Comprehensive Annual Financial Report
For the Fiscal Year Ending August 31, 2016

Texas Permanent School Fund

An Investment Fund of the State of Texas

$144 **NOTE FOR PURCHASE MONEY, COMMON SCHOOL LANDS.**

For value received, I, the subscriber hereto, do promise to pay to the Governor of the State of Texas and his successors in office the sum of One Hundred & Forty-four dollars, with interest thereon at the rate of ten per cent. per annum, as herinafter specified, the same being the purchase money for the following described tract of land this day purchased by me from the State of Texas in accordance with the terms of an act of the Legislature of said State, approved July 8, 1879, "An act to provide for the sale of the alternate sections of land in organized counties as surveyed by railroad companies and other works of internal improvements and set apart for the benefit of the common school fund, to provide for the investment of the proceeds, and to repeal all laws in conflict therewith," to-wit:

N.W. 1/4 of Section No. 62 Surveyed for the H. T. & Brazoria Railroad Company Situated in Coleman County

I am to pay, or cause to be paid, into the Treasury of the State of Texas, on the first day of January of each year, one-tenth of the above amount, together with interest of ten per cent. upon unpaid principal untl this entire obligation is liquidated; and it is expressly understood that I am to comply strictly with all the conditions and requirements and am subject to all the penalties contained and prescribed in the above recited act.

Witness my hand this 21st day of January 1880.

W. G. D. Kilgore

Financing Tomorrow's Education with Sound Investments

The front cover shows a promissory note evidencing the sale by the State of Texas of a tract of land in Coleman County, Texas. This and other land sales were authorized by an Act of the Texas Legislature in 1879 that required the proceeds of all such sales to be set apart and invested for the benefit of the Common School Fund.

The promissory notes on the front and back covers of this publication were obtained in their original form from the Texas State Archives, a part of the Texas Capitol Complex in Austin, Texas.

TEXAS PERMANENT SCHOOL FUND

An Investment Fund of the State of Texas

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDING AUGUST 31, 2016

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

http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/

Prepared by:
Finance and Operations Department
Texas Permanent School Fund

Financial Reporting & Accounting Department
General Land Office

Publication Number FS17 110 01

This page intentionally left blank.

CONTENTS

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

This page intentionally left blank.

SECTION ONE

INTRODUCTION

This page intentionally left blank.

Texas Education Agency

Commissioner Mike Morath

1701 North Congress Avenue • Austin, Texas 78701-1494 • 512 463-9734 • 512 463-9838 FAX • tea.texas.gov

MESSAGE FROM THE COMMISSIONER OF EDUCATION

December 20, 2016

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

Please find following this message the Comprehensive Annual Financial Report of the Texas Permanent School Fund (PSF or the Fund) for the fiscal year ending August 31, 2016. Since its inception in 1854 by Texas visionaries, the Fund has served as a perpetual endowment instrumental in helping finance public schools in the State of Texas. The Fund continued its tradition of improving its financial strength and providing valuable financial resources to fund public education in the State of Texas. During the current year the Fund also continued to maintain its position as the largest educational endowment in the nation and make a significant investment in the education of all students enrolled in Texas public schools.

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.

I wish to thank the State Board of Education members for their efforts and diligence in fulfilling their fiduciary duty to preserve 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

This page intentionally left blank.

MESSAGE FROM THE EXECUTIVE ADMINISTRATOR

December 20, 2016

I am honored to present the Comprehensive Annual Financial Report (CAFR) of the Texas Permanent School Fund (PSF) for the year ended August 31, 2016.

The 162 year old Texas Permanent School Fund continued on its trajectory of financial strength in highly diversified domestic and global markets, and maintained the tradition and obligation of strong support for public education in Texas during fiscal year 2016.

INVESTMENTS

For the 12-month period ending August 31, 2016, the portion of the PSF managed by the State Board of Education [PSF(SBOE)] achieved a gross return of 7.61%, and the portion of the PSF managed by the School Land Board [PSF(SLB)] achieved a gross total return for the year of 5.51% (10.58% excluding cash). For the past five years, the time-weighted annual return has been 7.77% for the PSF(SBOE) and 8.04% for the PSF(SLB) (14.24% excluding cash).

At the end of fiscal 2016, the Fund balance was $37.3 billion, an increase of $1.5 billion from the prior year after applying the effects resulting from adoption of Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application* (GASB 72). This increase is primarily due to increases in value of most of the asset classes in which the Fund has invested and the addition of the fair value of minerals and sovereign lands to the Fund's balance sheet resulting from the adoption of GASB 72. During the year, the SBOE continued implementing the long term strategic asset allocation, diversifying the PSF(SBOE) to strengthen the Fund. The asset allocation is projected to increase returns over the long run while reducing risk and portfolio return volatility. The Permanent School 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 crafted to bring that cost even lower.

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 2016 fiscal year, the Fund distributed approximately $1.056 billion for education. Since 1960, the Fund has distributed nearly $26 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 year, PSF assets guaranteed $67.34 billion in school district bonds providing cost savings to 837 public school districts in the State, and $961.0 million in charter district bonds providing cost savings to 14 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, 2015. This was the second 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

At this time I want to thank the State Board of Education for its wise counsel, stewardship, and assistance provided to the Permanent School Fund. I want to 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 excellence.

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, 2015

Executive Director/CEO

This page intentionally left blank.

ADMINISTRATION

STATE BOARD OF EDUCATION

DONNA BAHORICH
Chair, Houston, District 6

THOMAS RATLIFF
Vice Chair, Mount Pleasant, District 9

RUBEN CORTEZ, JR.
Secretary, Brownsville, District 2

LAWRENCE A. ALLEN, JR.
Fresno, District 4

ERIKA BELTRAN
Dallas, District 13

DAVID BRADLEY
Beaumont, District 7

BARBARA CARGILL
The Woodlands, District 8

MARTHA M. DOMINGUEZ, ED.D.
El Paso, District 1

PATRICIA HARDY
Ft. Worth, District 11

TOM MAYNARD
Florence, District 10

SUE MELTON
Waco, District 14

KEN MERCER
San Antonio, District 5

GERALDINE "TINCY" MILLER
Dallas, District 12

MARISA B. PEREZ
San Antonio, District 3

MARTY ROWLEY
Amarillo, District 15

COMMITTEES OF THE STATE BOARD OF EDUCATION

COMMITTEE ON INSTRUCTION

BARBARA CARGILL
TOM MAYNARD
SUE MELTON, Chair
GERALDINE "TINCY" MILLER, Vice Chair
MARISA B. PEREZ

COMMITTEE ON SCHOOL INITIATIVES

DONNA BAHORICH
ERIKA BELTRAN
RUBEN CORTEZ, JR.
MARTHA M. DOMINGUEZ, Vice Chair
MARTY ROWLEY, Chair

COMMITTEE ON SCHOOL FINANCE / PERMANENT SCHOOL FUND

LAWRENCE A. ALLEN, JR., Vice Chair
DAVID BRADLEY
PATRICIA HARDY, Chair
KEN MERCER
THOMAS RATLIFF

COMMITTEE OF INVESTMENT ADVISORS TO THE STATE BOARD OF EDUCATION

JOHN OSBURN
Houston
District 7 (David Bradley)

TEXAS EDUCATION AGENCY COMMISSIONER OF EDUCATION

MIKE MORATH
(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

JIM HUBBARD, CFA

SENIOR PORTFOLIO MANAGER, 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

This page intentionally left blank.

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, 2016, 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 opinion.

Robert E. Johnson Building
1501 N. Congress Avenue
Austin, Texas 78701

P.O. Box 12067
Austin, Texas 78711-2067

Phone:
(512) 936-9500

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, 2016, 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
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, 2016, 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 $17.5 billion as of August 31, 2016, whose fair values have been estimated by management in the absence of readily determinable fair values: $12.7 billion discussed in Notes 2 and $4.8 billion discussed in Note 3. As discussed in note 9, the Fund reported increases on its balance sheet for investments of $1.65 billion for mineral reserves and $261 million for sovereign lands in order to report the assets at fair value as required in the implementation of Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to these matters.

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 who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the Fund's financial statements. The Introduction, Statistical Summary, Bond Guarantee Program, and Supplemental Schedules are presented for purposes of additional analysis and are not a required part of the financial statements.

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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Lisa R. Collier

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

December 20, 2016

This page intentionally left blank.

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 $1.5 billion or 4.3% during fiscal year 2016, after taking into consideration the adjustment required to beginning fund balance after the adoption of Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72).
- 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, 2016, $68.30 billion in school and charter district bond issues were guaranteed by the Fund in support of public education in Texas. The amount outstanding increased 6.8% 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.

The remainder of this column intentionally left blank.

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 of the 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, 2016, the estimated fair value of the land, real assets investments and mineral rights (excluding cash) was approximately $4.8 billion and the historical cost was $3.0 billion. PSF(SLB) real assets investments include 65 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, 2016. 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). The corpus of the Fund is classified as nonspendable and is calculated based on the original source and type of revenue deposited to the Fund since inception. The remainder of fund balance is classified as restricted based on the provisions in the Texas Constitution which limit the use of the Fund to support public free schools.

The remainder of this column intentionally left blank.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

TABLE 1
Summarized Balance Sheet Accounts
(in Millions)

	As of August 31, 2016	As of August 31, 2015 (as restated)	Amount of Increase (Decrease)	Percent Change
ASSETS				
Investments	$ 34,844.8	$ 32,987.8	$ 1,857.0	5.6%
Securities Lending Cash Collateral Invested	1,362.2	524.5	837.7	159.7%
Cash, Receivables, and Other Assets	2,613.8	2,931.8	(318.0)	-10.8%
TOTAL ASSETS	$ 38,820.8	$ 36,444.1	$ 2,376.7	6.5%
LIABILITIES				
Payables for Investments Purchased	$ 51.8	$ 26.8	$ 25.0	93.3%
Payables for Security Lending Cash Collateral Invested	1,406.5	575.8	830.7	144.3%
Other Liabilities	81.4	72.9	8.5	11.7%
TOTAL LIABILITIES	$ 1,539.7	$ 675.5	$ 864.2	127.9%
DEFERRED INFLOWS OF RESOURCES	$ 17.2	$ 24.5	$ (7.3)	-29.8%
TOTAL FUND BALANCE	$ 37,263.9	$ 35,744.1	$ 1,519.8	4.3%

Comparative Balance Sheet Highlights

- Fund Balance for the fiscal year ended August 31, 2015, has been restated to retroactively apply necessary adjustments resulting from adoption and implementation of GASB Statement 72, *Fair Value Measurement and Application* (GASB 72) in the current fiscal year.
- Total fund balance increased by 4.3% 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 to the adjustment of certain real assets to fair value as required by GASB 72.
- 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.

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.

The remainder of this column intentionally left blank.

TABLE 2
Summarized Revenue and Expenditure Accounts
(in Millions)

	Fiscal Year Ended August 31, 2016	Fiscal year Ended August 31, 2015	Amount of Increase (Decrease)	Percent Change
REVENUES				
Land Endowment Income	$ 522.4	$ 580.3	$ (57.9)	-10.0%
Dividends and Interest Income	567.4	560.7	6.7	1.2%
Securities Lending (net of rebates/fees)	6.7	6.6	0.1	1.5%
Gain on Sale of Sovereign Land	2.3	2.7	(0.4)	-14.8%
Net Increase/(Decrease) in Fair Value of Investments	1,507.7	(1,387.6)	2,895.3	208.7%
Revenue from Sales of Purchased Gas	77.0	83.9	(6.9)	-8.2%
Settlement of Claims	2.0	4.1	(2.1)	-51.2%
Other Income	4.0	5.2	(1.2)	-23.1%
TOTAL REVENUES	2,689.5	(144.1)	2,833.6	1,966.4%
EXPENDITURES				
PSF(SBOE) Operational Costs	20.8	20.6	0.2	1.0%
PSF(SLB) Operational Costs	18.1	32.8	(14.7)	-44.8%
SEMP Gas Supplies Purchased for Resale	74.4	78.2	(3.8)	-4.9%
TOTAL EXPENDITURES	113.3	131.6	(18.3)	-13.9%
TOTAL NET TRANSFERS	(1,056.4)	(838.7)	(217.7)	-26.0%
NET CHANGE IN FUND BALANCE	1,519.8	(1,114.4)	2,634.2	236.4%
BEGINNING FUND BALANCE, AS RESTATED	35,744.1	36,858.5	(1,114.4)	-3.0%
ENDING FUND BALANCE	$ 37,263.9	$ 35,744.1	$ 1,519.8	4.3%

Comparative Revenue and Expenditure Highlights

- For fiscal year 2016, total revenues were $2.7 billion, a change of $2.8 billion from fiscal year 2015. This increase is reflective of the performance of the markets in which the Fund was invested in fiscal year 2016.
- Total operating expenditures, net of security lending rebates and fees, decreased 13.9% from $131.6 million for fiscal year ending August 31, 2015, to $113.3 million for the fiscal year ending August 31, 2016, primarily due to a decrease in PSF(SLB) Operational Costs.
- The decrease for PSF(SLB) Operational Costs and SEMP Gas Supplies are primarily attributable to fees and other charges of $13.2 million year over year, and to generally lower costs of purchased gas. Overall, the fund balance increased by $1.5 billion for fiscal year ending August 31, 2016, after retroactive effects of GASB 72 implementation are considered.

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 to further diversify 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, and 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 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.

The remainder of this column intentionally left blank.

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 or jointly managed
Commodities	Limited partnerships utilizing external investment managers

TABLE 3
Strategic Asset Allocation – PSF(SBOE)
August 31, 2016 and 2015

ASSET CLASS	2016	2015	Increase (Decrease)
EQUITY			
Domestic Small/Mid Cap	5.0%	5.0%	0.0%
Domestic Large Cap	13.0%	16.0%	-3.0%
Total Domestic Equity	18.0%	21.0%	-3.0%
International Developed and Emerging Large Cap	14.0%	16.0%	-2.0%
Emerging International Equities	3.0%	3.0%	0.0%
Total International Equity	17.0%	19.0%	-2.0%
TOTAL PUBLIC MARKET EQUITY	35.0%	40.0%	-5.0%
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%	8.0%	2.0%
Private Equity	13.0%	10.0%	3.0%
Risk Parity	7.0%	7.0%	0.0%
Real Return	6.0%	6.0%	0.0%
TOTAL ALTERNATIVE INVESTMENTS	46.0%	41.0%	5.0%
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, 2016.

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 public equity securities experienced a return of 12.45% during the fiscal year. The absolute return investments yielded a return of -0.88% and real estate and private equity investments returned 12.23% and 12.76%, respectively. The return on investment in fixed income return was 5.98% for the fiscal year. Risk parity and real return portfolios returned 8.17% and 0.26%, respectively. The emerging market debt investment returned 9.97% while the emerging market and international equities portfolios returned 10.73% and 3.36%, respectively. Combined, all asset classes produced an investment return of 7.61% for the fiscal year ended August 31, 2016, which is reflective of the market conditions in which the various asset classes operate. Actual performance exceeded the target policy benchmark of 6.84% by 77 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 $1.2 billion (4.2%) from the previous fiscal year. Unallocated Cash is on hand at fiscal year-end pending capital calls for alternative investments. At August 31, 2016, PSF(SBOE) unfunded commitments to real estate investments totaled $839.9 million and unfunded commitments to the four private equity limited partnerships totaled $1,150.3 million.

The remainder of this column intentionally left blank.

TABLE 4
Comparative Investment Schedule – PSF(SBOE) (in Millions)
August 31, 2016 and 2015

ASSET CLASS	August 31, 2016	August 31, 2015	Amount of Increase (Decrease)	Percent Change
EQUITY				
Domestic Small Cap	$ 1,691.2	$ 1,804.5	$ (113.3)	-6.3%
Domestic Large Cap	5,983.1	6,247.9	(264.8)	-4.2%
Total Domestic Equity	7,674.3	8,052.4	(378.1)	-4.7%
International Equity	5,640.9	4,963.2	677.7	13.7%
TOTAL EQUITY	13,315.2	13,015.6	299.6	2.3%
FIXED INCOME				
Domestic Fixed Income	4,003.0	4,176.6	(173.6)	-4.2%
Emerging Market Debt	1,991.1	1,749.2	241.9	13.8%
TOTAL FIXED INCOME	5,994.1	5,925.8	68.3	1.2%
ALTERNATIVE INVESTMENTS				
Absolute Return	3,060.1	3,127.8	(67.7)	-2.2%
Real Estate	2,115.5	1,824.6	290.9	16.0%
Private Equity	1,816.1	1,479.5	336.6	22.8%
Risk Parity	2,062.0	1,865.5	196.5	10.5%
Real Return	1,714.2	1,607.3	106.9	6.7%
TOTAL ALTERNATIVE INVESTMENTS	10,767.9	9,904.7	863.2	8.7%
UNALLOCATED CASH	78.8	103.4	(24.6)	-23.8%
TOTAL PSF(SBOE) INVESTMENTS	$ 30,156.0	$ 28,949.5	$ 1,206.5	4.2%

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 $1.1 billion of capital commitments to externally managed real assets investment funds, separate accounts, and co-investment vehicles were funded during fiscal year 2016. At August 31, 2016, the fair value of the externally managed investments was approximately $2.7 billion, and PSF(SLB) unfunded commitments to real estate investments totaled $1.6 billion.

PSF(SLB) Discretionary Real Estate Investments – Internal

At August 31, 2016, there were approximately 16 internally managed discretionary real estate investments with a fair value of approximately $234.9 million.

PSF(SLB) Sovereign and Other Lands

At August 31, 2016, the sovereign lands portfolio, approximately 409,659 acres of primarily land-locked tracts in West Texas, had a fair value of approximately $265.6 million. In addition to the sovereign lands portfolio, the PSF(SLB) also manages approximately 265,604 acres of other lands with a fair value of approximately $350.4 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 $1.5 billion.

TABLE 5
Comparative Investment Schedule – PSF(SLB)
August 31, 2016 and 2015
(in Millions)

Asset Class	As of August 31, 2016	As of August 31, 2015	Amount of Increase (Decrease)	Percent Change
Discretionary Real Assets				
Investments Externally Managed				
Real Assets Investment Funds*				
Energy/Minerals	$ 907.6	$ 349.3	$ 558.3	159.8%
Infrastructure	662.7	428.9	233.8	54.5%
Real Estate	1,151.0	1,111.5	39.5	3.6%
Internally Managed Direct Real Estate Investments	234.9	242.8	(7.9)	-3.3%
Total Discretionary Real Assets Investments	2,956.2	2,132.5	823.7	38.6%
Sovereign and Other Lands	381.1	377.4	3.7	1.0%
Mineral Interests***	1,471.2	1,663.7	(192.5)	-11.6%
Cash at State Treasury**	2,315.3	2,595.3	(280.0)	-10.8%
Total PSF(SLB) Investments	$ 7,123.8	$ 6,768.9	$ 354.9	5.2%

*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.

***Mineral interests are reported at fair value on the balance sheet based on market premium risk adjusted reserve values determined by an external third party petroleum engineering firm. Values as of August 31, 2015 have been restated in accordance with GASB 72.

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.

ASF Distribution

The Fund annually distributes a predetermined percentage of its asset value to the ASF. For fiscal year 2016, 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 6,582 school district and 37 charter district bond issues for a total of $151.7 billion and $978.9 million, respectively. During the past fiscal year, the number of all outstanding issues increased by 162 (5.2%). The dollar amount of all issues outstanding increased by approximately $4.3 billion (6.8%). 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.

The remainder of this column intentionally left blank.

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

	Fiscal Year Ending August 31, 2016	Fiscal Year Ending August 31, 2015	Amount of Increase (Decrease)	Percent Change
Number of Issues	3,279	3,117	162	5.2%
Issues Guaranteed During the Fiscal Year	$ 14,177.9	$ 17,747.9	$ (3,570.0)	-20.1%
Issues Refunded or Matured During the Fiscal Year	$ 9,830.0	$ 12,156.8	$ (2,326.8)	-19.1%
Year End Balance	$ 68,303.3	$ 63,955.5	$ 4,347.8	6.8%
Total Guarantee Capacity	$ 92,978.8	$ 82,893.7	$ 10,085.1	12.2%

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 3.25 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.

This page intentionally left blank.

TEXAS PERMANENT SCHOOL FUND
BALANCE SHEET
AUGUST 31, 2016

Assets	
Liquid Assets:	
Cash and Cash Equivalents	
Cash in Bank	$ 10,833,875
Cash in State Treasury	2,351,190,492
Cash Equivalents	96,759,081
Securities Lending Cash Collateral Invested	1,362,216,872
Receivables	
Interest and Dividends Receivable	57,428,171
Investments Sold	1,964,557
Land Endowment Revenue	90,442,483
Land Sale Notes	2,198,166
Due from Broker for Margin Collateral	787,800
Due From Other Funds	14,362
Prepaid Items	2,279,500
Total Liquid Assets	$ 3,976,115,359
Investments and Related Assets	
Investments, at fair value	$ 30,035,550,431
Investments in other Real Assets, at fair value	4,808,483,123
Land Sale Notes	720,834
Total Investments and Related Assets	$ 34,844,754,388
Total Assets	$ 38,820,869,747
Liabilities, Deferred Inflow Of Resources And Fund Balances	
Liabilities:	
Accounts Payable	$ 11,592,847
Payroll Payable	2,222,529
Payable for Investments Purchased	51,771,471
Unearned Revenue	67,537,563
Due To Other Funds	12,343
Due To Other Agencies	14,946
Payable for Securities Lending Cash Collateral Invested	1,406,540,906
Total Liabilities	$ 1,539,692,605
Deferred Inflow Of Resources	
Interest and dividends	17,248,037
Total Deferred Inflow Of Resources	$ 17,248,037
Fund Financial Statement-Fund Balances	
Nonspendable	$ 15,732,176,607
Restricted for Public School Support	21,531,752,498
Total Fund Balance	$ 37,263,929,105
Total Liabilities, Deferred Inflow of Resources And Fund Balance	$ 38,820,869,747

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, 2016

Revenues		
Interest, Dividends and Other Investment Income	$	567,493,001
Settlement of Claims		1,971,528
Securities Lending		8,418,754
Gain on Sale of Sovereign Land		2,267,403
Net Increase/(Decrease) in Fair Value of Investments		1,507,682,283
Land Endowment Income		522,432,937
Revenue from Sales of Purchased Gas		76,978,247
Other		4,067,096
Total Revenues	$	2,691,311,249
Expenditures		
Salaries and Wages	$	22,513,194
Payroll Related Costs		5,477,265
Professional Fees and Services		8,550,366
Travel		291,375
Materials and Supplies		774,719
Communication and Utilities		3,472,782
Gas Supplies Purchased for Resale		74,449,961
Repairs and Maintenance		518,734
Rentals and Leases		1,085,239
Printing and Reproduction		36,207
Securities Lending Rebates and Fees		1,683,554
Other Expenditures		(4,380,457)
Capital Outlay		610,283
Total Expenditures	$	115,083,222
Excess of Revenues Over Expenditures	$	2,576,228,027
Other Financing Sources/(Uses)		
Transfers In from Other Funds	$	9,331
Transfers Out to Other Funds		(1,056,421,751)
Sale of Capital Assets		4,388
Total Other Financing Sources/(Uses)	$	(1,056,408,032)
Net Change in Fund Balance		1,519,819,995
Fund Financial Statement-Fund Balance		
Fund Balance-September 1, 2015	$	33,833,542,557
Restatements		1,910,566,553
Fund Balance-September 1, 2015, as restated	$	35,744,109,110
Fund Balance-August 31, 2016	$	37,263,929,105

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 Operating 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 includes 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 2016 for the production months August 2016 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.

Fair values of the internally managed PSF(SLB) real assets investments are based on estimated appraisal values or values independently determined by the staff in the Appraisal Division of the GLO. The GLO uses 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.

Fair values of the interests in oil and gas are determined using the present value technique of the income approach based on discounted future revenues from estimated reserves.

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 for the production of related 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 of 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 spent, 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 spend 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 Operating 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, interest, 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 $113,399,669 for fiscal year 2016. Under the direction of the GLO, $18,128,264 was spent to manage the PSF(SLB) assets and $20,821,444 was expended by the TEA to administer the PSF(SBOE) assets. SEMP expenditures of $74,449,961 include the purchase of gas supplies in the open market and are reflected in the total expenditures for 2016.

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 $175 million to the PSF(SBOE) during the year ended August 31, 2016. 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* requires that governmental fund balances be classified in the financial statements as nonspendable, restricted, committed, assigned and unassigned. The corpus of

the Fund is classified as nonspendable and is calculated based on the original source and type of revenue deposited to the Fund since inception. The balance of the Fund is classified as restricted based on provisions in the Texas Constitution which limit the use of the Fund to the support of public free schools.

E. New Accounting Standards

The GASB issued Statement No. 72, *Fair Value Measurements and Application*, which addresses accounting and financial reporting issues related to fair value measurement for financial reporting purposes, and for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this standard are effective for periods beginning after June 15, 2015. The Fund has adopted and applied the requirements of this Statement to financial statements, beginning with the fiscal year ended August 31, 2016.

The GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The objective of this statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. The Fund has adopted and applied the provisions of this Statement as applicable.

2. DEPOSIT 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 use of the funds for the intended purpose is in the best interest 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.

The remainder of this column intentionally left blank.

Investments other than PSF(SLB) managed land endowment and other real property at fair value as of August 31, 2016, are as follows:

PSF(SBOE) Investments	Fair Value
Domestic Equity	$ 7,665,878,741
International Equity - Foreign Currency Denominated	4,534,871,617
International Equity - USD Denominated (ADR/GDR)	191,371,588
International Equity - Emerging Markets	908,255,250
Asset Backed Securities	62,081,782
Collateralized Loan Obligations	160,345,243
Commercial Mortgage Backed Securities	100,790,728
Corporate Obligations	932,594,655
Non-Agency Mortgage Backed Securities	78,314,980
Non-U.S. Government Agency Obligations	71,869,261
Non-U.S. Government Sovereign Debt Obligations	115,095,055
U.S. Government Agency Commercial Mortgage Backed Securities	31,928,677
U.S. Government Agency Mortgage Backed Securities	794,037,921
U.S. Government Agency Obligations	76,229,911
U.S. Taxable Municipal Bonds	88,492,982
U.S. Treasury Securities	1,373,439,210
U.S. Treasury TIPS	1,029,398,419
Emerging Market Debt	1,991,120,517
Real Estate Investments	2,115,511,636
Risk Parity Strategies	2,061,999,741
Real Return - Commodities	775,672,502
Absolute Return Investments	3,060,114,236
Private Equity Investments	1,816,135,779
Total Investments Other Than PSF(SLB) Managed Land Endowment and Real Property	$ 30,035,550,431

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, 2016, 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, 2016.

	Level 1	Level 2	Level 3	Total
Domestic Equity Portfolios				
Advertising, Media, & Publishing	$ 174,187,492	$ -	$ -	$ 174,187,492
Aerospace & Defense	148,660,434	-	-	148,660,434
Agriculture & Environment	133,010,948	-	-	133,010,948
Banking & Finance	773,306,796	-	-	773,306,796
Biotechnology & Chemistry	333,031,492	-	-	333,031,492
Business Services	158,819,334	-	-	158,819,334
Capital Goods & Vehicles	2,033,803	-	-	2,033,803
Construction & Machinery	174,431,224	-	-	174,431,224
Consumer Goods	764,966,622	-	-	764,966,622
Energy & Utilities	793,679,114	-	-	793,679,114
Food & Beverage	308,089,092	-	-	308,089,092
Health & Pharmaceutical	832,064,586	-	-	832,064,586
Industrial Commodities	59,914,073	-	-	59,914,073
Industrial Manufacturing	289,470,420	-	-	289,470,420
Information Technology & Electronics	1,532,564,260	-	-	1,532,564,260
Insurance	321,928,424	-	-	321,928,424
Investment Management	208,287,284	-	-	208,287,284
Other	10,251,775	-	-	10,251,775
Packaging	29,637,262	-	-	29,637,262
Real Estate	177,062,799	-	-	177,062,799
Telecommunications	241,331,497	-	-	241,331,497
Travel & Entertainment	199,150,010	-	-	199,150,010
Subtotal - Domestic Equity	7,665,878,741	-	-	7,665,878,741
International Equity Portfolio				
Advertising, Media, & Publishing	78,894,345	-	-	78,894,345
Aerospace & Defense	37,788,978	-	-	37,788,978
Agriculture & Environment	23,668,867	-	-	23,668,867
Banking & Finance	752,155,789	-	2	752,155,791
Biotechnology & Chemistry	156,453,031	-	-	156,453,031
Capital Goods & Vehicles	11,750,049	-	-	11,750,049
Commercial Services	81,398,037	-	-	81,398,037
Communications	255,444,174	-	-	255,444,174
Construction & Machinery	253,433,038	-	-	253,433,038
Consumer Goods	396,878,939	-	-	396,878,939
Energy & Utilities	556,656,080	-	-	556,656,080
Food & Beverage	352,638,062	-	-	352,638,062
Health & Pharmaceutical	389,418,117	-	-	389,418,117
Industrial Commodities	92,685,356	-	-	92,685,356
Industrial Manufacturing	253,647,810	-	-	253,647,810
Information Technology & Electronics	418,730,771	-	-	418,730,771
Insurance	232,089,074	-	-	232,089,074
Investment Management	133,262,496	-	-	133,262,496
Packaging	5,617,057	-	-	5,617,057
Real Estate	95,087,064	-	16	95,087,080
Travel & Entertainment	148,265,970	-	-	148,265,970
Other	280,083	-	-	280,083
Subtotal - International Equity	4,726,243,187	-	18	4,726,243,205

	Level 1	Level 2	Level 3	Total
Fixed Income Portfolio				
Asset Backed Securities	$ -	$ 62,081,782	$ -	$ 62,081,782
Collateralized Loan Obligations	-	160,345,243	-	160,345,243
Commercial Mortgage Backed Securities	-	100,790,728	-	100,790,728
U.S. Government Agency Commercial Mortgage Backed Securities	-	31,928,677	-	31,928,677
Corporate Obligations	-	922,205,115	-	922,205,115
Non-Agency Mortgage Backed Securities	-	78,314,980	-	78,314,980
Non-U.S. Government Agency Obligations	-	71,869,261	-	71,869,261
Non-U.S. Government Sovereign Debt Obligations	-	115,095,055	-	115,095,055
U.S. Government Agency Obligations	-	76,229,911	-	76,229,911
U.S. Government Agency Mortgage Backed Securities	-	794,037,921	-	794,037,921
U.S. Taxable Municipal Obligations	-	88,492,982	-	88,492,982
U.S. Treasury TIPS	103,529,209	-	-	103,529,209
U.S. Treasury Securities	1,373,439,210	-	-	1,373,439,210
Yankee - Corporate Obligations	-	10,389,540	-	10,389,540
Subtotal - Fixed Income	1,476,968,419	2,511,781,195	-	3,988,749,614
Real Return Portfolio				
U.S. Treasury TIPS	925,869,210	-	-	925,869,210
Total investments by fair value level	**$ 14,794,959,557**	**$ 2,511,781,195**	**$ 18**	**$ 17,306,740,770**

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, 2016.

Investments measured at NAV	
Absolute Return Investments	$ 3,060,114,236
Real Estate Investments	2,115,511,636
Private Equity Investments	1,816,135,779
Emerging Market Debt	1,991,120,517
Emerging Market Equity	908,255,250
Risk Parity Strategies	2,061,999,741
Real Return - Commodities	775,672,502
Total investments measured at NAV	$ 12,728,809,661

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	$ 791,947,025	$ -	Monthly, Quarterly, Semi-Annual, Annual	45-180 Days		(1)
Relative Value	113,463,830	-	Monthly, Quarterly	15-90 Days		(2)
Multi-Strategy	499,974,709	-	Quarterly, Semi-Annual, Annual	30-90 Days		(3)
Equity	1,061,844,774	-	Monthly, Quarterly Annual	18-120 Days		(4)
Macro	495,359,821	-	Daily, Monthly, Quarterly	2-90 Days		(5)
Other	97,524,077	-	Not Applicable	None		(6)
Real Estate Investments	2,115,511,636	839,955,242	None	None	2-13 Years	(7)
Private Equity Investments						(8)
Large Capital Buy-out	247,183,124	232,976,867	None	None	10-15 Years	
Mid Capital Buy-out	869,551,034	443,810,332	None	None	10-15 Years	
Special Situation	398,164,474	221,308,197	None	None	10-15 Years	
Venture/Growth Capital	301,237,147	252,287,481	None	None	10-15 Years	
Emerging Market Debt	1,991,120,517	-	Daily	1-5 Days		
Emerging Market Equity	908,255,250	-	Daily	1-3 Days		
Risk Parity Strategies	2,061,999,741	-	Monthly	5-15 Days		(9)
Real Return - Commodities	775,672,502	-	Daily	3 Days		(10)
Total investments measured at NAV	$ 12,728,809,661	$ 1,990,338,119				

(1) Investment includes fund of funds which have been valued using the NAV per share for the fund. Investments representing 12% of the fair value have redemption restrictions that do not allow for redemption during a restricted time period. Investments representing 76% of the fair value have certain gate restrictions ranging from 15% to 50%. The restriction period at August 31, 2016 ranges from December 31, 2016 through June 30, 2021 for these investments.

(2) Investment includes fund of funds which have been valued using the NAV per share for the fund. Investments representing 19% of the fair value have certain gate restrictions ranging from 5% to 25%. The restriction period at August 31, 2016 ranges from October 31, 2016 through September 30, 2017 for these investments.

(3) Investment includes fund of funds which have been valued using the NAV per share for the fund. Investments representing 5% of the fair value have redemption restrictions that do not allow for redemption during a restricted time period. Investments representing 86% of the fair value have certain gate restrictions ranging from 3% to 25%. The restriction period at August 31, 2016 ranges from December 31, 2016 through April 30, 2018 for these investments.

(4) Investment includes fund of funds which have been valued using the NAV per share for the fund. Investments representing 1% 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, 2016 ranges from September 30, 2016 through March 31, 2019 for these investments.

(5) Investment includes fund of funds which have been valued using the NAV per share for the fund. Investments representing 1% of the fair value have redemption restrictions that do not allow for redemption during a restricted time period. Investments representing 33% of the fair value have certain gate restrictions ranging from 10% to 33%. The restriction period at August 31, 2016 ranges from September 30, 2016 through December 31, 2017 for these investments.

(6) Investment includes fund of funds which have been valued using the NAV per share for the fund. Investments representing 92% of the fair value of the investment at NAV (excluding cash) do not have redemption provisions and distributions will be made as the underlying investments are liquidated.

(7) Investment includes real estate funds that primarily invest in real estate, including commercial, residential and 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. The majority of these investments are in close end funds and cannot be redeemed. 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 2-13 years.

(8) Investment includes 4 separate private equity funds, 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.

(9) 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.

(10) 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, 2016, there was $10,017,375 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 $816,500 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, 2016, 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, 2016 was $1,406,540,906 and the fair value was $1,362,216,872, which is detailed below.

The remainder of this column intentionally left blank.

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	$ 144,967,379	$ 145,114,670	$ -	$ 145,114,670	$ -
Asset Backed Floating Rate Notes	432,897,778	433,053,186	-	433,053,186	-
Floating Rate Notes	96,428,758	51,747,285	-	51,747,285	-
Repurchase Agreements	60,275,979	60,275,979	-	60,275,979	-
Commercial Paper	404,921,620	404,954,471	-	404,954,471	-
Certificates of Deposit	267,049,392	267,071,281	-	267,071,281	-
Total Securities Lending Collateral (Exh. I)	$ 1,406,540,906	$ 1,362,216,872	$ -	$ 1,362,216,872	$ -

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, 2016, 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.

The remainder of this column intentionally left blank.

Investment Type	**Rating**	**Rating Service**	**Fair Value**
Asset Backed Securities	AAA	S&P	$ 28,986,045
Asset Backed Securities	Aaa	Moody's	12,499,440
Asset Backed Securities	Aa	Moody's	15,075,159
Asset Backed Securities	A	S&P	5,521,138
Collateralized Loan Obligations	A	Moody's	754,030
Collateralized Loan Obligations	BBB	S&P	108,947,631
Collateralized Loan Obligations	Baa	Moody's	50,643,582
Commercial Mortgage Backed Obligations	AAA	S&P	8,510,642
Commercial Mortgage Backed Obligations	AAA	Fitch	10,798,254
Commercial Mortgage Backed Obligations	Aaa	Moody's	71,603,280
Commercial Mortgage Backed Obligations	Aa	Moody's	9,878,552
Corporate Obligations	AA	S&P	49,009,718
Corporate Obligations	AA	Fitch	17,642,982
Corporate Obligations	A	S&P	92,042,056
Corporate Obligations	A	Moody's	37,021,708
Corporate Obligations	BBB	S&P	598,975,094
Corporate Obligations	BBB	Fitch	10,351,130
Corporate Obligations	Baa	Moody's	108,970,955
Corporate Obligations	Baa	Moody's	10,390,712
Corporate Obligations	B	Moody's	8,190,000
Non-Agency Mortgage Backed Securities	AAA	S&P	50,373,568
Non-Agency Mortgage Backed Securities	Aaa	Moody's	24,193,920
Non-Agency Mortgage Backed Securities	CCC	S&P	3,747,492
Non-U.S. Government Agency Obligations	AAA	S&P	18,160,946
Non-U.S. Government Agency Obligations	Aaa	Moody's	10,367,370
Non-U.S. Government Agency Obligations	A	S&P	20,093,320
Non-U.S. Government Agency Obligations	BBB	S&P	7,908,625
Non-U.S. Government Agency Obligations	Baa	Moody's	15,339,000
Non-U.S. Sovereign Government Debt	AA	S&P	5,311,930
Non-U.S. Sovereign Government Debt	Aa	Moody's	11,084,700
Non-U.S. Sovereign Government Debt	BBB	S&P	80,437,600
Non-U.S. Sovereign Government Debt	BBB	Fitch	18,260,825
U.S. Government Agency Commercial Mortgage Backed Securities	AA	S&P	14,115,761
U.S. Government Agency Commercial Mortgage Backed Securities	A	Moody's	9,562,411
U.S. Government Agency Commercial Mortgage Backed Securities	A	Fitch	8,250,505
U.S. Government Agency Mortgage Backed Securities	AA	S&P	782,670,287
U.S. Government Agency Obligations	AA	S&P	76,229,911
U.S. Taxable Municipal Bonds	AAA	S&P	13,232,797
U.S. Taxable Municipal Bonds	AA	S&P	47,106,514
U.S. Taxable Municipal Bonds	Aa	Moody's	22,897,400
U.S. Taxable Municipal Bonds	A	S&P	5,256,271
U.S. Treasury Securities	AA	S&P	1,373,439,210
U.S. Treasury Inflation Protected Securities	AA	S&P	1,029,398,419
Total Credit Risk Rated Debt Securities			$ 4,903,250,890
Corporate Obligations	Withdrawn Rating	Moody's	300
U.S. Government Agency Mortgage Backed Securities	Not Rated	N/A	11,367,634
Total Fixed Income			$ 4,914,618,824

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, 2016. 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	$ 145,114,670
Asset Backed Floating Rate Notes	AAA	S&P	393,830,972
Asset Backed Floating Rate Notes	Aaa	Moody's	23,458,263
Asset Backed Floating Rate Notes	BBB	Fitch	15,763,951
Certificate of Deposit	AA-	S&P	40,003,000
Certificate of Deposit	A+	S&P	40,004,200
Certificate of Deposit	A	S&P	22,559,809
Certificate of Deposit	Not Rated	S&P	164,504,272
Commercial Paper	A-1 +	S&P	30,980,687
Commercial Paper	A-1	S&P	373,973,784
Floating Rate Notes	AAA	S&P	7,510,265
Floating Rate Notes	AA+	S&P	14,505,299
Floating Rate Notes	A+	Fitch	18,307,774
Floating Rate Notes	AA-	S&P	7,297,437
Floating Rate Notes	Aa2	Moody's	4,126,510
Repurchase Agreements	Not Rated	N/A	60,275,979
Total Investments			$ 1,362,216,872

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 Bloomberg Barclays U.S. Aggregate Bond Index (formerly Barclays Capital Aggregate Index) duration and the duration of the real return (TIPS) portfolio to be consistent with the Bloomberg Barclays U.S. TIPS Index. As of August 31, 2016, the Bloomberg Barclays Aggregate index duration was 5.83 years and the Bloomberg Barclays U.S. TIPS Index duration was 4.04 years.

Investments in fixed income securities by investment type, fair value, and the effective weighted duration rate as of August 31, 2016, 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	$ 62,081,782	0.852
Collateralized Loan Obligations	160,345,243	0.063
Commercial Mortgage Backed Securities	100,790,728	5.314
Corporate Obligations	932,594,655	8.217
Non-Agency Mortgage Backed Securities	78,314,980	2.599
Non-U.S. Government Agency Obligations	71,869,261	3.669
Non-U.S. Sovereign Government Debt	115,095,055	5.826
U. S. Government Agency Commercial Mortgage Backed Securities	31,928,677	3.396
U. S. Government Agency Mortgage Backed Securities	794,037,921	3.340
U. S. Government Agency Obligations	76,229,911	6.000
U.S. Taxable Municipal Bonds	88,492,982	8.598
U. S. Treasury Securities	1,373,439,210	5.540
U. S. Treasury TIPS	103,529,209	17.019
Total Fixed Income Portfolio (Excluding Real Return TIPS)	$ 3,988,749,614	5.703
Real Return - U. S. Treasury TIPS Portfolio	$ 925,869,210	6.157
Emerging Market Debt Portfolio	$ 1,991,120,517	5.220

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	$ 145,114,670	$ 10,019,430	$ 135,095,240
Asset Backed Floating Rate Notes	433,053,186	269,162,853	163,890,333
Floating Rate Notes	51,747,285	40,243,248	11,504,037
Repurchase Agreements	60,275,979	60,275,979	-
Commercial Paper	404,954,471	404,954,471	-
Certificates of Deposit	267,071,281	267,071,281	-
Total	$ 1,362,216,872	$ 1,051,727,262	$ 310,489,610

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, 2016, the PSF(SBOE) held $468,337,360 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, 2016, 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, 2016, these securities totaled $1,005,072,306.

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 are in low duration tranches to mitigate default risk but are still subject to this risk. As of August 31, 2016, these securities totaled $160,345,243.

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, 2016, these securities totaled $62,081,782.

The remainder of this column intentionally left blank.

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, 2016, is as follows:

Deposits	Amount
Currency	
Australian Dollar	$ 1,563,623
Brazil Real	21,890
Canadian Dollar	(16,570)
Chilean Peso	154,966
Danish Krone	(12)
Euro Currency Unit	7,983
Hong Kong Dollar	1,393,920
Indonesian Rupiah	47
Israeli Shekel	11,703
Malaysian Ringgit	48
Mexican Peso	73,454
Moroccan Dirham	1
New Taiwan Dollar	2,694,516
New Zealand Dollar	2
Norwegian Krone	2
Polish Zloty	1
Pound Sterling	156,632
Qatari Riyal	118
Singapore Dollar	39,758
South African Rand	438
South Korean Won	91,844
Swiss Franc	4,197
Thailand Baht	53,911
Turkish Lira	39
United Arab Emirates Dirham	1
Total Deposits Subject to Foreign Currency Risk	$ 6,252,512

The remainder of this column intentionally left blank.

Investments in Equity Securities	Fair Value
Currency	
Australian Dollar	$ 239,016,794
Brazil Real	81,233,836
Canadian Dollar	317,945,553
Chilean Peso	12,640,732
Columbian Peso	5,025,504
Czech Koruna	1,494,661
Danish Krone	61,775,990
Egyptian Pound	2,211,049
Euro Currency Unit	993,803,065
Hong Kong Dollar	336,794,286
Hungarian Forint	3,241,092
Indonesian Rupiah	29,731,026
Israeli Shekel	19,120,625
Japanese Yen	788,757,640
Malaysian Ringgit	30,363,153
Mexican Peso	41,883,572
New Taiwan Dollar	131,487,041
New Zealand Dollar	6,291,862
Norwegian Krone	21,080,037
Philippines Peso	16,171,062
Polish Zloty	11,774,772
Pound Sterling	631,814,244
Qatari Riyal	10,458,253
Russian Ruble (New)	24,524,548
Singapore Dollar	41,010,113
South African Rand	75,115,100
South Korean Won	161,880,531
Swedish Krona	92,308,714
Swiss Franc	298,478,565
Thailand Baht	25,886,918
Turkish Lira	13,520,694
United Arab Emirates Dirham	8,030,585
Total Securities Subject to Foreign Currency Risk	$ 4,534,871,617

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 changes in historical cost and fair value of PSF(SLB) land, mineral interests, and real assets investments during the year ending August 31, 2016, 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.

The remainder of this column intentionally left blank.

Investment Type	Historical Cost	Fair Value
Investments in Real Assets		
Sovereign Lands	$ 841,749	$ 265,606,910
Discretionary Internal Investments (2)	226,079,494	234,934,804
Other Lands	44,166,202	115,452,730
Minerals (1)	13,422,997	1,471,170,046 (6)
Investments with External Managers (3)	2,741,656,350	2,721,318,634
Total Investments (4)	$ 3,026,166,792	$ 4,808,483,124
Cash in State Treasury (5)	2,315,325,590	2,315,325,590
Total Investments and Cash in State Treasury	$ 5,341,492,382	$ 7,123,808,714
Consisting of the following:		
Real Assets and Related Investments	3,026,166,792	4,808,483,124
Total Investments, as above	$ 3,026,166,792	$ 4,808,483,124

(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 and internal investments managed by McKinney Consulting, an external third party.
(5) Cash in State Treasury is managed by the Treasury Operations Division of the Comptroller of Public Accounts of the state of Texas.
(6) Future Net Revenues discounted at 10%; valuation determined by third party petroleum engineers.

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, 2016.

Investments in Real Assets	Level 1	Level 2	Level 3	Total
Sovereign Lands	$ -	$ -	$ 265,606,910	$ 265,606,910
Discretionary Internal				-
Investments	-	-	234,934,804	234,934,804
Other Lands	-	-	115,452,730	115,452,730
Minerals	-	-	1,471,170,046	1,471,170,046
Total investments by fair value level	-	-	$ 2,087,164,490	$ 2,087,164,490

The fair valuation process of the fund's land surface value is based on using level 3 inputs. The relevant 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 appraisal values or are independently determined by PSF(SLB) appraisal staff 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 PSF surface land is 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, then both the market and income approaches to value are utilized.

The current surface real property portfolio of the Fund is managed by the PSF(SLB) and consists of 675,263 surface acres valued at $615,994,444. Of this, 409,659 acres are sovereign lands with a fair value of $265,606,910 located primarily in West Texas and representing 61 percent of the total acreage, but only 43 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, 2015, beginning basis for the Fund's consolidated (including co-investments) land surface portfolio value was $277,673,405. From September 1, 2015 to August 31, 2016, no new discretionary internal real assets investments were acquired. Contributions of approximately $18.4 million were made to ongoing development projects. The basis of the Fund's land surface portfolio at August 31, 2016, is $271,087,444. In addition to the land surface portfolio, the Fund also owns approximately 13 million acres of Relinquishment Act, Submerged, Free Royalty, Mineral Reserved Lands and mineral estates on surface lands representing a basis of $13,422,997.

Dispositions for the fiscal year ended August 31, 2016, equaled 12,240.622 acres sold for net proceeds of $21.8 million, and a realized gain of approximately $10.5 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 $2,246,625,800.

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 13,385 active Proved Developed Producing (PDP) wells with an estimated discounted future net revenue value of $741,513,600; 839 gross Proved Undeveloped (PUD) locations with an estimated discounted future net revenue value of $561,839,600; 679 gross Probable Undeveloped (PROB) locations with an estimated discounted future net revenue value of $330,501,900; 354 gross Possible Undeveloped (POSS) locations with an estimated discounted future net revenue value of $188,370,900; and 1,006 gross Contingent Resources (CONT) locations with an estimated discounted future net revenue value of $424,399,800. 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.

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 2016 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 0.408; and Possible reserves are adjusted using a factor of 0.175. Contingent resources are excluded. The risk-adjusted mineral valuation is $1,471,170,046.

PSF(SLB) is a party to multiple direct single-asset real estate transactions held in its discretionary internally-managed real estate portfolio. 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	$ 907,554,929
Real Estate	1,151,026,598
Infrastructure	662,737,106
Total PSF(SLB) investments	$ 2,721,318,633

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice	Liquidity Expectation
Investments with external managers					
Energy	$ 907,554,929	$ 639,305,794	none	none	2-12 years
Real Estate	1,151,026,598	480,929,572	none	none	2-12 years
Infrastructure	662,737,106	444,298,409	none	none	2-12 years
Total investments measured at NAV	$ 2,721,318,633	$ 1,564,533,775			

The PSF(SLB) real assets investments include 65 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. With the exception of 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 2 to 12 years.

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. The historical cost of all internally managed properties available for leasing activity is $271,087,444. The fair value of the properties is $615,994,444. Non-sovereign real estate in the Fund is held as an investment and is not depreciated.

Contingent rental revenues in the amount of $1,237,357 are reported for 16 leases for the year ended August 31, 2016.

The remainder of this column intentionally left blank.

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 2017	FY 2018	FY 2019	FY 2020	FY 2021	FYs 2022 & Beyond
Coastal Easements	$ 295,870	$ 307,261	$ 305,048	$ 284,668	$ 242,247	$ 387,352
Coastal Leases	1,245	1,245	1,245	1,245	1,245	75,924
Commercial Leases and Easements	1,508,343	1,548,272	1,396,069	1,343,802	1,259,246	9,160,202
Miscellaneous Easements	170,498	117,805	118,627	48,325	65,335	231,340
Special Documents	-	10,000	10,000	10,000	10,000	30,000
Surface Leases	2,627,679	2,581,950	2,542,407	2,398,895	2,263,737	34,744,422
Total Lease Payments	$ 4,603,635	$ 4,566,533	$ 4,373,396	$ 4,086,935	$ 3,841,810	$ 44,629,240

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, 2016, 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 with regard 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, 2016, 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 16, 2016	130	$ 14,101,750	$ 546,000
S&P 500 e-mini	December 16, 2016	31	3,351,565	130,200
S&P 400 e-mini	September 16, 2016	18	2,814,840	111,600
Total Futures			$ 20,268,155	$ 787,800

The amount of net realized gains on the futures contracts for the period ended August 31, 2016, was $4,081,688 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, 2016. If the FCM failed, the loss that would be recognized at August 31, 2016, would be $760,912 which is the net of the FCM Margin Deposit of $787,800 and the net unpaid year-end variation margin loss and initial margin of sold contracts totaling $26,888.

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, 2016, the Fund invested cash collateral had a weighted average maturity of 29 days to reset date.

During the fiscal year ending August 31, 2016, 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, 2015, no losses were recovered in the fiscal year ending August 31, 2016.

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 $44,694,357; however, the estimated market value is $0 as of August 31, 2016.

As of August 31, 2016, the fair value of securities on loan to brokers equaled $1,992,332,352 against non-cash collateral with a fair value of $642,993,957 and invested cash collateral with a cost basis of $1,406,540,906 and a fair value of $1,362,216,872.

The non-cash collateral along with the cash collateral was used to secure outstanding security loans. At August 31, 2016, 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, 2016, 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, 2016, gross securities lending revenue totaled $8,418,754, gross expenditures for bank fees and other adjustments totaled $1,683,554, while net securities lending income totaled $6,735,200.

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. These items had been reported as deferred revenues or unearned revenues in previous years.

9. FUND BALANCE

The PSF fund balance has been classified on the face of the balance sheet in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* which establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. For permanent funds such as the PSF, the statement requires classification of the corpus (principal) portion of the fund balance as nonspendable if there is a legal or contractual requirement for it to be maintained intact. Permanent funds are defined in GASB 54, paragraph 35, as funds used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs.

Article VII of the Texas Constitution describes the Fund as a permanent school fund set apart for the support of public schools. The Fund's assets are held in a trustee capacity for the benefit of public free schools, with authority granted to the SBOE to establish, within constitutional limits, a percentage that is transferred to the ASF each year. The corpus of the Fund is classified as nonspendable and is calculated based on the original source and type of revenue deposited to the Fund since inception. The remaining fund balance is classified as restricted based on the provisions in the Texas Constitution that state the ASF shall be applied annually to the support of the public free schools.

GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes and for applying a fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 required a change in the reporting of sovereign lands and mineral reserves on the balance sheet. Previously, PSF(SLB) reported sovereign lands and mineral reserves at historical cost on the balance sheet, and disclosed their fair value in the Notes to the Financial Statements. With the implementation of GASB Statement No. 72 in fiscal year 2016, a restatement of the beginning fund balance was required - $1,650,304,887 and $261,233,242 for the reporting of mineral reserves and sovereign lands at their fair values, respectively.

An additional restatement of ($971,576) was required in the PSF(SLB) due to a change in how available acreage was calculated as it relates to land sales and the associated gains and/or losses on those sales from a prior period.

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 February 1, 2016, the SBOE authorized capacity multiplier for the State Capacity Limit was increased to 3.25 times the cost value of the Fund, including the portion managed by the SLB.

As of August 31, 2016, the capacity of the Guarantee Program is $117,318,653,038 under Federal law and $97,933,360,905 under State law. Total outstanding bonds guaranteed by the PSF under this program total $68,303,328,445 at August 31, 2016; of that, $67,342,303,445 is for school district guarantees (837 school districts) and $961,025,000 is for charter district guarantees (14 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, 2016.

Guarantees extend through the maturity dates of the bonds. As of August 31, 2016, the total principal debt guaranteed on bond issues is $68,303,328,445, the expected interest to be paid out over the remaining life of those bond issues is $41,035,146,448, and the final maturity is scheduled to occur in the year 2055.

As of August 31, 2016, 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.

B. Pending Litigation

The PSF(SBOE) has potential liability in two sets of defense class actions asserting fraudulent conveyance claims and seeking 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 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, 2016, therefore, in accordance with GAAP, no accrual for these matters is currently reflected in the accompanying financial statements. The Attorney General's Office is representing the PSF(SBOE) in both matters and asserting sovereign immunity and other defenses.

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). The PSF(SBOE) received approximately $17.5 million for Lyondell stock.

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, 2016, 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, 2016 (State), and March 24, 2016 (GLO); Original Complaints filed March 28, 2016 (State), and March 30, 2016 (GLO). On May 27, 2016 and 31, 2016 respectively, Defendants filed motions to dismiss Amended Complaints filed by the State and the GLO; responses to which were filed June 17, 2016 (State), and June 21, 2016 (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 hearing on July 21, 2016, 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. Discovery is in progress; court to address objections raised by landowner Plaintiffs as to BLM-requested inspections of their properties; BLM inspection of GLO tract to be rescheduled. 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 hearing on March 29, 2016. 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. Settlement negotiations with Angela Mae Brannan are ongoing. The probability of liability is reasonably possible. The possible final amount of loss is indeterminable at this time.

EOG Resources Inc., v. Jerry Patterson, GLO Commissioner, et al.
Plaintiff disputes the amount of royalties owed - and underlying calculations bases - under GLO audit billings pursuant to Tex. Nat. Res. Code 52.137. Petition filed November 25, 2014; GLO answer filed December 23, 2014. Second Petition filed December 4, 2015; answered January 15, 2016. Settlement discussions are ongoing. 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. Via extensions, Appellant's Brief was filed April 12, 2016; Appellees' Brief was filed July 11, 2016; Reply Brief filed July 19, 2016. Oral argument has been set for November 16, 2016. The probability of liability is remote. The possible final amount of loss is indeterminable at this time.

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. The probability of liability is reasonably 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.

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. Summary judgment hearing set for October 26, 2016. 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; Jaten/Riparia to nonsuit the State Defendants as well. 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. 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. Overthrust filed a response to the GLO's motion on August 22, 2016; GLO reply filed August 31, 2016. 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. 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 permanent school fund monies. The above lawsuits are referenced in this note as contingent liabilities in the interest of full disclosure. Nonetheless, the possibility that payment will be required from the permanent school fund is remote.

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, 2016, 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 $2,763,556 through August 31, 2016.

12. SIGNIFICANT COMMITMENTS

The PSF(SLB) makes investments in certain limited partnerships that legally commit it to possible future capital contributions of which approximately $1.564.2 million remains unfunded as of August 31, 2016.

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.

At separate meetings on September 6, 2016, and November 1, 2016, the School Land Board approved new capital commitments to three real assets investment funds and one co-investment vehicle totaling $655 million.

The current land inventory includes approximately 1,566 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 $27,045,177 as of August 31, 2016.

In November 2014, the SBOE set the distribution rate to the ASF for the 2016-2017 biennium at 3.3%, which was expected to produce an effective rate of 3.5%, after taking into account broadening of the calculation base for the Fund that was effected by a 2011 State Constitutional amendment; this amendment did not increase contributions from the PSF(SLB). The PSF(SBOE) will distribute approximately $1.056 billion annually for each year of the 2016-2017 biennium.

As of August 31, 2016, the SBOE has approved and the Fund made capital commitments to externally managed real estate investment funds in a total amount of $2.60 billion and capital commitments to private equity limited partnerships for a total of $2.94 billion, to be implemented over the next several years. Unfunded commitments at August 31, 2016, totaled $840.0 million in real estate investments and $1,150.4 million in private equity investments.

At meetings held in July, September, and November 2016, the SBOE approved new capital commitments for real estate investments in the amounts of $75.0 million, $100.0 million and $75.0 million, respectively. All such commitments are subject to successful negotiation of contracts.

A. 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 Gulf Coast Petroleum, Inc. $396,563 (filed November 22, 2016)
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)

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

This page intentionally left blank.

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 $152.6 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 now 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.

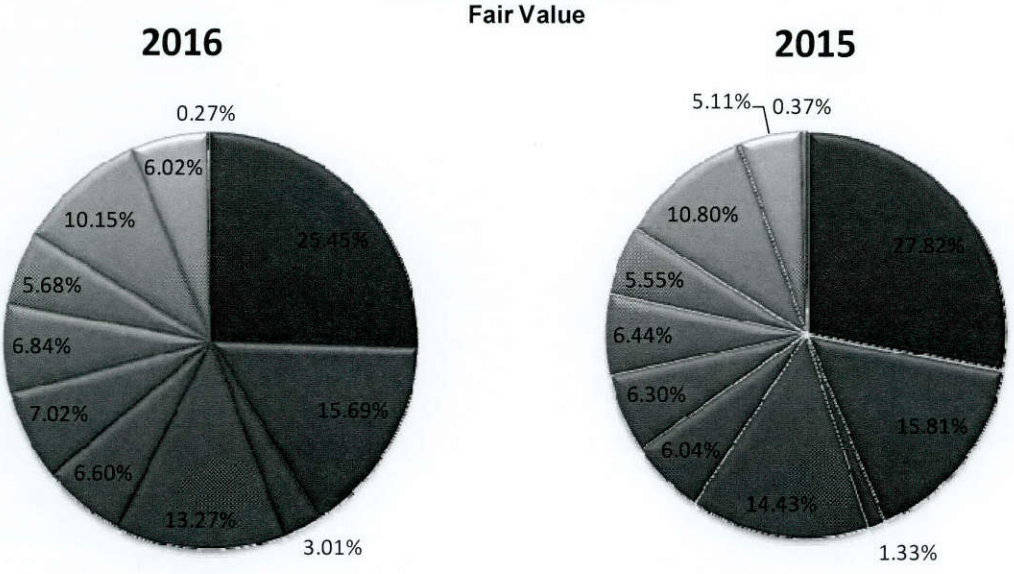
Money in the RESFA that is awaiting investment by the SLB is currently held in an external investment pool managed by the Texas Comptroller of Public Accounts consistent with applicable law and the CPA investment policy. The CPA pools funds for investment purposes and allocates investment earnings on 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 with regard 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.

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 $30.1 billion as of August 31, 2016. See Figure 1 graph and table below for the portfolio diversification at fair value at August 31, 2016 and 2015.

FIGURE 1
TEXAS PERMANENT SCHOOL FUND
Portfolio Diversification
Fair Value



Asset Class		August 31, 2016	Percent		August 31, 2015	Percent
Domestic Equity	$	7,674,249,944	25.45%	$	8,052,395,743	27.82%
International Equity		4,732,629,774	15.69%		4,577,768,406	15.81%
International Equity - Emerging Markets		908,255,250	3.01%		385,438,748	1.33%
Domestic Fixed Income		4,002,972,074	13.27%		4,176,576,842	14.43%
Emerging Market Debt		1,991,120,517	6.60%		1,749,249,833	6.04%
Real Estate		2,115,511,636	7.02%		1,824,476,718	6.30%
Risk Parity		2,061,999,741	6.84%		1,865,486,221	6.44%
Real Return		1,714,182,987	5.68%		1,607,347,731	5.55%
Absolute Return		3,060,114,236	10.15%		3,127,844,762	10.80%
Private Equity		1,816,135,779	6.02%		1,479,508,489	5.11%
Unallocated Cash		78,818,684	0.27%		103,359,633	0.37%
Net Investment Balance	$	30,155,990,622	100.00%	$	28,949,453,126	100.00%

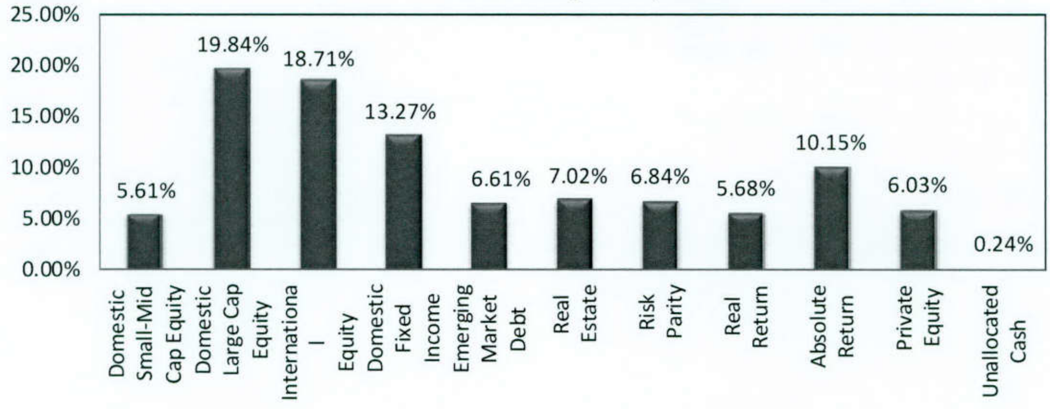
The asset classes include cash that has been allocated to the investment portfolios.

TEXAS PERMANENT SCHOOL FUND
ASSET ALLOCATION MIX - SBOE
AS OF AUGUST 31, 2016

ASSET CLASS	Book Value	Mix	Fair Value	Mix
Equity				
Public Market Equity				
Domestic Small-Mid Cap	$ 1,083,456,172	4.37%	$ 1,691,187,954	5.61%
Domestic Large Cap	3,099,166,741	12.50%	5,983,061,990	19.84%
Total Domestic Equity	4,182,622,913	16.87%	7,674,249,944	25.45%
Developed and Emerging Market International Equity	5,009,841,150	20.22%	5,640,885,024	18.71%
Total Public Market Equity	9,192,464,063	37.09%	13,315,134,968	44.16%
Fixed Income				
Domestic Fixed Income	3,882,140,035	15.66%	4,002,972,074	13.27%
Emerging Market Debt	2,246,979,572	9.07%	1,991,120,517	6.61%
Total Fixed Income	6,129,119,607	24.73%	5,994,092,591	19.88%
Alternative Investments				
Real Estate	1,717,338,940	6.93%	2,115,511,636	7.02%
Risk Parity	1,611,455,040	6.50%	2,061,999,741	6.84%
Real Return	2,083,513,846	8.41%	1,714,182,987	5.68%
Absolute Return	2,488,466,117	10.04%	3,060,114,236	10.15%
Private Equity	1,485,369,225	5.99%	1,816,135,779	6.03%
Total Alternative Investments	9,386,143,168	37.87%	10,767,944,379	35.72%
Unallocated Cash	78,818,684	0.31%	78,818,684	0.24%
Fund Total	$ 24,786,545,522	100.00%	$ 30,155,990,622	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 44.55%, and the percentage of the Fund's current fiscal year-end portfolio managed by external managers was 57.90%.

FIGURE 2:
TEXAS PERMANENT SCHOOL FUND
Asset Allocation Mix
As of August 31, 2016



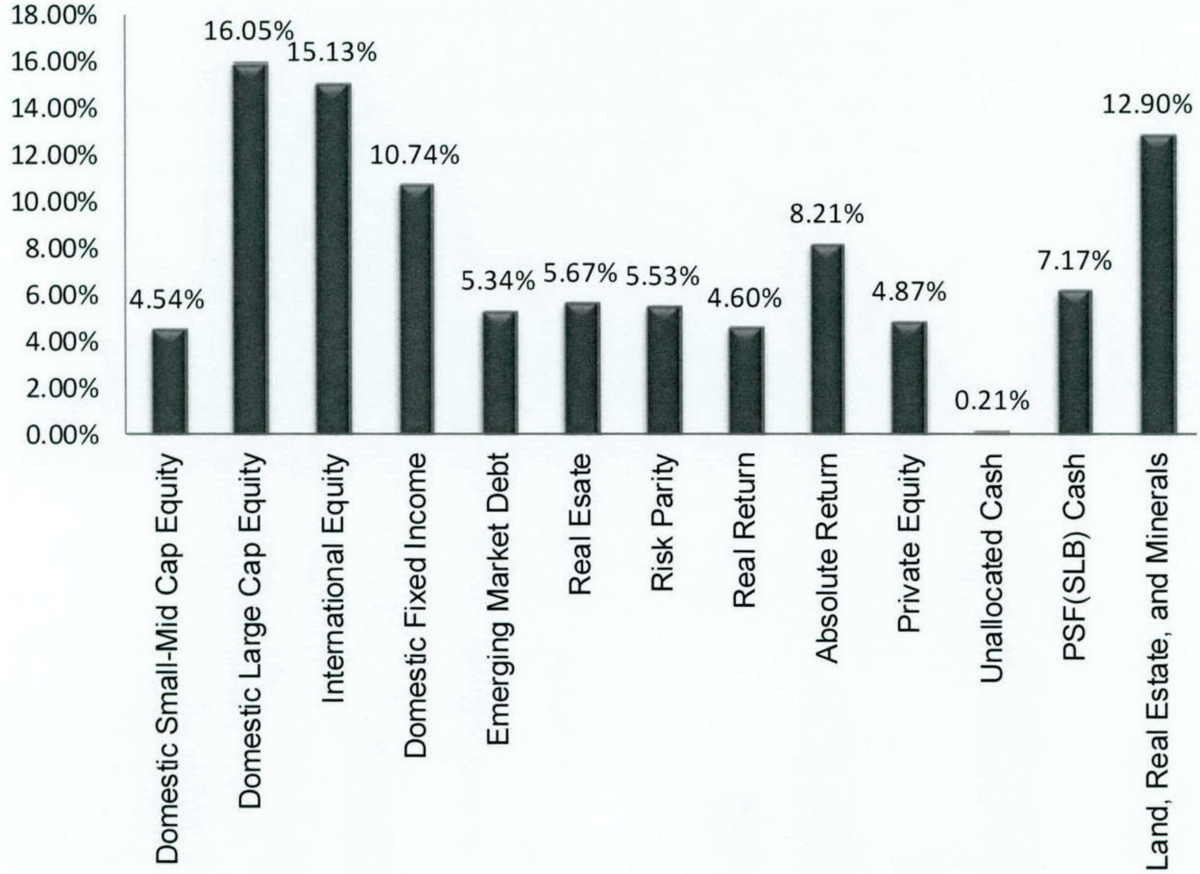
TEXAS PERMANENT SCHOOL FUND
ASSET ALLOCATION MIX INCLUDING ASSETS MANAGED BY THE SLB
AS OF AUGUST 31, 2016

ASSET CLASS	Book Value	Fair Value	Mix
PSF(SBOE)			
Equity			
Public Market Equity			
Domestic Small-Mid Cap Equity	$ 1,083,456,172	$ 1,691,187,954	4.54%
Domestic Large Cap Equity	3,099,166,741	5,983,061,990	16.05%
Total Domestic Equity	4,182,622,913	7,674,249,944	20.59%
International Equity	5,009,841,150	5,640,885,024	15.13%
Total Public Market Equity	9,192,464,063	13,315,134,968	35.72%
Fixed Income			
Domestic Fixed Income	3,882,140,035	4,002,972,074	10.74%
Emerging Market Debt	2,246,979,572	1,991,120,517	5.34%
Total Fixed Income	6,129,119,607	5,994,092,591	16.08%
Alternative Investments			
Real Estate	1,717,338,940	2,115,511,636	5.67%
Risk Parity	1,611,455,040	2,061,999,741	5.53%
Real Return	2,083,513,846	1,714,182,987	4.60%
Absolute Return	2,488,466,117	3,060,114,236	8.21%
Private Equity	1,485,369,225	1,816,135,779	4.87%
Total Alternative Investments	9,386,143,168	10,767,944,379	28.88%
Unallocated Cash	78,818,684	78,818,684	0.21%
PSF(SLB)			
Cash	2,315,325,590	2,315,325,590	6.21%
Land, Real Asset Investments and Minerals			
Soveriegn/Other Lands and Discretionary Internal Investments	271,087,444	615,994,444	1.65%
Investments with External Managers	2,741,656,350	2,721,318,633	7.30%
Mineral Investments	13,422,997	1,471,170,046	3.95%
Total Land, Real Assets, and Minerals	3,026,166,791	4,808,483,123	12.90%
FUND TOTAL	$ 30,128,037,903	$ 37,279,799,335	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, 2016

FIGURE 3:
TEXAS PERMANENT SCHOOL FUND
Asset Allocation Mix
As of August 31, 2016



TOTAL PSF (SBOE) FUND RATE OF RETURN FOR FISCAL YEAR ENDED AUGUST 31, 2016

The total market value of the PSF(SBOE) at August 31, 2016, was $30.1 billion. The PSF(SBOE) annual rates of return for the one year, five year and ten year periods ending August 31, 2016, were 7.61%, 7.77% and 5.71%, respectively. The Fund returned 7.61% for the fiscal year, outperforming its target benchmark of 6.84% by approximately 77 basis points.

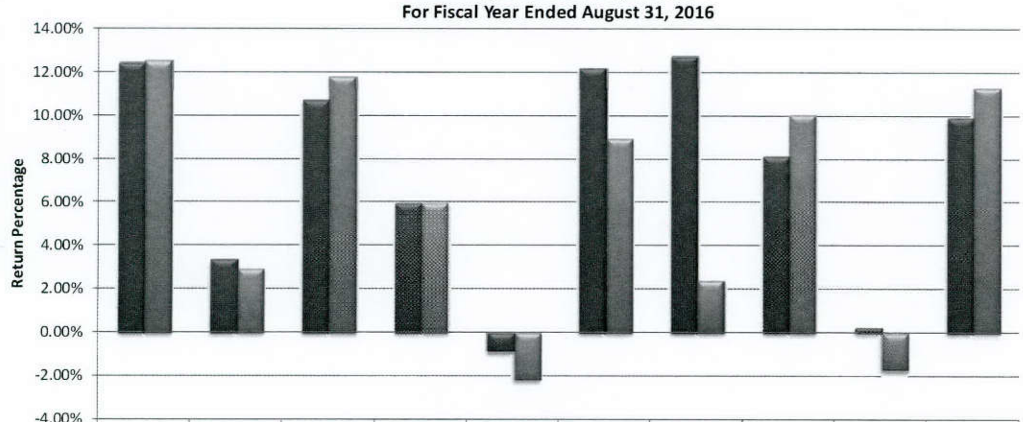
The capital markets continued to capture strong positive momentum with domestic equity, international equity, emerging market equity, domestic fixed income, real estate, private equity, real return, emerging market debt, and risk parity all realizing positive returns. Real estate and private equity kept realizing impressive returns while exceeding their respective benchmark. Additionally, total domestic and international equity, domestic fixed income, absolute return, and total real return 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 2016, and includes comparisons to established benchmarks for the same time periods. Benchmark compositions are defined in the 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, 2016



	Domestic Equities	Inter-national Equities	Emerging Market Equity	Fixed Income	Absolute Return	Real Estate	Private Equity	Risk Parity	Real Return	Emerging Market Debt
Performance	12.45%	3.36%	10.73%	5.98%	-0.88%	12.23%	12.76%	8.17%	0.26%	9.97%
Benchmark	12.53%	2.92%	11.83%	5.97%	-2.16%	8.94%	2.39%	10.09%	-1.71%	11.33%

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

FIGURE 5:
TEXAS PERMANENT SCHOOL FUND
Total Time Weighted Returns

	2012	2013	2014	2015	2016
PSF(SBOE)	9.45	10.16	15.94	(3.36)	7.61
Target Policy Benchmark	8.87	10.41	15.37	(3.71)	6.84

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

Total PSF(SBOE) Portfolio [1]	**2012**	**2013**	**2014**	**2015**	**2016**	**3 Years**	**5 Years**	**10 Years**
PSF(SBOE)	9.45	10.16	15.94	(3.36)	7.61	6.44	7.77	5.71
Target Policy Benchmark [2]	8.87	10.41	15.37	(3.71)	6.84	5.96	7.34	5.37
Domestic Equities								
PSF(SBOE)	17.32	20.13	24.53	0.67	12.45	12.13	14.72	7.92
Domestic Equity Benchmark [3]	17.13	20.00	24.43	0.54	12.53	12.08	14.62	7.80
International Equities								
PSF(SBOE)	(1.59)	13.10	18.10	(12.05)	3.36	2.39	3.62	2.27
International Equity Benchmark [4]	(1.92)	12.98	17.75	(12.35)	2.92	2.03	3.31	1.98
Emerging Market Equity								
PSF(SBOE) (inception to date)	---	---	---	(15.30)	10.73	---	---	---
Emerging Market Equity Benchmark	---	---	---	(15.73)	11.83	---	---	---
Fixed Income								
PSF(SBOE)	6.57	(2.02)	5.93	1.48	5.98	4.44	3.53	5.44
Fixed Income Benchmark [6]	5.78	(2.47)	5.66	1.56	5.97	4.37	3.24	4.89
Absolute Return								
PSF(SBOE)	3.69	10.23	9.94	2.60	(0.88)	3.79	5.03	---
Absolute Return Benchmark [7]	0.14	5.94	7.44	1.49	(2.16)	2.18	2.51	---
Real Estate								
PSF(SBOE)	7.38	11.85	12.35	12.97	12.23	12.51	11.34	---
Real Estate Benchmark [8]	10.40	10.52	11.51	7.37	8.94	10.21	10.31	---
Private Equity								
PSF(SBOE)	5.43	26.89	22.49	13.02	12.76	16.00	15.87	---
Private Equity Benchmark [9]	5.43	26.89	22.49	6.75	2.39	10.77	8.57	---
Risk Parity								
PSF(SBOE)	13.11	(3.28)	18.15	(9.47)	8.17	4.98	4.83	---
Risk Parity Benchmark [10]	13.34	9.87	17.14	1.06	10.09	9.23	10.17	---
Real Return								
PSF(SBOE)	8.49	(7.99)	2.49	(15.31)	0.26	(4.53)	(2.78)	---
Real Return Benchmark [11]	8.29	(6.13)	1.45	(16.05)	(1.71)	(5.76)	(3.18)	---
Emerging Market Debt								
PSF(SBOE)	---	---	3.49	(21.30)	9.97	---	---	---
Emerging Market Debt Benchmark [1:	---	---	3.95	(21.54)	11.33	---	---	---

[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 8/31/2016, Total PSF weights are fixed with the following: 19% 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, 6.00% Private Equity Benchmark, and 7% JPM GBI EM Global Diversified Index.

[3] As of 8/31/2016, Total Domestic Equity Benchmark weights are fixed with the following: 77.55% S&P 500 Index and 22.45% S&P 1000 Index

[4] As of 8/31/2016, Benchmark consists of 100% MSCI All Country World Ex-US Net Dividend Index.

[5] As of 8/31/2016, Benchmark consists of 100% MSCI EM Net Dividend Index.

[6] As of 8/31/2016, Benchmark consists of 100% Bloomberg Barclays U.S. Aggregate Bond Index.

[7] As of 8/31/2016, Benchmark consists of 100% HFRI Fund of Funds Composite Index.

[8] As of 8/31/2016, 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.

[9] As of 8/31/2016, Benchmark represents the Burgiss custom PrivateiQ® benchmark time weighted return, one quarter lagged.

[10] As of 8/31/2016, Benchmark consists of 60% S&P 500 and 40% Barclays Capital U.S. Aggregate Bond Index.

[11] As of 8/31/2016, 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.

[12] As of 8/31/2016, Benchmark consists of 100% JPM GBI EM Global Diversified.

Total PSF (SLB) Time Weighted Returns
Selected Cumulative Periods

At August 31, 2016, 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 $5.27 billion, which was approximately 13.6% of the total Fund assets of approximately $38.8 billion. PSF(SLB) discretionary real assets investments, excluding Cash at the State Treasury, were approximately $2.96 billion, which was approximately 7.6% of 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, 2016, 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	10.58%	12.78%	14.24%	10.08%	6.72%
Including Cash	5.51%	6.98%	8.04%	5.35%	4.20%

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 three 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.

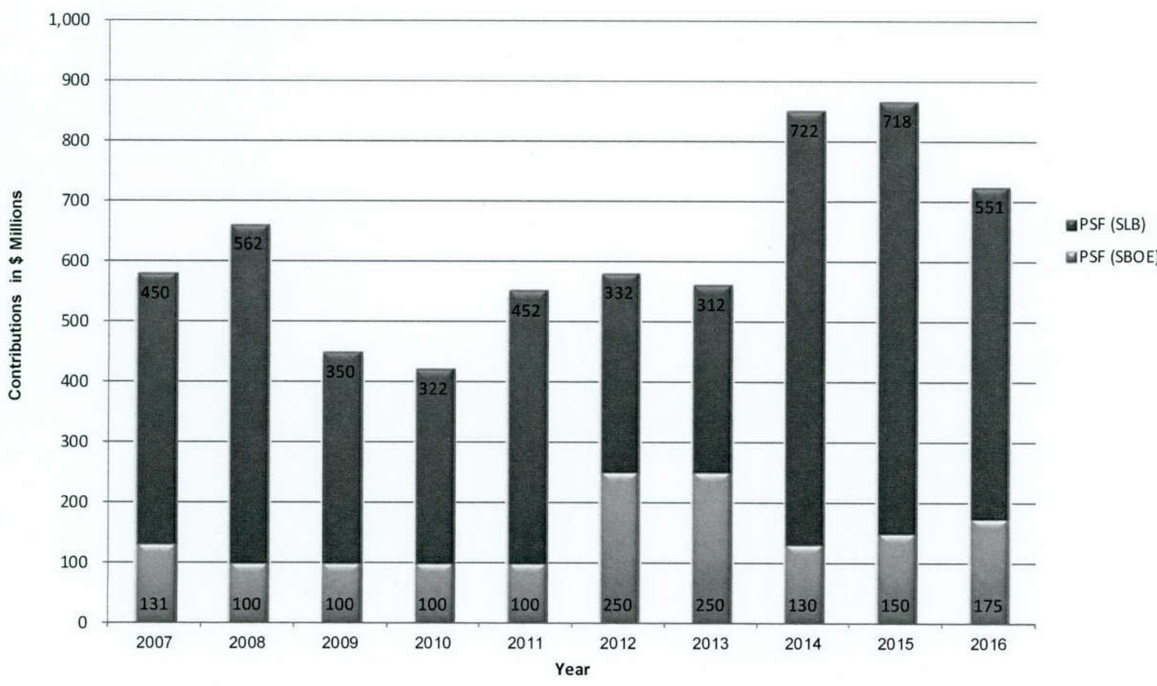
Contributions to the Texas Permanent School Fund Assets Managed by the SBOE, Last Ten Fiscal Years

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 $5.3 billion at August 31, 2016.

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 $175 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 2016, $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.

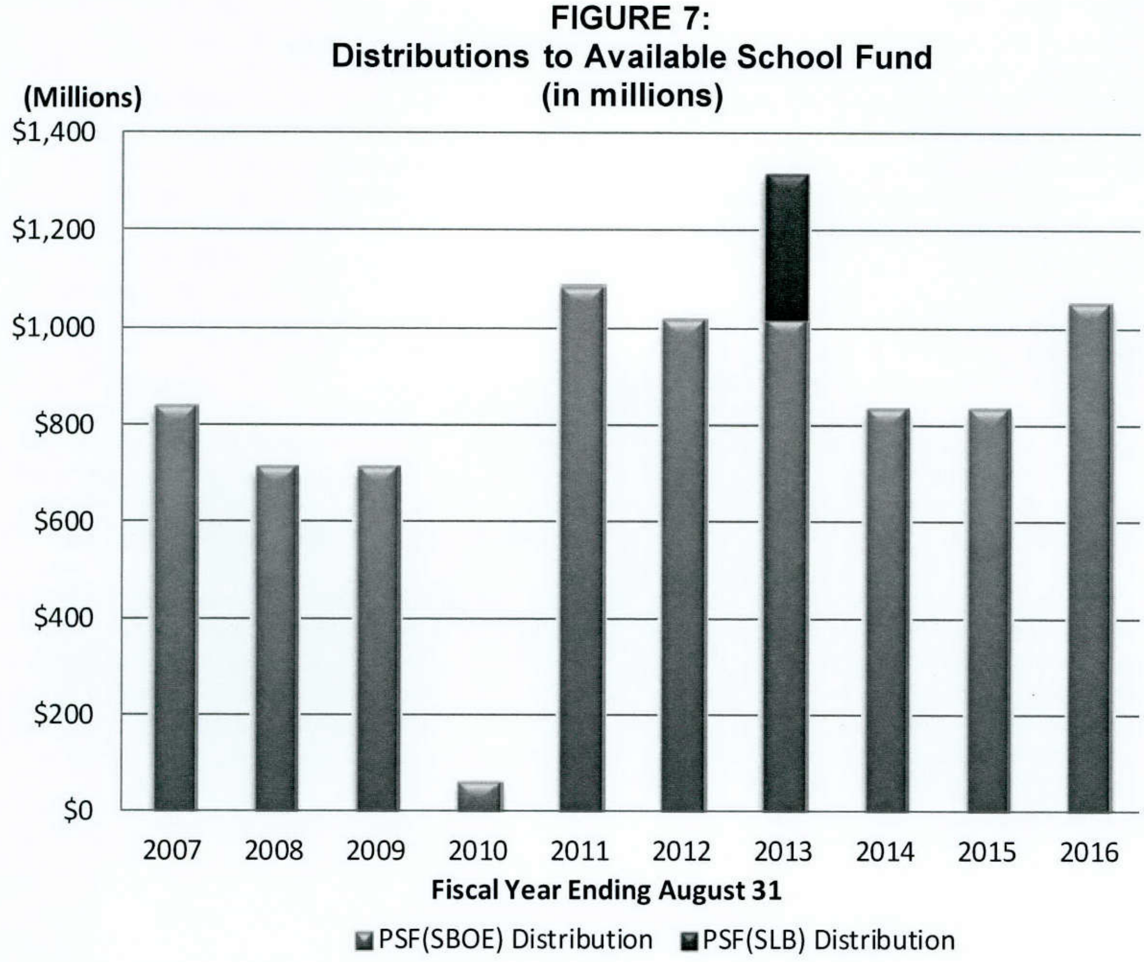
These rules state the SBOE will determine each year whether a distribution to the ASF is permitted under the Texas Constitution Article VII, §5(a)(2), and if a transfer shall be made for the current state fiscal year. The rule adoption was the result of Attorney General Opinion No. GA-0707, dated April 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 2016, the per capita income earned by the Fund and distributed to school districts was $215, the fourth year in which charter schools were included in the ADA. In fiscal years 2014 and 2015, this amount was $175 and $173, 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 is to be 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 2016.

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



Fiscal Year Ending	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
PSF(SBOE) Distribution	$843	$717	$717	$61	$1,093	$1,021	$1,021	$839	$839	$1,056
PSF(SLB) Distribution	$0	$0	$0	$0	$0	$0	$300	$0	$0	$0
Per Capita Distribution (dollars)	$196	$166	$163	$14	$246	$221	$281	$175	$173	$215

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)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Reserved for:										
Encumbrances	$ 1,445	$ 997	$ 1,476	$ 4,963	$ -	$ -	$ -	$ -	$ -	$ -
Loans and Contracts	1,672	1,160	798	3,479	-	-	-	-	-	-
Public School Support	26,770,768	25,225,028	22,595,242	24,386,874	-	-	-	-	-	-
Nonspendable	-	-	-	-	11,392,526	12,041,080	12,279,926	12,860,783	13,496,148	15,732,177
Restricted	-	-	-	-	15,554,732	16,761,845	18,321,566	22,090,437	20,337,395	21,531,752
Total Fund Balance	$ 26,773,885	$ 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

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*, which required several prescribed classifications of fund balance. Generally, the portion classified as nonspendable represents the Fund corpus, and the remainder is classified as restricted since it may only be disposed in accordance with the scope of constitutional and statutory requirements.

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)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenues:										
Gain on Sale of Land	$ 59,336	$ 79,775	$ 4,796	$ 11,462	$ -	$ 9,779	$ 2,687	$ 6,949	$ 2,720	$ 2,267
Dividends and Interest	717,937	772,094	615,979	586,275	604,035	598,778	635,529	661,752	560,683	567,493
Securities Lending	242,729	159,426	23,444	7,059	6,341	7,418	10,330	9,408	7,725	8,419
Land Endowment Income	388,808	616,378	356,282	360,522	526,037	390,498	410,447	675,799	580,299	522,433
Sales of Purchased Gas	154,219	163,856	91,251	49,544	56,318	46,763	51,121	67,248	83,890	76,978
Net Increase/(Decrease) in Fair Value of Investments	2,540,647	(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
Other	7,614	8,120	2,596	2	4,305	1,860	30,491	4,056	9,261	6,039
Total Revenues	4,111,290	(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
Expenditures:										
Administrative	20,455	26,411	36,763	24,228	34,285	32,542	39,573	38,902	53,202	38,339
Gas Supplies Purchased for Resale	154,031	151,561	89,198	49,079	54,587	42,430	44,137	54,819	78,157	74,450
Securities Lending Rebates/Fees	232,431	132,298	4,700	1,059	946	1,107	1,549	1,411	1,159	1,684
Debt Service	34	-	-	-	-	-	-	-	-	-
Capital Outlay	173	307	33	170	136	37	50	177	155	610
Total Expenditures	407,124	310,577	130,694	74,536	89,954	76,116	85,309	95,309	132,673	115,083
Other Sources/(Uses)										
Transfers In	-	-	7,237	-	-	-	-	-	-	9
Transfers Out	(843,137)	(716,535)	(723,771)	(60,700)	(1,092,809)	(1,020,887)	(1,320,887)	(838,672)	(838,672)	(1,056,422)
Sale of Capital Assets	-	-	-	-	-	-	-	-	-	4
Other Financing Sources/(Uses)	(843,137)	(716,535)	(716,534)	(60,700)	(1,092,809)	(1,020,887)	(1,320,887)	(838,672)	(838,672)	(1,056,409)
Net Change in Fund Balance	$ 2,861,029	$ (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

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)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Average Daily Attendance	4,295,251	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
Distribution to the Available School Fund	$ 843,137	$ 716,535	$ 716,534	$ 60,700	$ 1,092,809	$ 1,020,887	$ 1,320,887	$ 838,672	$ 838,672	$ 1,056,412
Per Capita Distribution	$ 196	$ 166	$ 163	$ 14	$ 246	$ 221	$ 281	$ 175	$ 173	$ 215

This page intentionally left blank.

SECTION FOUR

BOND GUARANTEE PROGRAM

(UNAUDITED)

This page intentionally left blank.

An Overview of the Bond Guarantee Program

Since its inception in 1983, the Bond Guarantee Program (BGP) has guaranteed 6,582 school district bond issues for a total of more than $151.7 billion. At the end of fiscal year 2016, there were 3,244 issues of guaranteed school district bonds outstanding with a balance of $67.34 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 155 additional school district issues guaranteed by the Fund. This increased the total amount of school district bonds outstanding by $4.14 billion.

The BGP may also guarantee debt issued from qualified charter districts. Total charter cumulative bonds guaranteed were $978.9 million. At the end of fiscal year 2016, there were 7 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 $203.1 million, leaving a $961.0 million 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 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 325% 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 3.25 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, 2016, the ratio of guaranteed debt outstanding to the book value of the Fund was 2.27:1 and the ratio of guaranteed debt to the fair value of the Fund was 1.83:1.

The remainder of this column intentionally left blank.

An Overview of the Bond Guarantee Program

In order 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 the total bond issue. 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, 2016.

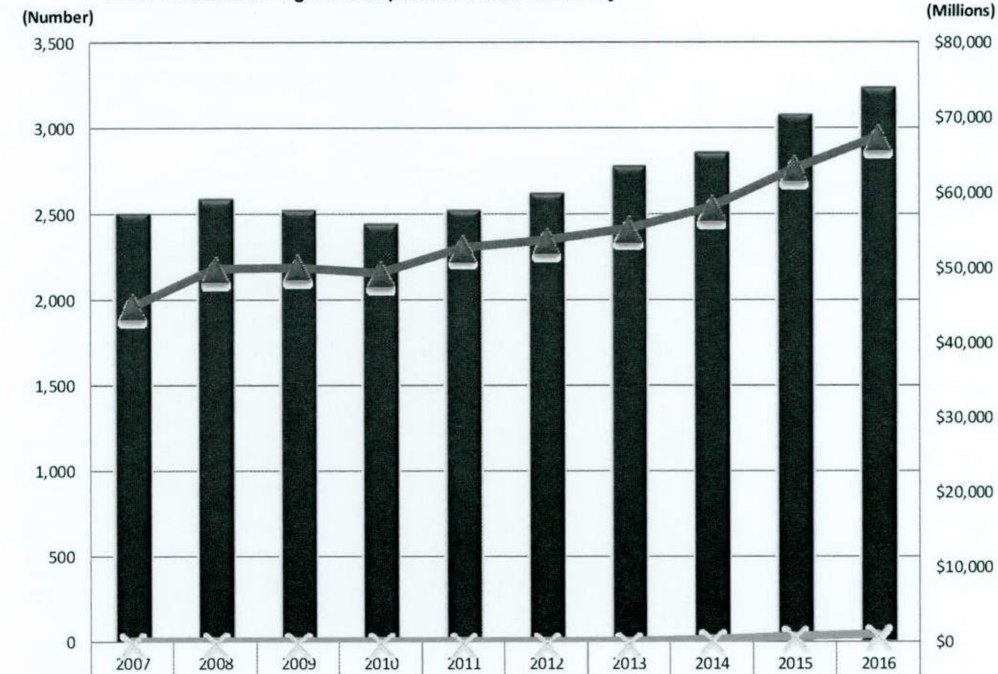
FIGURE 11:
Bond Guarantee Program
Ten Largest Total Debt Outstanding
Guaranteed Under the Program
At August 31, 2016

District Name	Balance
Dallas ISD	$ 2,795,180,000
Houston ISD	2,319,755,000
Cypress-Fairbanks ISD	2,089,135,000
Northside ISD [Bexar]	1,999,800,000
Frisco ISD	1,674,138,851
Katy ISD	1,449,414,330
North East ISD	1,271,845,000
Conroe ISD	1,007,900,000
Leander ISD	950,163,980
Klein ISD	860,180,000

NUMBER OF ISSUES	Total	School Districts	Charter Districts
Number of Issues as of September 1, 2015	3,117	3,089	28
Fiscal Year Activity:			
District Issues Guaranteed During Fiscal Year	455	447	8
District Issues Matured	(237)	(236)	(1)
District Issues Refunded	(56)	(56)	-
Number of Issues as of August 31, 2016	3,279	3,244	35
BALANCE			
Balance as of September 1, 2015	$ 63,955,449,047	$ 63,197,514,047	$ 757,935,000
Fiscal Year Activity:			
District Issues Guaranteed During Fiscal Year	14,177,894,045	13,963,662,045	214,232,000
District Issues Matured	(2,583,395,005)	(2,572,253,005)	(11,142,000)
District Issues Refunded	(7,246,619,642)	(7,246,619,642)	-
Balance as of August 31, 2016	$ 68,303,328,445	$ 67,342,303,445	$ 961,025,000

BOND GUARANTEE PROGRAM COMPARATIVE STATUS SUMMARY
LAST TEN FISCAL YEARS

FIGURE 12:
Bond Guarantee Program Comparative Status Summary



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Number of Issues - School District	2,518	2,596	2,531	2,452	2,536	2,634	2,789	2,869	3,089	3,244
Number of Issues - Charter School	-	-	-	-	-	-	-	10	28	35
Issued Year-End Balance - School District	44,857	49,861	50,033	49,302	52,654	53,634	55,219	58,062	63,198	67,342
Issued Year-End Balance - Charter School	-	-	-	-	-	-	-	303	758	961

Bond Guarantee Program --- Issued and Guaranteed For the Fiscal Year Ended August 31, 2016

School District Name	Balance	School District Name	Balance
Abbott ISD	3,929,010	Bastrop ISD	138,152,566
Abernathy ISD	17,445,000	Bay City ISD	12,293,484
Abilene ISD	113,292,883	Beaumont ISD	254,745,000
Academy ISD	20,815,000	Beckville ISD	2,190,000
Agua Dulce ISD	4,415,000	Beeville ISD	16,144,686
Alamo Heights ISD	90,500,000	Bells ISD	9,107,419
Alba-Golden ISD	1,860,000	Bellville ISD	22,324,572
Aldine ISD	621,460,000	Belton ISD	121,854,996
Aledo ISD	179,385,854	Ben Bolt-Palito Blanco ISD	4,380,000
Alice ISD	26,949,998	Benavides ISD	6,015,000
Alief ISD	173,860,000	Big Sandy ISD [Upshur]	7,649,999
Allen ISD	564,595,936	Big Spring ISD	56,100,000
Alpine ISD	1,240,000	Birdville ISD	237,568,750
Alto ISD	3,790,000	Bishop CISD	7,522,763
Alvarado ISD	77,598,599	Blackwell CISD	3,830,000
Alvin ISD	646,540,000	Blanco ISD	10,340,000
Alvord ISD	7,485,000	Bland ISD	13,450,909
Amarillo ISD	174,230,000	Blanket ISD	1,000,000
Anahuac ISD	13,180,000	Bloomburg ISD	729,000
Anderson-Shiro CISD	28,039,997	Blooming Grove ISD	1,239,503
Andrews ISD	18,756,408	Bloomington ISD	9,055,000
Angleton ISD	117,059,993	Blue Ridge ISD	14,550,000
Anna ISD	111,755,024	Bluff Dale ISD	105,000
Anson ISD	6,015,000	Blum ISD	2,055,000
Anthony ISD	5,265,000	Boerne ISD	175,361,766
Aquilla ISD	1,655,000	Boles ISD	4,615,000
Aransas Co ISD	28,075,000	Bonham ISD	36,525,000
Aransas Pass ISD	1,335,000	Borger ISD	32,318,682
Archer City ISD	17,160,000	Bosqueville ISD	7,909,999
Argyle ISD	83,965,743	Bowie ISD	23,884,998
Arlington ISD	767,403,853	Boyd ISD	21,675,000
Arp ISD	20,370,596	Brady ISD	16,415,000
Aspermont ISD	7,680,000	Brazos ISD	14,839,987
Athens ISD	70,820,000	Brazosport ISD	161,989,050
Atlanta ISD	12,640,500	Breckenridge ISD	5,140,000
Aubrey ISD	49,324,775	Bremond ISD	9,984,999
Austin ISD	513,962,075	Brenham ISD	33,228,245
Austwell-Tivoli ISD	9,321,000	Bridge City ISD	16,275,000
Avalon ISD	955,000	Bridgeport ISD	22,165,000
Azle ISD	32,945,000	Brock ISD	29,379,130
Baird ISD	4,595,000	Brookesmith ISD	715,000
Balmorhea ISD	1,045,000	Brooks Co ISD	32,040,000
Bandera ISD	21,685,000	Brownfield ISD	9,250,000
Bangs ISD	6,690,000	Brownsboro ISD	26,762,513
Banquete ISD	9,335,000	Brownsville ISD	129,625,000
Barbers Hill ISD	132,675,000	Bruceville-Eddy ISD	5,970,000
Bartlett ISD	1,195,000	Bryan ISD	195,780,000

Bond Guarantee Program --- Issued and Guaranteed For the Fiscal Year Ended August 31, 2016

School District Name	Balance	School District Name	Balance
Bryson ISD	14,896,590	China Spring ISD	40,885,000
Buckholts ISD	665,000	Chireno ISD	945,000
Buena Vista ISD	145,317	Chisum ISD	30,010,000
Buffalo ISD	16,034,986	Christoval ISD	885,000
Bullard ISD	70,505,533	City View ISD	2,752,105
Buna ISD	24,090,000	Claude ISD	1,570,000
Burkburnett ISD	44,215,000	Clear Creek ISD	727,520,000
Burkeville ISD	1,520,000	Cleburne ISD	141,632,081
Burleson ISD	222,850,852	Cleveland ISD	64,639,845
Burnet CISD	44,570,000	Clifton ISD	26,135,000
Burton ISD	6,180,000	Clint ISD	179,928,267
Bushland ISD	23,470,000	Clyde CISD	22,768,437
Bynum ISD	890,000	Coahoma ISD	11,929,997
Caddo Mills ISD	30,025,376	Coldspring-Oakhurst CISD	518,000
Calallen ISD	39,640,000	College Station ISD	284,750,000
Caldwell ISD	6,957,000	Collinsville ISD	8,660,000
Calhoun Co ISD	58,720,000	Colorado ISD	28,670,000
Callisburg ISD	17,829,997	Columbia-Brazoria ISD	35,414,146
Cameron ISD	20,275,000	Columbus ISD	11,009,989
Campbell ISD	101,203	Comal ISD	534,871,863
Canadian ISD	4,545,000	Comanche ISD	9,440,000
Canton ISD	32,739,152	Comfort ISD	17,069,995
Canutillo ISD	94,650,057	Commerce ISD	24,635,000
Canyon ISD	70,959,967	Community ISD	25,345,000
Carlisle ISD	9,885,000	Comstock ISD	2,100,000
Carrizo Springs CISD	45,175,000	Connally ISD	15,485,000
Carroll ISD	103,156,049	Conroe ISD	1,007,900,000
Carrollton-Farmers Branch ISD	218,335,000	Coolidge ISD	2,550,000
Carthage ISD	15,860,000	Cooper ISD	10,005,000
Castleberry ISD	44,640,000	Coppell ISD	237,956,885
Cedar Hill ISD	102,420,588	Copperas Cove ISD	19,119,995
Celeste ISD	7,025,000	Corpus Christi ISD	315,700,000
Celina ISD	70,200,437	Corrigan-Camden ISD	4,285,000
Center ISD	6,362,121	Corsicana ISD	92,441,116
Center Point ISD	1,180,000	Cotulla ISD	33,015,000
Centerville ISD [Leon]	14,610,000	Covington ISD	754,000
Central Heights ISD	2,700,000	Crandall ISD	32,793,551
Central ISD	11,290,000	Crane ISD	4,795,000
Channelview ISD	140,470,000	Crawford ISD	4,645,180
Channing ISD	1,810,000	Crockett Co Cons CSD	2,445,000
Chapel Hill ISD [Smith]	16,515,000	Crockett ISD	12,140,000
Chapel Hill ISD [Titus]	3,145,000	Crosby ISD	127,855,610
Charlotte ISD	2,680,000	Cross Roads ISD	4,955,000
Chester ISD	125,000	Crowley ISD	312,556,603
Chico ISD	16,590,000	Crystal City ISD	50,565,000
Childress ISD	1,030,000	Cuero ISD	72,583,608
Chillicothe ISD	3,555,000	Culberson Co-Allamoore ISD	27,880,000

BOND GUARANTEE PROGRAM --- ISSUED AND GUARANTEED FOR THE FISCAL YEAR ENDED AUGUST 31, 2016

SCHOOL DISTRICT NAME	BALANCE	SCHOOL DISTRICT NAME	BALANCE
Cumby ISD	1,675,000	Edna ISD	19,900,000
Cushing ISD	12,950,000	El Campo ISD	29,219,997
Cypress-Fairbanks ISD	2,089,135,000	El Paso ISD	339,652,636
Daingerfield-Lone Star ISD	9,019,000	Electra ISD	11,975,000
Dalhart ISD	13,515,000	Elgin ISD	51,314,984
Dallas ISD	2,795,180,000	Elysian Fields ISD	8,545,000
Danbury ISD	2,535,000	Ennis ISD	125,008,014
Darrouzett ISD	1,835,000	Era ISD	4,555,525
Dawson ISD [Navarro]	3,143,466	Etoile ISD	2,355,000
Dayton ISD	93,890,000	Eula ISD	4,698,300
De Leon ISD	885,000	Eustace ISD	2,905,000
Decatur ISD	30,622,612	Evadale ISD	3,718,476
Deer Park ISD	173,315,000	Everman ISD	91,185,000
Del Valle ISD	189,094,999	Ezzell ISD	3,785,000
Denison ISD	79,813,186	Fabens ISD	28,495,000
Denton ISD	792,777,749	Fairfield ISD	4,375,000
Denver City ISD	73,705,000	Falls City ISD	32,330,000
DeSoto ISD	104,924,614	Fannindel ISD	1,145,000
Detroit ISD	5,770,000	Farmersville ISD	10,970,000
Devers ISD	785,000	Ferris ISD	29,599,428
Devine ISD	12,115,000	Flatonia ISD	4,127,000
Deweyville ISD	7,530,000	Florence ISD	5,910,000
D'Hanis ISD	4,655,000	Floresville ISD	65,989,990
Diboll ISD	15,404,924	Flour Bluff ISD	49,105,000
Dickinson ISD	258,550,000	Floydada ISD	4,835,000
Dilley ISD	41,060,000	Follett ISD	830,000
Dimmitt ISD	13,779,998	Forney ISD	241,809,486
Dodd City ISD	4,443,900	Forsan ISD	19,850,000
Donna ISD	83,535,000	Fort Bend ISD	615,533,767
Dripping Springs ISD	191,069,999	Fort Elliott CISD	4,955,000
Driscoll ISD	8,255,306	Fort Hancock ISD	1,235,000
Dublin ISD	5,960,000	Fort Stockton ISD	25,630,000
Dumas ISD	19,185,000	Fort Worth ISD	472,525,000
Duncanville ISD	213,701,096	Franklin ISD	6,380,000
Eagle Mountain-Saginaw ISD	538,504,150	Frankston ISD	15,491,275
Eagle Pass ISD	50,255,000	Fredericksburg ISD	16,130,000
Eanes ISD	96,240,000	Freer ISD	24,894,908
Early ISD	18,159,995	Frenship ISD	210,155,892
East Bernard ISD	2,160,000	Friendswood ISD	92,960,000
East Central ISD	99,213,479	Friona ISD	3,095,000
East Chambers ISD	16,370,000	Frisco ISD	1,674,138,851
Ector Co ISD	178,009,985	Frost ISD	628,000
Ector ISD	1,785,000	Fruitvale ISD	820,000
Edcouch-Elsa ISD	36,975,000	Gainesville ISD	29,605,000
Edgewood ISD [Bexar]	69,250,000	Galena Park ISD	165,657,534
Edgewood ISD [Van Zandt]	4,175,000	Galveston ISD	51,379,999
Edinburg CISD	123,805,000	Ganado ISD	3,435,000

Bond Guarantee Program --- Issued and Guaranteed For the Fiscal Year Ended August 31, 2016

School District Name	Balance	School District Name	Balance
Garland ISD	419,382,866	Hamshire-Fannett ISD	23,300,000
Garner ISD	1,500,000	Hardin ISD	18,180,000
Garrison ISD	1,680,000	Hardin-Jefferson ISD	27,191,910
Gary ISD	8,310,000	Harlandale ISD	197,741,696
Gatesville ISD	17,235,000	Harleton ISD	1,351,000
George West ISD	23,125,000	Harlingen CISD	129,235,000
Georgetown ISD	305,175,000	Harmony ISD	1,303,000
Giddings ISD	33,015,000	Hartley ISD	5,775,000
Gilmer ISD	13,725,000	Haskell CISD	468,000
Gladewater ISD	33,315,000	Hawkins ISD	17,435,000
Glasscock Co ISD	16,530,000	Hawley ISD	6,615,000
Glen Rose ISD	20,990,000	Hays CISD	296,520,000
Godley ISD	61,870,244	Hearne ISD	9,630,000
Goldthwaite CISD	7,320,000	Hempstead ISD	14,544,480
Goliad ISD	10,350,000	Henderson ISD	44,825,254
Gonzales ISD	23,490,000	Henrietta ISD	9,570,000
Goose Creek CISD	475,245,000	Hermleigh ISD	3,080,000
Gordon ISD	272,000	Hico ISD	3,460,000
Gorman ISD	3,983,956	Hidalgo ISD	34,035,000
Grady ISD	5,120,000	Higgins ISD	2,940,000
Graford ISD	9,369,999	High Island ISD	930,000
Graham ISD	26,555,000	Highland ISD	2,990,000
Granbury ISD	111,541,344	Highland Park ISD [Dallas]	206,660,000
Grand Prairie ISD	476,893,613	Highland Park ISD [Potter]	1,860,000
Grand Saline ISD	7,880,000	Hillsboro ISD	12,569,164
Grandfalls-Royalty ISD	11,200,000	Hitchcock ISD	33,397,118
Grandview ISD	14,745,000	Holland ISD	5,193,774
Grandview-Hopkins ISD	530,000	Holliday ISD	17,785,000
Granger ISD	625,000	Hondo ISD	38,425,465
Grape Creek ISD	2,970,000	Honey Grove ISD	8,965,367
Grapeland ISD	3,775,000	Hooks ISD	7,255,000
Grapevine-Colleyville ISD	233,962,687	Houston ISD	2,319,755,000
Greenville ISD	78,105,000	Howe ISD	6,742,133
Greenwood ISD	59,365,000	Hubbard ISD [Hill]	9,174,000
Gregory-Portland ISD	50,165,000	Hudson ISD	15,751,094
Groesbeck ISD	5,645,000	Huffman ISD	36,999,996
Groom ISD	1,340,000	Hull-Daisetta ISD	1,545,000
Gruver ISD	3,757,143	Humble ISD	491,500,000
Gunter ISD	15,430,000	Hunt ISD	4,055,000
Gustine ISD	1,000,000	Huntington ISD	16,245,000
Guthrie CSD	1,035,000	Huntsville ISD	21,280,000
Hale Center ISD	5,527,215	Hurst-Euless-Bedford ISD	158,067,579
Hallettsville ISD	22,490,000	Hutto ISD	175,479,667
Hallsburg ISD	2,290,000	Idalou ISD	13,135,000
Hallsville ISD	72,990,000	Ingleside ISD	6,680,000
Hamilton ISD	810,000	Ingram ISD	14,625,000
Hamlin ISD	3,772,802	Iowa Park CISD	14,060,000

Bond Guarantee Program --- Issued and Guaranteed
For the Fiscal Year Ended August 31, 2016

School District Name	Balance	School District Name	Balance
Ira ISD	11,740,000	La Pryor ISD	2,095,000
Iraan-Sheffield ISD	6,925,000	La Vega ISD	40,326,608
Iredell ISD	65,000	La Vernia ISD	38,829,801
Irion Co ISD	595,000	La Villa ISD	4,840,000
Irving ISD	453,955,000	Lago Vista ISD	38,543,017
Italy ISD	9,375,000	Lake Dallas ISD	82,686,615
Itasca ISD	7,160,000	Lake Travis ISD	246,575,000
Jacksboro ISD	17,665,000	Lake Worth ISD	64,868,670
Jacksonville ISD	72,460,000	Lamar CISD	719,995,000
Jarrell ISD	48,016,054	Lampasas ISD	36,969,982
Jasper ISD	9,315,000	Lancaster ISD	73,425,000
Jefferson ISD	6,670,000	Laredo ISD	190,829,337
Jim Hogg Co ISD	12,030,000	Lasara ISD	6,190,000
Jim Ned CISD	13,790,000	Latexo ISD	1,114,996
Joaquin ISD	11,860,000	Leander ISD	950,163,980
Johnson City ISD	6,750,000	Lefors ISD	2,815,000
Joshua ISD	108,102,430	Leon ISD	8,685,000
Jourdanton ISD	22,305,000	Leonard ISD	525,000
Judson ISD	331,409,205	Levelland ISD	53,587,998
Karnes City ISD	16,850,000	Lewisville ISD	762,294,864
Katy ISD	1,449,414,330	Lexington ISD	8,630,000
Kaufman ISD	63,778,351	Liberty Hill ISD	145,110,673
Keene ISD	12,945,000	Liberty ISD	31,354,995
Keller ISD	696,790,378	Liberty-Eylau ISD	24,400,000
Kemp ISD	22,753,516	Lindale ISD	51,519,271
Kenedy County-Wide CSD	1,161,000	Lindsay ISD	245,000
Kenedy ISD	16,760,000	Lingleville ISD	1,021,000
Kennedale ISD	38,533,985	Lipan ISD	7,829,307
Kerens ISD	1,740,000	Little Cypress-Mauriceville	59,045,000
Kermit ISD	26,340,000	Little Elm ISD	149,142,748
Kerrville ISD	19,900,000	Livingston ISD	56,740,000
Kilgore ISD	51,380,000	Llano ISD	39,420,000
Killeen ISD	60,295,000	Lockhart ISD	72,399,988
Kingsville ISD	69,449,993	Lohn ISD	1,030,000
Kirbyville CISD	23,525,000	Lometa ISD	4,305,000
Klein ISD	860,180,000	London ISD	17,899,953
Klondike ISD	5,480,000	Lone Oak ISD	9,895,000
Knippa ISD	3,715,000	Longview ISD	167,842,163
Knox City-O'Brien CISD	90,000	Loop ISD	2,105,000
Kopperl ISD	70,000	Loraine ISD	9,975,000
Kountze ISD	10,120,000	Lorena ISD	30,288,129
Kress ISD	2,745,000	Los Fresnos CISD	32,070,000
Krum ISD	32,486,556	Lovejoy ISD	157,463,766
La Feria ISD	25,295,000	Lubbock ISD	237,410,000
La Joya ISD	246,101,728	Lubbock-Cooper ISD	164,489,951
La Porte ISD	244,870,000	Lueders-Avoca ISD	1,070,000
La Poynor ISD	8,749,000	Lufkin ISD	47,852,684

Bond Guarantee Program --- Issued and Guaranteed
For the Fiscal Year Ended August 31, 2016

School District Name	Balance	School District Name	Balance
Luling ISD	2,835,000	Mildred ISD	12,691,120
Lumberton ISD	5,650,000	Miles ISD	7,790,000
Lyford CISD	3,701,582	Miller Grove ISD	1,760,000
Lytle ISD	18,070,000	Millsap ISD	17,719,937
Mabank ISD	41,229,979	Mineral Wells ISD	53,549,918
Madisonville CISD	22,935,000	Mission CISD	120,485,222
Magnolia ISD	140,610,000	Monahans-Wickett-Pyote ISD	16,099,145
Malakoff ISD	22,020,000	Monte Alto ISD	13,830,000
Malone ISD	984,000	Montgomery ISD	353,615,000
Malta ISD	850,000	Moody ISD	10,580,000
Manor ISD	266,979,999	Mount Calm ISD	1,500,000
Mansfield ISD	740,020,000	Mount Enterprise ISD	2,670,000
Marble Falls ISD	56,019,544	Mount Pleasant ISD	31,854,991
Marfa ISD	6,179,260	Mount Vernon ISD	12,960,000
Marion ISD	19,880,000	Muenster ISD	15,734,444
Marlin ISD	690,000	Muleshoe ISD	18,690,000
Marshall ISD	87,675,000	Munday CISD	7,065,000
Mart ISD	1,875,000	Nacogdoches ISD	30,045,000
Martins Mill ISD	555,000	Natalia ISD	1,132,000
Martinsville ISD	3,965,000	Navarro ISD	30,000,490
Mason ISD	4,105,000	Navasota ISD	10,005,000
Matagorda ISD	4,474,999	Nazareth ISD	538,461
Mathis ISD	13,435,000	Neches ISD	4,125,000
Maud ISD	740,000	Nederland ISD	30,210,000
May ISD	2,410,000	Needville ISD	41,910,000
Maypearl ISD	12,535,744	New Boston ISD	14,364,919
McAllen ISD	79,565,000	New Braunfels ISD	147,994,884
McCamey ISD	23,205,000	New Caney ISD	307,111,645
McDade ISD	910,000	New Diana ISD	3,010,000
McGregor ISD	23,561,594	New Home ISD	5,144,142
McKinney ISD	464,610,000	New Summerfield ISD	7,870,000
McLean ISD	1,775,000	New Waverly ISD	5,775,000
McMullen Co ISD	13,167,000	Newcastle ISD	4,500,000
Meadow ISD	1,005,000	Newton ISD	4,955,000
Medina Valley ISD	120,438,950	Nixon-Smiley CISD	16,973,000
Melissa ISD	85,920,000	Nordheim ISD	265,000
Mercedes ISD	59,035,000	Normangee ISD	14,040,444
Meridian ISD	6,835,000	North East ISD	1,271,845,000
Merkel ISD	12,740,000	North Hopkins ISD	4,650,000
Mesquite ISD	396,059,333	North Lamar ISD	710,000
Mexia ISD	4,865,000	North Zulch ISD	5,523,000
Miami ISD	26,235,000	Northside ISD [Bexar]	1,999,800,000
Midland ISD	223,505,000	Northside ISD [Wilbarger]	1,455,000
Midlothian ISD	231,874,270	Northwest ISD	731,154,556
Midway ISD [Clay]	5,550,000	Nursery ISD	2,658,332
Midway ISD [McLennan]	102,748,698	Oakwood ISD	1,544,014
Milano ISD	3,765,000	Odem-Edroy ISD	27,119,997

Bond Guarantee Program --- Issued and Guaranteed
For the Fiscal Year Ended August 31, 2016

School District Name	Balance	School District Name	Balance
O'Donnell ISD	14,530,000	Post ISD	39,200,000
Oglesby ISD	175,000	Poteet ISD	26,844,243
Olfen ISD	920,000	Poth ISD	4,610,000
Olney ISD	1,285,000	Pottsboro ISD	5,479,484
Olton ISD	375,000	Prairiland ISD	7,670,000
Onalaska ISD	12,392,607	Premont ISD	1,560,000
Orange Grove ISD	11,970,000	Presidio ISD	5,412,262
Orangefield ISD	8,675,000	Priddy ISD	70,000
Ore City ISD	8,885,000	Princeton ISD	99,864,016
Overton ISD	3,159,226	Pringle-Morse CISD	2,258,000
Paint Rock ISD	2,171,252	Progreso ISD	26,470,000
Palacios ISD	2,455,000	Prosper ISD	335,887,630
Palestine ISD	51,830,000	Queen City ISD	2,655,000
Palmer ISD	18,390,000	Quinlan ISD	16,950,000
Palo Pinto ISD	2,990,000	Quitman ISD	14,705,000
Pampa ISD	40,950,000	Rains ISD	5,020,000
Panhandle ISD	16,425,000	Rankin ISD	30,745,000
Panther Creek CISD	815,000	Raymondville ISD	17,890,000
Paradise ISD	8,819,998	Reagan Co ISD	21,060,000
Paris ISD	43,940,000	Red Lick ISD	4,900,000
Pasadena ISD	613,055,000	Red Oak ISD	85,477,585
Pawnee ISD	5,415,000	Redwater ISD	375,000
Pearland ISD	290,618,597	Refugio ISD	20,305,623
Pearsall ISD	13,892,976	Rice CISD	19,654,992
Peaster ISD	18,520,000	Rice ISD	10,774,592
Pecos-Barstow-Toyah ISD	20,276,817	Richardson ISD	380,699,988
Perrin-Whitt CISD	5,305,000	Richland Springs ISD	2,655,000
Perryton ISD	18,030,000	Riesel ISD	25,605,348
Petrolia CISD	3,310,000	Rio Grande City CISD	89,035,000
Pettus ISD	17,550,000	Rio Hondo ISD	35,324,994
Pewitt CISD	1,400,000	Rio Vista ISD	3,850,000
Pflugerville ISD	489,480,000	River Road ISD	11,281,607
Pharr-San Juan-Alamo ISD	307,330,000	Rivercrest ISD	5,665,000
Pilot Point ISD	16,450,000	Robert Lee ISD	7,715,000
Pine Tree ISD	53,455,000	Robinson ISD	24,495,000
Pittsburg ISD	19,988,000	Robstown ISD	53,156,175
Plains ISD	37,155,000	Rockdale ISD	24,499,996
Plano ISD	622,995,000	Rocksprings ISD	1,840,000
Pleasant Grove ISD	30,805,000	Rockwall ISD	428,976,671
Pleasanton ISD	67,410,000	Rogers ISD	12,215,300
Plemons-Stinnett-Phillips CISD	21,645,000	Roma ISD	56,470,000
Point Isabel ISD	13,919,904	Roosevelt ISD	9,425,000
Ponder ISD	21,465,000	Ropes ISD	4,835,000
Poolville ISD	3,850,000	Roscoe Collegiate ISD	6,575,000
Port Aransas ISD	6,700,000	Rotan ISD	55,000
Port Arthur ISD	170,315,000	Round Rock ISD	460,845,000
Port Neches-Groves ISD	95,339,998	Round Top-Carmine ISD	230,000

Bond Guarantee Program --- Issued and Guaranteed
For the Fiscal Year Ended August 31, 2016

School District Name	Balance	School District Name	Balance
Roxton ISD	290,000	Simms ISD	1,390,000
Royal ISD	66,511,663	Sinton ISD	25,580,000
Royse City ISD	90,432,293	Skidmore-Tynan ISD	10,664,193
Runge ISD	12,690,000	Slaton ISD	17,035,000
Rusk ISD	9,155,000	Slidell ISD	1,510,000
S & S CISD	5,235,000	Slocum ISD	3,145,000
Sabinal ISD	980,000	Smithville ISD	7,449,991
Sabine ISD	18,725,000	Smyer ISD	647,000
Sabine Pass ISD	11,384,485	Snook ISD	8,180,000
Salado ISD	18,570,000	Snyder CISD	10,925,000
Sam Rayburn ISD	3,760,000	Socorro ISD	508,246,939
San Angelo ISD	99,054,982	Somerset ISD	28,784,991
San Antonio ISD	783,554,988	Somerville ISD	10,605,000
San Augustine ISD	11,035,000	Sonora ISD	245,000
San Benito CISD	74,005,000	South San Antonio ISD	169,946,899
San Diego ISD	23,240,000	Southside ISD	44,275,000
San Elizario ISD	27,905,000	Southwest ISD	236,448,289
San Felipe Del Rio CISD	38,529,993	Spearman ISD	7,780,000
San Isidro ISD	841,000	Splendora ISD	49,195,000
San Marcos CISD	145,709,959	Spring Branch ISD	557,755,000
San Perlita ISD	6,270,000	Spring Hill ISD	37,016,000
San Saba ISD	5,532,000	Spring ISD	369,410,000
Sands CISD	5,295,000	Springtown ISD	57,835,000
Sanford-Fritch ISD	8,110,992	Spur ISD	4,815,000
Sanger ISD	22,093,438	Spurger ISD	2,305,000
Santa Anna ISD	1,110,000	Stafford MSD	54,295,000
Santa Fe ISD	48,965,000	Stamford ISD	8,185,000
Santa Gertrudis ISD	4,300,000	Stanton ISD	42,098,000
Santa Maria ISD	9,145,000	Stephenville ISD	25,785,000
Santa Rosa ISD	11,120,000	Sterling City ISD	18,770,000
Santo ISD	645,000	Stockdale ISD	8,620,000
Savoy ISD	1,680,000	Sudan ISD	3,880,000
Schertz-Cibolo-Universal City	307,071,092	Sulphur Bluff ISD	711,000
Schulenburg ISD	10,290,000	Sulphur Springs ISD	6,945,000
Scurry-Rosser ISD	6,584,371	Sunnyvale ISD	59,522,581
Seagraves ISD	9,835,000	Sunray ISD	10,495,000
Sealy ISD	37,150,000	Sweeny ISD	36,880,388
Seguin ISD	141,158,356	Sweetwater ISD	7,539,011
Seminole ISD	45,845,000	Taft ISD	28,445,000
Shallowater ISD	29,011,012	Tahoka ISD	8,110,000
Sharyland ISD	109,259,999	Tarkington ISD	10,160,000
Shelbyville ISD	1,185,000	Tatum ISD	19,365,000
Sheldon ISD	150,399,996	Taylor ISD	61,445,000
Shepherd ISD	18,269,998	Teague ISD	23,560,000
Sherman ISD	67,950,000	Temple ISD	135,470,000
Sidney ISD	1,290,000	Tenaha ISD	3,270,000
Silsbee ISD	32,735,000	Terrell ISD	60,501,098

Bond Guarantee Program --- Issued and Guaranteed
For the Fiscal Year Ended August 31, 2016

School District Name	Balance
Texarkana ISD	54,208,307
Texas City ISD	92,530,000
Texline ISD	2,060,000
Thrall ISD	8,750,000
Three Rivers ISD	28,695,000
Tidehaven ISD	46,340,000
Timpson ISD	9,320,000
Tioga ISD	6,550,193
Tolar ISD	10,091,294
Tom Bean ISD	9,455,000
Tomball ISD	362,405,000
Tornillo ISD	18,814,996
Trent ISD	3,135,000
Trenton ISD	6,940,000
Trinidad ISD	1,140,000
Trinity ISD	3,820,000
Troup ISD	6,595,000
Troy ISD	16,865,011
Tuloso-Midway ISD	63,225,000
Turkey-Quitaque ISD	2,590,000
Tyler ISD	233,875,000
Union Grove ISD	13,055,000
United ISD	332,606,220
Uvalde CISD	16,314,995
Valley Mills ISD	6,980,000
Valley View ISD [Cooke]	12,220,000
Valley View ISD [Hidalgo]	45,114,764
Van Alstyne ISD	35,685,000
Van ISD	42,720,000
Vega ISD	19,355,000
Venus ISD	37,449,884
Veribest ISD	1,200,000
Vernon ISD	1,680,000
Victoria ISD	149,660,000
Vidor ISD	15,438,415
Waco ISD	166,200,000
Waelder ISD	3,179,999
Wall ISD	18,385,000
Waller ISD	131,685,000
Warren ISD	17,439,880
Waskom ISD	9,340,000
Water Valley ISD	2,944,136
Waxahachie ISD	230,745,693
Weatherford ISD	125,413,799
Webb CISD	13,125,877
Weimar ISD	8,162,595
Wellman-Union CISD	18,705,000

School District Name	Balance
Wells ISD	3,230,000
Weslaco ISD	51,110,000
West Hardin Co CISD	2,450,000
West ISD	2,461,966
West Orange-Cove CISD	49,397,013
West Oso ISD	23,999,994
West Rusk Co CISD	14,775,000
West Sabine ISD	8,034,998
Wharton ISD	20,761,653
Wheeler ISD	5,485,000
White Deer ISD	13,515,000
White Oak ISD	2,250,000
White Settlement ISD	156,034,525
Whiteface CISD	12,340,000
Whitehouse ISD	26,814,872
Whitesboro ISD	11,795,000
Whitewright ISD	7,196,085
Whitney ISD	37,495,000
Wichita Falls ISD	89,990,000
Wildorado ISD	12,075,000
Willis ISD	119,332,276
Wills Point ISD	1,785,000
Wimberley ISD	55,458,695
Windthorst ISD	2,010,000
Wink-Loving ISD	21,265,000
Winona ISD	26,234,999
Woden ISD	1,355,000
Wolfe City ISD	3,730,000
Woodsboro ISD	12,150,000
Wortham ISD	5,645,000
Wylie ISD [Collin]	296,639,954
Wylie ISD [Taylor]	12,900,000
Yantis ISD	920,000
Yoakum ISD	50,085,000
Yorktown ISD	5,210,000
Ysleta ISD	371,985,000
Zavalla ISD	5,030,000
Zephyr ISD	3,850,000
TOTAL SCHOOL DISTRICT AMOUNT OUTSTANDING	**$67,342,303,445**

BOND GUARANTEE PROGRAM --- ISSUED AND GUARANTEED FOR THE FISCAL YEAR ENDED AUGUST 31, 2016

CHARTER DISTRICT NAME	BALANCE
A.W. Brown Fellowship Charter School	20,195,000
Eagle Advantage Schools, Inc.	20,850,000
Golden Rule Schools, Inc.	7,010,000
Harmony Public Schools	268,040,000
IDEA Academy, Inc.	160,435,000
KIPP Austin Public Schools, Inc.	71,100,000
KIPP, Inc.	122,750,000
LIFESCHOOL of Dallas	90,995,000
Nova Academy	6,000,000
Odyssey Academy	11,955,000
Orenda Education	15,335,000
Responsive Education Solutions	127,785,000
Riverwalk Education Foundation, Inc.	8,970,000
Trinity Basin Preparatory Inc.	29,605,000
TOTAL CHARTER DISTRICT AMOUNT OUTSTANDING	**$961,025,000**
GRAND TOTAL AMOUNT OUTSTANDING	**$68,303,328,445**

This page intentionally left blank.

SECTION FIVE

SUPPLEMENTAL SCHEDULES

(UNAUDITED)

This page intentionally left blank.

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	-
2006	22,802,708,177	1,448,374,450	-	-	-	841,878,709
2007	25,311,835,346	2,509,127,169	-	-	-	843,136,949
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

[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 2016	$20.8
Projected-Fiscal Year 2017	$35.1
Projected-Fiscal Year 2018	$30.4
Projected-Fiscal Year 2019	$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.

$144.00

Common School Lands

For value received I the subscriber hereto a resident citizen of Texas in the County of Callahan do promise to pay to the Governor of the State of Texas and his successors in office the sum of One hundred and forty four (144.00) Dollars with ten per cent interest on the amount of principal due at the date of each payment annualy to be paid as hereinafter specified: The same being for purchase money for the following described tract of land this day purchased by me of the State of Texas in accordance with the terms of an act of the Legislature of the State of Texas entitled: An Act to provide for the sale of alternate sections of land in organized counties as surveyed by Rail road Companies and other works of internal improvements, and set apart for the benefit of the common school fund &c Approved July 8th 1879, to wit: Situated on the waters of Pecan Bayou and known as subdivision No 9 Survey No 136 surveyed for the G. H & H. RR Co The annual interest as afforesaid together with one tenth of the principal I am to pay or cause to be paid as stipulated on the first day of January in each year hereafter until this obligation is liquidated; provided that any

Texas Education Agency
1701 North Congress Avenue
Austin, TX 78701-1494
tea.texas.gov

Texas Permanent School Fund
400 West 15th Street, 11th Floor
Austin, TX 78701-1600
tea.texas.gov/psf/

FS17 110 01
December 2016