

Internet:
www.sao.texas.gov

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund, as of August 31, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Change in Accounting Principle

As discussed in Note 1.D and Note 9 to the financial statements, the Fund has elected to change its method of accounting for the classification of fund balance in fiscal year 2017. Our opinion is not modified with respect to this matter.

Fund Financial Statements

As discussed in Note 1, the financial statements present only the Fund, a governmental permanent fund of the State of Texas, and do not purport to, and do not, present fairly the financial position of the State of Texas as of August 31, 2017, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Investments with Values that are not Readily Determined

The financial statements include investments valued at approximately $19.7 billion as of August 31, 2017, whose fair values have been estimated by management in the absence of readily determinable fair values: $14.4 billion discussed in Note 2 and $5.3 billion discussed in Note 3. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which 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

The Introduction, Statistical Summary, Bond Guarantee Program, and Supplemental Schedules, have 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we will issue a separate report on our consideration of the Fund'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 solely 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 the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Lisa R. Collier

Lisa R. Collier, CPA, CFE, CIDA
First Assistant State Auditor

December 20, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This Management's Discussion and Analysis (MD&A) is required by the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments (GASB 34)*. The purpose of the MD&A is to provide an objective and easy to read analysis of the Texas Permanent School Fund (Fund) financial activities based on currently known facts, decisions, and conditions. Please read the MD&A in conjunction with the transmittal letters from the Commissioner of Education, the Executive Administrator, and the Fund's financial statements.

The activity of the Fund directed by the State Board of Education (SBOE) shall be referred to throughout as the PSF(SBOE). The activity of the Fund managed by the School Land Board (SLB) shall be referred to throughout as the PSF(SLB). The SLB manages designated land, mineral interests, and real assets investments of the Fund as detailed in the notes to the financial statements. All other Fund assets are the management responsibility of the SBOE. The annual report of the Fund is divided into five sections: the introduction, the financial statements with accompanying notes preceded by this MD&A, statistical summaries and analyses, a summary of the Bond Guarantee Program, and supplemental financial information for the PSF(SBOE).

FINANCIAL HIGHLIGHTS

- The total fund balance of the Fund increased $4.2 billion or 11.1% during fiscal year 2017.
- The Fund, through the PSF(SBOE), provided $1.06 billion to the Available School Fund, derived by using the total return based distribution method of the Texas Constitution, Article 7, Section 5(a).
- As of August 31, 2017, $74.27 billion in school and charter district bond issues were guaranteed by the Fund in support of public education in Texas. The amount outstanding increased 8.7% from the prior fiscal year end.

Required Financial Statements

GASB 34 requires two financial statements for governmental funds: the balance sheet and the statement of revenues, expenditures, and changes in fund balance. These statements report financial information regarding the Fund's activities under U.S. Generally Accepted Accounting Principles.

The notes to the financial statements contain supplemental information that is essential for the fair presentation of the financial statements.

Balance Sheet

The balance sheet reports the assets, liabilities, deferred inflows, and fund balance of the Fund.

Assets

The assets of the Fund are categorized into liquid assets, and investments and related assets. Liquid assets include cash and other assets that can generally be converted into cash within one year and are used primarily to settle the day-to-day security clearing activities/capital calls of the PSF(SBOE) assets and the funding of real assets investments by the PSF(SLB). Securities lending cash collateral invested represents the largest category of liquid assets, other than cash and cash equivalents. The PSF(SBOE) engages in securities lending activity in order to earn incremental income. Please refer to the notes to the financial statements for a detailed explanation of the securities lending program.

PSF(SBOE) Investments

Investments consist primarily of PSF(SBOE) managed holdings, including public market equity, fixed income securities and alternative investments, such as absolute return, real estate, private equity, risk parity, real return and emerging market equity and debt investments.

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Following are the methodologies used by the PSF(SBOE) to determine the fair value of investments.

Assets	Valuation
Equity and fixed income securities	Quoted market prices
Short-term securities (maturities less than 1 year)	Amortized cost (approximates fair value)
Absolute return investments	Net asset value (NAV) of fund-of-funds provided by the investment advisor
Risk parity investments	NAV of the fund provided by general partner or investment advisor
Real estate	Latest capital account balance or valuation data*
Private equity	Latest capital account balance or valuation data*
Commodity	NAV provided by the fund's general partner
Emerging market debt	NAV provided by the fund's investment advisor
Emerging market equity	NAV provided by the fund's investment advisor

* Adjusted for contributions and withdrawals subsequent to latest valuation or reporting date

PSF(SLB) Investments

PSF(SLB) investments in real assets represent real property and ownership interests in externally managed real asset investment funds, separate accounts, and co-investment vehicles held for the benefit of the Fund, and are carried at fair value. Investments in sovereign lands and mineral interests are also reported at fair value.

Unless determined otherwise, the PSF(SLB) deposits all proceeds of mineral leases and royalties generated from existing and future leases of the Fund's mineral interests into a special fund (Real Estate Special Fund Account, or RESFA) at the State Treasury. These proceeds can be used by the SLB to acquire additional tracts of land; to acquire interests in real property for biological, commercial, geological, cultural, or recreational purposes; to acquire mineral and royalty interests; to acquire interests in real estate; to pay for reasonable fees for professional services related to these investments; or to acquire, sell, lease, trade, improve, maintain, protect, or use land, mineral royalty interests, or real assets investments, an investment or interest in public infrastructure, or other interests, all for the use and benefit of the Fund. Note 3 of the notes to the financial statements contain a summary of the historical cost of the land owned by the Fund. As of August 31, 2017, the estimated fair value of the land, real assets investments and mineral rights (excluding cash) was approximately $5.3 billion and the historical cost was $3.1 billion. PSF(SLB) real assets investments include 67 commingled closed-end funds, commingled open-end funds, separate accounts, co-investment vehicles that invest in private-market real assets transactions across the energy, infrastructure, and real estate sectors of the real assets investment universe.

Liabilities

Liabilities represent claims against the Fund as of August 31, 2017. The payable for PSF(SBOE) securities lending cash collateral invested is the largest category of liabilities and represents the value of the cash collateral provided by the borrowers in accordance with the securities lending agreement. This collateral is returned to the borrowers when the securities are returned from loan.

Deferred Inflows of Resources

Deferred inflows of resources consist primarily of dividend and interest receivable amounts for which receipt is due more than 60 days subsequent to year-end.

Fund Balance

The fund balance of the Fund has been classified in accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). As described more fully in notes 1.D. and 9. of the financial statements, the entire fund balance is classified as nonspendable except for that portion explicitly allowed to be expended by the Texas Constitution, which is classified as restricted. The Texas Constitution allows the Fund to expend funds appropriated by the legislature for operating costs, for transfers to the Available School Fund in support of public education, and for payment of guaranteed debt in the event of default.

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TABLE 1
Summarized Balance Sheet Accounts
(in Millions)

	As of August 31, 2017	As of August 31, 2016 (as restated)	Amount of Increase (Decrease)	Percent Change
ASSETS				
Investments	$ 37,862.1	$ 34,844.2	$ 3,017.9	8.7%
Securities Lending Cash Collateral Invested	2,845.9	1,362.2	1,483.7	108.9%
Cash, Receivables, and Other Assets	3,809.1	2,613.8	1,195.3	45.7%
TOTAL ASSETS	$ 44,517.1	$ 38,820.2	$ 5,696.9	14.7%
LIABILITIES				
Payables for Investments Purchased	$ 93.2	$ 51.8	$ 41.4	79.9%
Payables for Security Lending Cash Collateral Invested	2,880.4	1,406.5	1,473.9	104.8%
Other Liabilities	103.9	81.4	22.5	27.6%
TOTAL LIABILITIES	$ 3,077.5	$ 1,539.7	$ 1,537.8	99.9%
DEFERRED INFLOWS OF RESOURCES	$ 21.6	$ 17.2	$ 4.4	25.6%
TOTAL FUND BALANCE	$ 41,418.0	$ 37,263.3	$ 4,154.7	11.1%

Comparative Balance Sheet Highlights

- Total fund balance increased by 11.1% during the fiscal year. This increase was primarily attributable to the increase in the fair value of the PSF(SBOE) equities and alternative assets and the PSF(SLB) real assets investments.
- The change in the fair value of the PSF(SBOE) and PSF(SLB) investments is consistent with the change in value of the markets in which those investments were made.
- Beginning fund balance was restated downward by $0.6 million, due primarily to corrections in the methods used by the PSF(SLB) to record capital distributions and conveyances.

Statement of Revenues, Expenditures, and Changes in Fund Balance

The statement of revenues, expenditures, and changes in fund balance represents the activity from the PSF(SBOE) investment portfolio and the PSF(SLB) real assets investment portfolio that occurred during the fiscal year.

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TABLE 2
Summarized Revenue and Expenditure Accounts
(in Millions)

	Fiscal Year Ended August 31, 2017	Fiscal year Ended August 31, 2016 (as restated)	Amount of Increase (Decrease)	Percent Change
REVENUES				
Land Endowment Income	$ 939.0	$ 522.4	$ 416.6	79.7%
Dividends and Interest Income	610.0	568.3	41.7	7.3%
Securities Lending (net of rebates/fees)	8.8	6.7	2.1	31.3%
Gain on Sale of Sovereign Land	1.4	2.3	(0.9)	-39.1%
Net Increase/(Decrease) in Fair Value of Investments	3,691.7	1,506.2	2,185.5	145.1%
Revenue from Sales of Purchased Gas	103.9	77.0	26.9	34.9%
Settlement of Claims	0.6	2.0	(1.4)	-70.0%
Other Income	3.5	4.0	(0.5)	-12.5%
TOTAL REVENUES	5,358.9	2,688.9	2,670.0	99.3%
EXPENDITURES				
PSF(SBOE) Operational Costs	23.2	20.8	2.4	11.5%
PSF(SLB) Operational Costs	26.0	18.1	7.9	43.6%
SEMP Gas Supplies Purchased for Resale	98.8	74.4	24.4	32.8%
TOTAL EXPENDITURES	148.0	113.3	34.7	30.6%
TOTAL NET TRANSFERS	(1,056.4)	(1,056.4)	-	0.0%
NET CHANGE IN FUND BALANCE	4,154.5	1,519.2	2,635.3	173.5%
BEGINNING FUND BALANCE, AS RESTATED	37,263.3	35,744.1	1,519.2	4.3%
ENDING FUND BALANCE	$ 41,417.8	$ 37,263.3	$ 4,154.5	11.1%

Comparative Revenue and Expenditure Highlights

- For fiscal year 2017, total revenues were $5.4 billion, a change of $2.7 billion from fiscal year 2016. This increase is reflective of the performance of the markets in which the Fund was invested in fiscal year 2017.
- Total operating expenditures, net of security lending rebates and fees, increased 30.6% from $113.3 million for fiscal year ending August 31, 2016, to $148.0 million for the fiscal year ending August 31, 2017, primarily due to an increase in PSF(SLB) Operational Costs.
- The increase for PSF(SLB) Operational Costs and SEMP Gas Supplies are primarily attributable to increases in fees and other charges of $6.6 million year over year, and to larger quantities of purchased gas for resale by approximately $24.4 million year over year.
- Overall, the fund balance increased by $4.2 billion for the fiscal year ending August 31, 2017.

Expenditures are paid from the Fund before distributions are made under the total return formula. Such expenditures include the costs incurred by the PSF(SLB) to manage the land endowment and operational costs of the PSF(SBOE), including certain external management fees. Total return takes into account the change in the fair value of the Fund during the year as well as all net income generated by PSF(SBOE) investments. Management fees for alternative investments are paid from the investment assets themselves.

INVESTMENT MANAGEMENT

PSF(SBOE) Asset Allocation and Portfolio

In July 2016, the SBOE approved a revised long term asset allocation policy, which further diversifies the PSF(SBOE) assets into alternative asset classes whose returns are not as correlated to traditional asset classes. Management expects this allocation plan to provide incremental total return at reduced risk. Management anticipates that asset classes will be strategically added commensurate with the economic environment and the goals and objectives of the SBOE. Investments in absolute return were launched during fiscal year 2008 and real estate and private equity launched during the latter part of fiscal year 2010. Risk parity strategies and real return investments in Treasury Inflation Protected Securities (TIPS) were implemented in the later months of fiscal year 2011. Real return investments in commodities were funded in fiscal year 2013 and increased allocations were made to both real estate and private equity. The emerging market debt in local currency asset class was added in 2014. The emerging international equity asset class funding was initiated in the later months of fiscal year 2015.

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The table below provides an overview of the management of each asset class.

Asset Class	Asset Management
Equity	Passively
Domestic equity	Internal staff
International equity	External manager
Emerging market equity	External manager
Fixed income	
Core fixed income	Active management by internal staff
Emerging market debt	External manager
Real Return TIPS	Active management by internal staff
Absolute return	Held within single member limited liability companies, each with an external investment manager
Risk parity	Limited liability company or limited partnership with an external manager
Real estate	Direct with general partners utilizing limited partnership agreements
Private equity	Limited partnerships externally managed, internally managed, or jointly managed
Commodities	Limited partnerships utilizing external investment managers

TABLE 3
Strategic Asset Allocation – PSF(SBOE)
August 31, 2017 and 2016

ASSET CLASS	2017	2016	Increase (Decrease)
EQUITY			
Domestic Small/Mid Cap	5.0%	5.0%	0.0%
Domestic Large Cap	13.0%	13.0%	0.0%
Total Domestic Equity	18.0%	18.0%	0.0%
International Developed and Emerging Large Cap	14.0%	14.0%	0.0%
Emerging International Equities	3.0%	3.0%	0.0%
Total International Equity	17.0%	17.0%	0.0%
TOTAL PUBLIC MARKET EQUITY	35.0%	35.0%	0.0%
FIXED INCOME			
Core Fixed Income	12.0%	12.0%	0.0%
Emerging Market Debt	7.0%	7.0%	0.0%
TOTAL FIXED INCOME	19.0%	19.0%	0.0%
ALTERNATIVE INVESTMENTS			
Absolute Return	10.0%	10.0%	0.0%
Real Estate	10.0%	10.0%	0.0%
Private Equity	13.0%	13.0%	0.0%
Risk Parity	7.0%	7.0%	0.0%
Real Return	6.0%	6.0%	0.0%
TOTAL ALTERNATIVE INVESTMENTS	46.0%	46.0%	0.0%
TOTAL	100.0%	100.0%	0.0%

Actual allocations within the portfolios fluctuate as the markets shift and portfolio rebalancing takes place as needed to adhere to the strategic allocation guidelines. Table 3 above indicates the strategic asset allocation of PSF(SBOE) approved by the SBOE in July 2016 and in effect as of August 31, 2017.

The market value of the PSF(SBOE) is directly impacted by the performance of the various financial markets in which the assets are invested. In addition, the PSF(SBOE) investments are exposed to various risks, such as interest rate, market, and credit risks. The most important factor affecting investment performance is the asset allocation decision made by the SBOE. The PSF(SBOE) investment in Domestic Large Cap Equity and Domestic Small/Mid Cap Equity securities experienced returns of 16.30% and 12.80%, respectively, during the fiscal year. The absolute return investments yielded a return of 7.32% and real estate and private equity investments returned 10.52% and 16.35%, respectively. The return on investment in fixed income return was 1.61% for the fiscal year. Risk parity and real return portfolios returned 8.77% and 2.38%, respectively. The emerging market debt investment returned 11.84% while the emerging market and international equities portfolios returned 26.28% and 19.04%, respectively. Combined, all asset classes produced an investment return of 11.96% for the fiscal year ended August 31, 2017, which is reflective of the market conditions in which the various asset classes operate. Actual performance exceeded the target policy benchmark of 10.66% by approximately 130 basis points.

Table 4 summarizes the changes in the composition of the PSF(SBOE) investment portfolio, including cash, during the fiscal year, but does not include real assets or cash under the management of the (PSF)SLB. The total fair value of the PSF(SBOE) investments increased by $2.6 billion (8.5%) from the previous fiscal year. Unallocated Cash is on hand at fiscal year-end pending capital calls for alternative investments. At August 31, 2017, PSF(SBOE) unfunded commitments to real estate investments totaled $1.4 billion and unfunded commitments to the four private equity limited partnerships and direct investments in limited partnerships totaled $1.5 billion.

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TABLE 4
Comparative Investment Schedule –
PSF(SBOE) (in Millions)
August 31, 2017 and 2016

ASSET CLASS	August 31, 2017	August 31, 2016	Amount of Increase (Decrease)	Percent Change
EQUITY				
Domestic Small Cap	$ 1,702.9	$ 1,691.2	$ 11.7	0.7%
Domestic Large Cap	5,907.4	5,983.1	(75.7)	-1.3%
Total Domestic Equity	7,610.3	7,674.3	(64.0)	-0.8%
International Equity	6,513.7	5,640.9	872.8	15.5%
TOTAL EQUITY	14,124.0	13,315.2	808.8	6.1%
FIXED INCOME				
Domestic Fixed Income	4,208.7	4,003.0	205.7	5.1%
Emerging Market Debt	2,289.2	1,991.1	298.1	15.0%
TOTAL FIXED INCOME	6,497.9	5,994.1	503.8	8.4%
ALTERNATIVE INVESTMENTS				
Absolute Return	3,268.5	3,060.1	208.4	6.8%
Real Estate	2,421.6	2,115.5	306.1	14.5%
Private Equity	2,298.0	1,816.1	481.9	26.5%
Risk Parity	2,236.4	2,062.0	174.4	8.5%
Real Return	1,781.7	1,714.2	67.5	3.9%
TOTAL ALTERNATIVE INVESTMENTS	12,006.2	10,767.9	1,238.3	11.5%
UNALLOCATED CASH	99.8	78.8	21.0	26.6%
TOTAL PSF(SBOE) INVESTMENTS	$ 32,727.9	$ 30,156.0	$ 2,571.9	8.5%

PSF(SLB) Portfolio

The table below provides an overview of the real assets investment portfolio managed by the PSF(SLB).

Category	Description
Discretionary real assets investments	Externally managed real estate, infrastructure, and energy/minerals investment funds, separate accounts, and co-investment vehicles; internally managed direct real estate investments, and cash associated with RESFA.
Sovereign and other lands	Lands set aside for the Fund when it was created, and other various lands not considered discretionary real asset investments.
Mineral interests	Minerals associated with Fund lands.

PSF(SLB) Discretionary Real Assets Investments – External

Approximately $571.1 million of capital commitments to externally managed real assets investment funds, separate accounts, and co-investment vehicles were funded during fiscal year 2017. At August 31, 2017, the fair value of the externally managed investments was approximately $2.8 billion, and PSF(SLB) unfunded commitments to real estate investments totaled approximately $2.0 billion.

PSF(SLB) Discretionary Real Estate Investments – Internal

At August 31, 2017, there were approximately 16 internally managed discretionary real estate investments with a fair value of approximately $265.2 million.

PSF(SLB) Sovereign and Other Lands

At August 31, 2017, the sovereign lands portfolio, approximately 408,348 acres of primarily land-locked tracts in West Texas, had a fair value of approximately $270.9 million. In addition to the sovereign lands portfolio, the PSF(SLB) also manages approximately 255,502 acres of other lands with a fair value of approximately $283 million.

PSF(SLB) Mineral Interests

The PSF(SLB) also manages approximately 13 million acres of various submerged, free royalty, mineral-reserved lands, and mineral interest with a risk-adjusted fair value of approximately $1.9 billion.

TABLE 5
Comparative Investment Schedule – PSF(SLB)
August 31, 2017 and 2016
(in Millions)

Asset Class	As of August 31, 2017	As of August 31, 2016 (as restated)	Amount of Increase (Decrease)	Percent Change
Discretionary Real Assets				
Investments Externally Managed				
Real Assets Investment Funds*				
Energy/Minerals	$ 1,191.1	$ 907.6	$ 283.5	31.2%
Infrastructure	583.7	662.7	(79.0)	-11.9%
Real Estate	1,013.3	1,151.0	(137.7)	-12.0%
Domestic Equity	2.0	-	2.0	100.0%
Internally Managed Direct Real Estate Investments	265.3	234.9	30.4	12.9%
Total Discretionary Real Assets Investments	3,055.4	2,956.2	99.2	3.4%
Sovereign and Other Lands	386.1	381.1	5.0	1.3%
Mineral Interests	1,870.2	1,471.2	399.0	27.1%
Cash at State Treasury**	3,399.1	2,315.3	1,083.8	46.8%
Total PSF(SLB) Investments	$ 8,710.8	$ 7,123.8	$ 1,587.0	22.3%

*The fair values of externally managed real assets investment funds, separate accounts, and co-investment vehicles are estimated by management using the most recent valuations available, adjusted for subsequent contributions and withdrawals.

**Cash at State Treasury represents amounts that have been deposited in the State Treasury and temporarily invested in short-term investments until called for investment by the external real assets investment funds, separate accounts, and co-investment vehicles to which PSF(SLB) has made capital commitments. PSF(SLB) is required by statute to deposit cash designated by the SLB for investment in real assets in the State Treasury until it is drawn for investment.

OTHER PROGRAMS

Support Provided to the Public School System

The Fund supports the State's public school system in two major ways: Distributions to the Available School Fund (ASF) and the guarantee of school district and charter district issued bonds through the Fund's Bond Guarantee Program.

ASF Distribution

The Fund annually distributes a predetermined percentage of its asset value to the ASF. For fiscal year 2017, the PSF(SBOE) distribution to the ASF totaled $1.06 billion. The SBOE adopted new administrative rules in September 2009 based on Attorney General Opinion GA-0707 issued on April 13, 2009. These rules state the SBOE will determine each year whether a distribution to the ASF is permitted under the Texas Constitution, Article VII, §5(a)(2), and shall be made for the current fiscal year.

Bond Guarantee Program

Through the Bond Guarantee Program (BGP), the Fund is pledged to guarantee bonds issued by Texas school districts thus enhancing their credit rating. During fiscal year 2014, the SBOE authorized the BGP to guarantee qualified charter district bonds. Since the Program's inception in 1983, the Fund has guaranteed 6,937 school district and 43 charter district bond issues for a total of $164.9 billion and $1.42 billion, respectively. During the past fiscal year, the number of all outstanding issues increased by 14 (0.4%). The dollar amount of all issues outstanding increased by approximately $5.96 billion (8.7%). This program is designed for school districts and charter districts with credit ratings lower than AAA. Bonds issued by participants and guaranteed under the BGP are rated AAA, thus allowing participants to borrow at a lower cost.

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TABLE 6
Comparative Summary of the Bond Guarantee Program
(in Millions except for Number of Issues)

	Fiscal Year Ending August 31, 2017	Fiscal Year Ending August 31, 2016	Amount of Increase (Decrease)	Percent Change
Number of Issues	3,293	3,279	14	0.4%
Issues Guaranteed During the Fiscal Year	$ 13,647.8	$ 14,177.9	$ (530.1)	-3.7%
Issues Refunded or Matured During the Fiscal Year	$ 7,685.0	$ 9,830.0	$ (2,145.0)	-21.8%
Year End Balance	$ 74,266.1	$ 68,303.3	$ 5,962.8	8.7%
Total Guarantee Capacity	$105,909.4	$ 92,978.8	$ 12,930.6	13.9%

The capacity of the overall Fund to guarantee bonds under the BGP is limited in two ways: by State law (the "State Capacity Limit") and by the Internal Revenue Service (IRS) Notice 2010-5 (Notice) received by TEA on December 16, 2009. The State Capacity Limit is currently 3.50 times the latest cost value of the Fund. Texas Education Code Section 45.053(d) provides that the SBOE may, by rule, increase the capacity of the Guarantee Program to an amount not to exceed five times the cost value of the Fund, provided that the increased limit does not violate federal laws or regulations and does not prevent bonds guaranteed by the BGP from receiving the highest available credit rating, subject to other constraints. IRS Notice 2010-5 changed the Internal Revenue Service Limit to a sum certain amount calculated on the date of the Notice, which totals $117,318,653,038. Additionally, state law allows for and the SBOE has elected to reserve 5% of capacity as determined above from use in guaranteeing bonds. This reserve is held for purposes detailed in the Texas Administrative Code Title 19 Part 2 Chapter 33 Subchapter A Rule 33.65.

Charter district capacity is further defined as the State Capacity Limit less the 5% reserve, as described above, and less total outstanding guaranteed debt, the difference of which is multiplied by the ratio of students enrolled in charter schools to total students enrolled in all Texas public schools. This student ratio is to be determined annually by the Commissioner.

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TEXAS PERMANENT SCHOOL FUND
BALANCE SHEET
AUGUST 31, 2017

Assets	
Liquid Assets:	
Cash and Cash Equivalents	
Cash in Bank	$ 6,261,067
Cash in State Treasury	3,450,773,207
Cash Equivalents	127,685,885
Securities Lending Cash Collateral Invested	2,845,887,889
Receivables	
Interest and Dividends Receivable	68,293,923
Investments Sold	29,006,034
Land Endowment Revenue	126,369,800
Land Sale Notes	13,495
Due from Broker for Margin Collateral	677,300
Due From Other Funds	34,784
Consumable Inventories	99,946
Prepaid Items	488
Total Liquid Assets	$ 6,655,103,818
Investments and Related Assets	
Investments, at fair value	$ 30,128,590,042
Investments in other Real Assets, at fair value	7,733,331,058
Land Sale Notes	105,098
Total Investments and Related Assets	$ 37,862,026,198
Total Assets	$ 44,517,130,016
Liabilities, Deferred Inflow Of Resources And Fund Balances	
Liabilities:	
Accounts Payable	$ 10,128,529
Payroll Payable	2,511,132
Payable for Investments Purchased	93,221,453
Unearned Revenue	91,239,842
Due To Other Funds	39,385
Due To Other Agencies	25,923
Payable for Securities Lending Cash Collateral Invested	2,880,371,528
Total Liabilities	$ 3,077,537,792
Deferred Inflow Of Resources	
Interest and Dividends	21,625,365
Total Deferred Inflow Of Resources	$ 21,625,365
Fund Financial Statement-Fund Balances	
Nonspendable	$ 40,083,720,931
Restricted for Public School Support	1,334,245,928
Total Fund Balance	$ 41,417,966,859
Total Liabilities, Deferred Inflow of Resources And Fund Balance	$ 44,517,130,016

The accompanying notes are an integral part of these financial statements.

TEXAS PERMANENT SCHOOL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED AUGUST 31, 2017

Revenues		
Interest, Dividends and Other Investment Income	$	610,034,736
Settlement of Claims		560,637
Securities Lending		25,237,873
Gain on Sale of Sovereign Land		1,465,973
Net Increase/(Decrease) in Fair Value of Investments		3,691,679,430
Land Endowment Income		939,053,153
Revenue from Sales of Purchased Gas		103,883,032
Other		3,498,521
Total Revenues	$	5,375,413,355
Expenditures		
Salaries and Wages	$	24,264,923
Payroll Related Costs		5,726,420
Professional Fees and Services		8,240,324
Travel		403,776
Materials and Supplies		907,009
Communication and Utilities		3,740,973
Gas Supplies Purchased for Resale		98,792,192
Repairs and Maintenance		1,118,116
Rentals and Leases		1,128,707
Printing and Reproduction		19,630
Public Assistance Payments		984,821
Claims and Judgments		-
Securities Lending Rebates and Fees		16,365,522
Other Expenditures		2,280,637
Capital Outlay		374,287
Total Expenditures	$	164,347,337
Excess of Revenues Over Expenditures	$	5,211,066,018
Other Financing Sources/(Uses)		
Transfers Out to Other Funds		(1,056,412,420)
Sale of Capital Assets		3,795
Total Other Financing Sources/(Uses)	$	(1,056,408,625)
Net Change in Fund Balance		4,154,657,393
Fund Financial Statement-Fund Balance		
Fund Balance-September 1, 2016	$	37,263,929,105
Restatements		(619,639)
Fund Balance-September 1, 2016, as restated	$	37,263,309,466
Fund Balance-August 31, 2017	$	41,417,966,859

The accompanying notes are an integral part of these financial statements.

TEXAS PERMANENT SCHOOL FUND
NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The Texas Permanent School Fund (the Fund) was created with a $2,000,000 appropriation by the Legislature of 1854 expressly for the benefit of funding public education for present and future generations. The Constitution of 1876 stipulated that certain lands and all proceeds from the sale of these lands should also constitute the Fund. Additional Acts later gave more public domain land and rights to the Fund. In 1953, the U.S. Congress passed the Submerged Lands Acts that relinquished to coastal States all rights of the U.S. navigable waters within State boundaries. If the State, by law, had set a boundary larger than three miles prior to or at the time of admission to the U.S., or if the boundary had been approved by Congress, then the larger boundary applied. Concluding three years of litigation, the U. S. Supreme Court on May 31, 1960, affirmed Texas' historic three league (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 Fund. The Fund currently owns approximately 13 million total acres.

The State of Texas (State) Constitution describes the Fund as "permanent" with proceeds produced by the Fund to be used to complement taxes in financing public education. Under an obligation to maintain trust principal, the Fund's assets are held in a trustee capacity for the benefit of public free schools. The annual distribution provided by the Fund is calculated using a total return methodology, and by the Texas Constitution.

The Fund's financial assets are managed by the State Board of Education (SBOE). The SBOE is comprised of fifteen elected members. Administrative duties related to these assets reside with the Fund's Investment Office, a division of the Texas Education Agency (TEA), which is under the guidance of the Commissioner of Education, an appointee of the Governor. Investment Office operations are included in the TEA's financial report for inclusion in the State's Comprehensive Annual Financial Report (CAFR). The Fund's financial statements are reported as a governmental permanent fund in the State's CAFR. The portion of the Fund directed by the SBOE shall be referred to within these notes as the PSF(SBOE) assets.

Texas law assigns control of the Fund's land, mineral rights, and certain real assets investments to the three-member School Land Board (SLB), which includes 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. SLB land and real assets investment operations are included in the GLO's annual financial report for inclusion in the State's CAFR. The portion of the Fund managed by the SLB shall be referred to within these notes as the PSF(SLB) assets.

The 79th Legislature authorized the SLB to manage and operate the State Energy Marketing Program (SEMP) with land sale, lease, and royalty receipts of the Fund. This legislation allowed for certain portions of SEMP accounting to be consolidated into the Fund from a special revenue fund.

B. Basis of Presentation and Basis of Accounting

The accompanying financial statements of the Fund were prepared to conform to U.S. Generally Accepted Accounting Principles (GAAP) as established by the Governmental Accounting Standards Board (GASB).

The Fund is classified as a governmental permanent fund. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The Management's Discussion and Analysis is required as supplementary information preceding the financial statements.

Measurement focus refers to the definition of the resource flows measured and has to do with the types of transactions or events reported in the statement of revenues, expenditures, and changes in fund balance. Basis of accounting refers to the timing of the recognition of transactions or events. Under the modified accrual basis of accounting, amounts are recognized as revenues in the period in which they are available to finance expenditures of the current period and are measurable. The Fund considers revenues available if they are collected within 60 days of the end of the current period. Accruals whose receipt is due after the 60 day period are classified as deferred inflows of resources. Amounts are considered measurable if they can be estimated or otherwise determined. Expenditures are recognized in the period in which the related fund liability is incurred, if measurable.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of income and expenditures during the reporting period. Externally managed emerging market debt and emerging market equity, as well as alternative investments, including absolute return fund of funds, risk parity strategies, commodities (real return investments), private equity and real estate, are valued by the PSF(SBOE) at fair values as determined by management. The real assets investments are valued by the PSF(SLB) at net asset value (NAV) per share.

The GLO and TEA organizations each adopt an agency-wide budget for legislative approval. Each of these agencies' budgets encompasses operations of the Fund overseen by their respective Boards. However, there is no legally adopted budget specifically for the Fund as a whole. These agency budgets are prepared biennially and represent appropriations authorized by the Legislature and approved by the Governor of Texas (the General Appropriations Act).

C. Assets, Income, Expenditures, and Transfers

Cash and Cash Equivalents

Cash and cash equivalents consist of money market instruments, cash held at the State Treasury, cash held in a FDIC insured bank account, foreign currencies and other overnight funds. The PSF(SBOE) cash in bank balance represents the U.S. dollar equivalent of amounts held in foreign currencies for which trade settlement is pending and dividend payment is awaiting repatriation. The Fund's deposits with the State Treasury are available upon demand and are therefore presented as cash. Cash equivalents on the balance sheet represent cash balances that are invested in the money market fund managed by the PSF(SBOE) custodian, The Bank of New York Mellon Corporation (Custodian). Cash held in the money market fund is primarily utilized to settle investment obligations. Cash and cash equivalents are an integral part of investment management of the Fund. PSF(SLB) cash and cash equivalents include cash on hand, cash in local banks, cash in the State Treasury and short-term highly liquid investments with an original maturity of three months or less.

Receivables

The PSF(SBOE) reports receivables based on revenues earned but not collected during the fiscal year.

The PSF(SLB) reports receivables based on revenues earned but not collected during the fiscal year. The voluntary oil and gas royalty receivables are calculated from production reports or remittance advices; the payments and reporting of these royalties are not legally due until the second month after production occurs. The receivables for voluntary oil and gas royalties are established based on the information received in the remittance advices from fiscal year end through October 2017 for the production months August 2017 and earlier.

PSF(SBOE) Investments

Investment transactions are recorded on a trade date basis. Investments other than land endowment are reported at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72), as applicable. PSF(SBOE) investments, such as equities and fixed income securities with readily determinable fair values, are valued on the basis of market valuations provided by the Custodian. Short-term securities, which have maturities less than one year at the time of purchase, are valued at amortized cost, which approximates fair value.

Fair values of PSF(SBOE) absolute return fund of funds are based on the net asset value (NAV) provided to management by the investment advisors of the funds.

Fair values of PSF(SBOE) risk parity strategies are based on the NAV provided to management by the general partner or the investment advisor, as applicable for each investment structure.

Fair values of PSF(SBOE) real estate investments are estimated by management using the latest valuation provided by the general partners, adjusted for contributions and withdrawals subsequent to the latest available valuation reporting date.

Fair values of PSF(SBOE) private equity investment funds are estimated by management using the investment's capital account balance at the latest available reporting date, as communicated by the investment manager or general partner, adjusted for contributions and withdrawals subsequent to the latest available reporting date.

Fair values of PSF(SBOE) commodity investment funds, which are a component of the real return portfolio, are based on the NAV provided to management by the general partners of the funds.

Fair values of PSF(SBOE) emerging market debt investments are based on the NAV provided to management by the investment advisor for each investment structure.

Fair values of PSF(SBOE) emerging market equity investments are based on the NAV provided to management by the investment advisor for the investment structure.

Fair values of the externally managed PSF(SLB) real assets investments portfolio are estimated by management using the latest valuations provided by the investment managers, adjusted for contributions and withdrawals subsequent to the latest available valuation reporting date.

The fair valuation process of the Fund's land surface value is based on using level 3 inputs. Level 3 inputs consist of market data from a variety of sources and surveys tempered with known transactions in the subject's competing marketplace. These values are based on estimated appraised values or are independently determined by the staff in Appraisal Services using a combination of actual sales and data from studies conducted by the Texas Chapter of the American Society of Farm Managers and Rural Appraisers, Multiple Listing Services throughout the state and CoStar commercial sales data in certain metropolitan areas. Since the majority of Fund lands are vacant, the market approach to value is utilized and applied to the aggregate of properties located in a specific land class and region throughout the state. Except for cases where the asset has income production over and above the amount to offset holding costs, both the market and income approaches to value are utilized.

The fair value of the Fund's interests in oil and gas is determined by using the present value technique of the income approach and is based upon an industry-standard 3P reserve report (i.e. proved, possible, and probable reserves) prepared by a third-party expert, W.D. Von Gonten & Co., a Houston-based petroleum engineering firm widely recognized as an industry expert in oil and gas reserve evaluation and valuation. Employing a methodology for estimating reserves that conforms to all standards established by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists, and the Society of Petroleum Evaluation Engineers, Von Gonten estimated future revenues from those estimated reserves and then discounted those revenues at 10 percent to arrive at a non-risk-adjusted total reserve valuation.

Because of the inherent uncertainty of valuations, the value of alternative investments estimated by management may differ significantly from the value that would have been used had a liquid market for these investments existed and such differences could be material to the financial statements. Actual results could differ from the estimates.

PSF(SBOE) investments are registered in the name of the Fund or are registered in the nominee name of the Custodian of the Fund, and are held in the name of the Fund by the Custodian. Certain physical securities are held in the name of the Fund. The absolute return investments are held within single member limited liability companies, each with an external investment manager. The Fund's ownership interests in the risk parity strategies are through a limited liability company and a limited partnership, each with an external investment manager. Commodities are managed in limited partnerships, each with an investment manager. Private equity investments are managed in limited partnerships, each with an external investment manager. Real estate investments are executed direct with general partners utilizing limited partnership agreements. Emerging market debt investments are executed by investment advisors under investment management agreements. Emerging market equity investments are held in fund-of-one structures with executed investment management agreements with managers.

PSF(SLB) Land Endowment and Other Real Property Investments

The land endowment is maintained on the Fund's behalf by the SLB, administered by the GLO and is generally held to produce income. Public domain appropriated to the Fund, including surface acres, submerged and offshore lands, and mineral rights, is reported at fair value. In accordance with GASB 72, real estate and minerals held as investments are reported at fair value.

The 77th Legislature amended the Natural Resources Code (NRC) effective September 1, 2001, to allow the GLO to deposit some or all the proceeds of future mineral leases and royalties generated from existing and future active leases of the Fund's mineral interest into a special account, now called the Real Estate Special Fund Account (RESFA), to be used to acquire additional real assets investments. The 79th Legislature further amended the NRC in 2005 to clarify the purposes on which the funds can be used, including adding three additional purposes. For the use and benefit of the Fund, the proceeds in the RESFA are to be used by the SLB to add to a tract of public school land, add contiguous land to public school land, acquire, as public school land, interests in real property for biological, commercial, geological, cultural, or recreational purposes; to acquire mineral and royalty interests; to protect, maintain, or enhance the value of public school lands; to acquire interests in real estate; and to pay reasonable fees for professional services related to Fund investments.

The 80th Legislature passed HB 3699 which further expanded the SLB's authority to use revenues generated by lands dedicated to the Fund for deposit into the RESFA to acquire, sell, lease, trade, improve, maintain, protect, or use land, mineral and royalty interests or interest in public infrastructure, or other interests. The RESFA is to be used to make prudent investments in real assets on behalf of the Fund.

Income, Expenditures, and Transfers

Land endowment income, derived from the real assets administered by the GLO, consists principally of mineral royalties, bonus and delay rental payments, commercial lease payments, operating lease payments, and investment gain/loss. Investment income/loss derived from the PSF(SLB) investment assets consists of the net increase/(decrease) in the fair value of real assets investments, income, and dividends.

Royalty income is recognized upon oil and gas production and the various types of lease income are recognized during the applicable lease period. SEMP revenues are generated from the sale of natural gas supplies and enhancements from the sale of generated electricity to school districts and other governmental entities.

Investment income/loss derived from the PSF(SBOE) investment assets consists of the net increase/ (decrease) in the fair value of the investments and securities lending cash collateral, securities lending revenue, and interest and dividends.

Operating and investment management expenditures, less securities lending rebates and fees, totaled $147,981,815 for fiscal year 2017. Under the direction of the GLO, $26,011,011 was spent to manage the PSF(SLB) assets and $23,178,612 was expended by the TEA to administer the PSF(SBOE) assets. SEMP expenditures of $98,792,192 include the purchase of gas supplies in the open market and are reflected in the total expenditures for 2017.

A referendum was held in the State on November 8, 2011 and voters of the State approved non-substantive changes to the Texas Constitution to clarify references to the Fund, and approved an amendment which included an increase to the base used to calculate the distribution rate by adding to the calculation base certain discretionary real assets and cash in the Fund that is managed by entities other than the SBOE (i.e., the SLB).

Article VII, Section 5 of the Texas Constitution stipulates two constraints that affect the amount to be distributed. First, the SBOE is prevented from approving a distribution rate or making transfers to the ASF that exceed 6% of the average of the market value of the Fund, excluding real property, 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. Second, the total distributions to the ASF over the 10-year period as defined in subsection 5(a)(2) may not exceed the total return on all investment assets of the PSF(SBOE) over the same 10-year period.

The constitutional amendments approved also provided authority to the SLB or other non-SBOE entity exercising responsibility for the management of land or other properties of the Fund to determine at its sole discretion whether to transfer annually up to $300 million from PSF(SLB) assets resulting from current year revenue derived from such land or properties to the ASF.

The SBOE set the rate for the 2016-2017 biennium at 3.5% based on a commitment of the SLB to transfer $375 million to the PSF(SBOE) during the biennium. The SLB transferred $200 million to the PSF(SBOE) during the year ended August 31, 2017. Interfund transfers from the PSF(SBOE) to the Available School Fund (ASF) totaled $1,056,412,420 during the fiscal year.

D. Fund Balance Classification

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54) requires that governmental fund balances be classified in the financial statements as nonspendable, restricted, committed, assigned and unassigned. In previous years, the corpus of the Fund was classified as nonspendable, and the balance of the Fund was classified as restricted based on provisions in the Texas Constitution which limit the use of the Fund to the support of public free schools.

The Texas Constitution, Article 7 describes the fund as "permanent," specifically describes how the Fund may be spent, and also explicitly restricts the legislature from appropriating any part of the Fund to any other purpose. The Texas Constitution allows the Fund to be spend on 1) transfers to the Available School Fund in accordance with Constitutional requirements, 2) expenses of managing the PSF land and investments, and 3) guaranteed bond payments in the event of default. Accordingly, in the current year and going forward, to the extent that these conditions exist, that portion of the fund balance is classified as restricted based on Constitutional provisions that limit the use of the Fund to these purposes. The remainder of the fund balance is classified as nonspendable, in alignment with the Fund's permanent nature as described in the Constitution.

2. DEPOSITS AND INVESTMENTS

Deposits and investments of the Fund are exposed to risks that have the potential to result in losses. GASB Statement No. 40, *Deposit and Investment Risk Disclosures-An Amendment to GASB Statement No. 3* establishes and modifies disclosure requirements related to deposit and investment risks. Deposit risks include custodial credit and foreign currency risk. Investment risks include credit risk (custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. This statement applies to all state and local governments.

A. Investment Policies

The Texas Constitution and applicable statutes delegate to the SBOE the authority and responsibility for investment of the Fund's assets excluding investment of the land endowment, which is the responsibility of the SLB. In making these investments, 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 there from as well as the probable safety of their capital. The Fund is authorized to purchase, sell, and invest its funds and funds under its control in accordance with the Texas Administrative Code. The deposit policy of the Fund states that all residual cash must be invested on a daily basis. Permissible investments subject to Constitutional and SBOE imposed restrictions include the following:

- Equities listed on well recognized principal U.S. or foreign exchanges, including common or preferred stocks; futures; corporate bonds, debentures, and convertible preferred corporate stocks that may be converted into equities; and investment trusts.
- Fixed income securities, including U.S. or foreign treasury or government agency obligations, U.S. or foreign corporate bonds, asset or mortgage backed securities, taxable municipal obligations, Canadian bonds, Yankee bonds, supranational bonds denominated in U.S. dollars, and 144A securities. Fixed income securities, upon purchase, must be rated at least BBB by Standard and Poor's (S&P), Baa3 by Moody's Investors Service (Moody's) and BBB by Fitch. Fixed income securities may not be purchased unless there is a stated par value amount due at maturity.
- Real estate, including investments in real properties, such as apartments, office buildings, retail centers, infrastructure, timberlands and industrial parks. It also includes investments in real estate related securities and real estate related debt.

- Private equity, including venture capital, buy-out investing, mezzanine financing, distressed debt and special situation strategies.
- Absolute return investments which are a diversified bundle of primarily marketable investment strategies that seek positive returns, regardless of market direction.
- Real return investments which target a return that exceeds the rate of inflation, measured by the Consumer Price Index (CPI).
- Short-term U.S. Government or U.S. Government agency securities, money market funds, corporate discounted instruments, corporate-issued commercial paper, U.S. or foreign bank time deposits, bankers acceptances, and fully collateralized repurchase agreements. Short term money market instruments must be rated at least A-1 by S&P or P-1 by Moody's.
- Risk parity strategies.
- Any new form of investment or non-publicly traded investment approved by the SBOE based on risk and return characteristics consistent with Fund's goals and objectives, and
- Currency hedging strategies, as approved by the SBOE, for the international portfolio.

The Texas Constitution also establishes the authority of the GLO which is responsible for managing most state-owned lands and minerals and is responsible for protecting the economic future of the Texas Gulf Coast by preserving all vital assets and natural resources from erosion. The GLO administers the land endowment and real assets investments under the direction of the SLB. Before using funds for prescribed purposes, the SLB must determine, using the prudent investor standard, which is the best use of the funds for the intended purpose of the Fund. The PSF(SLB) real assets investments are diversified across the commercial real estate, infrastructure, and energy/minerals sectors.

B. Investment Value Measurement

Security transactions are recorded on a trade date basis. Public market investments, except those held within the alternative investments, are registered in the nominee name of The Bank of New York Mellon, the Custodian of the Permanent School Fund, at the Depository Trust Company. At the Custodian, the securities are held in the name of the Permanent School Fund. Certain physical securities are held in the name of the Fund. Alternative investments are held within LLCs (limited liability companies) or LPs (limited partnerships) in the name of the Texas Education Agency.

Investments other than PSF(SLB) managed land endowment and other real property at fair value as of August 31, 2017, are as follows:

PSF(SBOE) Investments	Fair Value
Domestic Equity	$ 7,601,509,549
International Equity - Foreign Currency Denominated	5,163,243,957
International Equity - USD Denominated (ADR/GDR)	263,140,931
International Equity - Emerging Markets	1,078,621,228
Asset Backed Securities	33,777,873
Collateralized Loan Obligations	212,431,264
Commercial Mortgage Backed Securities	78,861,287
Corporate Obligations	1,006,750,457
Non-Agency Mortgage Backed Securities	120,002,968
Non-U.S. Government Agency Obligations	85,961,808
Non-U.S. Government Sovereign Debt Obligations	78,616,215
U.S. Government Agency Commercial Mortgage Backed Securities	46,552,551
U.S. Government Agency Mortgage Backed Securities	735,841,343
U.S. Government Agency Obligations	135,370,029
U.S. Taxable Municipal Bonds	83,599,598
U.S. Treasury Securities	1,510,002,345
U.S. Treasury TIPS	994,211,721
Emerging Market Debt	2,289,188,364
Real Estate Investments	2,421,590,453
Risk Parity Strategies	2,236,352,591
Real Return - Commodities	807,988,735
Absolute Return Investments	3,268,527,255
Private Equity Investments	2,298,037,973
Total Investments Other Than PSF(SLB) Managed Land Endowment and Real Property	$ 32,550,180,495

The Fund's PSF(SBOE) managed assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with GASB 72.

GASB 72 defines "fair value" as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction.

GASB 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). The three levels of the fair value hierarchy under GASB 72 are described below:

- Level 1 inputs – Unadjusted, quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. An active market is defined as a market where transactions for the financial instrument occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 inputs – Inputs, other than quoted prices in active markets that are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.
- Level 3 Inputs – Prices or valuations that require inputs that are both significant to the fair measurement and unobservable. Valuation under Level 3 generally involves a significant degree of judgment from management. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for the investments existed.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Management's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and consideration of factors specific to the investment.

In accordance with GASB 72, valuation techniques used for assets and liabilities accounted for at fair value are generally categorized into three types:

- Market approach valuation techniques use prices and other relevant information from market transactions involving identical or comparable assets or liabilities. Valuation techniques consistent with the market approach include comparables and matrix pricing. Comparables use market multiples, which might lie in ranges with a different multiple for each comparable. The selection of where within the range the appropriate multiple falls requires judgment, considering both quantitative and qualitative factors specific to the measurement. Matrix pricing is a mathematical technique used principally to value certain securities without relying exclusively on quoted prices for the specific securities, but comparing the securities to benchmark or comparable securities.
- Income approach valuation techniques convert future amounts, such as cash flows or earnings, to a single present amount, or a discounted amount. These techniques rely on current market expectations of future amounts. Examples of income approach valuation techniques include present value techniques; option-pricing models, binomial or lattice models that incorporate present value techniques; and the multi-period excess earnings method.
- Cost approach valuation techniques are based upon the amount that, at present, would be required to replace the service capacity of an asset, or the current replacement cost. That is, from the perspective of a market participant (seller), the price that would be received for the asset is determined based on the cost to market participant (buyer) to acquire or construct a substitute asset of comparable utility.

The three approaches described above are consistent with generally accepted valuation methodologies. While all three approaches are not applicable to all assets or liabilities accounted for at fair value, where appropriate and possible, one or more valuation techniques may be used. The selection of the valuation method to apply considers the definition of an exit price and the nature of the asset being valued, and significant expertise and judgment is required. For assets accounted for at fair value, the valuation selected is generally the market or income approach.

For the year ended August 31, 2017, the application of valuation techniques applied to similar assets and liabilities has been consistent.

The following table presents information about the PSF(SBOE) assets measured at fair value as of August 31, 2017.

	Level 1	Level 2	Level 3	Total
Domestic Equity Portfolios				
Advertising, Media, & Publishing	$ 199,206,725	$ -	$ -	$ 199,206,725
Aerospace & Defense	170,824,986	-	-	170,824,986
Agriculture & Environment	114,993,562	-	-	114,993,562
Banking & Finance	835,114,397	-	-	835,114,397
Biotechnology & Chemistry	352,443,420	-	-	352,443,420
Business Services	178,859,687	-	-	178,859,687
Capital Goods & Vehicles	2,618,909	-	-	2,618,909
Construction & Machinery	202,779,760	-	-	202,779,760
Consumer Goods	644,585,118	-	-	644,585,118
Energy & Utilities	710,425,491	-	-	710,425,491
Food & Beverage	257,854,359	-	-	257,854,359
Health & Pharmaceutical	801,547,351	-	-	801,547,351
Industrial Commodities	56,790,696	-	-	56,790,696
Industrial Manufacturing	248,389,798	-	-	248,389,798
Information Technology & Electronics	1,674,121,375	-	-	1,674,121,375
Insurance	322,978,872	-	-	322,978,872
Investment Management	209,912,907	-	-	209,912,907
Other	1,659,004	-	-	1,659,004
Packaging	27,490,410	-	-	27,490,410
Real Estate	154,163,003	-	-	154,163,003
Telecommunications	207,232,006	-	-	207,232,006
Travel & Entertainment	227,517,713	-	-	227,517,713
Subtotal - Domestic Equity	7,601,509,549	-	-	7,601,509,549

International Equity Portfolio	Level 1	Level 2	Level 3	Total
Advertising, Media, & Publishing	82,554,692	-	-	82,554,692
Aerospace & Defense	49,387,441	-	-	49,387,441
Agriculture & Environment	21,087,654	-	-	21,087,654
Banking & Finance	925,565,529	-	-	925,565,529
Biotechnology & Chemistry	172,050,087	-	-	172,050,087
Capital Goods & Vehicles	12,801,162	-	-	12,801,162
Commercial Services	92,171,112	-	-	92,171,112
Communications	255,230,430	-	-	255,230,430
Construction & Machinery	302,738,286	-	-	302,738,286
Consumer Goods	453,216,938	-	-	453,216,938
Energy & Utilities	640,672,654	-	-	640,672,654
Food & Beverage	349,428,615	-	-	349,428,615
Health & Pharmaceutical	394,202,948	-	-	394,202,948
Industrial Commodities	128,445,827	-	-	128,445,827
Industrial Manufacturing	276,967,999	-	-	276,967,999
Information Technology & Electronics	550,940,949	-	-	550,940,949
Insurance	285,480,903	-	-	285,480,903
Investment Management	153,512,617	-	-	153,512,617
Packaging	4,747,094	-	-	4,747,094
Real Estate	109,926,989	-	13	109,927,002
Travel & Entertainment	165,254,949	-	-	165,254,949
Subtotal - International Equity	5,426,384,875	-	13	5,426,384,888

	Level 1	Level 2	Level 3	Total
Fixed Income Portfolio				
Asset Backed Securities	$ -	$ 33,777,873	$ -	$ 33,777,873
Collateralized Loan Obligations	-	212,431,264	-	212,431,264
Commercial Mortgage Backed Securities	-	78,861,287	-	78,861,287
U.S. Government Agency Commercial Mortgage Backed Securities	-	46,552,551	-	46,552,551
Corporate Obligations	-	1,006,750,457	-	1,006,750,457
Non-Agency Mortgage Backed Securities	-	120,002,968	-	120,002,968
Non-U.S. Government Agency Obligations	-	85,961,808	-	85,961,808
Non-U.S. Government Sovereign Debt Obligations	-	78,616,215	-	78,616,215
U.S. Government Agency Obligations	-	135,370,029	-	135,370,029
U.S. Government Agency Mortgage Backed Securities	-	735,841,343	-	735,841,343
U.S. Taxable Municipal Obligations	-	83,599,598	-	83,599,598
U.S. Treasury TIPS	35,156,337	-	-	35,156,337
U.S. Treasury Securities	1,510,002,345	-	-	1,510,002,345
Subtotal - Fixed Income	1,545,158,682	2,617,765,393	-	4,162,924,075
Real Return Portfolio				
U.S. Treasury TIPS	959,055,384	-	-	959,055,384
Total investments by fair value level	**$ 15,532,108,490**	**$ 2,617,765,393**	**$ 13**	**$ 18,149,873,896**

The Fund utilizes the net asset value (NAV) per share as a method for determining fair value for its investments in absolute return, real estate, private equity, emerging market debt, emerging market equity, risk parity and real return strategies. These investments calculate the NAV consistent with Financial Accounting Standards Board's measurement principles for investment companies and the Fund does not intend to sell all or portion of the investment for an amount that is different from the NAV. These investments are exempt from classification within the fair value hierarchy.

The following table presents information about the Fund's PSF(SBOE) managed assets measured at NAV at August 31, 2017.

Investments measured at NAV	
Absolute Return Investments	$ 3,268,527,255
Real Estate Investments	2,421,590,453
Private Equity Investments	2,298,037,973
Emerging Market Debt	2,289,188,364
Emerging Market Equity	1,078,621,228
Risk Parity Strategies	2,236,352,591
Real Return - Commodities	807,988,735
Total investments measured at NAV	**$ 14,400,306,599**

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The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table.

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice	Liquidity Expectation	
Absolute Return Investments						
Credit	$ 784,030,005	$ -	Daily, Monthly, Quarterly, Semi-Annual, Annual, 2 Years	45-180 days		(1)
Relative Value	306,865,367	-	Monthly, Quarterly	15-120 days		(2)
Multi-Strategy	582,207,306	-	Monthly, Quarterly, Semi-Annual, Annual	45-180 days		(3)
Equity	816,631,417	-	Monthly, Quarterly, Semi-Annual, Annual, 3 Years	18-93 days		(4)
Macro	574,222,848	-	Daily, Monthly, Quarterly	2-90 days		(5)
Commodities	91,647,297	-	Monthly, Quarterly	30-90 days		(6)
Other	112,923,015	-	Not Applicable	None		(7)
Real Estate Investments	2,421,590,453	1,351,570,529	Variable	0-90 days	1-19 years	(8)
Private Equity Investments						(9)
Large Capital Buy-out	458,982,625	344,131,394	None	None	10-15 years	
Mid Capital Buy-out	1,014,881,433	486,175,903	None	None	10-15 years	
Special Situation	436,316,001	444,893,369	None	None	10-15 years	
Venture/Growth Capital	387,857,914	260,481,866	None	None	10-15 years	
Emerging Market Debt	2,289,188,364	-	Daily	1-5 days		
Emerging Market Equity	1,078,621,228	-	Daily	1-3 days		
Risk Parity Strategies	2,236,352,591	-	Monthly	5-15 days		(10)
Real Return - Commodities	807,988,735	-	Daily	1 day		(11)
Total investments measured at NAV	$ 14,400,306,599	$ 2,887,253,061				

(1) Investment includes fund of funds which have been valued using the NAV per share for the fund. Investments representing 41.9% of the fair value have redemption restrictions that do not allow for redemption during a restricted time period. Investments representing 67% of the fair value have certain gate restrictions ranging from 12.5% to 50%. The restriction period at August 31, 2017, ranges from September 1, 2017, to April 1, 2022, for these investments.

(2) Investment includes fund of funds which have been valued using the NAV per share for the fund. Investments representing 3.1% of the fair value have restrictions that do not allow for redemption during a restricted time period. Investments representing 27% of the fair value have certain gate restrictions ranging from 5% to 25%. The restriction period at August 31, 2017, ranges from September 1, 2017, to January 1, 2018, for these investments.

(3) Investment includes fund of funds which have been valued using the NAV per share for the fund. Investments representing 9.7% of the fair value have redemption restrictions that do not allow for redemption during a restricted time period. Investments representing 52% of the fair value have certain gate restrictions ranging from 5% to 25%. The restriction period at August 31, 2017, ranges from September 1, 2017, to February 1, 2018, for these investments.

(4) Investment includes fund of funds which have been valued using the NAV per share for the fund. Investments representing 15.6% of the fair value have redemption restrictions that do not allow for redemption during a restricted time period. Investments representing 55% of the fair value have certain gate restrictions ranging from 12.5% to 50%. The restriction period at August 31, 2017, ranges from September 1, 2017, to July 1, 2019, for these investments.

(5) Investment includes fund of funds which have been valued using the NAV per share for the fund. Investments representing 29.8% of the fair value have redemption restrictions that do not allow for redemption during a restricted time period. Investments representing 65% of the fair value have certain gate restrictions ranging from 10% to 50%. The restriction period at August 31, 2017, ranges from September 1, 2017, to October 1, 2018, for these investments.

(6) Investment includes fund of funds which have been valued using the NAV per share for the fund. Investments representing 32% of the fair value have certain gate restrictions of 20%. The restriction period at August 31, 2017, ranges from September 29, 2017, to October 20, 2017, for these investments.

(7) Investment includes fund of funds which have been valued using the NAV per share for the fund. Investments representing 33.6% of the fair value do not have redemption provisions and distributions will be made as the underlying investments are liquidated.

(8) Investment includes real estate funds that primarily invest in real estate, including commercial, residential, industrial, and real estate financing. Investments are located in North America, Asia and Europe. The investments have been valued using the NAV per share for the fund. Approximately one half of these investments are in close-end funds and cannot be redeemed. Investments representing 52.6% of the fair value are open ended, and require redemption notice ranging from 0 to 90 days. Investments representing 5.2% of the fair value have lock periods of 24 months. Distributions from each fund will be received as the underlying investments are liquidated. It is expected that the funds will be liquidated over the next 1-19 years.

(9) Investment includes 4 separate private equity funds and direct investments in limited partnerships, each utilizing various strategies as listed. There are no redemption provisions with the investment funds, distributions will be made as the underlying investments are liquidated. The underlying assets are expected to be liquidated over the next 10-15 years. The underlying investments are within various industries including communications, consumer services, distressed debt, diversified, energy, financial services, healthcare, manufacturing, software and technology.

(10) Investment includes two externally managed funds with 50% of the fair value of the investment subject to a redemption notice of 5 days and 50% subject to a redemption notice of 15 days.

(11) Investment includes two externally managed funds which have been valued using the NAV.

C. Custodial Credit Risk for Deposits
The custodial credit risk for deposits is the risk that in the event of bank failure, the Fund's deposits may not be recovered. Except for the requirement to invest cash daily, the State Constitution, applicable statutes, and the Fund's investment policies do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits. As of August, 31, 2017, there was $5,262,385 of PSF(SBOE) uninsured and uncollateralized cash in bank subject to custodial credit risk. This cash in bank balance represents the U.S. dollar equivalent of amounts held in foreign currencies and cash received but not yet invested. It is for trades for which settlement is pending, dividend payments that are awaiting repatriation, and cash invested overnight at the Fund's custodial bank. The remaining PSF(SLB) balance of $998,682 is uninsured and uncollateralized cash in bank subject to custodial credit risk. This represents the PSF(SLB) cash portion of a tenancy in common development project and other limited partnership development projects.

Most of the cash managed by the PSF(SBOE) is deposited in the State Treasury in an external investment pool managed by the Texas Comptroller of Public Accounts (CPA). The CPA invests in authorized investments consistent with applicable law and the CPA investment policy. The CPA pools funds for investment purposes and allocates investment earnings on pooled funds proportionately among the various state agencies whose funds are so pooled. Currently, most pooled funds are invested in repurchase agreements, reverse repurchase agreements, obligations of the United States and its agencies and instrumentalities, and fully collateralized deposits in authorized state depositories. All investments are marked to market daily, using an external pricing service. The State Treasury deposits are not subject to custodial risk because the State Treasury has an arrangement with financial institutions to collateralize state deposits in excess of depository insurance.

The cash attributable to the PSF(SLB) real assets investment portfolio is deposited in the State Treasury and invested as described in the preceding paragraph; therefore, those deposits are not exposed to custodial credit risk.

D. Custodial Credit Risk for Investments
The custodial credit risk for investments is the risk that in the event of a failure of the counterparty, the Fund will not be able to recover the value of the investment or securities held as collateral that are in the possession of an outside party. PSF(SBOE) investments are registered in the name of the Fund or are registered in the nominee name of The Bank of New York Mellon Corporation and held in the name of the Fund at The Bank of New York Mellon Corporation. PSF(SBOE) investments are not subject to custodial credit risk. However, the invested securities lending collateral detailed below as of August 31, 2017, is subject to custodial credit risk because the collateral is purchased and held by the counterparty, The Bank of New York Mellon Corporation, which is contracted to serve as both the custodian and the securities lending agent. The cost basis of invested securities lending collateral at August 31, 2017 was $2,880,371,528 and the fair value was $2,845,887,889, which is detailed below.

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The Fund measures the fair value of its securities lending program cash collateral by the same methodology described above, as follows:

Invested Securities Lending Collateral	Cost Basis	Fair Value	Level 1	Level 2	Level 3
U.S. Agencies	$ 54,997,882	$ 55,043,114	$ -	$ 55,043,114	$ -
Asset Backed Floating Rate Notes	362,192,741	362,723,245	-	362,723,245	-
Corporate Floating Rate Notes	1,903,910,976	1,868,851,569	-	1,868,851,569	-
Repurchase Agreements	91,325,959	91,325,959	-	91,325,959	-
Commercial Paper	40,473,881	40,473,620	-	40,473,620	-
Certificates of Deposit	53,700,089	53,700,382	-	53,700,382	-
Time Deposits	373,770,000	373,770,000	-	373,770,000	-
Total Securities Lending Collateral (Exh. I)	$ 2,880,371,528	$ 2,845,887,889	$ -	$ 2,845,887,889	$ -

The State Constitution, applicable statutes, and the PSF(SBOE) investment policies do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments, including securities lending collateral investments.

E. Credit Risk for Debt Investments

Credit risk is the risk that an issuer or other counterparty of an investment will not fulfill its obligation to pay interest and repay principal. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO).

The rated debt investments of the PSF(SBOE) as of August 31, 2017, are as follows:

- If ratings are comparable between all NRSROs, the S&P rating scale is used to rate the securities.
- On securities with split or different ratings between the NRSROs, the rating indicative of the greatest level of risk is disclosed.
- For purposes of this disclosure, ratings have been aggregated to the base alpha rating.

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Investment Type	Rating	Rating Service	Fair Value
Asset Backed Securities	AAA	S&P	$ 28,917,760
Asset Backed Securities	A	S&P	4,860,113
Collateralized Loan Obligations	A	Moody's	750,220
Collateralized Loan Obligations	Baa	Moody's	104,309,977
Collateralized Loan Obligations	BBB	S&P	107,371,067
Commercial Mortgage Backed Obligations	AAA	S&P	5,315,826
Commercial Mortgage Backed Obligations	AAA	Fitch	10,552,728
Commercial Mortgage Backed Obligations	Aaa	Moody's	38,833,267
Commercial Mortgage Backed Obligations	Aa	Moody's	24,159,466
Corporate Obligations	AA	S&P	21,012,212
Corporate Obligations	A	S&P	115,462,079
Corporate Obligations	A	Moody's	42,160,380
Corporate Obligations	BBB	S&P	570,768,521
Corporate Obligations	BBB	Fitch	44,279,739
Corporate Obligations	Baa	Moody's	203,672,558
Corporate Obligations	Ba	Moody's	9,394,668
Non-Agency Mortgage Backed Securities	AAA	S&P	38,705,632
Non-Agency Mortgage Backed Securities	AAA	Fitch	14,262,484
Non-Agency Mortgage Backed Securities	Aaa	Moody's	30,649,486
Non-Agency Mortgage Backed Securities	AA	S&P	15,241,995
Non-Agency Mortgage Backed Securities	AA	Fitch	4,683,638
Non-Agency Mortgage Backed Securities	Aa	Moody's	10,899,396
Non-Agency Mortgage Backed Securities	A	Fitch	5,560,337
Non-U.S. Government Agency Obligations	AAA	S&P	27,639,258
Non-U.S. Government Agency Obligations	Aaa	Moody's	10,154,917
Non-U.S. Government Agency Obligations	AA	S&P	5,150,500
Non-U.S. Government Agency Obligations	AA	Fitch	15,207,382
Non-U.S. Government Agency Obligations	A	Moody's	9,994,724
Non-U.S. Government Agency Obligations	A	S&P	9,996,902
Non-U.S. Government Agency Obligations	BBB	S&P	7,818,125
Non-U.S. Sovereign Government Debt	A	S&P	11,750,000
Non-U.S. Sovereign Government Debt	A	Fitch	10,549,500
Non-U.S. Sovereign Government Debt	BBB	S&P	44,973,770
Non-U.S. Sovereign Government Debt	BBB	Fitch	6,024,060
Non-U.S. Sovereign Government Debt	Baa	Moody's	5,318,885
U.S. Government Agency Commercial Mortgage Backed Securities	AA	S&P	3,986,167
U.S. Government Agency Commercial Mortgage Backed Securities	A	Moody's	16,254,111
U.S. Government Agency Commercial Mortgage Backed Securities	A	Fitch	17,627,243
U.S. Government Agency Commercial Mortgage Backed Securities	BBB	Fitch	8,685,030
U.S. Government Agency Obligations	AA	S&P	135,370,029
U.S. Government Agency Mortgage Backed Securities	AA	S&P	735,841,343
U.S. Taxable Municipal Bonds	AAA	S&P	12,248,197
U.S. Taxable Municipal Bonds	AA	S&P	34,436,087
U.S. Taxable Municipal Bonds	Aa	Moody's	25,824,755
U.S. Taxable Municipal Bonds	A	S&P	5,218,609
U.S. Taxable Municipal Bonds	A	Fitch	5,871,950
U.S. Treasury Inflation Protected Securities	AA	S&P	994,211,721
U.S. Treasury Securities	AA	S&P	1,510,002,345
Total Credit Risk Rated Debt Securities			$ 5,121,979,159
Corporate Obligations	Withdrawn Rating	Moody's	300
Total Fixed Income			$ 5,121,979,459

F. Credit Risk for Invested Securities Lending Collateral (PSF(SBOE) only)

The following presents the rated investments of the cash collateral as of August 31, 2017. The investment policy of the PSF(SBOE) defines the various permissible collateral investments including required ratings, at the time of purchase. Negotiable certificates of deposit drawn on certain prescribed banks, commercial paper, asset backed commercial paper, and short term corporate debt other than commercial paper must carry a "Tier 1" rating, defined as the highest short-term rating category by S&P, Moody's or Fitch. Asset backed securities shall be rated Aaa or AAA by Moody's and S&P respectively. Reverse repurchase agreements must have a counterparty rated Tier 1 and the underlying collateral shall be Tier 1 if the security is a short term security and at least Aa2 Moody's/AA S&P or better if the collateral is corporate debt (other than commercial paper). Foreign sovereign debt issued by a foreign government rated Aa2 Moody's/AA S&P or better is permissible collateral.

Investment Type	Rating	Rating Service	Fair Value
Agencies	AA+	S&P	$ 55,043,114
Asset Backed Floating Rate Notes	AAA	S&P	232,292,732
Asset Backed Floating Rate Notes	Aaa	Moody's	130,430,513
Certificate of Deposit	P-1	Moody's	53,700,382
Commercial Paper	A-1	S&P	7,296,262
Commercial Paper	P-1	Moody's	33,177,358
Floating Rate Notes	AA+	S&P	52,854,549
Floating Rate Notes	AA-	S&P	410,440,559
Floating Rate Notes	A+	S&P	572,902,543
Floating Rate Notes	A+	Fitch	33,903,373
Floating Rate Notes	A1	Moody's	67,956,795
Floating Rate Notes	A	S&P	491,681,144
Floating Rate Notes	A	Fitch	105,324,984
Floating Rate Notes	A-	Fitch	133,787,622
Repurchase Agreements	Not Rated	N/A	91,325,959
Time Deposits	A-1	S&P	106,020,000
Time Deposits	P-1	Moody's	267,750,000
Total Investments			$ 2,845,887,889

G. Interest Rate Risk for Debt Investments (PSF(SBOE) only)

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of the investment. Duration is a measure of the price sensitivity of a debt investment to changes arising from movements in interest rates.

Duration is the weighted average maturity of an instrument's cash flows, where the present value of the cash flows serves as the weights. The duration of an instrument can be calculated by first multiplying the time until receipt of cash flow by the ratio of the present value of that cash flow to the instrument's total present value. The sum of these weighted time periods is the duration of the instrument. Effective duration extends this analysis to incorporate an option adjusted measure of an instrument's sensitivity to changes in interest rates. The SBOE approved

Investment Procedures Manual mandates the average duration of the core fixed income portfolio to be consistent with the duration of the Barclay's Capital U.S. Aggregate Bond Index (formerly the Lehman Bros. Aggregate Index) and the real return portfolio (TIPS) be consistent with the Barclay's Capital U.S. TIPS Index. As of August 31, 2017, the Barclays Capital U.S. Aggregate Bond index duration was 5.93 years and the Barclays Capital U.S. TIPS Index duration was 5.98 years.

Investments in fixed income securities by investment type, fair value, and the effective weighted duration rate as of August 31, 2017, are as follows for the core fixed income, real return, and emerging market debt portfolios.

Investment Type	Fair Value	Effective Weighted Duration Years
Asset Backed Securities	$ 33,777,873	1.014
Collateralized Loan Obligations	212,431,264	0.193
Commercial Mortgage Backed Securities	78,861,287	4.792
Corporate Obligations	1,006,750,457	8.311
Non-Agency Mortgage Backed Securities	120,002,968	4.361
Non-U.S. Government Agency Obligations	85,961,808	3.191
Non-U.S. Sovereign Government Debt	78,616,215	7.510
U. S. Government Agency Commercial Mortgage Backed Securities	46,552,551	4.267
U. S. Government Agency Mortgage Backed Securities	735,841,343	4.178
U. S. Government Agency Obligations	135,370,029	4.780
U.S. Taxable Municipal Securities	83,599,598	9.134
U. S. Treasury Securities	1,510,002,345	6.239
U. S. Treasury TIPS	35,156,337	6.156
Total Fixed Income Portfolio (Excluding Real Return TIPS)	$ 4,162,924,075	5.892
Real Return - U. S. Treasury TIPS Portfolio	$ 959,055,384	5.878
Emerging Market Debt Portfolio	$ 2,289,188,364	5.170

H. Interest Rate Risk for Invested Securities Lending Collateral (PSF(SBOE) only)
The following provides information about the interest rate risks and maturities associated with invested securities lending collateral by investment type. The PSF(SBOE) investment policy defines the maturities of all permissible securities lending collateral investments. The maximum maturity of invested securities lending collateral is 397 days on fixed rate and 3 years on floating rate securities, except for bank time deposits which is 60 days, bankers acceptances which is 45 days, and reverse repurchase agreements which is 180 days. The maximum weighted average maturity of the entire collateral portfolio must be 180 days or less. The maximum weighted average interest rate exposure of the entire collateral portfolio must be 60 days or less.

Investment Type	Fair Value	Investment Maturities Less Than One Year	Investment Maturities Greater Than One Year
Agencies	$ 55,043,114	$ 55,043,114	$ -
Asset Backed Floating Rate Notes	362,723,245	189,523,445	173,199,800
Corporate Floating Rate Notes	1,868,851,569	1,806,198,978	62,652,591
Repurchase Agreements	91,325,959	91,325,959	-
Commercial Paper	40,473,620	40,473,620	-
Certificates of Deposit	53,700,382	53,700,382	-
Time Deposits	373,770,000	373,770,000	-
Total	$ 2,845,887,889	$ 2,610,035,498	$ 235,852,391

I. Concentration of Credit Risk
Concentration of credit risk is the risk of loss due to the magnitude of the Fund's investment in a single issuer. The investment policies of the PSF(SBOE) preclude engaging in any purchase transaction after which the cumulative market value of equity securities, fixed income securities, or cash equivalent securities of a single corporation (excluding the U. S. government or its agencies) exceeds 2.5% of the PSF(SBOE) total market value or 5.0% of the manager's total portfolio market value.

As of August 31, 2017, the PSF(SBOE) held $434,818,435 in fixed income securities and mortgage backed obligations issued by the Federal National Mortgage Association (Fannie Mae). While this investment represents more than 5% of the PSF(SBOE) fixed income portfolio market value total, it does not exceed a concentration of more than 2.5% of the total PSF(SBOE) market value. Fannie Mae is a government-sponsored enterprise chartered by Congress and, since September 2008, has been in conservatorship, operating under the direction of the Federal Housing Finance Agency. The U.S. Department of the Treasury has an agreement to provide required capital to correct net worth deficiencies; therefore, the credit risk is the same as holding U.S. Government securities.

J. Investments with Fair Values That Are Highly Sensitive to Interest Rate Changes (PSF(SBOE) only)
In accordance with PSF(SBOE) investment policies, the PSF(SBOE) may invest in asset backed and mortgage backed obligations. The PSF(SBOE) may also invest in investments that have floating rates with

periodic changes in market rates, zero coupon bonds, and stripped U.S. Treasury and Agency securities created from coupon securities. As of August 31, 2017, the PSF(SBOE) held investments that are highly sensitive to interest rate changes.

Mortgage backed obligations are subject to early payment of principal in a period of declining interest rates. These securities also tend to increase in duration as interest rates rise. The resultant reduction or extension in expected cash flows will affect the fair value of these securities. As of August 31, 2017, these securities totaled $981,258,149.

Collateralized loan obligations are asset backed securities backed by the receivables on leveraged business loans and are similar to collateralized mortgage obligations. The investor receives scheduled debt payments from the underlying loans but assumes most of the risk in the event that borrowers default. The securities held by PSF(SBOE) are in low duration tranches to mitigate default risk but are still subject to this risk. As of August 31, 2017, these securities totaled $212,431,264.

Asset backed obligations are backed by home equity loans, auto loans, equipment loans, and credit card receivables. Pre-payments by the obligees of the underlying assets in periods of declining interest rates could reduce or eliminate the stream of income that would have been received. Conversely, rising interest rates could extend the stream of income that would have been received. As of August 31, 2017, these securities totaled $33,777,873.

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K. Foreign Currency Risk for Deposits and Investments (PSF(SBOE) only)

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a deposit or an investment. Exposure to foreign currency risk as of August 31, 2017, is as follows:

Deposits		Amount
Currency		
Australian Dollar	$	435,240
Brazil Real		44,959
Canadian Dollar		83,367
Danish Krone		(12)
Euro Currency Unit		126,482
Hong Kong Dollar		217,526
Indonesian Rupiah		56
Israeli Shekel		17,302
Japanese Yen		13,203
Malaysian Ringgit		46
Mexican Peso		13,088
Moroccan Dirham		1
New Taiwan Dollar		3,922,810
New Zealand Dollar		2
Norwegian Krone		2
Polish Zloty		1
Pound Sterling		200,672
Qatari Riyal		12
Russian Ruble		(14)
Singapore Dollar		23,833
South African Rand		97,543
South Korean Won		8,257
Swiss Franc		1,774
Thailand Baht		56,201
Turkish Lira		33
United Arab Emirates Dirham		1
Total Deposits Subject to Foreign Currency Risk	$	5,262,385

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Investments in Equity Securities	Fair Value
Currency	
Australian Dollar	$ 265,245,283
Brazil Real	97,337,476
Canadian Dollar	355,877,997
Chilean Peso	16,556,254
Columbian Peso	6,096,547
Czech Koruna	2,312,686
Danish Krone	70,397,895
Egyptian Pound	1,724,441
Euro Currency Unit	1,217,020,979
Hong Kong Dollar	412,083,318
Hungarian Forint	4,784,132
Indonesian Rupiah	30,195,230
Israeli Shekel	9,501,749
Japanese Yen	869,039,670
Malaysian Ringgit	29,649,696
Mexican Peso	48,877,017
New Taiwan Dollar	158,660,074
New Zealand Dollar	6,327,429
Norwegian Krone	25,974,985
Philippines Peso	15,160,990
Polish Zloty	17,853,338
Pound Sterling	656,288,480
Qatari Riyal	8,642,371
Russian Ruble (New)	31,640,060
Singapore Dollar	49,473,683
South African Rand	90,417,421
South Korean Won	195,162,750
Swedish Krona	107,512,772
Swiss Franc	309,098,440
Thailand Baht	29,025,343
Turkish Lira	17,109,664
United Arab Emirates Dirham	8,195,787
Total Securities Subject to Foreign Currency Risk	$ 5,163,243,957

The investment policy of the PSF(SBOE) allows for international diversification to improve the risk and return characteristics of the PSF(SBOE). As such, the PSF(SBOE) investments are exposed to foreign currency risk. The investment policy of the PSF(SBOE) does not contain legal or policy requirements that limit the exposure to foreign currency risk. With SBOE approval, the Fund is permitted to hedge currency. Hedging currency is a way to limit exposure to foreign currency risk. Currently, foreign currency exchange forward contracts are only executed as part of normal trading of foreign denominated equity securities and real estate and private equity investments; therefore, no hedging took place.

3. PSF(SLB) INVESTMENT IN LAND, MINERAL INTERESTS AND REAL ASSETS INVESTMENTS

The historical cost and fair value of PSF(SLB) land, mineral interests, and real assets investments during the year ending August 31, 2017, are included in the following table. Permanent improvements may be included in the costs or fair values of the surface acres, although such improvements are not specifically identified. All acreage totals provided are approximations.

Investment Type	Historical Cost	Fair Value
Investments in Real Assets		
Sovereign Lands	$ 840,275	$ 270,878,020
Discretionary Internal Investments [2]	203,810,574	265,248,076
Domestic Equity	4,713,600	2,093,911
Other Lands	42,992,255	115,277,294
Minerals [1]	13,432,925	1,870,218,875
Investments with External Managers [3]	2,797,051,340	2,788,024,429
Total Investments [4]	$ 3,062,840,969	$ 5,311,740,605
Cash in State Treasury [5]	3,399,051,387	3,399,051,387
Total Investments and Cash in State Treasury	$ 6,461,892,356	$ 8,710,791,992
Consisting of the following:		
Real Assets and Related Investments	3,062,840,969	5,311,740,605
Total Investments, as above	$ 3,062,840,969	$ 5,311,740,605

(1) Includes an estimated 1,000,000 acres in freshwater rivers.
(2) Includes commercial real estate investments only.
(3) Includes investments in commercial real estate, infrastructure, and energy/minerals.
(4) Includes an estimated 1,747,600 in excess acreage.
(5) Cash in State Treasury is managed by the Treasury Operations Division of the Comptroller of Public Accounts of the state of Texas.

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The Fund's PSF(SLB) managed assets recorded at fair value have been characterized based upon the fair value hierarchy in accordance with GASB 72 in Note 2.B. above.

The following table presents information about the PSF(SLB) managed assets at fair value as of August 31, 2017.

Investments in Real Assets	Level 1	Level 2	Level 3	Total
Domestic Equity	$ 2,093,911	$ -	$ -	$ 2,093,911
Sovereign Lands	-	-	270,878,020	270,878,020
Discretionary Internal Investments	-	-	265,248,076	265,248,076
Other Lands	-	-	115,277,294	115,277,294
Minerals	-	-	1,870,218,875	1,870,218,875
Total investments by fair value level	$ 2,093,911	$ -	$ 2,521,622,265	$ 2,523,716,176

The current surface real property portfolio of the Fund is managed by the PSF(SLB) and consists of 663,850 surface acres valued at $651,403,390. Of this, 408,348 acres are sovereign lands with a fair value of $270,878,020 located primarily in West Texas and representing 61.51 percent of the total acreage, but only 41.58 percent of the total value. Some of this property, though marginally suitable, has been leased for grazing and hunting purposes. The remainder, most of which is landlocked, has little value other than for adjacent landowners who wish to increase their holdings. Over time, these properties will likely be sold.

The September 1, 2016, beginning basis for the Fund's consolidated (including co-investments) land surface portfolio value was $271,087,444. In May 2017, 290 WR Holdings LP, a Texas limited partnership was formed between Johnson WR Investors LLC, Johnson WR GP LLC, and the SLB for the use and benefit of the PSF. Contributions of approximately $2.3 million were made to ongoing development projects. The basis of the Fund's land surface portfolio at August 31, 2017, was $247,643,104. In addition to the land surface portfolio, the Fund also owns approximately 12.6 million acres of Relinquishment Act, Submerged, Free Royalty, Mineral Reserved Lands and mineral estates on surface lands representing a basis of $13,432,925.

Dispositions for the fiscal year ended August 31, 2017, equaled 9,549.64 acres sold for net proceeds of $46.7 million, and a loss of approximately $11.9 million.

The fair value of the Fund's interests in oil and gas is determined by using the present value technique of the income approach and is based upon an industry-standard 3P reserve report (i.e. proved, possible, and probable reserves) prepared by a third-party expert, W.D. Von Gonten & Co., a Houston-based petroleum engineering firm widely recognized as an industry expert in oil and gas reserve evaluation and valuation. Employing a methodology for estimating reserves that conforms to all standards established by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists, and the Society of Petroleum Evaluation Engineers, Von Gonten estimated future revenues from those estimated reserves and then discounted those estimated future revenues at 10 percent to arrive at a non-risk-adjusted total reserve valuation of $2,346,353,552.

The properties evaluated for the purposes of this reserve estimate are located throughout Texas and produce from various conventional and unconventional reservoirs. The property set includes approximately 13,732 active Proved Developed Producing (PDP) wells with an estimated discounted future net revenue value of $881,238,447; 713 gross Proved Undeveloped (PUD) locations with an estimated discounted future net revenue value of $835,676,046; 1,299 gross Probable Undeveloped (PROB) locations with an estimated discounted future net revenue value of $453,150,795; 527 gross Possible Undeveloped (POSS) locations with an estimated discounted future net revenue value of $122,167,953; and 296 gross Contingent Resources (CONT) locations with an estimated discounted future net revenue value of $54,120,311. With regard to Proved Reserves, there should be at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimate; for Probable Reserves, there should be at least a 50 percent probability that the quantities actually recovered will equal or exceed the estimate; for Possible Reserves, there should be at least a 10 percent probability that the quantities actually recovered will equal or exceed the estimate. Contingent Resources are potentially recoverable but are not currently considered to be commercially recoverable due to one or more contingencies. Hard minerals are not included in the estimate and are not included in the fair value due to their immateriality.

In accordance with CPA Reporting Requirements, the non-risk-adjusted reserve valuation for each component of the total non-risk-adjusted future net revenue value provided by W.D. Von Gonten & Co. is further adjusted by certain mean factors from the 2017 *Annual Survey of Parameters Used in Property Evaluation* report prepared by the Society of Petroleum Evaluation Engineers (SPEE). Proved Developed and Proved Undeveloped reserves are adjusted using a factor of 1.000; Probable reserves are adjusted using a factor of 0.310; and Possible reserves are adjusted using a factor of 0.105. Contingent resources are excluded. The risk-adjusted mineral valuation is $1,870,218,875.

PSF(SLB) is a party to multiple direct single-asset real estate transactions held in its discretionary internally-managed real estate portfolio. A discussion of these transactions can be found at *Note 13, Related Party Transactions*. The method for determining the fair value of each uses either the income or market approach and Level 3 inputs as described above in Note 2.B. The fair values are included in Discretionary Internal Investments.

The Fund utilizes the NAV per share as a method for determining the fair value of its PSF(SLB) managed investments with external investment managers as described in Note 2.B. above.

The following table presents information about the Fund's PSF(SLB) managed assets measured at net asset value.

Investments measured at NAV	
Investments with external managers	
Energy	$ 1,191,116,720
Real Estate	1,013,250,546
Infrastructure	583,657,163
Total PSF(SLB) investments	$ 2,788,024,429

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice	Liquidity Expectation
Investments with external managers					
Energy	$ 1,191,116,720	$ 863,752,755	none	none	2-12 years
Real Estate					
Closed-End	701,694,921	507,533,153	none	none	2-12 years
Open-End	311,555,625	75,000,000	Quarterly	45-90 days	2-12 years
Infrastructure	583,657,163	595,777,514	none	none	2-12 years
Total investments measured at NAV	$ 2,788,024,429	$ 2,042,063,422			

The PSF(SLB) real assets investments include 67 commingled closed-end funds, commingled open-end funds, separate accounts, co-investment vehicles that invest in private-market real assets transactions across the energy, infrastructure and real assets investment universe. The fair values of these investments have been determined using the NAV per share (or its equivalent) of the Fund's ownership interest in partners' capital. These types of investments generate some income over the lives of the associated partnerships, but are generally illiquid until the underlying assets are liquidated. Except for open-ended funds, most of the partnerships have specific termination dates, and it is expected that the majority of the underlying assets of these partnerships will be liquidated over the next 12 years.

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4. LEASES

The PSF(SLB), through the GLO, manages several types of operating leases. The need for each specific lease category is based upon the type of action proposed (e.g., pier, dock, agriculture, recreational hunting, pipeline, etc.) and the statute under which it will be authorized. Lease categories managed by the GLO are summarized as follows:

Commercial Leases and Easements (LC) are issued for projects that produce revenue from the private use of state-owned property. LCs are issued pursuant to Chapters 33 and 51, Texas Natural Resources Code (TNRC), and fees are based on the published SLB rate schedule in effect at the time of contract issuance. The rate schedule allows calculation of fees based upon the amount of state land encumbered and the appraised value of the adjacent littoral property. LCs cover activities and structures such as marinas, bait stands, fishing piers, mooring dolphins, fuel docks, dredging activity, restaurants, and navigation signs. Contracts for LCs grant the applicant exclusive use of the site for the purposes specified in the contract.

Coastal Easements (CE) are issued by the GLO pursuant to TNRC §33.103(a)(2) and 33.111(a) authorizing owners of private property abutting submerged state-owned lands to place and maintain structures on coastal public land adjacent to their private property. CEs typically cover structures such as piers, decks, docks, rip-rap, pilings, bulkheads, and boat lifts. CEs are also issued for activities such as dredging, filling, and material disposal. Contracts for CEs grant the applicant exclusive use of the structure, but not use of the public land around the structure.

Coastal Leases (CL) are issued by the GLO pursuant to TNRC §33.103(1) and 33.105. CLs are issued to state agencies, eligible cities or counties, nonprofit, tax-exempt organizations, or scientific or educational entities to authorize the use of state-owned land for public recreation, estuarine preserves, wildlife preserves, or scientific research activities. CLs grant the applicant limited exclusive use of the property for the purposes stated within the contract. The GLO may issue other grants of interest for use of the same property, so long as it does not interfere with the current leaseholder's activities.

Surface Leases (SL) are issued by the GLO pursuant to TNRC §51.011, 51.121, and 51.292. Coastal SLs are issued for activities on submerged coastal public lands and are typically used to authorize activities not associated with littoral property ownership adjacent to state-owned submerged land, and for energy platforms in the Gulf of Mexico. Examples of activities covered by coastal SLs include, but are not limited to: drilling platforms not on a leased mineral tract, electrical substations, pumping stations, loading racks, tank farms, artificial reefs, and wildlife preserves. Upland SLs typically authorize activities such as hunting, grazing, crop production, timber production, and other commercial activity.

Miscellaneous Easements (ME) are issued on both coastal submerged lands and state-owned uplands for projects which require a right-of-way (ROW) on, across, under, or over state-owned lands, pursuant to TNRC §51.291. Fees are based upon a published rate schedule and are calculated based on the width and length of right-of-way, the region of the state, and the diameter of the pipeline, and the power wattage (if applicable). ME contracts cover activities such as oil and gas pipelines, power transmission lines, communication lines, roads, and certain other structures and uses. Contracts for MEs grant the applicant exclusive use of the ROW for the purposes specified in the contract.

Holders of the above leases and easements are required to maintain all structures in a safe condition and to comply with all terms of the contract. Violation of the contract terms or failure to submit payment for the required land-use fees may result in delinquent penalties and/or termination of the contract. Removal of the structures may also be required at the expense of the lease/easement holder. Obtaining said leases and easements from the GLO does not exempt the applicant from complying with all other applicable local, state, and federal permitting requirements.

Special Documents (SD) are issued for projects on state-owned submerged land and state-owned uplands. The SLB has authorized the land commissioner to approve, by Special Document, erosion response projects administered by the GLO pursuant to the Coastal Erosion Planning and Response Act (CEPRA), codified as TNRC, Chapter 33, Subchapter H, and the regulations set forth in Texas Administrative Code, Title 31, Part 1, Chapter 15, Subchapter B. SDs are also issued for Highway

Use Agreements under Chapter 203, Subchapter D, Texas Transportation Code for Texas Department of Transportation projects on land dedicated to the Fund. SDs may also be used for projects that do not fall into one of the other established categories.

All PSF lands are evaluated for lease potential. As of August 31, 2017, the historical cost of all internally managed properties available for leasing activity was $247,643,104. The fair value of the properties was $651,403,390. Non-sovereign real estate in the Fund is held as an investment and is not depreciated.

Contingent rental revenues in the amount of $942,061 are reported for 23 leases for the year ended August 31, 2017. Due to Hurricane Harvey's coastal destruction, the GLO has since offered rental waivers on qualifying commercial leases for fiscal 2018. As a result, the projected revenues for fiscal 2018 have been reduced.

A schedule of estimated future lease payments by lease type is presented below in the aggregate and for each of the five succeeding years. The amounts include known lease escalation provisions.

Lease Categories	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FYs 2023 & Beyond
Coastal Easements	$ 313,678	$ 319,874	$ 302,423	$ 263,598	$ 199,632	$ 317,252
Coastal Leases	1,245	1,245	1,245	1,245	1,245	74,679
Commercial Leases and Easements	1,560,145	1,560,536	1,514,588	1,446,021	1,358,841	8,700,414
Miscellaneous Easements	304,404	306,303	236,002	253,011	232,047	937,675
Special Documents	5,000	10,000	10,000	10,000	10,000	20,000
Surface Leases	2,957,162	3,231,851	2,889,478	3,005,267	2,468,115	22,873,568
Total Lease Payments	$ 5,141,634	$ 5,429,808	$ 4,953,735	$ 4,979,143	$ 4,269,880	$ 32,923,589

5. STATE ENERGY MARKETING PROGRAM

The State Energy Marketing Program (SEMP) of the SLB is designed to provide additional revenues, or enhancements, to the PSF(SLB) and to provide savings to public customers by offering utility services at a below-market rate. The 79th Legislature authorized the SLB to manage and operate the SEMP with land sale, lease, and royalty receipts of the Fund. Royalty payments due the State on certain leases are received in the form of mineral production instead of monetary royalty payments. The SEMP then sells the oil and gas to public retail customers. These customers include public school districts, state institutions of higher education, state agencies, and political subdivisions.

6. DERIVATIVES

As a function of its normal business operations, the GLO manages the SEMP and enters into contracts for the purchase and sale of natural gas, the sale of oil, and the delivery of natural gas and electric energy to certain Public Retail Customers (PRCs). Some of these contracts are derivatives, as defined under GASB Statement No. 53, *Accounting and Reporting for Derivative Instruments* (GASB 53). As of August 31, 2017, all SEMP contracts identified as derivatives under GASB 53 also qualify for the normal purchases and normal sales exception described in Paragraph 14 of GASB 53. Therefore, all SEMP contracts identified as derivatives under GASB 53 are not subject to the requirements of GASB 53. The documentation required to support the determination of the normal purchases and normal sales exception related to all SEMP contracts identified as derivatives under GASB 53 is maintained by the GLO in the applicable SEMP contract files.

The PSF(SBOE) enters into futures contracts to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes, and therefore classifies its futures contracts as investments. The SBOE approved Investment Procedure Manual defines the parameters for investing in futures contracts. The total amount of a portfolio's financial futures contract obligation should not exceed ten percent (10%) of the market value of the portfolio's total assets. The PSF(SBOE) may exceed the ten percent (10%) rule during a transition approved by the SBOE. In no instance will the total amount of the contracts be an amount greater than the market value of a portfolio's cash, receivables and short-term securities.

Upon entering into a futures contract, initial margin deposit requirements are satisfied by segregating specific securities or cash as collateral for the account of the Futures Commission Merchant (FCM) broker (the Fund's agent in acquiring the futures position). During the period the futures positions are open, the contracts are marked to market daily; that is, they are valued at the close of business each day, and a gain or loss is recorded between the value of the contracts that day and on the previous day. The daily gain or loss is referred to as the daily variation margin which is settled in cash with the broker each morning for the amount of the previous day's mark to market. The PSF(SBOE) executes such contracts on major exchanges through major financial institutions and minimizes market and credit risk associated with these contracts through the managers' various trading and credit monitoring techniques.

As of August 31, 2017, the PSF(SBOE) invested in S&P 500 Index Futures contracts and S&P 400 Index Futures contracts as detailed below with the futures commission merchant (FCM):

Futures Contract	Maturity Date	Number of Contracts	Notional Value	FCM Margin Deposit
S&P 500 e-mini	September 15, 2017	128	$ 15,808,640	$ 537,600
S&P 500 e-mini	December 15, 2017	11	1,357,455	46,200
S&P 400 e-mini	September 15, 2017	17	2,941,680	93,500
Total Futures			$ 20,107,775	$ 677,300

The amount of net realized gains on the futures contracts for the period ended August 31, 2017, was $3,862,794 and is included in the net change in fair value of investments on the Statement of Revenues, Expenditures and Changes in Fund Balance. The futures contracts themselves had no fair value at August 31, 2017. If the FCM failed, the loss that would be recognized at August 31, 2017, would be $932,202 which is the sum of the FCM Margin Deposit of $677,300 and the net unpaid year-end variation margin gain and initial margin of sold contracts totaling $254,902.

Foreign currency balances are not maintained by the Fund except for transactions that occur as part of normal security transactions (i.e., buys, sales and income payment). Foreign currency exchange (FX) contracts are executed by the external investment manager on the same day as security transactions. The investment manager buys or sells the FX contract in the currency native to the security transaction. These foreign exchange contracts hedge against the risk of currency changes between trade and settlement dates. Risks associated with such contracts include movement in the value of the foreign currency related to the U.S. dollar and the ability of the counterparty to perform. For income payments received in other currencies, the custodian bank executes foreign exchange spot contracts to repatriate payments to U.S. dollars on actual income payment date.

7. SECURITIES LENDING

The PSF(SBOE) is authorized to conduct a securities lending program in accordance with Article 7, Section 5 of the Texas Constitution. The implementation policy for the program is further defined in Texas Administrative Code Title 19, Part 2, Chapter 33. The PSF(SBOE), through its securities lending agent The Bank of New York Mellon Corporation (Agent), lends securities to certain brokers in exchange for authorized collateral.

Authorized collateral includes cash, government securities, irrevocable letters of credit, and other assets specifically agreed to by the Agent and the SBOE. The PSF(SBOE) receives collateral against the loaned securities in an amount of 102% of the fair value plus accrued income for domestic corporate securities and 105% of the fair value plus accrued income for foreign securities; except in the case of foreign securities denominated and payable in U.S. Dollars, the required percentage is 102%. Collateral provided for Reverse Repurchase Agreements is maintained at various percentages depending on the type of security provided as collateral.

The Agent indemnifies the SBOE against losses as a result of the broker's failure to return loaned securities. Securities collateral cannot be pledged or sold unless the borrower defaults. All securities within the PSF(SBOE) portfolio are available to be loaned to brokers based on market demand. The contract does not restrict the total aggregate value of loaned securities outstanding at any one time and loans are made to a specific list of brokers. The PSF(SBOE) has the option to set a maximum aggregate loan limit for each broker.

As defined by the lending agreement, the length of maturities permitted for loans are clearly selected, defined, and approved by the lender. Loans made in this program can be terminated on demand by either party and are considered to have a one-day maturity, although cash collateral is invested in securities having longer maturities. As of August 31, 2017, the Fund invested cash collateral had a weighted average maturity of 21 days to reset date.

During the fiscal year ending August 31, 2017, the Agent did not experience any losses on securities lending activity as a result of borrower defaults. Since there were no losses in the fiscal year ending August 31, 2016, no losses were recovered in the fiscal year ending August 31, 2017.

Certain assets held in the invested cash collateral pool experienced a permanent impairment as of September 30, 2008. The original cost basis of these permanently impaired assets totaled $104,953,800. Partial cash recoveries since impairment have reduced the amortized cost to $71,717,706. Beginning in April 2013, all Fund earnings from the securities lending program have been directed to further reduce the amortized cost. At fiscal year-end, these assets remain in the cash collateral pool at an amortized cost of $35,671,588; however, the estimated market value is $0 as of August 31, 2017.

As of August 31, 2017, the fair value of securities on loan to brokers equaled $3,234,900,057 against non-cash collateral with a fair value of $454,343,620 and invested cash collateral with a cost basis of $2,880,371,528 and a fair value of $2,845,887,889.

The non-cash collateral along with the cash collateral was used to secure outstanding security loans. At August 31, 2017, there was no credit risk to the PSF(SBOE) as the amount owed by the Fund to borrowers exceeded the amount the borrowers owed the Fund.

Income is earned in two ways from loaning securities. If the broker provides cash collateral, income is earned by investing the cash collateral, and the broker is compensated with a "rebate," an interest rate paid on the cash collateral given. If the investment of cash collateral fails to provide enough income to pay the rebate, the Fund and its Agent share the difference based on the agreed upon earnings split. During the year ended August 31, 2017, income generated from the investment of cash collateral was sufficient to compensate the lender. If the broker provides securities or letters of credit as collateral for the securities lent, it pays a negotiated lender fee. Additionally, in certain market conditions, the broker may actually pay a fee or receive a negative rebate on cash collateral. Net income generated from securities lending transactions is then split between the Fund and its securities lending agent.

For fiscal year ended August 31, 2017, gross securities lending revenue totaled $10,437,543, gross expenditures for bank fees and other adjustments totaled $1,565,193, while net securities lending income totaled $8,872,350.

8. DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources relate primarily to interest and dividends measurable at year-end and due to the PSF(SBOE), but which are not available within sixty days subsequent of year-end for satisfaction of current liabilities.

9. FUND BALANCE

The PSF fund balance has been classified on the face of the balance sheet in accordance with GASB 54, which establishes criteria for classifying fund balances into specifically defined classifications detailed above in Note 1.D., and clarifies definitions for governmental fund types.

Article VII of the Texas Constitution describes the Fund as a permanent school fund set apart for the support of public schools, and specifically describes how the Fund may be spent. In prior years, the Fund corpus was classified as nonspendable. Beginning in the current year, and in accordance with the permanent nature of the Fund, the entirety of the fund balance is classified as nonspendable, except for those items the Texas Constitution explicitly allows to be spent from the Fund, which are classified as restricted since all Fund spending must be in support of public free schools. The items for which the Fund may be spent are transfers to the Available School Fund, expenses of managing the Fund land and investments, and guaranteed bond payments in the event of default. Since the legislature makes appropriations on a biennial basis, the unexpended appropriation for the biennial period is reflected as restricted. Transfers to the Available School Fund are approved annually by the State Board of Education, so the annual transfer amount for the next period is reflected as restricted.

Based on these Constitutional provisions, fund balance as of August 31, 2017 is classified as follows:

	PSF(SBOE)	PSF(SLB)	Total	
Nonspendable				
Fund Balance	$31,380,423,526	$8,703,297,405	$40,083,720,931	(1)
Appropriated Expenditures,				
2018-2019 Biennium	60,737,818	37,673,052	98,410,870	(2)
Transfer to the ASF	1,235,835,058	-	1,235,835,058	(3)
Bond Defaults	-	-	-	(4)
Total Restricted				
Fund Balance	1,296,572,876	37,673,052	1,334,245,928	
Total Fund Balance				
at August 31, 2017	$32,676,996,402	$8,740,970,457	$41,417,966,859	

The Constitutional authority citation is:
(1) Texas Constitution, Article 7, Sec. 2
(2) Texas Constitution, Article 7, Sec. 5.(b)
(3) Texas Constitution, Article 7, Sec. 5.(a)
(4) Texas Constitution, Article 7, Sec. 5.(d)

The Texas Constitution, Article 7, Sec. 5.(g), allows the General Land Office to transfer at its sole discretion up to $300 million each year from revenue derived during that year from the land or properties to the Available School Fund. Accordingly, since any such transfers must be made by the measurement date, they are not included as a component of the restricted fund balance classification detailed above.

Beginning fund balance was decreased by PSF(SBOE) in the amount of $28,885 for correction of capital asset recording errors in the prior period.

PSF(SLB) also made several corrections to beginning fund balance. A downward restatement of $633,494 was required to consistently account for distributions from partnerships in which the PSF(SLB) is a partner. An additional downward restatement of $1,333,339 was required to properly account for two land conveyances that occurred in a prior year but not previously recorded. A distribution received in August 2016, in the amount of $1,376,079, was originally identified and recorded as a return of capital, but was determined during fiscal year ended August 31, 2017, to be interest revenue and resulted in an upward adjustment to fund balance.

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10. NON-EXCHANGE FINANCIAL GUARANTEES

Bond Guarantee Program

In 1983, the voters of the State approved a constitutional amendment which provides for the guarantee of school district bonds by the Permanent School Fund. This amendment was statutorily codified in the Texas Education Code Title 2, Subtitle I, Chapter 45, Subchapter C. The Guarantee Program is administered by the Commissioner. For eligible bonds, including refunding bonds, school districts submit an application for guarantee and a processing fee of $1,500. The Commissioner may endorse bonds for guarantee only after investigating the accreditation and financial viability of the applying school district. If the school district is considered viable and the bonds are approved by the State of Texas Attorney General, then the guarantee is endorsed at a zero premium charge to the district. In the event of a default by a school district, and upon proper notice to the Commissioner, the PSF will transfer to the Paying Agent/Registrar an amount necessary to pay the maturing or matured principal and/or 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. To date, no school districts have ever defaulted on their guaranteed bonded indebtedness.

In 2011, the 82nd Texas Legislature enacted a Bill that established the Charter District Bond Guarantee Program as a new component of the Bond 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. Charter district applicants are subject to the same application fee structure as described above for school districts. Upon meeting certain statutory eligibility requirements and approval by the Commissioner, bonds properly issued by a charter district participating in the Program are fully guaranteed by the corpus of the PSF. Implementation of the Charter District Bond Guarantee Program was deferred pending receipt of guidance from the Internal

Revenue Service, which was received in September 2013, and the establishment of regulations to govern the program, which were published for public comment in December 2013, approved in January 2014, and became effective in March, 2014.

Statute requires charter district participants in the Program to contribute a portion of their savings that result from their participation in the Program to a Charter District Bond Guarantee Reserve Fund. This fund is maintained by the Comptroller in the state treasury. In the event of a default by a charter district, the Commissioner shall instruct the Comptroller to transfer from the Charter District Bond Guarantee Reserve Fund to the district's paying agent the amount necessary to pay the maturing or matured principal and/or interest. If funds in the Charter District Bond Guarantee Reserve Fund are insufficient to pay the amount due on a bond in default, the payment process followed is the same as for school districts. As with school districts, no charter districts have defaulted on their guaranteed bond indebtedness.

The Internal Revenue Service issued Notice 2010-5 on December 16, 2009 stating that it intended to propose regulations to replace the previous federal law limit on the Guarantee program capacity to be no more than five times the cost value of the PSF on that date. Section 4 of the Notice states that it may be relied on for bonds issued after December 16, 2009. Amendments to Treasury Regulation Section 1.148-11 were published in the Federal Register on July 18, 2016. By their terms, the amendments codified Notice 2010-5 and apply to bonds sold on or after October 17, 2016. For bonds sold prior to that date, Notice 2010-5 can be relied upon.

The 80th Texas Legislature adopted a change in the state law limit, amending Section 45.053 of the Texas Education Code to allow the SBOE to increase the guarantee capacity up to five times the cost value of the PSF, provided that the Board determines that any increase will still allow school district bonds to receive the highest rating. Effective March 1, 2017, the SBOE authorized capacity multiplier for the State Capacity Limit was increased to 3.50 times the cost value of the Fund, including the portion managed by the SLB.

As of August 31, 2017, the capacity of the Guarantee Program is $117,318,653,038 under Federal law and $111,568,711,072 under State law. Total outstanding bonds guaranteed by the PSF under this program total $74,266,090,023 at August 31, 2017; of that, $72,884,480,023 is for school district guarantees (843 school districts) and $1,381,610,000 is for charter district guarantees (15 charter districts). These dollar amounts represent the outstanding principal amount of the bonds issued. They do not reflect any subsequent accretions in value for the compound interest bonds (zero coupon bonds), nor do they include interest on current interest bonds or variable rate notes. The balances also exclude bonds that have been refunded and released from the Bond Guarantee Program. The balance of bonds guaranteed under the program does not exceed the calculated capacity of the program as of August 31, 2017.

Guarantees extend through the maturity dates of the bonds. As of August 31, 2017, the total principal debt guaranteed on bond issues is $74,266,090,023, the expected interest to be paid out over the remaining life of those bond issues is $42,929,639,489, and the final maturity is scheduled to occur in the year 2055.

As of August 31, 2017, no financial liability to the PSF has been recorded in relation to the Fund's obligation to stand ready to perform over the term of the guarantee. The guarantee functions as a liquidity facility and an intercept program that carries very little risk to the PSF. The guarantee is offered at a nominal cost to a school district or charter district that properly applies, receives endorsement by the Commissioner, and has its bonds approved by the State of Texas Attorney General.

11. CONTINGENCIES

A. Bond Guarantee Program

As described by Note 10 in greater detail, the TEA administers a Bond Guarantee Program for qualified school districts and charter districts who choose to participate. The purpose of the Program is to ultimately reduce borrowing costs for participating districts by increasing their credit rating through association with the Program. The TEA, through the PSF, commits to payment of the next scheduled principal or interest payment on behalf of a participating district in the event of that district's default.

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B. Pending Litigation
The PSF(SBOE) has potential liability in a class action defense which asserts fraudulent conveyance claims and which seeks to recover moneys paid the PSF(SBOE) for the sale of publicly-traded securities in response to tender offers made in the context of leveraged buy-outs. While ultimately uncertain whether the PSF(SBOE) will have any liability for this matter, management believes that it is unlikely that this suit will result in any liability to the Fund during the twelve months subsequent to August 31, 2017, therefore, in accordance with GAAP, no accrual for this matter is currently reflected in the accompanying financial statements. The Attorney General's Office is representing the PSF(SBOE) and asserting sovereign immunity and other defenses.

Tribune Company, No. 08-13141; The Official Committee of Unsecured Creditors of Tribune Company v. Fitzsimmons, Adv. Pro. No. 10-54010 (Bankr. D. Del); and Deutsche Bank v. Employees Retirement Fund of the City of Dallas, No. 3:11-CV-1167-F; (N. D. Tex. Dallas Div.) CONSOLIDATED in: Tribune Company Fraudulent Conveyance Litigation; Nos. 11-MD-2296 and 12-MC-2296 (S. D. N. Y.). The PSF(SBOE) received approximately $3.9 million for Tribune stock.

As of August 31, 2017, certain lawsuits were pending against the state and/or the commissioner of the GLO, which challenge the Fund's title to certain real property or past mineral income from that property. The following lawsuits are pending and may represent contingent liabilities:

Aderholt, et al. v. U.S. Bureau of Land Management (BLM), et al.
GLO intervened in quiet title action (brought by private property owners against BLM) to protect its mineral interests in PSF acreage in Wilbarger County. A petition was filed November 16, 2015. State of Texas (by/through the OAG) moved to intervene on November 18, 2015; GLO filed its Motion to Intervene/Complaint in Intervention on December 1, 2015. On December 21, 2015, Plaintiffs filed a response in support of GLO & State's Motions to Intervene. Via extensions, BLM filed responses to both motions on December 22, 2015; GLO & the State filed replies January 12, 2016. On January 19, 2016, the federal Defendants filed a motion to dismiss and memorandum in support. All parties collaborated on a Rule 26 scheduling report and discovery stipulations. On February 26, 2016, Defendants filed a motion for partial dismissal of Plaintiffs' Amended Complaint. Interventions were granted March 14 (State) and March 24 (GLO); Original Complaints filed March 28 (State) and March 30 (GLO). On May 27 and 31 respectively, Defendants filed motions to dismiss Amended Complaints filed by the State and the GLO; responses to which were filed June 17 (State) and June 21 (GLO). By order issued June 29, 2016, the Court denied the motion to dismiss on all but two of Plaintiffs' claims (Counties' taxing interest/QTA claim and 5th Amendment claim). On July 5, 2016, Defendants filed a Reply in Support of their Motion to Dismiss the GLO. On July 13, 2016, Defendants filed their answer to Plaintiffs' First Amended Complaint. Unopposed Motion to Amend the Scheduling Order was granted at the July 21, 2016 hearing, extending all deadlines out four months. By order dated July 27, 2016, the Court deferred ruling on the motion to dismiss/GLO's QTA claim until trial; on August 5, 2016, the Court denied Defendants' motion to dismiss the State. Tracts inspected by BLM after court intervention addressing objections raised by landowner Plaintiffs and denying Plaintiffs' Motion for Protective Order. On December 5, 2016, the court granted the parties' joint motion and ordered mediation by magistrate – held January 10, 2017. On April 4, 2017, BLM filed with the court a Notice of Suspension of Surveys currently underway of Indian trust allotment land in Oklahoma (Red River north bank), predicated on the basis of uncertainty as to whether doctrines of erosion, accretion and evulsion were appropriately considered; otherwise allowing for the possibility of error in survey methodology used and in identifying the Gradient Boundary. BLM summary judgment motion as to GLO's claim filed June 5, 2017; response filed June 26, 2017. Trial reset on the court's four-week docket beginning September 25, 2017; pretrial conference held September 20, 2017, trial setting cancelled; DOJ settlement acceptance status reports filed October 4 and 11, 2017; settlement approval pending. Court-ordered third status report filed October 20, 2017, proffering a settlement decision or status report by October 30, 2017. The probability of liability is reasonably possible. The possible final amount of loss is indeterminable at this time.

Brannan, et al. v. State of Texas, et al.
Plaintiffs seek declaratory relief as to the rights of beachfront property owners, and members of the general public, to beaches on the Gulf Coast of Texas at Surfside Beach as well as a determination as to

whether the imposition upon private property of a rolling easement for public use constitutes a deprivation of use or a taking by the State. Trial court granted the State's summary judgment motion regarding Plaintiffs' takings claims based on the rolling beach easement. Multiple parties subsequently intervened, claiming that the GLO was taking their property by refusing to allow them to make repairs to their beachfront homes after a high tide. Trial court issued an injunction ordering the removal of all houses on the easement. First Court of Appeals affirmed the injunction and agreed that the owners' claims for damages due to a permanent taking and a regulatory taking had been properly denied. Court of Appeals denied Plaintiffs' motion for rehearing, withdrew the opinion from August 2009, and issued a new opinion in February 2010. In April 2010, Plaintiffs filed a petition for review in the Texas Supreme Court. The case was remanded to the First Court of Appeals for further consideration in light of the *Severance* opinion. On May 1, 2014, the First Court of Appeals reversed on submission the trial court's summary judgment granted in favor of the State and remanded the case back to the trial court for reconsideration in light of/accordance with *Severance*. On July 28, 2014, a Status Conference was held in Brazoria County District Court. On August 13, 2014, Plaintiffs filed a motion for partial summary judgment seeking a declaration that the GLO and City's imposition of a "rolling easement" following Tropical Storm Frances in 1998 and the 2006 "bull tides" constituted taking without just compensation. A summary judgment hearing was held on January 27, 2015. On February 19, 2015, the GLO filed its reply brief in support of its plea to the jurisdiction and a cross motion for summary judgment on Plaintiffs' claims. On April 20, 2015, the GLO filed a Plea to the Jurisdiction and a Motion for Summary Judgment on the issue of attorney's fees. On June 22, 2015, the court heard all motions but dismissed only Brannan's takings claims as against the Village of Surfside and its mayor. In October and November of 2015, Plaintiffs filed multiple supplemental motions and memoranda and attempted to set a hearing to facilitate the court's decision-making. By rulings issued November 18, 2015 on motions properly before the court, the State's jurisdictional pleas/summary judgment motions regarding 1) non-entitlement to attorney's fees and 2) Plaintiffs' takings claims were granted; and all of Plaintiffs' motions were denied except Brannan's motion for separate trial only on her takings claim – all of which was memorialized by order dated January 4, 2016. Plaintiffs' multiple motions for declarations filed subsequent to the November rulings were heard on January 25, 2016. On February 1, 2016, Plaintiffs filed 3 additional motions, noticing a hearing for February 23, 2016. On February 16, 2016, the GLO filed responses and a jurisdictional plea, the latter of which was also argued at the reset March 29, 2016 hearing. On July 8, 2016, Plaintiffs filed Supplemental Pleadings specific to Angela Mae Brannan. On August 18, 2016, a new claim was filed via "Motion on a Taking" specific only to Angela Mae Brannan, simultaneously noticing a request that her claims be tried in October 2016 and a docket call for same on September 9, 2016. On September 8, 2016, the GLO served additional discovery and filed a jurisdictional plea on Ms. Brannan's declaratory judgment claims, setting the latter for a September 27, 2016 hearing, which subsequently pushed. On September 9, 2016, the court ordered the parties to mediate within 30 days Ms. Brannan's remaining takings claims, and set same for trial on November 14, 2016; mediation subsequently cancelled and trial setting passed. On December 2, 2016, Ms. Brannan filed her opposition to the GLO's jurisdictional plea on her declaratory judgment claims; hearing on which was held February 27, 2017 (along with GLO's motion to strike Pedestrian Beach, LLC's petition in intervention filed December 13, 2016, and motion to sever Plaintiffs' New-Property Claims if Agreed Order as to same not signed/entered, as well as Plaintiffs' Motion for Relief from Unfair Discovery Practice). On March 27, 2017, the court signed an order granting the GLO's motion to sever all new property claims (from original cases) and sua sponte severing all declaratory judgment causes of action in all cases (from takings claims) into Cause No. 91156-CV, but abated discovery and conveyed an intent to rule on all pending motions regardless. On April 25, 2017, the court heard and granted GLO's motion to dismiss Plaintiffs' anthropogenic erosion claims, but denied GLO's summary judgment motion as to revetment claims (limitations). Agreements in principle reached on 10 original properties with takings compensation claims. On September 20, 2017, the court issued rulings striking Pedestrian Beach, LLC's Petition in Intervention; granting the GLO's jurisdictional pleas as to new properties added by October 2015 supplemental pleadings and as to Angela Mae Brannan's declaratory judgment claims; and denying four of Plaintiffs' pending declaratory judgment motions. The probability of liability is reasonably possible. The possible final amount of loss is indeterminable at this time.

Galan Family Trust, et al. v. State of Texas, et al.
Plaintiff claims that in 1874 the State of Texas improperly revoked a land patent granted to Plaintiff's heirs. The GLO filed its answer on August 31, 2015. On September 2, 2015, the GLO and OAG jointly filed a plea to the jurisdiction and motion to dismiss, both of which were heard on October 6, 2015. By Order dated October 14, 2015, the court granted both joint pleadings and dismissed all claims. Motions for New Trial were filed on November 2, 2015 (Intervenors) and November 12, 2015 (Plaintiffs). Plaintiffs filed their notice of appeal on December 28, 2015 – the day their motion was overruled by operation of law. On February 16, 2016, Intervenors filed a Notice of Non-suit, intending to withdraw from the appeal. After full briefing, oral argument held November 16, 2016. Third Court of Appeals affirmed the dismissal in an opinion issued February 24, 2017; on March 10, 2017, Galan filed a motion for rehearing and motion for en banc reconsideration; both of which were denied on March 21, 2017. Via extension, (corrected) Petition for Review refiled June 8, 2017; denied July 21, 2017. Via extensions, rehearing motion filed August 22, 2017; denied September 29, 2017.

Galveston Bay Energy, LLC v. Tekoil & Gas Gulf Coast, LLC, et al.
Through Tekoil's bankruptcy proceedings, Plaintiff acquired Tekoil's interest in specific oil, gas and/or mineral leases as well as Tekoil's interest in related easements in a Purchase and Sale Agreement ("PSA") effectuated June 30, 2009. In 2010, Tekoil (Assignor) and Plaintiff (Assignee) executed an Assignment and Assumption Agreement of Multiple Miscellaneous Easements and Surface Leases to implement the PSA, which the GLO signed as Grantor. Plaintiff now seeks to have the Assignment and Assumption reformed, as it includes 18 miscellaneous easements related to leases that had terminated prior to the PSA effective date. On October 15, 2014, the GLO filed a Motion to Transfer Venue and Following Original Answer. On August 27, 2015, Plaintiff filed a Motion to Reopen the chapter 11 Case and Enforce Sale Order; on September 24, 2015, the bankruptcy court denied GBE's Motion, effectively returning the matter to Chambers County District Court. On April 12, 2016, GBE filed a voluntary chapter 11 petition, staying the district court proceedings. The probability of liability is reasonably possible. The possible final amount of loss is indeterminable at this time.

GKM Mineral Partners, LP f/k/a Mitchell Mineral Partnership v. SandRidge Energy, Inc., et al.
Plaintiff/Lessor (and GLO agent) alleges that Defendant/Lessee SandRidge has failed to pay royalties in full under an oil and gas lease for property in Terrell County. On November 25, 2014, the agency filed its Plea in Intervention. Plaintiff filed a First Amended Petition on February 2, 2015; on February 24, 2015, Defendants SandRidge Tertiary, LLC filed an Answer and Trinity CO_2 LLC filed a Motion to Dismiss. On March 9, 2015, the court granted Defendants' Motion to Transfer Venue to Pecos County. On May 16, 2016, SandRidge Energy, Inc. and SandRidge Exploration & Production, LLC filed voluntary chapter 11 petitions, staying state court proceedings. On May 24, 2016, the GLO filed a First Amended Plea in Intervention in tandem with Plaintiff's Second Amended Petition to add Occidental West Texas Overthrust, Inc. as a Defendant based on lease assignments, contemporaneously filing a motion to sever the bankruptcy-filing SandRidge entities. On July 19, 2016, Occidental filed a plea in abatement; plea to the jurisdiction/for abstention and its original answer. SandRidge Debtors and the GLO will stipulate to lifting the bankruptcy stay to allow the litigation to proceed to final judgment; collection of any monetary judgment remains stayed/will be handled in accordance with the bankruptcy plan. Discovery is currently in progress. The probability of liability is reasonably possible. The possible final amount of loss is indeterminable at this time.

GLO v. USFWS, DOI, et al.
Suit for declaratory judgment/injunctive relief as regards Federal Defendants' denial of the Petition to Delist from the Endangered Species Act the Golden-Cheeked Warbler. Petition filed June 5, 2017. On August 1, 2017, The Travis Audubon Society, Texas Ornithological Society, Center for Biological Diversity and Defenders of Wildlife collectively filed a motion to intervene, to which both GLO and Defendants filed motions in opposition. Defendants' Motion to Dismiss (12(b)(1) and (6)) filed September 11, 2017; GLO filed response to same and its First Amended Complaint on September 21, 2017, in response to which Defendants filed a motion to partially dismiss same on October 5, 2017. GLO filed its response on October 19, 2017. On October 11, 2017, Intervenors filed a proposed answer to Plaintiff's Amended Complaint. A

hearing on intervention and dismissal motions is set for November 16, 2017. The probability of liability is possible. The possible final amount of loss is indeterminable at this time.

GLO v. UT Board of Regents, et al.
The GLO received legislative permission to file a declaratory action in Travis County against the UT Board of Regents – the University Fund manager – regarding the PSF land/University Land boundary in Pecos County. GLO filed an Amended Petition on February 5, 2014. On May 12, 2014, a hearing was held on the Board of Regents' Motion to Dismiss and special exceptions, all of which were denied via orders signed and entered on June 27, 2014. On July 25, 2014, the Board of Regents filed a Motion to Dismiss for Lack of Jurisdiction, which was denied on August 5, 2014. On July 30, 2014, select Defendants/Cross-Plaintiffs filed a Motion for Partial Summary Judgment. The GLO filed a Motion for Summary Judgment on September 18, 2014. Defendants/Cross Plaintiffs filed a Motion for Summary Judgment on October 23, 2014; to which the GLO filed a response on November 6, 2014. All motions were heard November 13, 2014; on November 21, 2014, the court issued a letter ruling and subsequently signed and entered an order on December 5, 2014, granting the GLO's motion and denying the Board's motion. Mediation was held June 11, 2015 and settlement discussions are ongoing. On September 16, 2015, the GLO filed a motion (which Cross-Plaintiffs filed subsequent motions to join) to sever its claims as against the Board in order to render the court's prior order granting the GLO's summary judgment motion final and appealable. The probability of liability is remotely possible. The possible final amount of loss is indeterminable at this time.

Krieter v. Unknown Claimants of Interest in Land
Although not specifically named as a defendant, Commissioner Bush in his official capacity was served and identified as a "potential claimant" in a lawsuit seeking declaratory relief as to whether an identified 8.47 acre stretch of the Medina River constitutes public property, as well as injunctive relief thereto. Petition filed April 21, 2017; answered June 7, 2017, including a jurisdictional plea. The probability of liability is remote. The possible final amount of loss is indeterminable at this time.

Lone Oak Club, LLC v. Jerry Patterson, et al.
Plaintiff filed a trespass to try title suit, asserting ownership to certain property involving the tidally influenced boundary in Chambers County, and alleging that the Commissioner, through ultra vires acts, has wrongfully asserted jurisdiction, title and right to possession and control over watercourses or navigable streams on said properties; has been encouraging the general public to commit trespass and hunt without consent on the properties and streambeds and has unreasonably interfered with Plaintiff's rights to possession, use, control and quiet enjoyment. Plaintiff seeks title and possession of the disputed property, pre- and post- judgment interest and reasonable attorney's fees. Lone Oak's Motion to Retain was granted November 19, 2015. On April 14, 2016, Plaintiff filed a motion to substitute counsel and subsequently substituted Commissioner Bush for Patterson and non-suited all other remaining Defendants. Rule 166 Conference held June 30, 2016: claims related to all but one tract severed and abated. On October 26, 2016, the court granted Lone Oak's summary judgment motion, denying the Commissioner's motion. Judgment entered January 26, 2017, following hearing on same. GLO noticed appeal on February 24, 2017; assigned to 1st Court of Appeals. GLO Brief filed July 14, 2017; by extensions, Lone Oak Brief filed October 2, 2017; GLO Reply Brief due November 22, 2017. The probability of liability is reasonably possible. The possible final amount of loss is indeterminable at this time.

Presidio Holdings, LLC, et al. v. Green River Resources, Inc., et al.
Plaintiffs sued to have certain oil, gas, and mineral leases declared terminated. The GLO's Answer and Plea to the Jurisdiction were filed on August 7, 2015. The probability of liability is reasonably possible. The possible final amount of loss is indeterminable at this time.

Signal Drilling, LLC, et al. v. New-Tex Operating, LLC, et al.
Plaintiff sued for injunctive relief and compensation for alleged interest in oil, gas, and mineral leases. Answer filed October 26, 2015. On December 4, 2015, New-Tex Defendants filed a First Amended Answer and a Second Amended Counterclaim. On December 24, 2015, Signal propounded discovery on the agency and filed a Second Amended Petition and Applications for Receivership and Injunctive Relief, in which Jaten Oil Company is also named as a Plaintiff and multiple

causes of action are alleged as against the GLO and Commissioner Bush. On January 15, 2016, the GLO filed its First Amended Answer/Jurisdictional Plea. On March 21, 2016, the court granted without hearing an opposed motion for continuance on the GLO's plea hearing, previously reset for March 23, 2016. On April 19, 2016, the agency filed a First Amended Motion for Protective Order in response to Signal's attempt to serve a second set of discovery requests; GLO's plea hearing reset for June 8, 2016. On June 7, 2016, the court signed an order as to Signal's nonsuit without prejudice of all claims against the GLO and Commissioner Bush. On September 8, 2016, the GLO filed its jurisdictional plea as to Jaten/Riparia claims, noticing a hearing for October 19, 2016. On September 29, 2016, Signal filed a motion for partial summary judgment as against the New-Tex Defendants, also to be heard October 19, 2016. On October 13, 2016, the court signed an order on Jaten/Riparia's nonsuit without prejudice of all claims against the State, the GLO and Commissioner Bush, removing all State Defendants from the litigation and mooting the need for the October 19th jurisdictional plea hearing. On November 22, 2016, the New-Tex Defendants filed a motion to dismiss (absence of the State as an indispensable party) and a partial summary judgment motion for a declaration that the subject Jaten Top Lease is void as violative of the rule against perpetuities. On December 8, 2016, Signal filed a Third Amended Petition, naming Ponderosa Operating, LLC and Ponderosa Energy, LLC as defendants, to which New-Tex allegedly assigned its (subject) leasehold interest effective as of May 1, 2016. Ponderosa Energy filed its answer on December 26, 2016, denying property ownership and arguing indispensability of the State as necessary party. On January 26, 2017, Ponderosa Operating, LLC filed a plea in abatement. On February 21, 2017, Signal filed its First Supplemental Petition and Application for Declaratory Relief, seeking in part to bring the State and Commissioner Bush back into the litigation (not seeking "to (re)assert affirmative claims for relief against the [GLO], but rather merely add them ... as a necessary and indispensable party"); and Ponderosa Operating, LLC filed an amended plea in abatement. Signal served its supplemental petition on the Commissioner and the agency on March 16, 2017; answer due April 10, 2017. On March 30, 2017, Signal filed a Motion for Modification of Temporary Injunction Order, noticing a hearing for April 5, 2017. The GLO filed its answer early, including a jurisdictional plea for which a motion to shorten time was also filed to have it heard contemporaneously; however, the court continued the plea, allowing for limited jurisdictional discovery in the interim and dissolved the prior injunction between Signal and New-Tex, the former of which entered into a new agreement as to timelines by when assignee Ponderosa is to timely deposit royalties into the court registry. GLO plea heard September 12, 2017; continuance granted as to Plaintiffs' partial summary judgment motions previously set for late September. GLO plea denied October 12, 2017; notice of appeal due November 1, 2017. The probability of liability is reasonably possible. The possible final amount of loss is indeterminable at this time.

State v. Riemer

State alleged unlawful fencing of the Canadian River bed below Sanford Dam; Riemer filed multiple counterclaims. Trial court denied the State's plea to the jurisdiction. Appellate court reversed, ordering the trial court to dismiss all claims against the State except Riemer's claim to the surface of the two tracts as well as select takings claims of other parties who sought class certification. On December 30, 2009, the trial court denied class certification, a decision affirmed on appeal in May 2011. Counter-Plaintiffs filed a petition for review with the Texas Supreme Court, which held that the trial court abused its discretion and reversed and remanded the matter to the Seventh Court of Appeals to address the remaining contested class certification requirements. Appellate oral arguments were held on November 4, 2013. In an opinion issued November 26, 2014, the 7th Court affirmed the denial of class certification. On January 9, 2015, Riemer filed a petition for review with the Texas Supreme Court; the State filed its response on February 9, 2015; and Riemer filed a reply on February 24, 2015. In response to the Court's request for merits briefing (and via extensions granted), Riemer filed on July 1, 2015; the State filed its Response on August 20, 2015 and Riemer filed a Reply on September 25, 2015. On October 23, 2015, the Court denied Riemer's petition. Riemer's motion for rehearing was filed December 7, 2015, and denied January 8, 2016. On February 27, 2017, Riemer filed in district court its 14th Amended Counterclaim and 12th Amended Third Party Petition, as well as motions for partial summary judgment on limitations and navigability. Hearing held May 22, 2017, wherein both Riemer partial summary judgments were granted. On September 20, 2017, Plaintiffs filed a motion to sever (properties – albeit not specifically identified – west of the Borger-Stinnett Highway from those east); case reassigned to Judge Brancheau, who requested case status briefs. Motion to Sever and State's plea hearing set for November 1, 2017. The probability of liability is reasonably possible. The possible final amount of loss is indeterminable at this time.

Wesley West Minerals, et al. v. SandRidge Energy and GLO, et al.

Plaintiff/Lessor Wesley West Mineral alleged that Defendant/Lessee SandRidge failed to pay royalties. The GLO claimed sovereign immunity and cross-claimed, alleging that SandRidge entered into an agreement with Oxy USA, Inc., depriving GLO of royalties from disposition of carbon dioxide, which SandRidge is required to pay the GLO under the Relinquishment Act. The District Court granted partial summary judgment for SandRidge regarding the proper interpretation of the Citation oil and gas lease; SandRidge's cross-motion for summary judgment against GLO and Plaintiffs' motion for clarification of the summary judgment as it relates to SandRidge's royalty obligations was denied. The parties agreed on a motion and order for interlocutory appeal of the summary judgment ruling; oral arguments were held at the 8th Court of Appeals on May 15, 2014. In an opinion issued November 19, 2014, the 8th Court affirmed the trial court's judgment as regards the State leases. On December 17, 2014, the GLO filed a Motion for Rehearing/Motion for En Banc Reconsideration; on December 18, 2014, Co-Appellants Wesley West Minerals and Longfellow Ranch Partners filed their Motion for En Banc Reconsideration. On January 9, 2015, the 8th Court requested that Appellees file a response to Appellants' motions - due by February 2, 2015. On February 13, 2015, the 8th Court denied all pending Appellant motions. On March 30, 2015, Petitioners (including the GLO) filed Supreme Court Petitions for Review. On April 14, 2015, SandRidge filed a Conditional Cross-Petition, to which Longfellow filed a Response on May 21, 2015. On July 31, 2015, SandRidge filed Court-requested Responses to both Petitions; on August 24, 2015, Petitioners filed their respective Replies. On September 11, 2015, the Court requested merits briefing: via extensions, Petitioners filed their briefs on November 2, 2015, and SandRidge filed its Response on December 14, 2015. Longfellow filed a Response to the Conditional Cross-Petition on November 23, 2015; to which SandRidge filed a Reply on December 9, 2015. Via extension, Petitioners filed Replies on January 19, 2016. On May 16, 2016, SandRidge Energy, Inc. and SandRidge Exploration & Production, LLC filed voluntary chapter 11 petitions and a Notice of Suggestion on Pendency of Bankruptcy and Automatic Stay of Proceedings; the Supreme Court abated the Petition for Review. On July 7, 2016, the GLO filed a motion to substitute parties (Occidental West Texas Overthrust, Inc. for SandRidge), sever the latter and reinstate the appeal, to which both SandRidge and Oxy noticed objections. On September 27, 2016, Overthrust filed a Plea in Abatement, Jurisdictional Plea, Request for Abstention and Original Answer in the Pecos County district court proceeding. On December 20, 2016, the bankruptcy court signed and entered the parties' stipulation to modify the Plan of Reorganization injunction, allowing the litigation to proceed to final judgment; collection of any monetary judgment remains stayed/will be handled in accordance with the bankruptcy plan. Appeal reinstated on January 6, 2017. All petitions denied on March 10, 2017; motions for rehearing filed on April 11, 2017; via extension, Court-requested response filed July 10, 2017; replies filed by GLO (August 24) and co-petitioners (August 29); rehearing denied September 1, 2017; 8th Court mandate issued October 5, 2017. The probability of liability is reasonably possible. The possible final amount of loss is indeterminable at this time.

There may be substantial legal obstacles to satisfaction of a judgment with Fund monies. The above lawsuits are referenced in this note as contingent liabilities in the interest of full disclosure.

While ultimately uncertain whether the Fund will have any liability for these matters, management believes that it is unlikely that these suits will result in any liability to the Fund during the twelve months subsequent to August 31, 2017; therefore, in accordance with GAAP, no accrual for these matters is currently reflected in the accompanying financial statements. The possibility that payment will be required from the Fund is remote.

The GLO had a claim amount of $4,702,727 for oil and gas sales transactions related to Enron Corporation, of which none was accrued as revenue in the year of the bankruptcy due to the unlikelihood of its collection. Revenues will be recognized in the years collections are received. The GLO received and recognized total revenues of $2,765,692 through August 31, 2017.

12. SIGNIFICANT COMMITMENTS

The PSF(SLB) makes investments in certain limited partnerships that legally commit it to possible future capital contributions of which approximately $2.042 billion remains unfunded as of August 31, 2017.

On August 8, 2016, the SLB adopted a resolution that releases a total of $490 million from the Real Estate Special Fund Account (RESFA) during fiscal 2018 and fiscal 2019 to the State Board of Education for investment in the PSF. The funds are scheduled to be released in four quarterly installments of $58.75 million each on the 25th day (or next succeeding business day if the 25th is not a business day) of November 2017, February 2018, May 2018, and August 2018, and four quarterly installments of $63.75 million each on the 25th day (or next succeeding business day if the 25th is not a business day) of November 2018, February 2019, April 2019, and August 2019, respectively.

On April 4, 2017, the SLB adopted a resolution that releases $300 million from the RESFA during fiscal 2019 directly to the Available School Fund (ASF). The funds are scheduled to be released in four quarterly installments of $75 million each on the 25th day (or next succeeding business day if the 25th is not a business day) of November 2018, February 2019, May 2019, and August 2019.

At separate meetings on September 5, 2017, and October 3, 2017, the SLB approved new capital commitments to one real assets investment fund and one co-investment vehicle totaling $525 million.

The current land inventory includes approximately 1,375 acres of PSF property that is the remaining inventory of the Paseo Del Este development. This acreage is subject to a commitment to sell parcels of land over time as the development proceeds. The sales price of specific parcels are governed by the terms of a Purchase Contract effective June 1, 1998, and the four subsequent contract amendments, and are subject to an annual seven percent (7%) increase compounded annually, but calculated on a per diem basis. This remaining acreage is reported in inventory at a fair value of $27,975,133 as of August 31, 2017.

In November 2016, the SBOE set the distribution rate to the ASF for the 2018-2019 biennium at 3.7%. The PSF(SBOE) will distribute approximately $1.236 billion annually for each year of the 2018-2019 biennium.

As of August 31, 2017, the SBOE has approved and the Fund made capital commitments to externally managed real estate investment funds in a total amount of $3.31 billion and capital commitments to private equity limited partnerships for a total of $3.83 billion, to be implemented over the next several years. Unfunded commitments at August 31, 2017, totaled $1.35 billion in real estate investments and $1.54 billion in private equity investments.

At meetings held in September and November 2016 and February, April and June 2017, the SBOE approved new capital commitments for real estate investments in the amounts of $175.0 million, $75.0 million, $75.0 million, $75.0 million and $400.0 million, respectively. All such commitments are subject to successful negotiation of contracts.

Bankruptcies

The PSF(SLB) had filed proofs of claim in these pending bankruptcies for the following amounts:

a. Energy & Exploration Partners, LLC - $46,310
b. Linc USA GP $396,563
c. SandRidge Energy, Inc. and SandRidge Exploration & Production, LLC - $23,995,494 in each bankruptcy proceeding
d. Penn Virginia Corp - $54,845 (filed November 2, 2016)
e. Breitburn Energy Partners LP - $52,383 (filed November 2, 2016)
f. Galveston Bay Energy, LLC - $10,703 (filed November 7, 2016)

Any revenues received from these bankruptcy proceedings will be recognized in the year collections are received.

13. PSF(SLB) RELATED PARTY TRANSACTIONS

In July 2007, a one-half tenancy in common interest was formed between the SLB and Cherokee Sugar Land, LP, for the use and benefit of the PSF. This joint tenancy in common was formed to develop the combined tracts of land over several years. The PSF will pay one-half of the development cost, and will participate in one-half of all income. Imperial Johnson, LLC, the development manager, submits an annual budget to the PSF for approval. During fiscal 2017, a total of approximately $1.8 million was contributed to fund development costs. Additionally, a payable of approximately $49 thousand for development costs has been accrued as of August 31, 2017. Audits of the 2016 and 2017 financials of the joint tenancy in common have been engaged. Once completed, the reports will be available upon request. The August 31, 2017 financial statements of the joint tenancy in common have been consolidated into the PSF financial statements.

In 2005, the PSF acquired 1,984 acres located in New Braunfels, Texas by fee simple/fee title, associated with a Development/ Disposition Agreement with RS New Braunfels, LTD and RS New Braunfels, Two, LTD. The purpose of the contractual agreement was for the agent to obtain necessary entitlements to enhance the value and marketability of the assets. Audits of the 2016 and 2017 financial statements have been engaged. Once completed, the reports will be available upon request.

In August 2012, Galveston Preserve at West Beach, Ltd., a Texas limited partnership, was formed between MP Marquette Galveston LLC and Marquette Preserve, LP, LLC – both Texas limited liability companies – and the SLB for the use and benefit of the PSF. The SLB is a 95 percent limited partner. The PSF contributed 1,031.52 acres to the partnership. The acreage will be used for a mixed use residential/commercial development. The 2016 financial statements were compiled by an independent accounting firm and are available upon request. An audit of the 2017 financials has been engaged. Once completed, the report will be available upon request.

In April 2014, Grand Parkway 1358, LP, a Texas limited partnership, was formed between Johnson GP 1358, LLC and Johnson 1258 Investors LLC – both Texas limited liability companies – and the SLB for the use and benefit of the PSF. The SLB is a 95 percent limited partner. The development, known as Harvest Green, will be a mixed use residential/commercial development located near Sugarland, Texas. The PSF contributed 1,343.679 acres of land to the partnership. The general partner, and other limited partners, will secure third-party financing debt in the form of development loans to fund the development and infrastructure for the project. The infrastructure for the master planned development began in late 2014. Audits of the 2016 and 2017 financial statements have been engaged. Once completed, the reports will be available upon request.

In May 2017, 290 WR Holdings LP, a Texas limited partnership was formed between Johnson WR Investors LLC, Johnson WR GP LLC, and the SLB for the use and benefit of the PSF. The partnership acquired 1,617 acres located in northwest Houston. The property is planned for a future master planned community. Construction is scheduled to begin in approximately two years.

14. SUBSEQUENT EVENTS

The Fund was named as a defendant in 2010 in a fraudulent conveyance action which resulted three years after the Fund had accepted a leveraged buyout offer from Lyondell Chemical. The Fund received $17.5 million in 2007 as part of that tender offer. The action filed in federal district court: Lyondell Chemical Company, No. 09-10023; Edward S. Weisfelner, as Trustee of the LB Creditor Trust v. Morgan Stanley, Adv. Pro. No. 10-04609 (Bankr. S.D.N.Y.) and Edward S. Weisfelner, as Litigation Trustee of the LB Litigation Trust v. Holmes, Adv. Pro. No. 10-05525 (Bankr. S.D.N.Y.), was resolved with the final filing of court orders on September 5, 2017. The plaintiff in the case dismissed the case against the Fund and other institutional investors with prejudice against bringing the action again.

SECTION THREE

STATISTICAL SUMMARY

(UNAUDITED)

This part of the Fund's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements and note disclosures says about the Fund's overall financial position.

Contents

A History and Description of the Texas Permanent School Fund

The Texas Permanent School Fund (Fund) was created with a $2,000,000 appropriation by the Legislature of 1854 expressly for the benefit of the public schools of Texas. These funds were available as a result of a $10 million payment from the United States government in exchange for giving up claims to western lands claimed by the former Republic of Texas. In 1854–55, the Fund's first annual per capita distribution for public education was 62 cents. By 1861, the Fund was depleted by railroad loan defaults, collapse of the Confederate monetary system, and eventual loan of the Fund to the Civil War effort. The Constitution of 1876 stipulated that certain lands and all proceeds from the sale of these lands should also constitute the Texas Permanent School Fund. Additional Acts later gave more public domain land and rights to the Fund.

In 1953, the U.S. Congress passed the Submerged Lands Acts that relinquished to coastal States all rights of the U.S. navigable waters within State boundaries. Submerged lands were defined to be those lands beneath and beyond three miles. If the State, by law, had set a larger boundary prior to or at the time of admission to the Union, or it 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 Fund. 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.

On November 8, 1983, the voters of the State approved a Constitutional Amendment, which provides for the guarantee of school district bonds by the Fund. On approval by the Commissioner of Education, bonds properly issued by a school district are fully guaranteed by the corpus of the Fund. During 2014, charter district bonds were also included in the Fund's bond guarantee program. The Texas Permanent School Fund has guaranteed over $164.9 billion in school bonds since the inception of the program, resulting in substantial savings to the taxpayers of the State through reduced issuance costs and lower borrowing costs.

Historically, only the income produced by the Fund was used to complement taxes in financing public education. As such, from 1854 through the 2003 fiscal year, all interest and dividends produced by Fund investments and certain land related income flowed into the Available School Fund (ASF). From the ASF, monies are distributed to the public schools based on average daily student attendance.

On September 13, 2003, the voters of the State of Texas (State) approved a Constitutional Amendment that changed the Fund distribution methodology from an income-based formula to a total return based formula (2003 Constitutional Amendment). With the approval of the 2003 Constitutional Amendment, interest and dividends produced by fund investments and certain land related revenues are additional revenue to the Fund. Beginning in September 2003, the Fund transfers on a monthly basis a total return amount to the ASF. Revenues earned by the Fund include gains realized on the sale of land and real estate owned by the Fund; lease payments, bonuses and royalty income received from oil, gas and mineral leases; commercial real estate lease revenues; surface lease and easement revenues; revenues from the resale of natural and liquid gas supplies; dividends, interest, and securities lending revenues; the net increase or decrease in the fair market value of the investment portfolio and externally managed real assets investment funds; and other miscellaneous fees and income.

Expenditures are paid from the Fund and include operational costs, investment management fees, and costs incurred to manage the land endowment and real assets investments.

In making investments, the SBOE is charged with exercising the judgment and care under the circumstances then prevailing which men 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 expected income as well as the probable safety of their capital. The SBOE employs independent firms for advice on investment programs, asset allocation, and performance measurement to assist in the management of the PSF(SBOE) assets. The SBOE may appoint a Committee of Investment Advisors (CIA) to provide independent review of the Fund's investment policies, procedures, and nature of investments. The CIA advises the SBOE members on investment plans, strategies, and programs. Each member of the SBOE may appoint a single member to the CIA. The CIA members serve at the pleasure of the SBOE member that appointed them.

While many factors impact the decision-making process, the most important factor is the asset allocation strategy. In order to protect the purchasing power of the PSF(SBOE) assets from inflation while maintaining sufficient distribution to support the funding of education in Texas, the SBOE must determine the appropriate balance between expected risk and return as the portfolio is diversified.

The financial marketplace is very dynamic and continuously provides new potential investment opportunities. Working closely with investment staff and investment advisors, the SBOE approved an updated target asset allocation strategy at the July 2016 Board Meeting, which is expected to provide an increased total return at reduced risk. This asset allocation strategy affords the SBOE the opportunity to select from a broad range of investment opportunities, thus creating a more diversified portfolio while continuing to meet the Fund's financial objectives for risk, return, and income. The PSF(SBOE) target asset allocation includes Real Estate investments which are funded and managed separately from the PSF(SLB) Real Assets investments.

Texas law assigns control of the Fund's land and mineral rights to the three-member SLB, which includes the elected Commissioner of the General Land Office (GLO), an appointee of the Governor, and an appointee of the Attorney General. The assets managed by GLO on behalf of the SLB generally fall into three broad categories: (1) discretionary real assets investments, (2) sovereign and other lands, and (3) mineral interests.

In 1985, the SLB, through the GLO, was authorized to use the proceeds of land sales to acquire other interests in real property. In the ensuing years, the SLB's investment authority has been modified and expanded several times. The current investment authority of the SLB is detailed in Section 51 of the Natural Resources Code (NRC). Additionally, Section 51.402 states that the market value of the investments in real estate on January 1 of each even-numbered year may not exceed an amount that is equal to 15 percent of the market value of the Fund on that date.

The 77th Legislature amended the NRC effective September 2001 to allow the SLB to deposit some or all of the proceeds of future mineral leases and royalties generated from existing and future active leases of the Fund's mineral interest into a real estate special fund account (RESFA) at the State Treasury. The 79th Legislature further amended the NRC in 2005 to clarify the purposes for which the RESFA can be used, including adding three additional purposes. For the use and benefit of the Fund, proceeds in the RESFA are to be used by the SLB to acquire, as public school land:

- Land
- Interests in real property for biological, commercial, geological, cultural or recreational purposes
- To acquire mineral and royalty interests
- To protect, maintain, or enhance the value of public school lands
- To acquire interests in real estate
- To pay reasonable fees for professional services related to Fund investments

In 2007, the 80th Legislature again amended Chapter 51 of the NRC with HB 3699, authorizing the SLB and the Land Commissioner to designate funds previously transferred to PSF(SBOE) for deposit into RESFA and to determine whether to release any funds from the RESFA to the PSF(SBOE) or to directly transfer funds to the ASF. HB 3699 also expanded the investment authority of PSF(SLB) to include the following:

- Land
- Interests in real property for biological, commercial, geological, cultural or recreational purposes
- To acquire mineral and royalty interests
- To protect, maintain, or enhance the value of public school lands
- To acquire interests in real estate
- To pay reasonable fees for professional services related to Fund investments
- To acquire, sell, lease, trade, improve, maintain, protect, or use land, mineral royalty interests, or real estate investments, an investment or interest in public infrastructure, or other interests

The legislation became effective June 15, 2007, and was duly implemented by SLB resolution on September 1, 2007. On November 8, 2011, voters approved amendments to the State Constitution that included a change that increases the base amount used in calculating the distribution rate from the

PSF(SBOE) to the Available School Fund (ASF), as more fully described in Note 1 to the financial statements.

The SLB's written real assets investment policy statement (Investment Policy) authorizes the investment of money in the RESFA, in externally managed commingled funds and separate accounts, as well as in direct investments that are sourced, executed, and managed internally by the GLO.

With regard to externally managed investments, the PSF(SLB) Investment Policy authorizes an investment advisory committee (IAC) to review potential investments and make recommendations to the SLB for the investment of money in the RESFA.

The current IAC is comprised of four members, chaired by the Chief Investment Officer of the GLO. The IAC meets periodically to review potential investments and works in conjunction with the SLB's real assets investment advisor, currently The Townsend Group, to evaluate potential investments and make recommendations to the SLB for the investment of money in the RESFA. Following the formulation of recommendations by the IAC, the chairman of the IAC makes formal presentations and recommendations to the SLB for its consideration and approval.

Internally managed real estate investment acquisitions and dispositions are sourced and evaluated by GLO staff and reviewed by the IAC, and are then formally presented to the SLB for consideration and approval.

The SLB's general investment objective is to invest money in the RESFA in land, interests in real estate, mineral or royalty interests, real assets investments, investments or interest in public infrastructure, or other interest, in a manner that seeks to maximize returns within the framework of the prudent investor standard. Given the typical nature of real assets investments, it is expected that the real assets investment portfolio managed by the SLB will be characterized by a long term investment horizon and will be relatively liquid.

Money in the RESFA that is awaiting investment by the SLB is currently held in an external investment pool managed by the Texas Comptroller of Public Accounts consistent with applicable law and the CPA investment policy. The CPA pools funds for investment purposes and allocates investment earnings on pooled funds. The CPA invests in authorized investments proportionately among the various state agencies whose funds are so pooled. The approximate size of the pool ranges from $17 to $35 billion depending upon seasonal variations in revenues and expenditures. Currently, most pooled funds are invested in the following instruments: repurchase agreements, obligations of the United States and its agencies and instrumentalities, corporate debt, and fully collateralized deposits in authorized state depositories. All investments are marked to market daily using an external financial service.

State Street Bank and Trust Company (State Street) provides accounting, performance measurement, and reporting services for the SLB related to its real assets investment portfolio. The cash flow data and net asset values, used by State Street to provide its accounting and performance measurement and reporting services, are provided to State Street directly by the SLB's external fund managers with regard to the SLB's externally managed real assets investments and by GLO staff with regard to the SLB's internally managed real assets investments.

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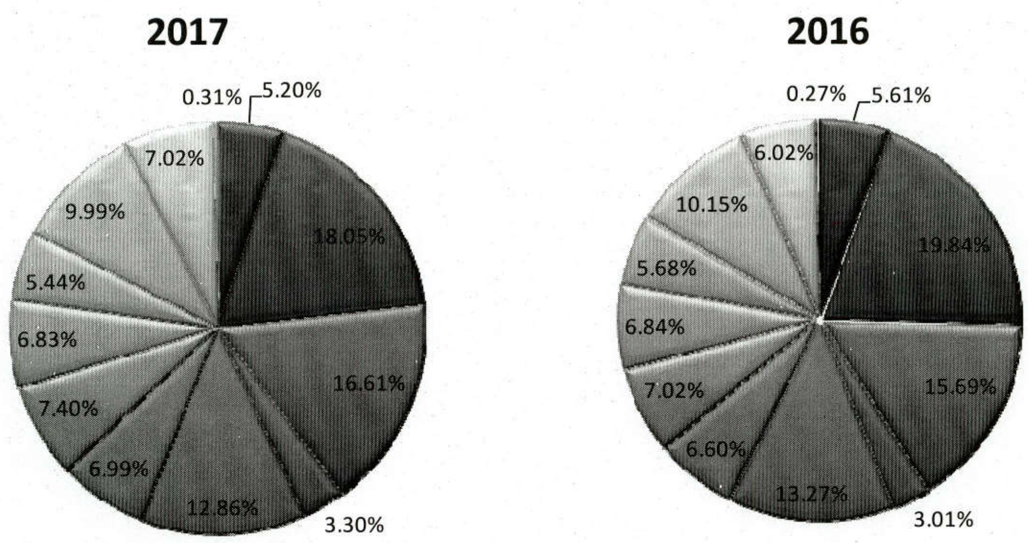
AN OVERVIEW OF THE STRENGTH OF THE TEXAS PERMANENT SCHOOL FUND ASSETS MANAGED BY THE STATE BOARD OF EDUCATION (SBOE)

Founded in 1854, the SBOE Texas Permanent School Fund (PSF(SBOE)) has grown from its initial capitalization of $2,000,000 to approximately $32.7 billion as of August 31, 2017. See Figure 1 graph and table below for the portfolio diversification at fair value at August 31, 2017 and 2016.

FIGURE 1
TEXAS PERMANENT SCHOOL FUND
Portfolio Diversification
Fair Value



Asset Class	August 31, 2017	Percent	August 31, 2016	Percent
Domestic Small-Mid Cap	$ 1,702,968,027	5.20%	$ 1,691,187,954	5.61%
Domestic Large Cap	5,907,345,065	18.05%	5,983,061,990	19.84%
International Equity	5,435,082,640	16.61%	4,732,629,774	15.69%
International Equity - Emerging Markets	1,078,621,228	3.30%	908,255,250	3.01%
Domestic Fixed Income	4,208,686,259	12.86%	4,002,972,074	13.27%
Emerging Market Debt	2,289,188,364	6.99%	1,991,120,517	6.60%
Real Estate	2,421,590,453	7.40%	2,115,511,636	7.02%
Risk Parity	2,236,352,591	6.83%	2,061,999,741	6.84%
Real Return	1,781,667,565	5.44%	1,714,182,987	5.68%
Absolute Return	3,268,527,255	9.99%	3,060,114,236	10.15%
Private Equity	2,298,037,973	7.02%	1,816,135,779	6.02%
Unallocated Cash	99,813,161	0.31%	78,818,684	0.27%
Net Investment Balance	$ 32,727,880,581	100.00%	$ 30,155,990,622	100.00%

The asset classes include cash that has been allocated to the investment portfolios.

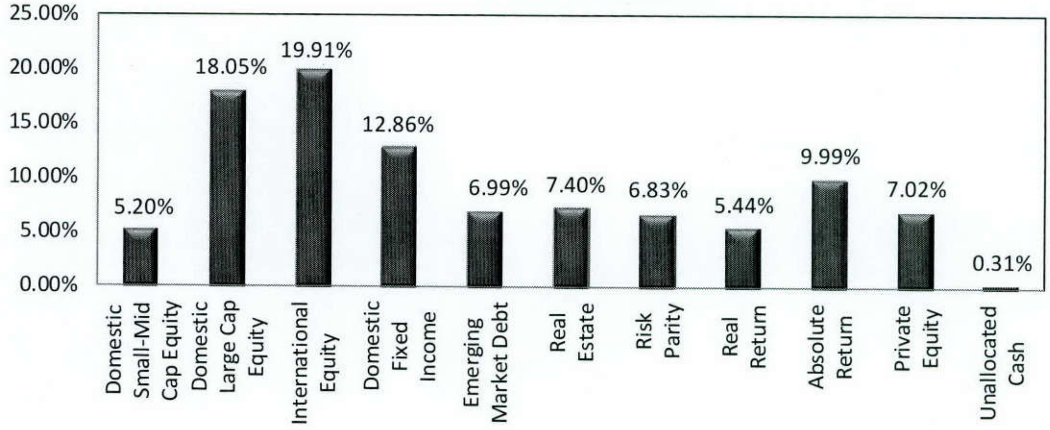
TEXAS PERMANENT SCHOOL FUND
ASSET ALLOCATION MIX - SBOE
AS OF AUGUST 31, 2017

ASSET CLASS	Book Value	Mix	Fair Value	Mix
Equity				
Public Market Equity				
Domestic Small-Mid Cap	$ 1,089,892,428	4.29%	$ 1,702,968,027	5.20%
Domestic Large Cap	2,765,832,017	10.89%	5,907,345,065	18.05%
Total Domestic Equity	3,855,724,445	15.18%	7,610,313,092	23.25%
Developed and Emerging Market International Equity	4,985,368,524	19.62%	6,513,703,868	19.91%
Total Public Market Equity	8,841,092,969	34.80%	14,124,016,960	43.16%
Fixed Income				
Domestic Fixed Income	4,164,467,535	16.39%	4,208,686,259	12.86%
Emerging Market Debt	2,312,868,654	9.11%	2,289,188,364	6.99%
Total Fixed Income	6,477,336,189	25.50%	6,497,874,623	19.85%
Alternative Investments				
Real Estate	1,977,549,336	7.77%	2,421,590,453	7.40%
Risk Parity	1,611,455,040	6.34%	2,236,352,591	6.83%
Real Return	2,131,007,269	8.39%	1,781,667,565	5.44%
Absolute Return	2,495,392,739	9.81%	3,268,527,255	9.99%
Private Equity	1,775,042,370	6.98%	2,298,037,973	7.02%
Total Alternative Investments	9,990,446,754	39.29%	12,006,175,837	36.68%
Unallocated Cash	99,813,161	0.41%	99,813,161	0.31%
Fund Total	$ 25,408,689,073	100.00%	$ 32,727,880,581	100.00%

Notes:

The PSF(SBOE) asset classes include cash that has been allocated to the investment portfolios. Income accruals are not reflected in this schedule. Average current and prior fiscal year-end equity holdings as a percentage of average current and prior fiscal year-end Fund total market value was 43.63%, and the percentage of the Fund's current fiscal year-end portfolio managed by external managers was 60.61%.

FIGURE 2:
TEXAS PERMANENT SCHOOL FUND
Asset Allocation Mix
As of August 31, 2017



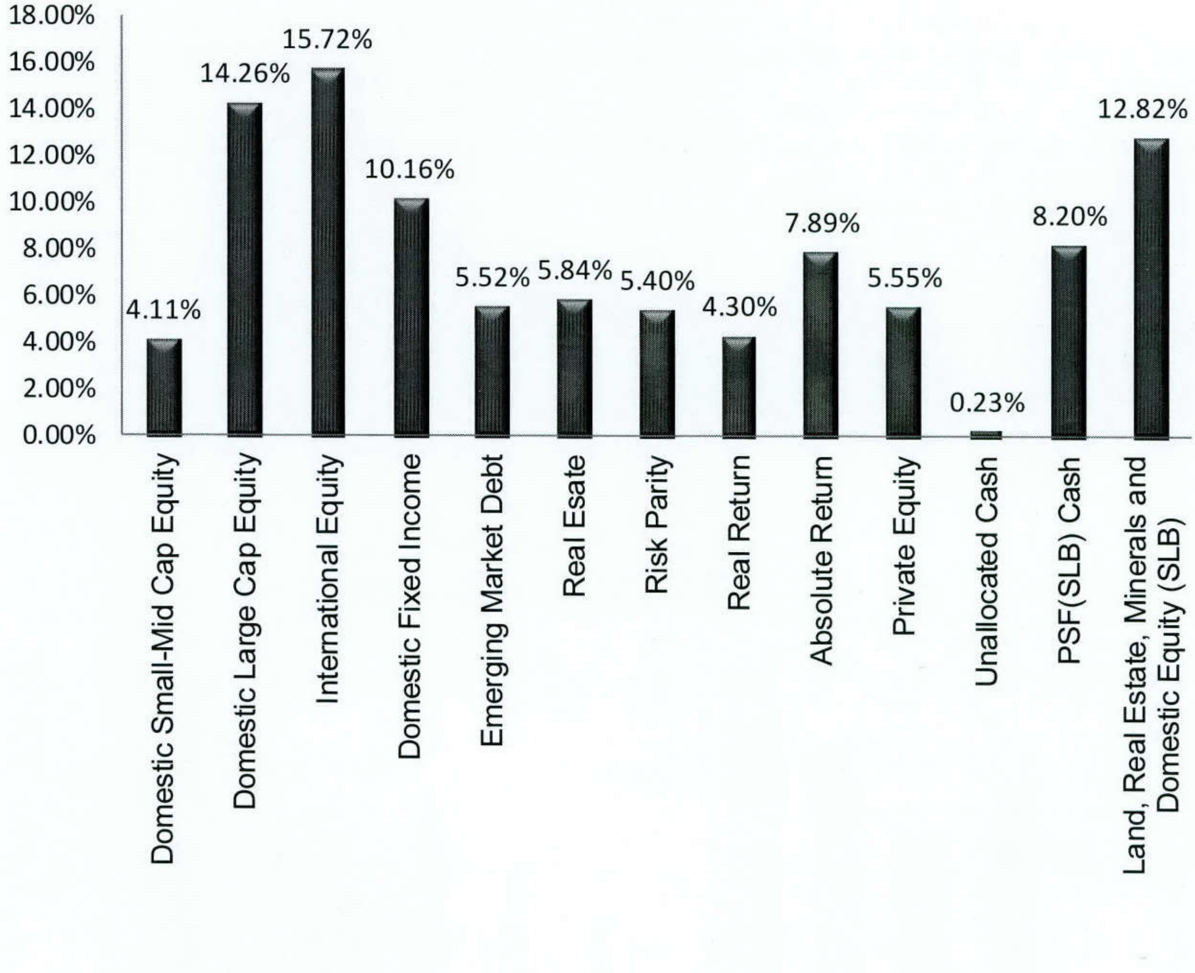
TEXAS PERMANENT SCHOOL FUND
ASSET ALLOCATION MIX INCLUDING ASSETS MANAGED BY THE SLB
AS OF AUGUST 31, 2017

ASSET CLASS	Book Value	Fair Value	Mix
PSF(SBOE)			
Equity			
Public Market Equity			
Domestic Small-Mid Cap Equity	$ 1,089,892,428	$ 1,702,968,027	4.11%
Domestic Large Cap Equity	2,765,832,017	5,907,345,065	14.26%
Total Domestic Equity	3,855,724,445	7,610,313,092	18.37%
International Equity	4,985,368,524	6,513,703,868	15.72%
Total Public Market Equity	8,841,092,969	14,124,016,960	34.09%
Fixed Income			
Domestic Fixed Income	4,164,467,535	4,208,686,259	10.16%
Emerging Market Debt	2,312,868,654	2,289,188,364	5.52%
Total Fixed Income	6,477,336,189	6,497,874,623	15.68%
Alternative Investments			
Real Estate	1,977,549,336	2,421,590,453	5.84%
Risk Parity	1,611,455,040	2,236,352,591	5.40%
Real Return	2,131,007,269	1,781,667,565	4.30%
Absolute Return	2,495,392,739	3,268,527,255	7.89%
Private Equity	1,775,042,370	2,298,037,973	5.55%
Total Alternative Investments	9,990,446,754	12,006,175,837	28.98%
Unallocated Cash	99,813,161	99,813,161	0.23%
PSF(SLB)			
Cash	3,399,051,387	3,399,051,387	8.20%
Domestic Equity	4,713,600	2,093,911	0.01%
Land, Real Asset Investments and Minerals			
Soveriegn/Other Lands and Discretionary Internal Investments	247,643,103	651,403,390	1.57%
Investments with External Managers	2,797,051,340	2,788,024,429	6.73%
Mineral Investments	13,432,925	1,870,218,875	4.51%
Total Land, Real Assets, and Minerals	3,062,840,968	5,311,740,605	12.82%
FUND TOTAL	$ 31,870,581,428	$ 41,438,672,573	100.00%

The PSF(SBOE) asset classes include cash that has been allocated to the investment portfolios. Income accruals are not reflected in this schedule.

TEXAS PERMANENT SCHOOL FUND
ASSET ALLOCATION MIX INCLUDING ASSETS MANAGED BY THE SLB
AS OF AUGUST 31, 2017

FIGURE 3:
TEXAS PERMANENT SCHOOL FUND
Asset Allocation Mix
As of August 31, 2017



TOTAL PSF (SBOE) FUND RATE OF RETURN FOR FISCAL YEAR ENDED AUGUST 31, 2017

The total market value of the PSF(SBOE) at August 31, 2017, was $32.7 billion. The PSF(SBOE) annual rates of return for the one year, five year and ten year periods ending August 31, 2017, were 11.96%, 8.26% and 5.49%, respectively. The Fund returned 11.96% for the fiscal year, outperforming its target benchmark of 10.66% by approximately 130 basis points.

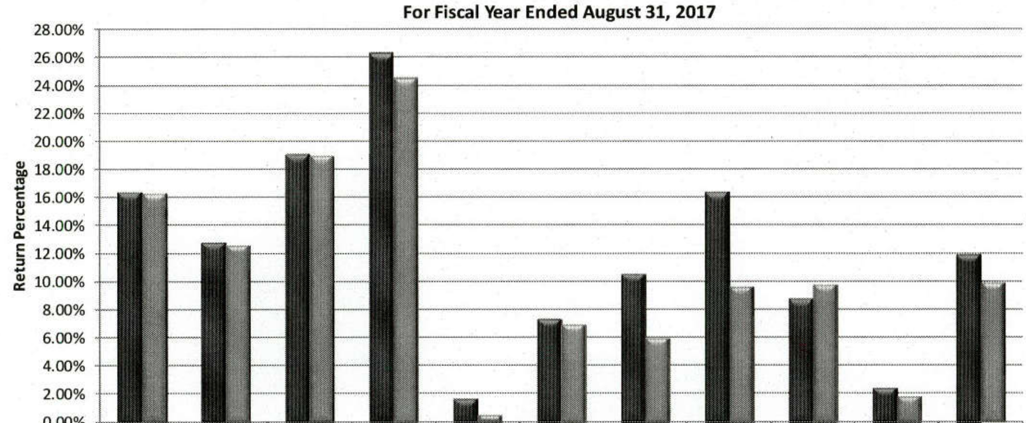
The capital markets continued to capture strong positive momentum with domestic equity, international equity, emerging market equity, domestic fixed income, absolute return, real estate, private equity, real return, emerging market debt, and risk parity all realizing positive returns. Real estate and private equity kept realizing impressive returns while exceeding their respective benchmark. Additionally, total domestic and international equity, domestic fixed income, absolute return, total real return and emerging market debt all exceeded their respective benchmarks.

During the year, the PSF(SBOE) continued to implement its strategic asset allocation plan. The PSF(SBOE) strategic asset allocation reduces the Fund's risk profile while improving its expected return.

The strategic asset allocation of the PSF(SBOE) includes a 18% allocation to domestic equities, 17% allocation to international equities including emerging markets, 12% allocation to core fixed income, 7% allocation to emerging market debt, and a 46% allocation to alternative assets. Alternative assets include absolute return, risk parity, private equity, real estate, and real return strategies (TIPS and commodities).

Additional information about performance is included in the chart on the following page. The information shown is for fiscal year periods ending August 31, 2017, and includes comparisons to established benchmarks for the same time periods. Benchmark compositions are defined in the chart footnotes. Investment performance is calculated using a time weighted rate of return. Returns are calculated using standard industry practices. Total return takes into account the change in the fair value of the Fund during the year as well as all net income generated by PSF(SBOE) investments.

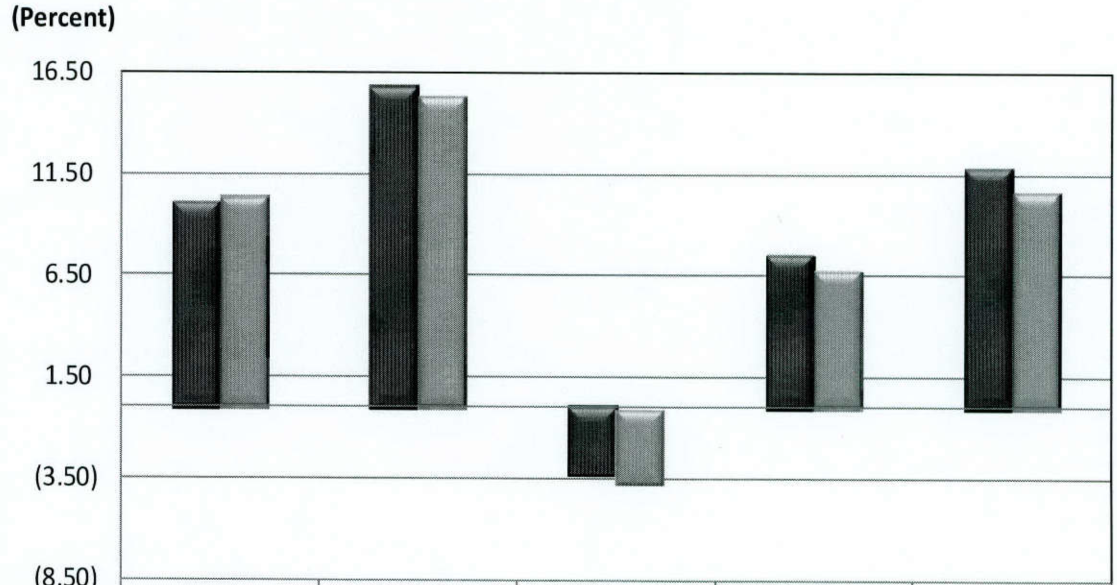
Figure 4
TEXAS PERMANENT SCHOOL FUND
Time Weighted Returns by Portfolio
For Fiscal Year Ended August 31, 2017



	Domestic Large Cap Equities	Domestic Small/Mid Cap Equities	Inter-national Equities	Emerging Market Equity	Fixed Income	Absolute Return	Real Estate	Private Equity	Risk Parity	Real Return	Emerging Market Debt
Performance	16.30%	12.80%	19.04%	26.28%	1.61%	7.32%	10.52%	16.35%	8.77%	2.38%	11.84%
Benchmark	16.23%	12.60%	18.88%	24.53%	0.49%	6.89%	5.96%	9.61%	9.74%	1.77%	9.86%

TOTAL PSF (SBOE) FUND RATE OF RETURN
LAST FIVE FISCAL YEARS

FIGURE 5:
TEXAS PERMANENT SCHOOL FUND
Total Time Weighted Returns



	2013	2014	2015	2016	2017
PSF(SBOE)	10.16	15.94	(3.36)	7.61	11.96
Target Policy Benchmark	10.41	15.37	(3.71)	6.84	10.66

TOTAL PSF (SBOE) TIME WEIGHTED RETURNS
LAST FIVE FISCAL YEARS AND SELECTED CUMULATIVE PERIODS

Total PSF(SBOE) Portfolio [1]	2013	2014	2015	2016	2017	3 Years	5 Years	10 Years
PSF(SBOE)	10.16	15.94	(3.36)	7.61	11.96	5.20	8.26	5.49
Target Policy Benchmark [2]	10.41	15.37	(3.71)	6.84	10.66	4.56	7.74	5.07
Domestic Large Cap Equities								
PSF(SBOE)	18.83	25.41	0.66	12.71	16.30	9.68	14.48	7.74
Domestic Large Cap Equity Benchmark [3]	18.70	25.25	0.48	12.55	16.23	9.54	14.34	7.61
Domestic Small/Mid Cap Equities								
PSF(SBOE)	24.81	22.06	0.75	12.89	12.80	8.66	14.34	9.06
Domestic Small/Mid Cap Equity Benchmark [4]	24.62	21.89	0.55	12.61	12.60	8.43	14.13	8.78
International Equities								
PSF(SBOE)	13.10	18.10	(12.05)	3.36	19.04	2.66	7.64	2.03
International Equity Benchmark [5]	12.98	17.75	(12.35)	2.92	18.88	2.36	7.36	1.74
Emerging Market Equity								
PSF(SBOE) (inception to date)	---	---	(15.30)	10.73	26.28	---	---	---
Emerging Market Equity Benchmark [6]	---	---	(15.73)	11.83	24.53	---	---	---
Fixed Income								
PSF(SBOE)	(2.02)	5.93	1.48	5.98	1.61	3.00	2.55	5.03
Fixed Income Benchmark [7]	(2.47)	5.66	1.56	5.97	0.49	2.64	2.19	4.40
Absolute Return								
PSF(SBOE)	10.23	9.94	2.60	(0.88)	7.32	2.96	5.75	---
Absolute Return Benchmark [8]	5.94	7.44	1.49	(2.16)	6.89	2.00	3.85	---
Real Estate								
PSF(SBOE)	11.85	12.35	12.97	12.23	10.52	11.90	11.98	---
Real Estate Benchmark [9]	10.52	11.51	7.37	8.94	5.96	8.70	9.62	---
Private Equity								
PSF(SBOE)	26.89	22.49	13.02	12.76	16.35	14.03	18.18	---
Private Equity Benchmark [10]	26.89	22.49	6.75	2.39	9.61	7.65	10.85	---
Risk Parity								
PSF(SBOE)	(3.28)	18.15	(9.47)	8.17	8.77	2.13	4.01	---
Risk Parity Benchmark [11]	9.87	17.14	1.06	10.09	9.74	6.88	9.46	---
Real Return								
PSF(SBOE)	(7.99)	2.49	(15.31)	0.26	2.38	(4.56)	(3.90)	---
Real Return Benchmark [12]	(6.13)	1.45	(16.05)	(1.71)	1.77	(5.66)	(4.37)	---
Emerging Market Debt								
PSF(SBOE)	---	3.49	(21.30)	9.97	11.84	(1.08)	---	---
Emerging Market Debt Benchmark [13]	---	3.95	(21.54)	11.33	9.86	(1.36)	---	---

[1] Time weighted rates of return adjusted for cash flows for the PSF(SBOE) investment assets. Does not include GLO managed real estate or real assets. Returns are gross of fees.
[2] As of 8/31/2017, Total PSF weights are fixed with the following: 18% S&P 500 Index, 5.50% S&P 1000 Index, 13.00% Barclays Capital Aggregate, 16.00% MSCI ACWI ex US Net, 3.00% MSCI Emerging Market Net Dividend Index, 3.00% Real Return Benchmark, 3.00% Dow Jones UBS Commodities Total Return Index, 7.50% Real Estate Benchmark, 7% Risk Parity Benchmark, 10% Absolute Return Benchmark, 7.00% Private Equity Benchmark, and 7% JPM GBI EM Global Diversified Index.
[3] As of 8/31/2017, Benchmark consists of 100% S&P 500 Index.
[4] As of 8/31/2017, Benchmark consists of 100% S&P 1000 Index.
[5] As of 8/31/2017, Benchmark consists of 100% MSCI All Country World Ex-US Net Dividend Index.
[6] As of 8/31/2017, Benchmark consists of 100% MSCI Emerging Market Net Dividend Index.
[7] As of 8/31/2017, Benchmark consists of 100% Barclays Capital U.S. Aggregate Bond Index.
[8] As of 8/31/2017, Benchmark consists of 100% HFRI Fund of Funds Composite Index.
[9] As of 8/31/2017, Benchmark is calculated by using market value weighting of the Core and Non-Core time weighted return benchmark components. Core real estate benchmark is *NCREIF Fund Index Open End Diversified Core Equity, Equally Weighted, Net of Fee* time weighted return lagged one quarter. Non-core real estate benchmark is the custom *PrivateiQ®* time weighted return benchmark, lagged one quarter.
[10] As of 8/31/2017, Benchmark represents the Burgiss custom PrivateiQ® benchmark time weighted return, one quarter lagged.
[11] As of 8/31/2017, Benchmark consists of 60% S&P 500 and 40% Barclays Capital U.S. Aggregate Bond Index.
[12] As of 8/31/2017, Benchmark weights are fixed with the following: 50% Barclays Capital U.S. Treasury: US TIPS Index and 50% Dow Jones UBS Commodities Total Return Index.
[13] As of 8/31/2017, Benchmark consists of 100% JPM GBI EM Global Diversified.

TOTAL PSF (SLB) TIME WEIGHTED RETURNS
SELECTED CUMULATIVE PERIODS

At August 31, 2017, PSF(SLB) discretionary real assets investments, including Cash at the State Treasury (most of which was associated with existing unfunded capital commitments to new real assets investments) were approximately $6.45 billion, which was approximately 14.5% of the total Fund assets of approximately $44.5 billion. PSF(SLB) discretionary real assets investments, excluding Cash at the State Treasury, were approximately $3.06 billion, which was approximately 6.9% of the total Fund assets. Discretionary real assets investments within the RESFA managed by PSF(SLB) are currently limited by the Natural Resource Code (NRC) to no more than 15% of the market value of total Fund assets.

At June 30, 2017, the gross time-weighted returns and Internal Rate of Return (IRR) on the PSF(SLB) discretionary real assets investment portfolio were as follows:

Total PSF(SLB) Portfolio	1-Year	3-Year	5-Year	Since Inception	IRR
Excluding Cash	18.27%	13.33%	13.84%	10.61%	7.63%
Including Cash	10.35%	7.19%	7.77%	5.67%	4.72%

Note: PSF(SLB) is required to deposit cash designated by the SLB for investment in real assets into the State Treasury for investment in short-term investments until it is ultimately drawn for investment in real assets. It is typical for capital commitments to externally managed real assets investment funds to be drawn down over a two to five year investment period. This typical delay between commitment and funding can create a negative effect on returns (typically referred to as a "cash drag") until the committed cash is finally drawn.

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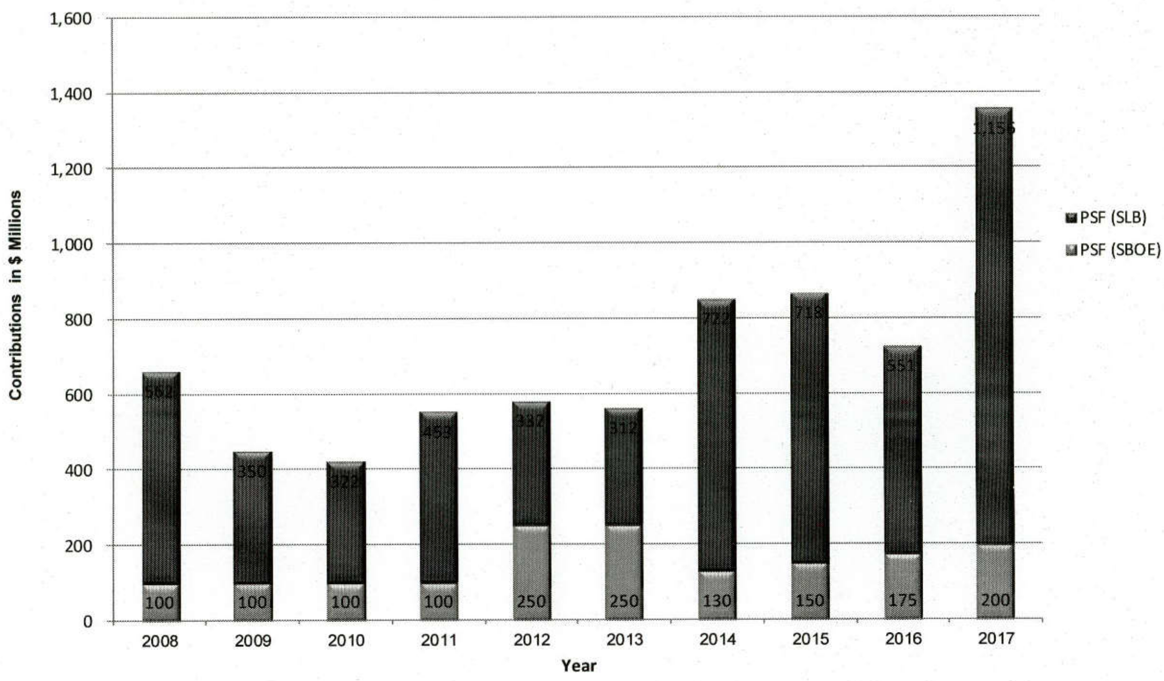
CONTRIBUTIONS TO THE TEXAS PERMANENT SCHOOL FUND ASSETS MANAGED BY THE SBOE, LAST TEN FISCAL YEARS

The School Land Board (SLB) makes contributions to the PSF(SBOE) from the revenue generated by royalties, lease payments, and other income derived from lands dedicated to the Fund. Legislative actions in the past several years have amended the Natural Resources Code (NRC) several times and have impacted the flow of contributions from the PSF(SLB) to the PSF(SBOE).

H.B. 3558 passed by the 77th Legislature and subsequent actions by the 79th and 80th Legislatures amended the NRC to grant the SLB authority to deposit some or all of the Fund's land and mineral interest proceeds previously transferred to the PSF(SBOE) into a special fund account at the State Treasury and to grant investment authority to the SLB for this Real Estate Special Fund Account (RESFA). The amount of proceeds retained by the SLB under this legislative authority continues to grow and has increased from \$151.6 million at August 31, 2002, to approximately \$6.5 billion at August 31, 2017.

The 80th Legislature also authorized the SLB and the Land Commissioner to determine whether to release any funds from the RESFA to the PSF(SBOE). During the fiscal year, the PSF(SBOE) received \$200 million in contributions from the SLB, which sourced from the SLB resolution adopted in August 2014, to release to the PSF(SBOE) a total of \$375 million from the RESFA - \$175 million in fiscal year 2016 and \$200 million in fiscal year 2017.

FIGURE 6:
Texas Permanent School Fund Contributions to PSF(SBOE) and PSF(SLB)
(in millions)



DISTRIBUTIONS TO THE AVAILABLE SCHOOL FUND (ASF), LAST TEN FISCAL YEARS

Since September 2003, the Fund has calculated its annual distribution to the Available School Fund using a total return methodology. Prior to that year, all interest and dividends earned from investments was paid immediately to the ASF. In fiscal year 2017, \$1.056 billion was distributed to the ASF by the PSF(SBOE). The amount transferred was determined by the SBOE under administrative rules adopted in September 2009.

These rules state the SBOE will determine each year whether a distribution to the ASF is permitted under the Texas Constitution Article VII, §5(a)(2), and if a transfer shall be made for the current state fiscal year. The rule adoption was the result of Attorney General Opinion No. GA-0707, dated April 13, 2009, which clarified the proper application by the SBOE of Article VII, §5(a)(1) and §5(a)(2).

The ASF is distributed during the year to the school districts throughout the state based on their average daily attendance (ADA). For fiscal year 2017, the per capita income earned by the Fund and distributed to school districts was \$212, the fifth year in which charter schools were included in the ADA. In fiscal years 2015 and 2016, this amount was \$173 and \$215, respectively (Figure 7).

On November 8, 2011, Texas voters approved Proposition 6, a constitutional amendment which increases the base amount used in calculating the distribution rate from the PSF(SBOE) to the ASF by adding certain discretionary real assets and cash in the Fund that is managed by entities other than the SBOE (at present, by the SLB). While the amendment provided for an increase in the base for the calculation, no new resources were provided for deposit to the PSF(SBOE). The new calculation base is required to be used to determine all payments to the ASF from the PSF(SBOE) beginning with the 2012-13 biennium. The SBOE approved a distribution rate of 3.5% for the 2016-17 biennium based on a commitment of the SLB to transfer \$375 million to the PSF(SBOE) during the biennium, \$175 million of which was received in fiscal year 2016 and \$200 million of which was received in fiscal year 2017.

The changes approved by the voters also provide authority to the SLB to determine at its sole discretion whether to transfer each year from PSF(SLB) assets to the ASF in an amount not to exceed \$300 million. No such distribution was made by the PSF(SLB) during fiscal year 2017.

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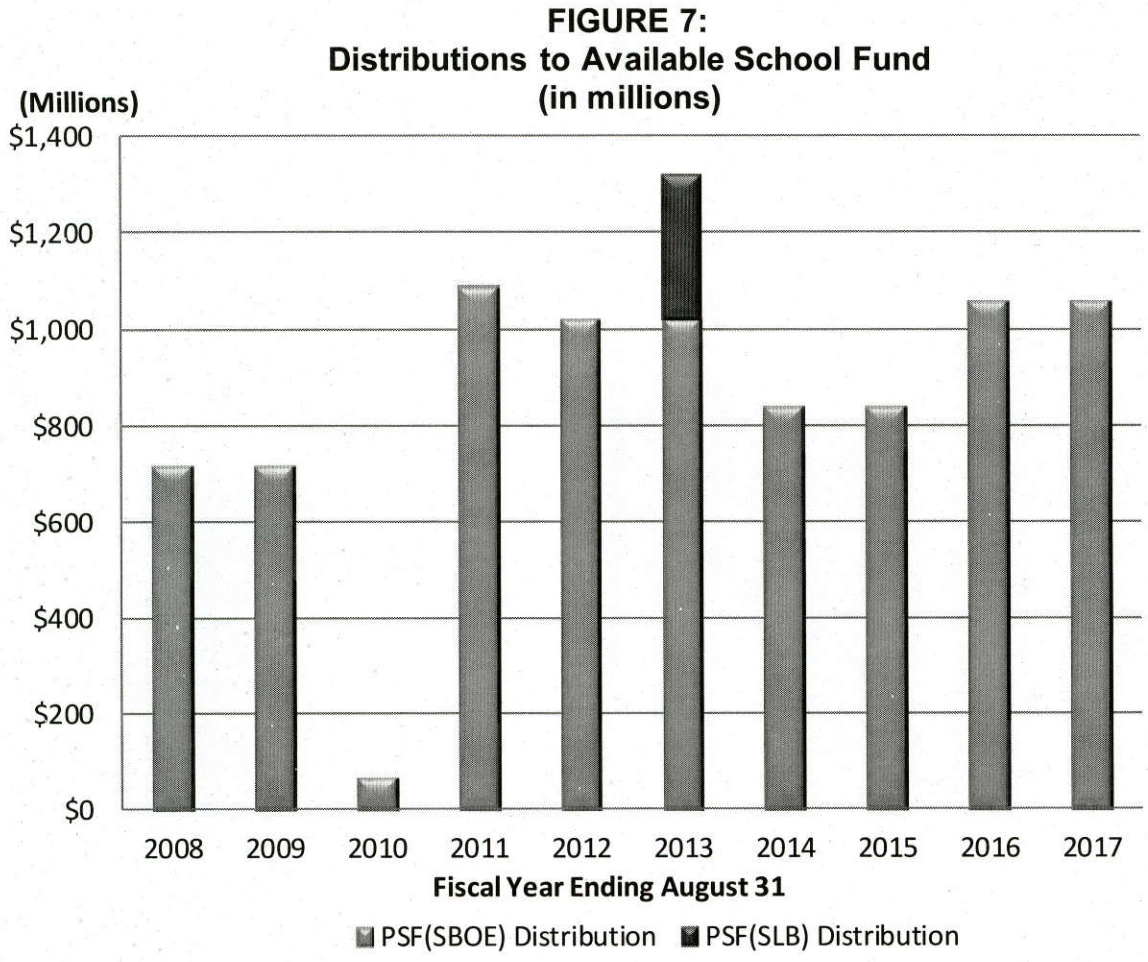
DISTRIBUTIONS TO THE AVAILABLE SCHOOL FUND (ASF), LAST TEN FISCAL YEARS



Fiscal Year Ending	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
PSF(SBOE) Distribution	$717	$717	$61	$1,093	$1,021	$1,021	$839	$839	$1,056	$1,056
PSF(SLB) Distribution	$0	$0	$0	$0	$0	$300	$0	$0	$0	$0
Per Capita Distribution (dollars)	$166	$163	$14	$246	$221	$281	$175	$173	$215	$212

FUND BALANCES, LAST TEN FISCAL YEARS

This schedule provides information on the modified accrual basis of accounting for the last ten fiscal years for the Fund. The information source of this schedule is the Balance Sheet for each respective fiscal year's audited financial statements. Please see Note 1.B. for the Fund's description of the modified accrual basis of accounting.

FIGURE 8:
Comparative Fund Balances
(in thousands)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Reserved for:										
Encumbrances	$ 997	$ 1,476	$ 4,963	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans and Contracts	1,160	798	3,479	-	-	-	-	-	-	-
Public School Support	25,225,028	22,595,242	24,386,874	-	-	-	-	-	-	-
Nonspendable	-	-	-	25,857,001	27,739,396	29,676,949	34,069,613	32,682,611	36,155,567	40,083,721
Restricted	-	-	-	1,090,257	1,063,529	924,543	881,607	1,150,932	1,108,362	1,334,246
Total Fund Balance	$ 25,227,185	$ 22,597,516	$ 24,395,316	$ 26,947,258	$ 28,802,925	$ 30,601,492	$ 34,951,220	$ 33,833,543	$ 37,263,929	$ 41,417,967

NOTE - Prior to fiscal year 2011 the Fund classified its entire fund balance as reserved. During fiscal year 2011 the Fund implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), which required several prescribed classifications of fund balance. In prior years 2011 to 2016, the Fund's corpus was the basis used to determine nonspendable fund balance classification. In the current year, this basis was modified to reflect nonspendable fund balance as that portion that was constitutionally not spendable. Generally, the portion classified as nonspendable represents the Fund's constitutionally permanent nature, and the remainder is classified as restricted since it may only be disposed in accordance with the scope of constitutional and statutory requirements. To aid in comparability between years, fund balance classifications have been restated to reflect this modified approach for years 2011 to 2016.

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CHANGES IN FUND BALANCES, LAST TEN FISCAL YEARS

This schedule provides trend information on the modified accrual basis of accounting for Revenues, Expenditures, and net change in Fund Balances. This information included in this schedule is obtained from the Statement of Revenues, Expenditures, and Changes in Fund Balance from each respective fiscal year's audited financial statements. Please see Note 1.B. for the Fund's description of the modified accrual basis of accounting.

FIGURE 9:
Comparative Changes in Fund Balance
(in thousands)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues:										
Gain on Sale of Land	$ 79,775	$ 4,796	$ 11,462	$ -	$ 9,779	$ 2,687	$ 6,949	$ 2,720	$ 2,267	$ 1,466
Dividends and Interest	772,094	615,979	586,275	604,035	598,778	635,529	661,752	560,683	567,493	610,596
Securities Lending	159,426	23,444	7,059	6,341	7,418	10,330	9,408	7,725	8,419	25,238
Land Endowment Income	616,378	356,282	360,522	526,037	390,498	410,447	675,799	580,299	522,433	939,053
Sales of Purchased Gas	163,856	91,251	49,544	56,318	46,763	51,121	67,248	83,890	76,978	103,883
Net Increase/(Decrease) in Fair Value of Investments	(2,319,237)	(3,073,998)	918,173	2,537,670	1,897,573	2,064,158	3,858,498	(1,387,556)	1,507,682	3,691,679
Other	8,120	2,596	2	4,305	1,860	30,491	4,056	9,261	6,039	3,498
Total Revenues	(519,588)	(1,979,650)	1,933,037	3,734,706	2,952,669	3,204,763	5,283,710	(142,978)	2,691,311	5,375,413
Expenditures:										
Administrative	26,411	36,763	24,228	34,285	32,542	39,573	38,902	53,202	38,339	48,815
Gas Supplies Purchased for Resale	151,561	89,198	49,079	54,587	42,430	44,137	54,819	78,157	74,450	98,792
Securities Lending Rebates/Fees	132,298	4,700	1,059	946	1,107	1,549	1,411	1,159	1,684	16,366
Debt Service	-	-	-	-	-	-	-	-	-	-
Capital Outlay	307	33	170	136	37	50	177	155	610	374
Total Expenditures	310,577	130,694	74,536	89,954	76,116	85,309	95,309	132,673	115,083	164,347
Other Sources/(Uses)										
Transfers In	-	7,237	-	-	-	-	-	-	9	-
Transfers Out	(716,535)	(723,771)	(60,700)	(1,092,809)	(1,020,887)	(1,320,887)	(838,672)	(838,672)	(1,056,422)	(1,056,412)
Sale of Capital Assets	-	-	-	-	-	-	-	-	4	3
Other Financing Sources/(Uses)	(716,535)	(716,534)	(60,700)	(1,092,809)	(1,020,887)	(1,320,887)	(838,672)	(838,672)	(1,056,409)	(1,056,409)
Net Change in Fund Balance	$ (1,546,700)	$ (2,826,878)	$ 1,797,801	$ 2,551,943	$ 1,855,666	$ 1,798,567	$ 4,349,729	$ (1,114,323)	$ 1,519,819	$ 4,154,657

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AVERAGE DAILY ATTENDANCE AND CONTRIBUTIONS TO THE AVAILABLE SCHOOL FUND, LAST TEN FISCAL YEARS

This schedule provides trend information on the average daily attendance of students attending Texas public schools and contributions made by the PSF to the Available School Fund to support the cost of educating those students. This information included in this schedule is obtained from final Statewide Summary of Finances for each respective school year, and the Statement of Revenues, Expenditures, and Changes in Fund Balance from each respective fiscal year's audited financial statements. Please see Note 1.B. for the Fund's description of the modified accrual basis of accounting.

FIGURE 10:
Average Daily Attendance and
Distribution to the Available School Fund
(Dollars in thousands, except for per capita amounts)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Average Daily Attendance	4,318,530	4,393,893	4,365,254	4,440,621	4,618,495	4,699,372	4,780,830	4,854,882	4,924,589	4,971,656
Distribution to the Available School Fund	$ 716,535	$ 716,534	$ 60,700	$ 1,092,809	$ 1,020,887	$ 1,320,887	$ 838,672	$ 838,672	$ 1,056,412	$ 1,056,412
Per Capita Distribution	$ 166	$ 163	$ 14	$ 246	$ 221	$ 281	$ 175	$ 173	$ 215	$ 212

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SECTION FOUR

BOND GUARANTEE PROGRAM

(UNAUDITED)

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An Overview of the Bond Guarantee Program

Since its inception in 1983, the Bond Guarantee Program (BGP) has guaranteed 6,937 school district bond issues for a total of more than $164.9 billion. At the end of fiscal year 2017, there were 3,253 issues of guaranteed school district bonds outstanding with a balance of $72.88 billion. This balance represents the principal amount of the bonds issued and does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The balance also excludes bonds that have been refunded and released from the Bond Guarantee Program. During the fiscal year, there were 9 additional school district issues guaranteed by the Fund. This increased the total amount of school district bonds outstanding by $5.54 billion.

The BGP may also guarantee debt issued from qualified charter districts. Total charter cumulative bonds guaranteed were $1.42 billion. At the end of fiscal year 2017, there were 5 additional charter district issues guaranteed by the Fund in the current year. This increased the total amount of charter school district bonds at the fiscal year end by $420.6 million, leaving a $1.38 billion balance outstanding at year-end, which also contributed to the additional year-end bond issues guaranteed by the Fund. As with school district debt, this amount represents the principal amount of the bonds issued and does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities).

The Commissioner is charged with administering the Program. For eligible bonds, including refunding bonds, school districts and charter districts submit an application for guarantee and a processing fee of $1,500. The Commissioner may endorse bonds for guarantee only after investigating the accreditation and financial viability of the applying school or charter district. If the district is considered viable and the bonds are approved by the State of Texas Attorney General, then the guarantee is endorsed at a zero premium charge to the district.

In the event of a default by a school district, and upon proper notice to the Commissioner, the Fund will transfer to the Paying Agent/Registrar an amount necessary to pay the maturing or matured principal and/or 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 (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 Fund. To date, no school district has ever defaulted on their guaranteed bonded indebtedness.

Statute requires charter district participants in the Program to contribute a portion of their savings that result from participation in the Program to a Charter District Bond Guarantee Reserve Fund. This Fund is maintained by the Comptroller of Public Accounts in the state treasury. In the event of a default by a charter district, the Commissioner shall instruct the Comptroller to transfer from the Charter District Bond Guarantee Reserve Fund to the district's paying agent the amount necessary to pay the maturing or matured principal and/or interest. If funds in the Reserve Fund are insufficient to pay the amount due on a bond in default, the payment process described above for school districts would apply.

The guarantee maximum capacity of the overall Program is limited in two ways. The first limit is the lower of that imposed by the "State Capacity Limit" limiting the amount guaranteed to 350% of the current historical cost of the assets in the Fund, or the limit imposed by Internal Revenue Service Notice 2010-5 or the "Internal Revenue Service Limit" (calculated to be $117,318,653,038). The second limit is a 5% reserve of the maximum capacity set aside by the SBOE for specific purposes as described by Texas Administrative Code Title 19 Part 2 Chapter 33 Subchapter A Rule 33.65.

Charter district capacity is further defined as the remaining capacity as described above (the lower of 3.50 times asset cost or the IRS limit, less the 5% reserve) less all outstanding guaranteed debt, the difference of which is applied against the ratio of charter district students compared to all public school students.

As of August 31, 2017, the ratio of guaranteed debt outstanding to the book value of the Fund was 2.32:1 and the ratio of guaranteed debt to the fair value of the Fund was 1.79:1.

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AN OVERVIEW OF THE BOND GUARANTEE PROGRAM

To be eligible for the bond guarantee program, school districts and charter districts must be accredited by the State, have bond ratings below AAA, and have their applications approved by the Commissioner of Education. If a school district or charter district fails to make scheduled payments for any bond issues guaranteed by the Fund, the Fund will make the scheduled debt service payment for the defaulting school district as described above. The Fund will not accelerate total bond issue payments. Any State funds subsequently due to the district will instead be paid to the Fund until all monies due the Fund are repaid.

Figure 11 lists the districts with the ten largest aggregate amounts of bonds outstanding, which are guaranteed under the program as of August 31, 2017.

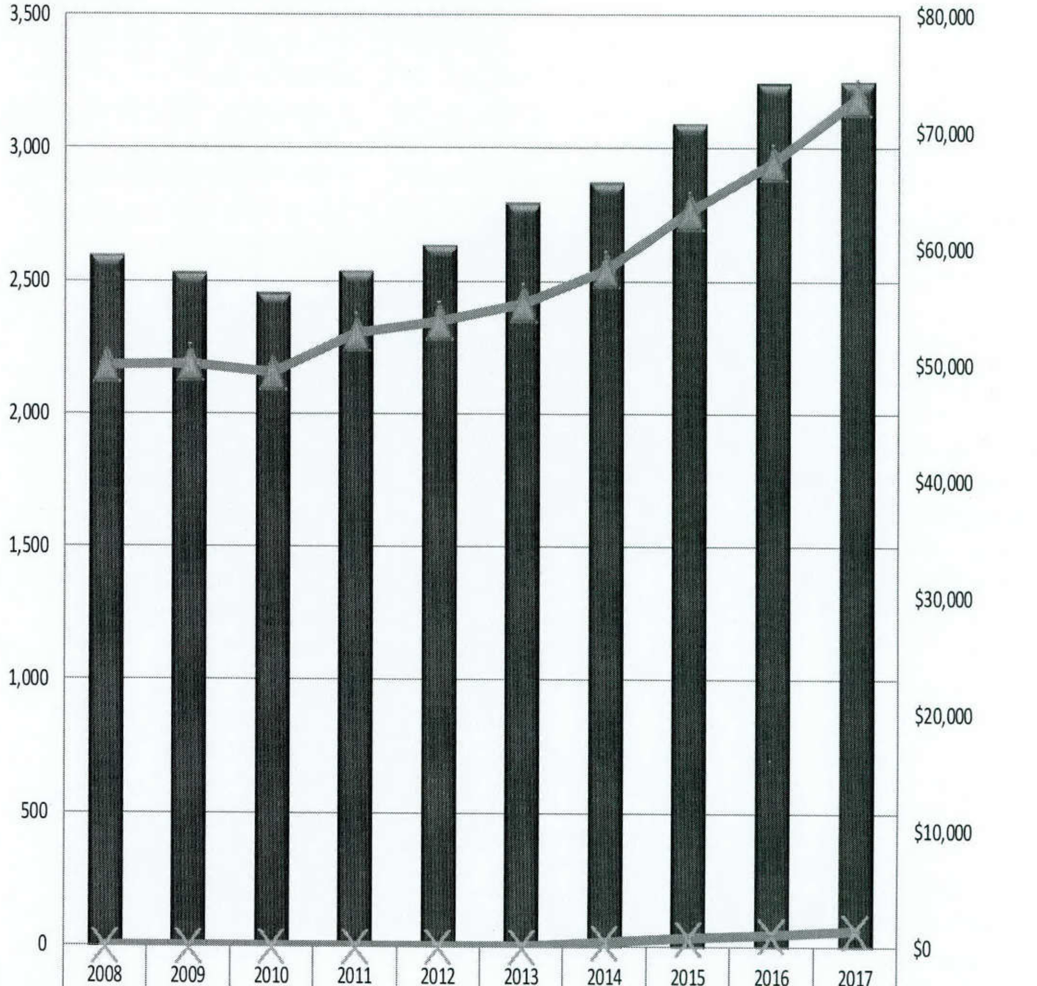
FIGURE 11:
Bond Guarantee Program
Ten Largest Total Debt Outstanding
Guaranteed Under the Program
At August 31, 2017

District Name	Balance
Dallas ISD	$ 2,705,405,000
Houston ISD	2,596,220,000
Cypress-Fairbanks ISD	2,206,710,000
Northside ISD [Bexar]	2,057,735,000
Frisco ISD	1,712,668,851
Katy ISD	1,621,576,791
North East ISD	1,212,740,000
Conroe ISD	1,105,735,000
Klein ISD	976,340,000
Aldine ISD	949,180,000

NUMBER OF ISSUES	Total	School Districts	Charter Districts
Number of Issues as of September 1, 2016	3,279	3,244	35
Fiscal Year Activity:			
District Issues Guaranteed During Fiscal Year	360	354	6
District Issues Matured	(294)	(293)	(1)
District Issues Refunded	(52)	(52)	0
Number of Issues as of August 31, 2017	3,293	3,253	40
BALANCE			
Balance as of September 1, 2016	$ 68,303,328,445	$ 67,342,303,445	$ 961,025,000
Fiscal Year Activity:			
District Issues Guaranteed During Fiscal Year	13,647,766,819	13,208,586,819	439,180,000
District Issues Matured	(2,710,810,725)	(2,695,520,725)	(15,290,000)
District Issues Refunded	(4,974,194,516)	(4,970,889,516)	(3,305,000)
Balance as of August 31, 2017	$ 74,266,090,023	$ 72,884,480,023	$ 1,381,610,000

BOND GUARANTEE PROGRAM COMPARATIVE STATUS SUMMARY
LAST TEN FISCAL YEARS

FIGURE 12:
Bond Guarantee Program Comparative Status Summary



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Number of Issues - School District	2,596	2,531	2,452	2,536	2,634	2,789	2,869	3,089	3,244	3,253
Number of Issues - Charter School	-	-	-	-	-	-	10	28	35	40
Issued Year-End Balance - School District	49,861	50,033	49,302	52,654	53,634	55,219	58,062	63,198	67,342	72,884
Issued Year-End Balance - Charter School	-	-	-	-	-	-	303	758	961	1381

BOND GUARANTEE PROGRAM --- ISSUED AND GUARANTEED
FOR THE FISCAL YEAR ENDED AUGUST 31, 2017

SCHOOL DISTRICT NAME	BALANCE	SCHOOL DISTRICT NAME	BALANCE
Abbott ISD	$ 3,886,000	Bartlett ISD	$ 1,110,000
Abernathy ISD	21,530,000	Bastrop ISD	156,722,361
Abilene ISD	108,687,883	Bay City ISD	60,603,484
Academy ISD	20,250,000	Beaumont ISD	236,305,000
Adrian ISD	6,530,000	Beckville ISD	1,110,000
Agua Dulce ISD	4,415,000	Beeville ISD	15,114,686
Alamo Heights ISD	99,980,000	Bells ISD	8,795,000
Alba-Golden ISD	1,780,000	Bellville ISD	20,965,000
Aldine ISD	949,180,000	Belton ISD	235,174,996
Aledo ISD	176,257,122	Ben Bolt-Palito Blanco ISD	4,105,000
Alice ISD	24,314,998	Benavides ISD	5,610,000
Alief ISD	230,495,000	Big Sandy ISD [Polk]	1,865,000
Allen ISD	629,595,936	Big Sandy ISD [Upshur]	7,504,999
Alpine ISD	950,000	Big Spring ISD	53,050,000
Alto ISD	3,325,000	Birdville ISD	266,624,695
Alvarado ISD	74,681,000	Bishop CISD	14,641,369
Alvin ISD	684,065,000	Blackwell CISD	3,110,000
Alvord ISD	7,030,000	Blanco ISD	9,600,000
Amarillo ISD	168,425,000	Bland ISD	13,255,567
Anahuac ISD	21,450,000	Blanket ISD	945,000
Anderson-Shiro CISD	27,314,997	Bloomburg ISD	656,000
Andrews ISD	22,226,408	Blooming Grove ISD	1,233,270
Angleton ISD	111,449,993	Bloomington ISD	8,820,000
Anna ISD	110,185,024	Blue Ridge ISD	14,170,000
Anson ISD	5,710,000	Bluff Dale ISD	50,000
Anthony ISD	4,970,000	Blum ISD	1,860,000
Aquilla ISD	1,481,000	Boerne ISD	251,878,344
Aransas Co ISD	26,615,000	Boles ISD	4,335,000
Aransas Pass ISD	16,850,000	Bonham ISD	35,760,000
Archer City ISD	16,640,000	Borger ISD	69,276,811
Argyle ISD	81,876,246	Bosqueville ISD	7,629,999
Arlington ISD	794,717,139	Bowie ISD	23,031,569
Arp ISD	19,740,000	Boyd ISD	20,970,000
Aspermont ISD	7,405,000	Brady ISD	15,630,000
Athens ISD	70,560,000	Brazos ISD	14,039,987
Atlanta ISD	12,380,500	Brazosport ISD	181,934,050
Aubrey ISD	48,610,891	Breckenridge ISD	4,705,000
Austin ISD	680,699,182	Bremond ISD	9,659,999
Austwell-Tivoli ISD	15,191,000	Brenham ISD	31,765,626
Avalon ISD	905,000	Bridge City ISD	15,300,000
Azle ISD	85,390,000	Bridgeport ISD	20,440,000
Baird ISD	4,470,000	Brock ISD	46,710,855
Balmorhea ISD	990,000	Brookesmith ISD	645,000
Bandera ISD	20,650,000	Brooks Co ISD	30,855,000
Bangs ISD	6,460,000	Brownfield ISD	8,735,000
Banquete ISD	8,510,000	Brownsboro ISD	25,326,885
Barbers Hill ISD	172,610,000	Brownsville ISD	120,640,000

BOND GUARANTEE PROGRAM ---- ISSUED AND GUARANTEED FOR THE FISCAL YEAR ENDED AUGUST 31, 2017

SCHOOL DISTRICT NAME	BALANCE	SCHOOL DISTRICT NAME	BALANCE
Bruceville-Eddy ISD	$ 5,770,000	Childress ISD	$ 750,000
Bryan ISD	226,150,000	Chillicothe ISD	3,370,000
Bryson ISD	14,362,455	China Spring ISD	37,455,000
Buckholts ISD	600,000	Chireno ISD	900,000
Buena Vista ISD	70,317	Chisum ISD	29,245,000
Buffalo ISD	15,041,925	Christoval ISD	820,000
Bullard ISD	68,695,533	City View ISD	2,455,407
Buna ISD	23,180,000	Claude ISD	1,480,000
Burkburnett ISD	42,685,000	Clear Creek ISD	723,665,000
Burkeville ISD	1,355,000	Cleburne ISD	137,251,081
Burleson ISD	268,100,852	Cleveland ISD	67,856,765
Burnet CISD	41,605,000	Clifton ISD	25,405,000
Burton ISD	5,930,000	Clint ISD	174,407,124
Bushland ISD	22,250,000	Clyde CISD	21,910,485
Bynum ISD	825,000	Coahoma ISD	11,519,997
Caddo Mills ISD	29,489,860	College Station ISD	356,250,000
Calallen ISD	38,180,000	Collinsville ISD	8,543,000
Caldwell ISD	6,359,000	Colorado ISD	28,285,000
Calhoun Co ISD	52,215,000	Columbia-Brazoria ISD	34,209,998
Callisburg ISD	17,159,997	Columbus ISD	10,184,989
Cameron ISD	19,255,000	Comal ISD	794,605,107
Campbell ISD	48,198	Comanche ISD	9,015,000
Canadian ISD	5,955,000	Comfort ISD	16,244,995
Canton ISD	31,505,649	Commerce ISD	23,335,000
Canutillo ISD	92,025,000	Community ISD	23,445,000
Canyon ISD	87,727,196	Comstock ISD	1,890,000
Carlisle ISD	9,760,000	Connally ISD	14,530,000
Carrizo Springs CISD	43,645,000	Conroe ISD	1,105,735,000
Carroll ISD	99,185,249	Coolidge ISD	2,435,000
Carrollton-Farmers Branch ISD	187,980,000	Cooper ISD	9,660,000
Carthage ISD	28,027,000	Coppell ISD	225,832,199
Castleberry ISD	43,280,000	Copperas Cove ISD	15,034,995
Cedar Hill ISD	101,002,373	Corpus Christi ISD	449,090,000
Celeste ISD	6,805,000	Corrigan-Camden ISD	3,860,000
Celina ISD	83,294,816	Corsicana ISD	90,484,542
Center ISD	5,670,000	Cotulla ISD	48,085,000
Center Point ISD	1,085,000	Covington ISD	648,000
Centerville ISD [Leon]	14,269,998	Crandall ISD	65,064,501
Central Heights ISD	11,055,000	Crane ISD	4,520,000
Central ISD	10,960,000	Crawford ISD	4,405,180
Channelview ISD	135,305,000	Crockett Co Cons CSD	1,850,000
Channing ISD	1,570,000	Crockett ISD	11,690,000
Chapel Hill ISD [Smith]	15,180,000	Crosby ISD	124,259,986
Chapel Hill ISD [Titus]	2,940,000	Crosbyton CISD	4,465,000
Charlotte ISD	2,525,000	Cross Roads ISD	4,745,000
Chester ISD	65,000	Crowley ISD	302,823,964
Chico ISD	16,110,000	Crystal City ISD	48,885,000

Bond Guarantee Program --- Issued and Guaranteed For the Fiscal Year Ended August 31, 2017

School District Name		Balance
Cuero ISD	$	69,944,353
Culberson Co-Allamoore ISD		25,055,000
Cumby ISD		1,594,000
Cushing ISD		12,360,000
Cypress-Fairbanks ISD		2,206,710,000
D'Hanis ISD		4,500,000
Daingerfield-Lone Star ISD		8,354,000
Dalhart ISD		13,075,000
Dallas ISD		2,705,405,000
Danbury ISD		2,395,000
Darrouzett ISD		1,230,000
Dawson ISD [Navarro]		2,953,495
Dayton ISD		91,050,000
De Leon ISD		885,000
Decatur ISD		27,772,612
Deer Park ISD		163,105,000
Del Valle ISD		208,894,999
Denison ISD		78,895,050
Denton ISD		765,929,104
Denver City ISD		71,830,000
DeSoto ISD		98,876,658
Detroit ISD		5,570,000
Devers ISD		660,000
Devine ISD		11,410,000
Deweyville ISD		6,935,000
Diboll ISD		15,159,924
Dickinson ISD		317,005,000
Dilley ISD		39,532,883
Dimmitt ISD		24,899,998
Dodd City ISD		4,380,000
Donna ISD		77,265,000
Dripping Springs ISD		184,444,999
Driscoll ISD		7,937,306
Dublin ISD		5,310,000
Dumas ISD		17,865,000
Duncanville ISD		209,751,096
Eagle Mountain-Saginaw ISD		531,744,150
Eagle Pass ISD		46,630,000
Eanes ISD		84,005,000
Early ISD		17,504,995
East Bernard ISD		2,015,000
East Central ISD		136,148,479
East Chambers ISD		15,739,000
Ector Co ISD		168,037,387
Ector ISD		1,680,000
Edcouch-Elsa ISD		35,020,000
Edgewood ISD [Bexar]		64,940,000
Edgewood ISD [Van Zandt]	$	3,790,000
Edinburg CISD		116,350,000
Edna ISD		19,380,000
El Campo ISD		28,169,997
El Paso ISD		504,869,318
Electra ISD		11,530,000
Elgin ISD		46,549,984
Elkhart ISD		8,830,000
Elysian Fields ISD		7,870,000
Ennis ISD		120,290,588
Era ISD		4,445,000
Etoile ISD		2,295,000
Eula ISD		4,448,800
Eustace ISD		2,745,000
Evadale ISD		2,888,476
Everman ISD		87,875,000
Ezzell ISD		3,705,000
Fabens ISD		27,870,000
Fairfield ISD		6,890,000
Falls City ISD		30,930,000
Fannindel ISD		1,085,000
Farmersville ISD		10,025,000
Fayetteville ISD		7,560,000
Ferris ISD		28,192,801
Flatonia ISD		4,010,000
Florence ISD		5,390,000
Floresville ISD		63,139,990
Flour Bluff ISD		48,185,000
Follett ISD		560,000
Forney ISD		233,080,391
Forsan ISD		19,010,000
Fort Bend ISD		648,638,767
Fort Elliott CISD		4,000,000
Fort Hancock ISD		1,160,000
Fort Stockton ISD		32,645,000
Fort Worth ISD		725,490,000
Franklin ISD		2,040,000
Frankston ISD		15,036,275
Fredericksburg ISD		21,275,000
Freer ISD		23,769,908
Frenship ISD		206,550,000
Friendswood ISD		90,075,000
Friona ISD		2,845,000
Frisco ISD		1,712,668,851
Frost ISD		547,000
Fruitvale ISD		2,180,000
Gainesville ISD		28,480,000

Bond Guarantee Program --- Issued and Guaranteed
For the Fiscal Year Ended August 31, 2017

School District Name		Balance	School District Name		Balance
Galena Park ISD	$	233,395,033	Hallsburg ISD	$	2,235,000
Galveston ISD		47,009,999	Hallsville ISD		68,875,000
Ganado ISD		25,255,000	Hamilton ISD		410,000
Garland ISD		523,481,425	Hamlin ISD		3,745,000
Garner ISD		1,385,000	Hamshire-Fannett ISD		22,395,000
Garrison ISD		1,595,000	Hardin ISD		17,950,000
Gary ISD		8,025,000	Hardin-Jefferson ISD		26,685,000
Gatesville ISD		16,580,000	Harlandale ISD		185,491,404
George West ISD		30,145,000	Harleton ISD		1,230,000
Georgetown ISD		318,685,000	Harlingen CISD		124,295,000
Giddings ISD		31,660,000	Harmony ISD		1,106,000
Gilmer ISD		13,130,000	Hartley ISD		5,515,000
Gladewater ISD		32,585,000	Haskell CISD		395,000
Glasscock Co ISD		15,265,000	Hawkins ISD		17,515,000
Glen Rose ISD		19,125,000	Hawley ISD		6,290,000
Godley ISD		61,267,745	Hays CISD		435,245,000
Goldthwaite CISD		7,170,000	Hearne ISD		9,065,000
Goliad ISD		9,405,000	Hempstead ISD		13,549,480
Gonzales ISD		22,380,000	Henderson ISD		43,359,106
Goodrich ISD		2,400,000	Henrietta ISD		9,080,000
Goose Creek CISD		459,185,000	Hermleigh ISD		6,169,999
Gordon ISD		206,000	Hico ISD		3,260,000
Gorman ISD		3,858,653	Hidalgo ISD		31,830,000
Grady ISD		4,450,000	Higgins ISD		2,380,000
Graford ISD		8,910,537	High Island ISD		795,000
Graham ISD		25,060,000	Highland ISD		9,200,000
Granbury ISD		109,225,625	Highland Park ISD [Dallas]		206,660,000
Grand Prairie ISD		470,429,498	Highland Park ISD [Potter]		1,255,000
Grand Saline ISD		7,163,000	Hillsboro ISD		11,134,164
Grandfalls-Royalty ISD		10,910,000	Hitchcock ISD		33,236,254
Grandview ISD		13,860,000	Holland ISD		8,791,882
Grandview-Hopkins ISD		430,000	Holliday ISD		17,415,000
Granger ISD		545,000	Hondo ISD		37,750,000
Grape Creek ISD		2,420,000	Honey Grove ISD		8,720,000
Grapeland ISD		11,335,000	Hooks ISD		6,830,000
Grapevine-Colleyville ISD		365,344,452	Houston ISD		2,596,220,000
Greenville ISD		76,690,000	Howe ISD		6,263,595
Greenwood ISD		58,165,000	Hubbard ISD [Hill]		8,893,000
Gregory-Portland ISD		57,085,000	Hudson ISD		14,780,285
Groesbeck ISD		4,135,000	Huffman ISD		69,569,998
Groom ISD		490,000	Hull-Daisetta ISD		1,284,000
Gruver ISD		2,942,857	Humble ISD		462,570,000
Gunter ISD		18,780,000	Hunt ISD		3,880,000
Gustine ISD		945,000	Huntington ISD		15,460,000
Guthrie CSD		375,000	Huntsville ISD		19,065,000
Hale Center ISD		5,261,108	Hurst-Euless-Bedford ISD		146,249,890
Hallettsville ISD		21,940,000	Hutto ISD		184,476,283

Bond Guarantee Program --- Issued and Guaranteed For the Fiscal Year Ended August 31, 2017

School District Name	Balance	School District Name	Balance
Idalou ISD	$ 12,745,000	La Feria ISD	$ 23,485,000
Industrial ISD	8,900,000	La Grange ISD	33,355,000
Ingleside ISD	44,295,000	La Joya ISD	234,178,332
Ingram ISD	14,035,000	La Porte ISD	232,995,000
Iola ISD	8,870,000	La Poynor ISD	8,496,000
Iowa Park CISD	13,165,000	La Pryor ISD	2,000,000
Ira ISD	11,410,000	La Vega ISD	39,214,505
Iraan-Sheffield ISD	6,240,000	La Vernia ISD	38,603,726
Iredell ISD	4,700,000	La Villa ISD	4,505,000
Irving ISD	437,540,000	Lago Vista ISD	37,294,546
Italy ISD	12,725,000	Lake Dallas ISD	80,062,514
Itasca ISD	6,915,000	Lake Travis ISD	222,725,000
Jacksboro ISD	16,670,000	Lake Worth ISD	63,679,529
Jacksonville ISD	89,260,000	Lamar CISD	791,650,000
Jarrell ISD	47,089,882	Lampasas ISD	35,229,982
Jasper ISD	8,750,000	Lancaster ISD	77,980,000
Jefferson ISD	6,385,000	Laredo ISD	179,775,764
Jim Hogg Co ISD	11,570,000	Lasara ISD	5,955,000
Jim Ned CISD	13,390,000	Latexo ISD	879,996
Joaquin ISD	11,545,000	Leander ISD	915,689,964
Johnson City ISD	6,310,000	Lefors ISD	2,780,000
Joshua ISD	106,315,000	Leon ISD	7,500,000
Jourdanton ISD	41,280,000	Leonard ISD	265,000
Judson ISD	493,789,205	Levelland ISD	52,353,471
Karnes City ISD	27,904,997	Lewisville ISD	902,071,479
Katy ISD	1,621,576,791	Lexington ISD	8,295,000
Kaufman ISD	71,901,837	Liberty Hill ISD	143,986,857
Keene ISD	12,570,000	Liberty ISD	38,839,995
Keller ISD	675,744,059	Liberty-Eylau ISD	24,135,000
Kemp ISD	21,614,451	Lindale ISD	48,534,271
Kenedy County-Wide CSD	874,000	Lindsay ISD	125,000
Kenedy ISD	15,990,000	Lingleville ISD	976,000
Kennedale ISD	36,595,025	Lipan ISD	7,670,701
Kerens ISD	10,640,000	Little Cypress-Mauriceville	60,180,000
Kermit ISD	25,340,000	Little Elm ISD	145,059,189
Kerrville ISD	17,210,000	Livingston ISD	54,605,000
Kilgore ISD	49,680,000	Llano ISD	37,290,000
Killeen ISD	50,665,000	Lockhart ISD	70,991,964
Kingsville ISD	67,154,993	Lockney ISD	6,390,000
Kirbyville CISD	22,935,000	Lohn ISD	985,000
Klein ISD	976,340,000	Lometa ISD	4,090,000
Klondike ISD	4,610,000	London ISD	17,394,953
Knippa ISD	3,585,000	Lone Oak ISD	9,485,000
Kopperl ISD	55,000	Longview ISD	163,514,254
Kountze ISD	9,775,000	Loop ISD	1,740,000
Kress ISD	2,640,000	Loraine ISD	9,495,000
Krum ISD	31,203,569	Lorena ISD	29,356,910

Bond Guarantee Program --- Issued and Guaranteed
For the Fiscal Year Ended August 31, 2017

School District Name		Balance
Los Fresnos CISD	$	29,575,000
Lovejoy ISD		166,095,234
Lubbock ISD		229,195,000
Lubbock-Cooper ISD		204,269,951
Lueders-Avoca ISD		1,020,000
Lufkin ISD		45,324,992
Luling ISD		2,585,000
Lumberton ISD		4,185,000
Lyford CISD		3,610,000
Lytle ISD		17,130,000
Mabank ISD		39,580,809
Madisonville CISD		23,485,000
Magnolia ISD		130,705,000
Malakoff ISD		20,900,000
Malone ISD		942,000
Malta ISD		805,000
Manor ISD		252,814,999
Mansfield ISD		713,390,000
Marble Falls ISD		59,945,000
Marfa ISD		6,058,365
Marion ISD		19,230,000
Marlin ISD		350,000
Marshall ISD		85,265,000
Mart ISD		1,635,000
Martins Mill ISD		2,505,000
Martinsville ISD		3,875,000
Mason ISD		4,015,000
Matagorda ISD		4,366,449
Mathis ISD		12,525,000
Maud ISD		700,000
May ISD		2,171,000
Maypearl ISD		12,213,448
McAllen ISD		73,060,000
McCamey ISD		20,875,000
McDade ISD		850,000
McGregor ISD		22,940,866
McKinney ISD		435,345,000
McLean ISD		1,630,000
McMullen Co ISD		19,392,000
Meadow ISD		955,000
Medina Valley ISD		118,365,796
Melissa ISD		110,495,000
Mercedes ISD		55,350,000
Meridian ISD		6,395,000
Merkel ISD		12,200,000
Mesquite ISD		542,848,402
Mexia ISD		12,705,000

School District Name		Balance
Miami ISD	$	24,720,000
Midland ISD		215,595,000
Midlothian ISD		293,696,382
Midway ISD [Clay]		5,210,000
Midway ISD [McLennan]		98,396,965
Milano ISD		3,765,000
Mildred ISD		12,440,000
Miles ISD		7,715,000
Miller Grove ISD		1,640,000
Millsap ISD		17,297,461
Mineral Wells ISD		52,430,000
Mission CISD		114,600,000
Monahans-Wickett-Pyote ISD		14,519,145
Monte Alto ISD		13,385,000
Montgomery ISD		348,215,000
Moody ISD		10,264,999
Mount Calm ISD		1,500,000
Mount Enterprise ISD		2,575,000
Mount Pleasant ISD		30,502,656
Mount Vernon ISD		20,945,000
Muenster ISD		17,136,430
Muleshoe ISD		17,915,000
Munday CISD		6,925,000
Nacogdoches ISD		27,835,000
Natalia ISD		917,000
Navarro ISD		37,320,490
Navasota ISD		9,345,000
Nazareth ISD		511,661
Neches ISD		3,950,000
Nederland ISD		28,190,000
Needville ISD		54,625,000
New Boston ISD		13,953,853
New Braunfels ISD		161,024,499
New Caney ISD		374,248,762
New Diana ISD		2,850,000
New Home ISD		5,065,000
New Summerfield ISD		7,870,000
New Waverly ISD		5,335,000
Newcastle ISD		4,500,000
Newton ISD		4,360,000
Nixon-Smiley CISD		15,914,500
Normangee ISD		13,450,984
North East ISD		1,212,740,000
North Hopkins ISD		4,510,000
North Zulch ISD		5,048,000
Northside ISD [Bexar]		2,057,735,000
Northside ISD [Wilbarger]		1,385,000

Bond Guarantee Program --- Issued and Guaranteed For the Fiscal Year Ended August 31, 2017

School District Name	Balance	School District Name	Balance
Northwest ISD	$ 802,282,028	Poolville ISD	$ 3,630,000
Nursery ISD	2,538,332	Port Aransas ISD	5,110,000
O'Donnell ISD	13,620,000	Port Arthur ISD	195,935,000
Oakwood ISD	1,943,075	Port Neches-Groves ISD	91,159,998
Odem-Edroy ISD	26,424,351	Post ISD	38,045,000
Oglesby ISD	90,000	Poteet ISD	26,210,766
Olfen ISD	870,000	Poth ISD	4,331,967
Olney ISD	6,305,000	Pottsboro ISD	5,430,000
Olton ISD	190,000	Prairiland ISD	7,415,000
Onalaska ISD	11,970,047	Premont ISD	11,775,000
Orange Grove ISD	11,175,000	Presidio ISD	3,849,561
Orangefield ISD	8,505,000	Princeton ISD	137,205,641
Ore City ISD	8,635,000	Pringle-Morse CISD	1,844,000
Overton ISD	7,990,708	Progreso ISD	24,700,000
Paint Rock ISD	2,096,469	Prosper ISD	446,148,641
Palacios ISD	6,755,000	Queen City ISD	2,455,000
Palestine ISD	51,800,000	Quinlan ISD	15,835,000
Palmer ISD	17,850,000	Quitman ISD	14,201,000
Palo Pinto ISD	2,855,000	Rains ISD	11,645,000
Pampa ISD	39,610,000	Rankin ISD	29,740,000
Panhandle ISD	13,110,000	Raymondville ISD	16,710,000
Panther Creek CISD	770,000	Reagan Co ISD	19,650,000
Paradise ISD	8,769,998	Red Lick ISD	4,730,000
Paris ISD	46,885,000	Red Oak ISD	83,176,490
Pasadena ISD	599,595,000	Redwater ISD	7,410,000
Pawnee ISD	4,823,000	Refugio ISD	20,111,395
Pearland ISD	380,077,774	Rice CISD	19,054,992
Pearsall ISD	13,020,017	Rice ISD	19,359,592
Peaster ISD	17,720,000	Richardson ISD	541,624,992
Pecos-Barstow-Toyah ISD	41,656,817	Richland Springs ISD	2,600,000
Perrin-Whitt CISD	4,955,000	Riesel ISD	25,432,544
Perryton ISD	17,698,712	Rio Grande City CISD	85,020,000
Petrolia CISD	3,125,000	Rio Hondo ISD	31,529,994
Pettus ISD	28,815,000	Rio Vista ISD	3,585,000
Pewitt CISD	1,260,000	River Road ISD	10,491,776
Pflugerville ISD	455,775,000	Rivercrest ISD	5,335,000
Pharr-San Juan-Alamo ISD	293,395,000	Robert Lee ISD	7,000,000
Pilot Point ISD	15,730,000	Robinson ISD	23,315,000
Pine Tree ISD	51,750,000	Robstown ISD	51,866,591
Pittsburg ISD	20,541,000	Rockdale ISD	23,904,486
Plains ISD	34,860,000	Rocksprings ISD	1,600,000
Plano ISD	813,145,000	Rockwall ISD	490,357,932
Pleasant Grove ISD	30,140,000	Rogers ISD	11,275,300
Pleasanton ISD	62,965,000	Roma ISD	76,530,000
Plemons-Stinnett-Phillips CISD	18,755,000	Roosevelt ISD	9,040,000
Point Isabel ISD	12,520,000	Ropes ISD	4,730,000
Ponder ISD	19,715,000	Roscoe Collegiate ISD	6,235,000

BOND GUARANTEE PROGRAM --- ISSUED AND GUARANTEED
FOR THE FISCAL YEAR ENDED AUGUST 31, 2017

SCHOOL DISTRICT NAME		BALANCE	SCHOOL DISTRICT NAME		BALANCE
Rosebud-Lott ISD	$	11,989,464	Shepherd ISD	$	19,734,997
Round Rock ISD		444,010,000	Sherman ISD		63,700,000
Round Top-Carmine ISD		2,040,000	Shiner ISD		3,240,000
Roxton ISD		218,000	Sidney ISD		1,240,000
Royal ISD		63,964,440	Silsbee ISD		34,320,000
Royse City ISD		88,054,793	Silverton ISD		6,830,000
Runge ISD		5,935,000	Simms ISD		1,320,000
Rusk ISD		8,790,000	Sinton ISD		24,855,000
S & S CISD		5,235,000	Skidmore-Tynan ISD		10,303,922
Sabinal ISD		890,000	Slaton ISD		16,605,000
Sabine ISD		18,495,000	Slidell ISD		1,360,000
Sabine Pass ISD		14,454,483	Slocum ISD		3,050,000
Salado ISD		17,860,000	Smithville ISD		15,954,991
Sam Rayburn ISD		3,760,000	Smyer ISD		457,000
San Angelo ISD		98,289,982	Snook ISD		7,915,000
San Antonio ISD		750,999,988	Snyder CISD		9,841,469
San Augustine ISD		9,000,000	Socorro ISD		491,571,130
San Benito CISD		70,105,000	Somerset ISD		36,524,991
San Diego ISD		22,615,000	Somerville ISD		13,335,000
San Elizario ISD		27,905,000	South San Antonio ISD		163,391,899
San Felipe Del Rio CISD		35,889,993	Southside ISD		96,355,000
San Isidro ISD		686,000	Southwest ISD		229,558,289
San Marcos CISD		179,589,959	Spearman ISD		7,225,000
San Perlita ISD		6,050,000	Splendora ISD		71,335,000
San Saba ISD		5,085,000	Spring Branch ISD		528,350,000
Sands CISD		4,660,000	Spring Hill ISD		38,446,000
Sanford-Fritch ISD		8,028,430	Spring ISD		543,135,000
Sanger ISD		21,258,960	Springtown ISD		55,600,000
Santa Anna ISD		1,055,000	Spur ISD		4,390,000
Santa Fe ISD		91,095,000	Spurger ISD		2,185,000
Santa Gertrudis ISD		3,775,000	Stafford MSD		52,950,000
Santa Maria ISD		11,575,000	Stamford ISD		8,085,000
Santa Rosa ISD		9,860,000	Stanton ISD		37,799,000
Santo ISD		330,000	Stephenville ISD		24,180,000
Savoy ISD		1,495,000	Sterling City ISD		18,025,000
Schertz-Cibolo-Universal City		380,386,092	Stockdale ISD		8,295,000
Schulenburg ISD		9,715,000	Sudan ISD		3,265,000
Scurry-Rosser ISD		6,345,000	Sulphur Bluff ISD		650,000
Seagraves ISD		9,375,000	Sulphur Springs ISD		47,130,000
Sealy ISD		55,905,000	Sunnyvale ISD		97,842,581
Seguin ISD		136,287,519	Sunray ISD		9,745,000
Seminole ISD		36,545,000	Sweeny ISD		34,845,000
Seymour ISD		2,725,000	Sweetwater ISD		7,170,000
Shallowater ISD		28,135,353	Taft ISD		27,890,000
Sharyland ISD		105,209,999	Tahoka ISD		8,110,000
Shelbyville ISD		1,070,000	Tarkington ISD		9,725,000
Sheldon ISD		275,964,996	Tatum ISD		17,955,000

Bond Guarantee Program --- Issued and Guaranteed For the Fiscal Year Ended August 31, 2017

School District Name	Balance
Taylor ISD	$ 60,830,000
Teague ISD	20,160,000
Temple ISD	130,805,000
Tenaha ISD	3,170,000
Terrell ISD	58,289,578
Texarkana ISD	50,942,461
Texas City ISD	95,620,000
Texline ISD	2,015,000
Thrall ISD	15,030,000
Three Rivers ISD	27,315,000
Tidehaven ISD	45,195,000
Timpson ISD	9,270,000
Tioga ISD	6,300,193
Tolar ISD	9,771,317
Tom Bean ISD	9,255,000
Tomball ISD	385,330,000
Tornillo ISD	18,314,540
Trent ISD	2,955,000
Trenton ISD	6,725,000
Trinidad ISD	1,020,000
Trinity ISD	14,605,000
Troup ISD	6,445,000
Troy ISD	16,095,011
Tuloso-Midway ISD	59,350,000
Turkey-Quitaque ISD	2,510,000
Tyler ISD	410,790,000
Union Grove ISD	12,955,000
United ISD	425,159,137
Uvalde CISD	14,279,996
Valley Mills ISD	14,625,000
Valley View ISD [Cooke]	11,775,000
Valley View ISD [Hidalgo]	43,409,764
Van Alstyne ISD	48,920,000
Van ISD	41,795,000
Vega ISD	18,405,000
Venus ISD	36,619,188
Veribest ISD	1,135,000
Vernon ISD	1,135,000
Victoria ISD	137,260,000
Vidor ISD	14,668,415
Waco ISD	159,795,000
Waelder ISD	3,095,000
Walcott ISD	1,150,000
Wall ISD	18,000,000
Waller ISD	127,225,000
Warren ISD	17,119,881
Waskom ISD	12,830,000
Water Valley ISD	$ 2,885,000
Waxahachie ISD	228,173,180
Weatherford ISD	121,939,074
Webb CISD	12,705,000
Weimar ISD	8,110,000
Wellman-Union CISD	18,540,000
Wells ISD	3,110,000
Weslaco ISD	47,515,000
West Hardin Co CISD	2,285,000
West ISD	2,231,756
West Orange-Cove CISD	48,303,541
West Oso ISD	22,439,994
West Rusk Co CISD	14,575,000
West Sabine ISD	7,754,999
Wharton ISD	20,350,000
Wheeler ISD	5,315,000
White Deer ISD	12,920,000
White Oak ISD	18,130,000
White Settlement ISD	153,974,424
Whiteface CISD	11,350,000
Whitehouse ISD	110,962,500
Whitesboro ISD	9,300,000
Whitewright ISD	7,025,315
Whitney ISD	36,630,000
Wichita Falls ISD	85,275,000
Wildorado ISD	11,760,000
Willis ISD	153,472,769
Wills Point ISD	1,080,000
Wimberley ISD	60,768,695
Windthorst ISD	1,910,000
Wink-Loving ISD	18,350,000
Winona ISD	25,939,999
Woden ISD	1,225,000
Wolfe City ISD	3,650,000
Woodsboro ISD	11,655,000
Wortham ISD	5,645,000
Wylie ISD [Collin]	283,132,271
Wylie ISD [Taylor]	11,670,000
Yantis ISD	785,000
Yoakum ISD	47,655,000
Yorktown ISD	4,940,000
Ysleta ISD	531,620,000
Zavalla ISD	5,030,000
Zephyr ISD	3,710,000
TOTAL SCHOOL DISTRICT AMOUNT OUTSTANDING	**$ 72,884,480,023**

Bond Guarantee Program --- Issued and Guaranteed
For the Fiscal Year Ended August 31, 2017

Charter District Name		**Balance**
A.W. Brown Fellowship Charter School	$	19,200,000
Eagle Advantage Schools, Inc.		20,365,000
Golden Rule Schools, Inc.		6,970,000
Harmony Public Schools		304,330,000
IDEA Academy, Inc.		433,735,000
KIPP Austin Public Schools, Inc.		69,203,000
KIPP, Inc.		120,565,000
LIFESCHOOL of Dallas		89,615,000
Nova Academy		5,725,000
Odyssey 2020 Academy, Inc.		11,840,000
Orenda Education		38,450,000
Responsive Education Solutions		126,540,000
Riverwalk Education Foundation, Inc.		8,542,000
Trinity Basin Preparatory Inc.		26,745,000
Uplift Education		99,785,000
TOTAL CHARTER DISTRICT AMOUNT OUTSTANDING	**$**	**1,381,610,000**
GRAND TOTAL AMOUNT OUTSTANDING	**$**	**74,266,090,023**

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SECTION FIVE

SUPPLEMENTAL SCHEDULES
(UNAUDITED)

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TEXAS PERMANENT SCHOOL FUND
SCHEDULE OF HISTORICAL EARNED INCOME – PSF(SBOE) ASSIGNED TO THE AVAILABLE SCHOOL FUND

Year	Total Investment Fund [1]	Increase (Decrease) Over Previous Year [2]	Net Income From Investments [3]	Other Income [4]	Total Income From Operations	Distributions [5]
1854	$ 2,000,000	$ -	$ -	$ -	$ -	$ -
1900	9,102,873	682,284	337,437	445,705	783,142	-
1910	16,752,407	712,842	628,669	1,341,858	1,970,527	-
1920	25,698,282	2,832,785	899,946	1,988,609	2,888,555	-
1930	38,718,106	2,349,227	1,668,949	1,100,598	2,769,547	-
1940	68,299,082	5,119,511	2,353,046	978,828	3,331,874	-
1950	161,179,979	10,891,509	3,586,117	399,857	3,985,974	-
1961	454,391,643	28,570,043	13,474,481	291,955	13,766,436	4,593,565
1970	842,217,721	43,557,978	34,114,113	648,842	34,762,955	-
1980	2,464,579,397	401,868,617	158,079,171	8,396,255	166,475,426	-
1990	8,930,703,666	(160,746,667)	671,049,192	3,585,802	674,634,994	-
2000	22,275,586,452	2,659,856,111	694,916,560	3,570,745	698,487,305	-
2008	23,142,393,002	(2,169,442,344)	-	-	-	716,534,543
2009	20,545,271,679	(2,597,121,323)	-	-	-	716,533,764
2010	22,107,795,468	1,562,523,789	-	-	-	60,700,000
2011	24,091,592,601	1,983,797,133	-	-	-	1,092,809,024
2012	25,502,953,268	1,411,360,667	-	-	-	1,020,886,917
2013	27,165,474,239	1,662,520,971	-	-	-	1,020,886,919
2014	30,709,230,670	3,543,756,431	-	-	-	838,672,346
2015	28,949,453,126	(1,759,777,544)	-	-	-	838,672,334
2016	30,155,990,622	1,206,537,496	-	-	-	1,056,412,420
2017	32,727,880,581	2,571,889,959	-	-	-	1,056,412,420

1 Includes cash, stocks at cost, and bonds at par (1854-1986). Beginning in 1987 and thereafter, the total investment fund is reported using fair values.

2 Includes revenue from GLO, gains and losses on security transactions, and increases/decreases in the fair value of the portfolios.

3 For 2004, income from investments includes interest and dividends on debt and equity securities respectively, interest on funds in the State Treasury, and securities lending proceeds. Due to the change to the total return methodology, the net income from investments is through September 29, 2003 only.
For 2003, income from investments includes interest and dividends on debt and equity securities respectively, interest on funds in accrual basis of accounting.
For the years 1994-2002, income from investments includes interest and dividends on debt and equity securities respectively, interest on funds in the State Treasury, and securities lending proceeds.
For the years 1987-1993, income from investments includes interest and dividends on debt and equity securities, respectively and interest on funds in the State Treasury.
For the years 1854-1986, income from investments includes interest and dividends on debt and equity securities, respectively.

4 For the years 1987-2004, other income includes interest on land notes and interest payments and surface rental income from land owned by the Fund. (Surface rental income included beginning with fiscal year 1979).
For the years 1854-1986, other income includes interest on funds in the State Treasury, interest on land notes, and interest payments and surface rental income from land owned by the Fund. (Surface rental income included beginning with fiscal year 1979).

5 One percent, or $4,593,565 and $4,625,982 was transferred to the ASF in 1961 and 1962 respectively (Sec. 5, S.B, 1, 57th Legislature, 2nd Called Session). Beginning in fiscal year 2004, the ASF received a total return transfer amount in lieu of actual revenue.

TEXAS PERMANENT SCHOOL FUND
SCHEDULE OF ADMINISTRATIVE EXPENSES – PSF(SBOE) (IN MILLIONS)

The Texas Permanent School Fund is required by the General Appropriations Act to publish the costs of administrating the Fund for the current year and projections for the following three years. The schedule below reflects the current year's costs. Projected amounts are based on the current operating structure and full implementation of the long-term allocation plan adopted by the State Board of Education.

Actual-Fiscal Year 2017	$23.2
Projected-Fiscal Year 2018	$30.4
Projected-Fiscal Year 2019	$30.4
Projected-Fiscal Year 2020	$30.4

COMPLIANCE STATEMENT

TITLE VI, CIVIL RIGHTS ACT OF 1964; THE MODIFIED COURT ORDER, CIVIL ACTION 5281, FEDERAL DISTRICT COURT, EASTERN DISTRICT OF TEXAS, TYLER DIVISION

Reviews of local education agencies pertaining to compliance with Title VI Civil Rights Act of 1964 and with specific requirements of the Modified Court Order, Civil Action No. 5281, Federal District Court, Eastern District of Texas, Tyler Division are conducted periodically by staff representatives of the Texas Education Agency. These reviews cover at least the following policies and practices:

(1) Acceptance policies on student transfers from other school districts;
(2) Operation of school bus routes or runs on a non-segregated basis;
(3) Nondiscrimination in extracurricular activities and the use of school facilities;
(4) Nondiscriminatory practices in the hiring, assigning, promoting, paying, demoting, reassigning, or dismissing of faculty and staff members who work with children;
(5) Enrollment and assignment of students without discrimination on the basis of race, color, or national origin;
(6) Nondiscriminatory practices relating to the use of a student's first language; and
(7) Evidence of published procedures for hearing complaints and grievances.

In addition to conducting reviews, the Texas Education Agency staff representatives check complaints of discrimination made by a citizen or citizens residing in a school district where it is alleged discriminatory practices have occurred or are occurring.

Where a violation of Title VI of the Civil Rights Act is found, the findings are reported to the Office for Civil Rights, U.S. Department of Education.

If there is a direct violation of the Court Order in Civil Action No. 5281 that cannot be cleared through negotiation, the sanctions required by the Court Order are applied.

TITLE VII, CIVIL RIGHTS ACT OF 1964 AS AMENDED BY THE EQUAL EMPLOYMENT OPPORTUNITY ACT OF 1972; EXECUTIVE ORDERS 11246 AND 11375; EQUAL PAY ACT OF 1964; TITLE IX, EDUCATION AMENDMENTS; REHABILITATION ACT OF 1973 AS AMENDED; 1974 AMENDMENTS TO THE WAGE-HOUR LAW EXPANDING THE AGE DISCRIMINATION IN EMPLOYMENT ACT OF 1967; VIETNAM ERA VETERANS READJUSTMENT ASSISTANCE ACT OF 1972 AS AMENDED; IMMIGRATION REFORM AND CONTROL ACT OF 1986; AMERICANS WITH DISABILITIES ACT OF 1990; AND THE CIVIL RIGHTS ACT OF 1991.

The Texas Education Agency shall comply fully with the nondiscrimination provisions of all federal and state laws, rules, and regulations by assuring that no person shall be excluded from consideration for recruitment, selection, appointment, training, promotion, retention, or any other personnel action, or be denied any benefits or participation in any educational programs or activities which it operates on the grounds of race, religion, color, national origin, sex, disability, age, or veteran status (except where age, sex, or disability constitutes a bona fide occupational qualification necessary to proper and efficient administration). The Texas Education Agency is an Equal Employment Opportunity/Affirmative Action employer.

1836

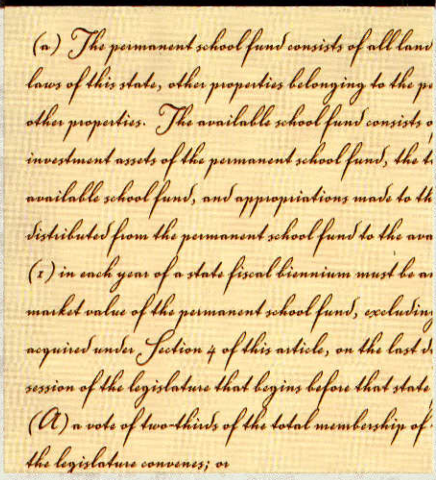
The Republic of Texas Congress established and endowed a primary school to university level education system. The state granted 17,000 acres to each county for school support.

1854

$2 million of the $10 million proceeds from the Compromise of 1850 were reserved to start an educational fund and The Special School Fund, precursor to the Permanent School Fund, was formed.

1861

The Special School Fund resources were used for railroad stock and railroad construction, to build prisons and to purchase weapons for the Confederacy during the Civil War.

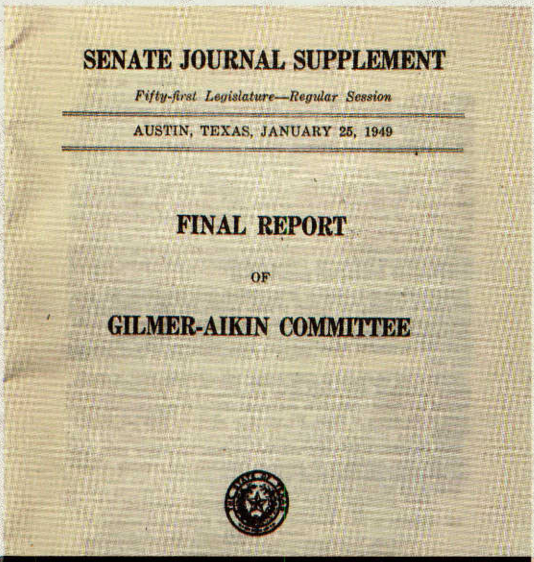


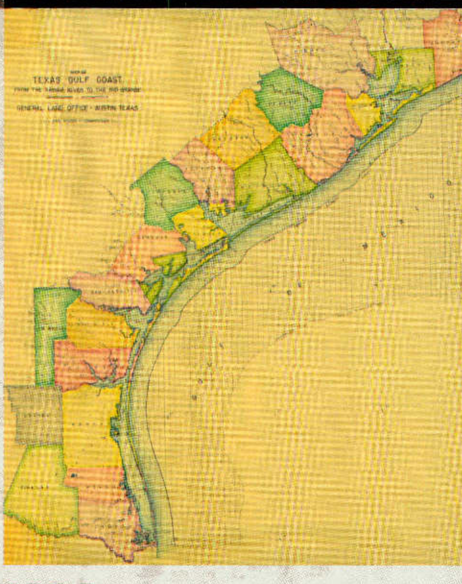
1876

The Texas Constitution established the Permanent School Fund and directed investment of proceeds from sales of land to the existing state Board of Education.

1949

The Texas Legislature established the current public school administration system, including the State Board of Education and a Commissioner of Education.





1960

In the Tidelands case, the Supreme Court confirmed Texas' seaward boundary which positively impacted the Permanent School Fund due to increases in proceeds from sales and mineral related rental of these included lands.