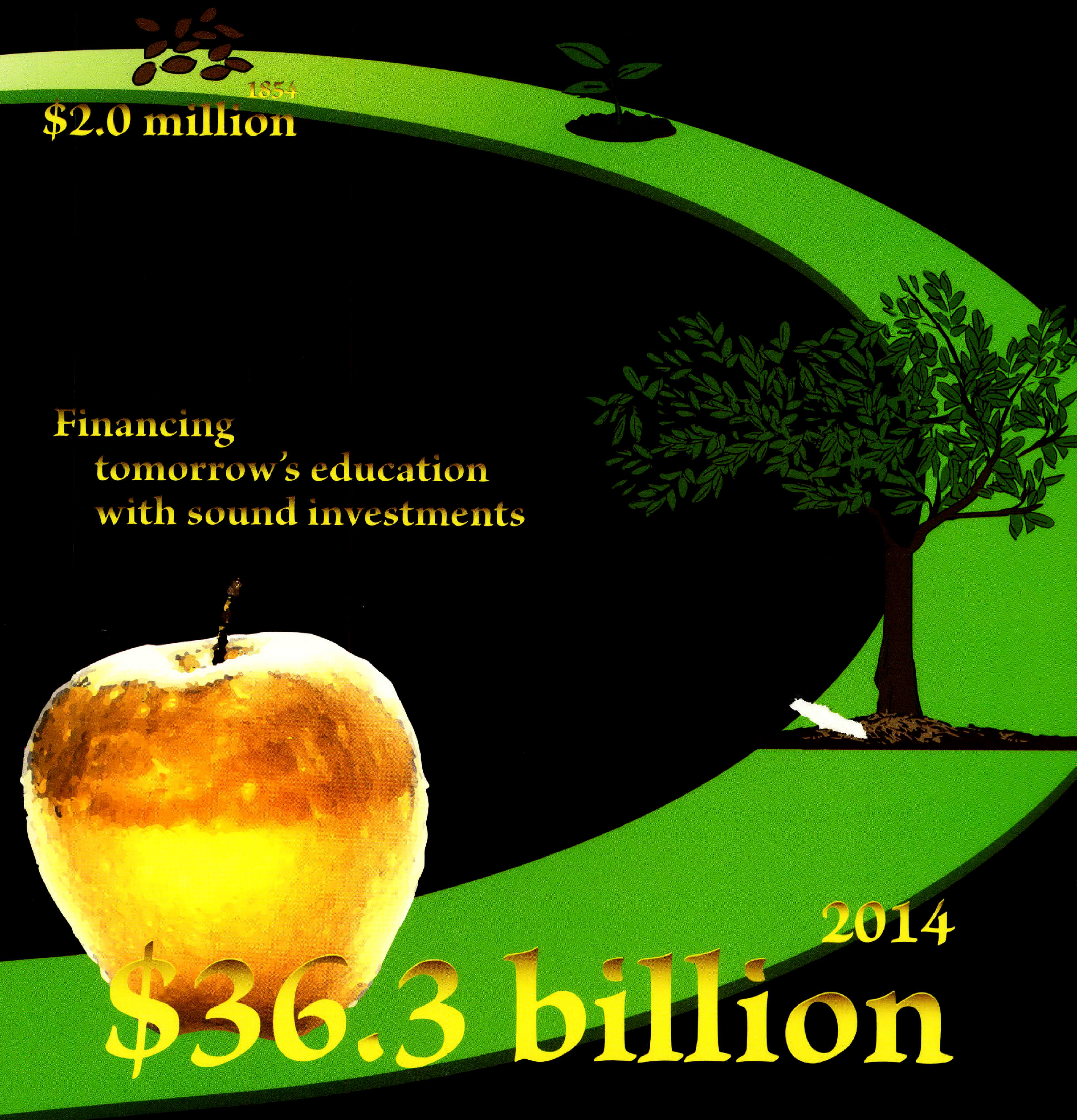
Texas Permanent School Fund

Comprehensive Annual Financial Report for the Fiscal Year Ending August 31, 2014



TEXAS PERMANENT SCHOOL FUND

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDING
AUGUST 31, 2014

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Financial Reporting & Accounting Department
General Land Office

Publication Number FS15 110 01

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CONTENTS

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

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SECTION ONE

INTRODUCTION

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MESSAGE FROM THE COMMISSIONER OF EDUCATION

December 19, 2014

Dear Governor Perry, Lieutenant Governor Dewhurst, 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, 2014. 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 reached a new milestone, becoming the largest educational endowment in the nation. In addition to its financial investments, the Fund has continued to make a significant investment in the education of all students enrolled in Texas public schools.

This report is designed to provide an independently audited overview of the Fund's financial statements to the Fund owners, the citizens of Texas and other interested parties. Since its inception in 1854 by Texas visionaries, the Fund continues to be a perpetual endowment instrumental in helping finance public schools in the State of Texas.

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 a reasonable basis for 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. 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.

The Texas Education Agency is proud and pleased to work with the State Board of Education on the investments and administration of the Fund. I want to express my thanks to the Board members for their hard work and diligence in fulfilling their fiduciary duty to preserve and protect the Fund for future generations of Texas students. We look forward to working with the Board, and also with 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 in the years ahead.

Michael Williams
Commissioner of Education

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MESSAGE FROM THE EXECUTIVE ADMINISTRATOR

December 19, 2014

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the Texas Permanent School Fund (PSF) for the year ended August 31, 2014.

The 160 year old Texas Permanent School Fund continued on a growth trajectory correlating with the global financial recovery and maintained the tradition of strong support for public education in Texas during fiscal year 2014.

INVESTMENTS

For the 12-month period ending August 31, 2014, the total portfolio as managed by the State Board of Education (PSF(SBOE)) achieved a gross return of 15.94%, and the portion of the PSF managed by the School Land Board (PSF(SLB)) achieved a gross total return for the year of 9.73%. For the past ten years, the time-weighted annual return has been 7.77% for the PSF(SBOE) and 5.30% for the PSF(SLB) since the inception date of May 1, 2002.

At the end of fiscal 2014, the Fund balance was $35.0 billion, an increase of $4.3 billion from the prior year. 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 are currently being implemented 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 2014 fiscal year, the Fund distributed more than $838.7 million for education. Since 1960, the Fund has distributed nearly $24 billion to help fund the education of Texas students.

Second, the Fund provides a guarantee for bonds issued by participating local school districts. During the fiscal year, the PSF also started guarantee of bonds to 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 a AAA rating by the three major rating agencies. At the end of the year, PSF assets guaranteed $58.1 billion in school district bonds providing cost savings to 815 public school districts in the State, and $302.5 million in charter district bonds providing cost savings to 6 Texas charter districts.

ACKNOWLEDGMENTS

I would like to thank the State Board of Education for its wise counsel and continued efforts to strengthen the Permanent School Fund. I would also like to thank Commissioner of Education Michael Williams and Chief Deputy Commissioner, Lizzette Gonzalez Reynolds, for their support and encouragement. Finally, I would like to thank the hard working and dedicated team of professionals within the PSF and in the other divisions at the Texas Education Agency. The Board and Agency staff are keenly 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 an honor to work with professionals such as these who embody such a high level of integrity and high standard of excellence.

Sincerely,

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

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NEPC, LLC

CUSTODIAN AND SECURITIES LENDING AGENT

THE BANK OF NEW YORK MELLON

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SECTION TWO

FINANCIAL STATEMENTS

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State Auditor's Office
John Keel, CPA
State Auditor

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 Texas Permanent School Fund (Fund), as of and for the year ended August 31, 2014, and the related notes to the financial statements.

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 an opinion 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.

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Opinion

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, 2014, and the respective changes in financial position thereof for the year then ended in conformity 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, 2014, 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

As discussed in Notes 2 and 3, the financial statements include investments valued at approximately $12,694,307,853 as of August 31, 2014, whose fair values have been estimated by management in the absence of readily determinable fair values. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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 an opinion on the Fund's financial statements. The Introduction, Statistical Summary, Bond Guarantee Program, Supplemental Schedules, and Compliance Statement are presented for purposes of additional analysis and are not a required part of the financial statements.

The Introduction, Statistical Summary, Bond Guarantee Program, Supplemental Schedules, and Compliance Statement 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 have also issued our report dated December 19, 2014, 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.

John Keel, CPA
State Auditor

December 19, 2014

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

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

FINANCIAL HIGHLIGHTS

- The total fund balance of the Fund increased $4.3 billion or 14.2% during fiscal year 2014.
- The Fund through the PSF(SBOE) provided $838.7 million 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, 2014, $58.4 billion in school and charter district bond issues were guaranteed by the Fund in support of public education in Texas. The amount outstanding increased 5.7% from the prior fiscal year end.

Required Financial Statements

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

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

Balance Sheet

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

Assets

The assets of the Fund are categorized into current and non-current. Current 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 purchase of real assets investments by the PSF(SLB). Securities lending cash collateral invested represents the largest category of current 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) Non-Current Assets

Non-current assets consist primarily of PSF(SBOE) investments, 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 debt investments.

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

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

PSF(SLB) Non-Current Assets
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 reported at cost.

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, 2014 the estimated fair value of the land, real assets investments and mineral rights (excluding cash) was approximately $5.8 billion and the historical cost was $2.2 billion. Sovereign lands and minerals are reported at historical cost on the balance sheet and per GASB Statement No. 52 the remaining real assets are reported at fair value.

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

The fair value of the Fund's land surface value is based on estimated appraisal values or values independently determined by the staff in the General Land Office (GLO) Appraisal Division. 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. The fair value of the Fund's interest in oil, gas, and hard minerals is based on an estimate of the present value of future royalty cash flows using a 10 percent discount rate. Future royalty cash flow projections from oil and gas are based on 12-month average prices preceding the valuation date and an estimate of future production from existing wells. The estimate of future production is based on oil and gas industry submissions of such volumes for the 12-month period prior to valuation and reduced to account for estimated depletion. Hard mineral future cash flows are also estimated based on future royalty approximations and discounted. Nonproducing proven reserves of oil, gas, and hard minerals are not included in the estimate.

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

Liabilities
Liabilities represent claims against the Fund as of August 31, 2014. 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 GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

TABLE 1
Summarized Balance Sheet Accounts
(in Millions)

	As of August 31, 2014	As of August 31, 2013	Amount of Increase (Decrease)	Percent Change
ASSETS				
Investments	$32,920.1	$29,191.1	$ 3,729.0	12.8%
Securities Lending				
Cash Collateral Invested	1,183.3	138.9	1,044.4	751.9%
Cash, Receivables,				
and Other Assets	2,221.9	1,615.8	606.1	37.5%
TOTAL ASSETS	$36,325.3	$30,945.8	$ 5,379.5	17.4%
LIABILITIES				
Payables for Investments				
Purchased	$ 35.3	$ 32.1	$ 3.2	10.0%
Payables for Security				
Lending Cash Collateral				
Invested	1,242.0	205.5	1,036.5	504.4%
Other Liabilities	70.8	86.3	(15.5)	-18.0%
TOTAL LIABILITIES	$ 1,348.1	$ 323.9	$ 1,024.2	316.2%
DEFERRED INFLOWS				
OF RESOURCES	$ 26.0	$ 20.4	$ 5.6	27.5%
TOTAL FUND BALANCE	$34,951.2	$30,601.5	$ 4,349.7	14.2%

Comparative Balance Sheet Highlights

- Total fund balance increased by 14.2% during the fiscal year. This increase was primarily attributable to the increase in the fair value of the PSF(SBOE) equities and alternative assets and the PSF(SLB) real assets investments.
- The increase in the fair value of the PSF(SBOE) and PSF(SLB) investments is consistent with the increase 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.

TABLE 2
Summarized Revenue and Expenditure Accounts
(in Millions)

	Fiscal Year Ended August 31, 2014	Fiscal year Ended August 31, 2013	Amount of Increase (Decrease)	Percent Change
REVENUES				
Land Endowment Income	$ 675.8	$ 410.4	$ 265.4	64.7%
Settlement of Claims	1.9	30.4	(28.5)	-93.8%
Dividends and Interest Income	661.8	635.5	26.3	4.1%
Securities Lending				
(net of rebates/fees)	8.0	8.8	(0.8)	-9.1%
Gain on Sale of Sovereign Land	6.9	2.7	4.2	155.6%
Net Increase in Fair Value				
of Investments	3,858.5	2,064.2	1,794.3	86.9%
Revenue from Sales of				
Purchased Gas	67.2	51.1	16.1	31.5%
Other Income	2.2	0.1	2.1	2100.0%
TOTAL REVENUES	5,282.3	3,203.2	2,079.1	64.9%
EXPENDITURES				
PSF(SBOE) Operational Costs	16.6	16.4	0.2	1.2%
PSF(SLB) Operational Costs	22.5	23.2	(0.7)	-3.0%
SEMP Gas Supplies				
Purchased for Resale	54.8	44.1	10.7	24.3%
TOTAL EXPENDITURES	93.9	83.7	10.2	12.2%
TOTAL NET TRANSFERS	(838.7)	(1,320.9)	482.2	-36.5%
NET CHANGE IN FUND BALANCE	$ 4,349.7	$ 1,798.6	$ 2,551.1	141.8%

Comparative Revenue and Expenditure Highlights

- For fiscal year 2014, total revenues were $5.3 billion, an increase of $2.1 billion from the fiscal year 2013 amount of $3.2 billion. This increase is reflective of the performance of the markets in which the Fund was invested in fiscal year 2014.
- Total operating expenditures, net of security lending rebates and fees, increased 12.2% from $83.7 million for fiscal year ending August 31, 2013 to $93.8 million for the fiscal year ending August 31, 2014.
- The increase for both PSF(SBOE) and PSF(SLB) is primarily attributable to the operational costs related to managing alternative investments due to diversification of the Fund. Overall, the fund balance increased by $4.3 billion for fiscal year ending August 31, 2014.

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 2014, 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 shift 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 remains unfunded as of August 31, 2014.

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
Fixed income	
Core fixed income	Actively managed by internal staff
Emerging market debt	Externally managed
Real Return TIPS	Actively managed 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, 2014 and 2013

ASSET CLASS	2014	2013	Increase (Decrease)
EQUITY			
Domestic Small/Mid Cap	5.0%	7.0%	-2.0%
Domestic Large Cap	16.0%	18.0%	-2.0%
Total Domestic Equity	21.0%	25.0%	-4.0%
International Developed and Emerging Large Cap	16.0%	18.0%	-2.0%
Emerging International Equities	3.0%	3.0%	0.0%
Total International Equity	19.0%	21.0%	-2.0%
TOTAL PUBLIC MARKET EQUITY	40.0%	46.0%	-6.0%
FIXED INCOME			
Core Fixed Income	12.0%	12.0%	0.0%
Emerging Market Debt	7.0%	5.0%	2.0%
TOTAL FIXED INCOME	19.0%	17.0%	2.0%
ALTERNATIVE INVESTMENTS			
Absolute Return	10.0%	10.0%	0.0%
Real Estate	8.0%	8.0%	0.0%
Private Equity	10.0%	6.0%	4.0%
Risk Parity	7.0%	7.0%	0.0%
Real Return	6.0%	6.0%	0.0%
TOTAL ALTERNATIVE INVESTMENTS	41.0%	37.0%	4.0%
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 2014.

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. All investment classes produced positive returns. The PSF(SBOE) investment in public equity securities experienced a return of 22.2% during the fiscal year. The absolute return investments yielded a return of 9.9% and real estate and private equity investments returned 12.3% and 22.5%, respectively. The investment in fixed income return was 5.9% for the fiscal year. Risk parity and real return portfolios returned 18.1% and 2.5%, respectively. The emerging market debt investment returned 3.5% since inception. Combined, all asset classes produced an investment return of 15.9% for the fiscal year ended August 31, 2014.

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 $3.5 billion (13.0%) from the previous fiscal year. Unallocated Cash is on hand at fiscal year-end pending capital calls for alternative investments. At August 31, 2014, PSF(SBOE) unfunded commitments to real estate investments totaled $519.6 million and unfunded commitments to the four private equity limited partnerships totaled $1.27 billion.

TABLE 4
Comparative Investment Schedule – PSF(SBOE) (in Millions)
August 31, 2014 and 2013

ASSET CLASS	August 31, 2014	August 31, 2013	Amount of Increase (Decrease)	Percent Change
EQUITY				
Domestic Small Cap	$ 2,171.8	$ 2,210.4	$ (38.6)	-1.7%
Domestic Large Cap	7,088.3	7,421.9	(333.6)	-4.5%
Total Domestic Equity	9,260.1	9,632.3	(372.2)	-3.9%
International Equity	5,489.6	4,822.9	666.7	13.8%
TOTAL EQUITY	14,749.7	14,455.2	294.5	2.0%
CORE FIXED INCOME	4,592.1	4,933.0	(340.9)	-6.9%
ALTERNATIVE INVESTMENTS				
Absolute Return	3,066.8	2,806.1	260.7	9.3%
Real Estate	1,271.2	858.1	413.1	48.1%
Private Equity	1,068.8	724.5	344.3	47.5%
Risk Parity	2,066.6	1,754.3	312.3	17.8%
Real Return	1,730.7	1,554.3	176.4	11.3%
Emerging Markets	2,122.1	-	2,122.1	N/A
TOTAL ALTERNATIVE INVESTMENTS	11,326.2	7,697.3	3,628.9	47.1%
UNALLOCATED CASH	41.2	80.0	(38.8)	-48.5%
TOTAL PSF(SBOE) INVESTMENTS	$ 30,709.2	$ 27,165.5	$ 3,543.7	13.0%

PSF(SLB) Portfolio

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

Category	Description
Discretionary real asset 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.

TABLE 5
Comparative Investment Schedule – PSF(SLB)
August 31, 2014 and 2013
(in Millions)

Asset Class	As of August 31, 2014	As of August 31, 2013	Amount of Increase (Decrease)	Percent Change
Discretionary Real Assets Investments				
Externally Managed				
Real Assets Investment Funds*				
Energy/Minerals	$ 311.0	$ 204.1	$ 106.9	52.4%
Infrastructure	398.6	378.5	20.1	5.3%
Real Estate	1,135.3	1,144.7	(9.4)	-0.8%
Internally Managed Direct Real Estate Investments	291.1	348.9	(57.8)	-16.6%
Total Discretionary Real Assets Investments	2,136.0	2,076.2	59.8	2.9%
Sovereign and Other Lands	372.5	366.2	6.3	1.7%
Mineral Interests	3,263.8	2,307.1	956.7	41.5%
Cash at State Treasury**	1,960.1	1,216.0	744.1	61.2%
Total PSF(SLB) Investments	$ 7,732.4	$ 5,965.5	$ 1,766.9	29.6%

*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.

PSF(SLB) Discretionary Real Assets Investments – External

Approximately $299.2 million of capital commitments to externally managed real assets investment funds, separate accounts, and co-investment vehicles were funded during fiscal year 2014. At August 31, 2014, the fair value of the investments was approximately $1.8 billion.

PSF(SLB) Discretionary Real Estate Investments – Internal

At August 31, 2014, there were approximately 23 internally managed discretionary real estate investments with a fair value of approximately $291.1 million.

PSF(SLB) Sovereign and Other Lands

At August 31, 2014, the sovereign lands portfolio, which is primarily composed of approximately 424,000 acres of land-locked tracts in West Texas, had a fair value of approximately $258.8 million. In addition to the sovereign lands portfolio, the PSF(SLB) also manages approximately 184,741 acres of other lands with a fair value of approximately $113.7 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 fair value of approximately $3.3 billion.

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 2014 the PSF(SBOE) distribution to the ASF totaled $838.7 million. 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 the current fiscal year, the SBOE authorized the BGP to guarantee qualified charter district bonds. Since the Program's inception in 1983, the Fund has guaranteed 5,603 school district and charter district bond issues for a total of $120.4 billion and $303 million, respectively. During the past fiscal year, the number of all outstanding issues increased by 90 (3.2%). The dollar amount of all issues outstanding increased by approximately $3.1 billion (5.7%). This program is designed for school districts and charter districts with credit ratings lower than AAA. Bonds issued under the Bond Guarantee Program are rated AAA, thus allowing participants to borrow at a lower cost.

TABLE 6

Comparative Summary of the Bond Guarantee Program

(in Millions except for Number of Issues)

	Fiscal Year Ending August 31, 2014	Fiscal Year Ending August 31, 2013	Amount of Increase (Decrease)	Percent Change
Number of Issues	2,879	2,789	90	3.2%
Issues Guaranteed During the Fiscal Year	$ 8,745.5	$ 8,565.8	$ 179.7	2.1%
Issues Refunded or Matured During the Fiscal Year	$ 5,600.0	$ 6,981.4	$(1,381.4)	-19.8%
Year End Balance	$58,364.4	$55,218.9	$ 3,145.5	5.7%
Total Guarantee Capacity	$78,650.6	$76,797.9	$ 1,852.7	2.4%

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 three (3) 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 (5) 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.

TEXAS PERMANENT SCHOOL FUND
BALANCE SHEET
AUGUST 31, 2014

Assets	
Current Assets:	
Cash and Cash Equivalents	
Cash in Bank	$ 5,878,038
Cash in State Treasury	1,983,835,620
Cash Equivalents	46,935,798
Securities Lending Cash Collateral Invested	1,183,251,177
Receivables	
Interest and Dividends Receivable	64,903,422
Investments Sold	6,884,764
Land Endowment Revenue	113,012,488
Land Sale Notes	29,249
Due from Broker for Margin Collateral	475,600
Due From Other Funds	15,222
Prepaid Items	6,000
Total Current Assets	$ 3,405,227,378
Non-Current Assets	
Investments, at fair value	$ 32,903,262,509
Investments in Sovereign Land and Minerals, at historical cost	13,898,878
Land Sale Notes	2,913,312
Total Non-Current Assets	$ 32,920,074,699
Total Assets	$ 36,325,302,077
Liabilities, Deferred Inflow Of Resources And Fund Balances	
Current Liabilities:	
Accounts Payable	$ 8,837,706
Payroll Payable	2,001,111
Interest	7
Payable for Investments Purchased	35,338,695
Unearned Revenue	59,500,226
Due To Other Funds	415,787
Payable for Securities Lending Cash Collateral Invested	1,241,999,322
Total Current Liabilities	$ 1,348,092,854
Total Liabilities	$ 1,348,092,854
Deferred Inflow Of Resources	
Interest and dividends	25,989,006
Total Deferred Inflow Of Resources	$ 25,989,006
Fund Financial Statement-Fund Balances	
Nonspendable	$ 12,860,783,001
Restricted for Public School Support	22,090,437,216
Total Fund Balance	$ 34,951,220,217
Total Liabilities, Deferred Inflow of Resources And Fund Balance	$ 36,325,302,077

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, 2014

Revenues		
Interest, Dividends and Other Investment Income	$	661,752,475
Settlement of Claims		1,855,595
Securities Lending		9,407,787
Gain on Sale of Sovereign Land		6,948,903
Net Increase in Fair Value of Investments		3,858,498,104
Land Endowment Income		675,799,283
Revenue from Sales of Purchased Gas		67,247,616
Other		2,200,131
Total Revenues	$	5,283,709,894
Expenditures		
Salaries and Wages	$	20,613,062
Payroll Related Costs		4,765,974
Professional Fees and Services		6,895,926
Travel		328,014
Materials and Supplies		788,475
Communication and Utilities		1,632,763
Gas Supplies Purchased for Resale		54,819,272
Repairs and Maintenance		828,330
Rentals and Leases		1,053,731
Printing and Reproduction		18,094
Claims and Judgments		1,160
Securities Lending Rebates and Fees		1,411,089
Other Expenditures		1,976,186
Capital Outlay		176,797
Total Expenditures	$	95,308,873
Excess of Revenues Over Expenditures	$	5,188,401,021
Other Financing Sources/(Uses)		
Transfers Out	$	(838,672,346)
Total Other Financing Sources/(Uses)	$	(838,672,346)
Net Change in Fund Balance		4,349,728,675
Fund Financial Statement-Fund Balance		
Fund Balance-September 1, 2013		30,601,491,542
Fund Balance-August 31, 2014	$	34,951,220,217

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 15 million total acres.

The State of Texas (State) Constitution describes the Fund as "permanent" and "perpetual" 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.

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. 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 fair values as determined by management.

The budget is prepared biennially and represents appropriations authorized by the Legislature and approved by the Governor of Texas (the General Appropriations Act). Encumbrance accounting is employed for budgetary control purposes. Unencumbered appropriations are generally subject to lapse 60 days after the end of the fiscal year for which they were appropriated.

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 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 2014 for the production months August 2014 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.* 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 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.

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 seven (7) single member limited liability companies, each with an external investment manager. The Fund's ownership interests in the two (2) risk parity strategies are through a limited liability company and a limited partnership, each with an external investment manager. Commodities are managed in two (2) limited partnerships, each with an investment manager. Private equity investments are managed in four (4) 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 three (3) investment advisors under investment management agreements.

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 stated at the State's basis in such holdings. In accordance with GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, real estate held as investments is reported at fair value with the exception of sovereign lands and minerals, which are reported at historical cost. Land acquired through trades is recorded at the fair value of the land traded to the other party with a gain or loss recognized on the exchange per GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. No basis is currently assigned to certain categories of public domain acreage. The acreage for public domain tracts that include surface acres and the underlying mineral rights is counted as both surface acres and mineral acres. However, the historical cost basis for this acreage is allocated between the value assigned to the surface and the value assigned to the mineral rights.

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 $93,897,784 for fiscal year 2014. Under the direction of the GLO, $22,429,003 was spent to manage the PSF(SLB) assets and $16,649,509 was expended by the TEA to administer the PSF(SBOE) assets. SEMP expenditures of $54,819,272 include the purchase of gas supplies in the open market and are reflected in the total expenditures for 2014.

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 ten 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 2014-2015 biennium at 3.3% based on a commitment of the SLB to transfer $280 million to the PSF(SBOE) during the biennium. The SLB transferred $130 million to the PSF(SBOE) during the year ended August 31, 2014. Interfund transfers from the PSF(SBOE) to the Available School Fund (ASF) totaled $838,672,346 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 has issued Statement No. 65, *Items previously recorded as Assets and Liabilities* (GASB 65), which was adopted by the PSF for the year ended August 31, 2014. GASB 65 now establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. In accordance with GASB 65, the Fund now reports both deferred inflows of resources and deferred outflows of resources on its financial statements, if applicable.

The GASB has also issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which provides accounting, financial, and disclosure guidance to state and local governments that either offer or receive non-exchange financial guarantees. Statement No. 70 requires a government to recognize a liability when quantitative factors indicate that it is more likely than not that the government will be required to make a payment as a result of the guarantee agreement, and to make certain disclosures regarding its guarantees. This Statement became effective during the current fiscal year, and the Fund accordingly has adopted its reporting and disclosure requirements as applicable to its Bond Guarantee Program.

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.

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:

a) 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.
b) 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.
c) 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.
d) Private equity, including venture capital, buy-out investing, mezzanine financing, distressed debt and special situation strategies.
e) Absolute return investments which are a diversified bundle of primarily marketable investment strategies that seek positive returns, regardless of market direction.

f) Real return investments which target a return that exceeds the rate of inflation, measured by the Consumer Price Index (CPI).
g) 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.
h) Risk parity strategies.
i) 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
j) Currency hedging strategies, as approved by the SBOE, for the international portfolio.

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Investments other than PSF(SLB) managed land endowment and other real property at fair value as of August 31, 2014 are as follows:

PSF(SBOE) Investments	Fair Value
Absolute Return Investments	$ 3,066,836,395
Real Estate Investments	1,279,092,788
Private Equity Investments	1,073,299,321
Risk Parity Strategies	2,066,634,303
Real Return - Commodities	836,691,640
Domestic Equity	9,255,234,117
International Equity - Foreign Currency Denominated	5,367,756,273
International Equity - USD Denominated (ADR/GDR)	111,851,273
Emerging Market Debt	2,122,036,110
Asset Backed Securities	45,761,693
Collateralized Loan Obligations	96,169,176
Commercial Mortgage Backed Securities	134,978,233
Corporate Obligations	1,116,394,130
Yankee - Corporate Obligations	46,561,167
Non-Agency Mortgage Backed Securities	59,544,430
Non-U.S. Government Agency Obligations	65,880,449
Non-U.S. Government Sovereign Debt	102,039,255
Preferred Stock	914,920
U.S. Government Agency Commercial Mortgage Backed Securities	105,566,448
U.S. Government Agency Mortgage Backed Securities	1,014,403,709
U.S. Government Agency Obligations	186,953,106
U.S. Taxable Municipal Bonds	56,081,364
U.S. Treasury Securities	1,390,313,215
U.S. Treasury TIPS	1,052,551,701
Total Investments Other Than PSF(SLB) Managed Land Endowment and Real Property	$ 30,653,545,216

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 also 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, that 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.

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, 2014, there was $3,461,566 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 and for dividend payments that are awaiting repatriation. The remaining PSF(SBOE) cash in bank in the amount of $1,531,396 is held in a custodial overnight sweep investment account. The remaining PSF(SLB) balance of $885,076 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.

Most of the cash managed by the PSF(SBOE) is deposited in the State Treasury in an external investment pool managed by the 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.

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, 2014, 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, 2014 was $1,241,999,322 and the fair value was $1,183,251,177, which is detailed below.

Invested Securities Lending Collateral	Cost Basis	Fair Value
Asset Backed Floating Rate Notes	$ 1,143,937	$ 1,143,158
Corporate Floating Rate Notes	173,137,445	114,307,503
Repurchase Agreements	407,084,931	407,084,931
Interest Bearing Notes	24,300,000	24,353,020
Commercial Paper	236,346,223	236,362,837
Certificates of Deposit	381,986,786	381,999,728
Time Deposits	18,000,000	18,000,000
Total Securities Lending Collateral	$1,241,999,322	$1,183,251,177

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.

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, 2014 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.

Investment Type	Rating	Rating Service	Fair Value
Asset Backed Securities	Aaa	Moody's	$ 7,677,885
Asset Backed Securities	AAA	S&P	14,121,056
Asset Backed Securities	Aa	Moody's	8,406,069
Asset Backed Securities	A	S&P	15,556,683
Collateralized Loan Obligations	BBB	S&P	59,170,211
Collateralized Loan Obligations	Baa	Moody's	36,998,965
Commercial Mortgage Backed Obligations	AAA	S&P	17,438,624
Commercial Mortgage Backed Obligations	Aaa	Moody's	84,122,846
Commercial Mortgage Backed Obligations	AA	S&P	11,350,260
Commercial Mortgage Backed Obligations	Aa	Moody's	22,066,503
Corporate Obligations	AA	Fitch	13,581,590
Corporate Obligations	AA	S&P	10,545,200
Corporate Obligations	Aa	Moody's	16,289,542
Corporate Obligations	A	Moody's	220,100,989
Corporate Obligations	A	Fitch	15,211,425
Corporate Obligations	A	S&P	17,954,445
Corporate Obligations	BBB	S&P	98,158,435
Corporate Obligations	Baa	Moody's	686,144,469
Corporate Obligations	BBB	Fitch	33,540,735
Corporate Obligations	BB	S&P	4,867,000
Yankee – Corporate Obligations	A	S&P	5,210,500
Yankee – Corporate Obligations	Baa	Moody's	30,630,007
Yankee – Corporate Obligations	BBB	S&P	10,720,660
Non-Agency Mortgage Backed Securities	AAA	S&P	51,143,244
Non-Agency Mortgage Backed Securities	CCC	S&P	8,401,186
Non-U.S. Government Agency Obligations	AAA	S&P	9,992,360
Non-U.S. Government Agency Obligations	Aa	Moody's	10,001,780
Non-U.S. Government Agency Obligations	A	S&P	24,986,309
Non-U.S. Government Agency Obligations	BBB	S&P	20,900,000
Non-U.S. Sovereign Government Debt	Aa	Moody's	20,036,000
Non-U.S. Sovereign Government Debt	AA	S&P	5,109,375
Non-U.S. Sovereign Government Debt	A	S&P	17,236,380
Non-U.S. Sovereign Government Debt	BBB	S&P	32,640,000
Non-U.S. Sovereign Government Debt	Baa	Moody's	27,017,500
Preferred Stock	B	Moody's	914,920
U.S. Government Agency Commercial Mortgage Backed Securities	AA	S&P	85,117,330
U.S. Government Agency Commercial Mortgage Backed Securities	A	Fitch	5,156,410
U.S. Government Agency Commercial Mortgage Backed Securities	A	Moody's	15,292,708
U.S. Government Agency Mortgage Backed Securities	AA	S&P	996,690,959
U.S. Government Agency Obligations	AA	S&P	186,953,106
U.S. Taxable Municipal Bonds	AAA	S&P	28,649,214
U.S. Taxable Municipal Bonds	Aa	Moody's	22,330,290
U.S. Taxable Municipal Bonds	A	Moody's	5,101,860
U.S. Treasury Securities	AA	S&P	1,390,313,215
U.S. Treasury Inflation Protected Securities	AA	S&P	1,052,551,701
Total Credit Risk Rated Debt Securities			$5,456,399,946
Corporate Obligations	Withdrawn Rating	Moody's	300
U.S. Government Agency Mortgage Backed Securities	Not Rated		17,712,750
Total Fixed Income			$5,474,112,996

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

The following presents the rated investments of the cash collateral as of August 31, 2014. 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
Asset Backed Floating Rate Notes	AAA	S&P	$ 1,143,158
Certificate of Deposit	A-1	S&P	274,709,492
Certificate of Deposit	A-1+	S&P	107,290,236
Commercial Paper	A-1	S&P	148,184,145
Commercial Paper	A-1+	S&P	88,178,692
Floating Rate Notes	A	S&P	11,303,977
Floating Rate Notes	A+	S&P	17,924,485
Floating Rate Notes	AA-	S&P	72,579,017
Floating Rate Notes	AA+	S&P	12,500,024
Interest Bearing Notes	A-1	S&P	24,353,020
Repurchase Agreements	Not Rated	S&P	407,084,931
Time Deposits	A-1	S&P	18,000,000
Total Investments			$ 1,183,251,177

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 Barclay's Capital U.S. Aggregate Bond Index (formerly Lehman Brothers Aggregate Index) duration and the duration of the real return (TIPS) portfolio be consistent with the Barclay's Capital U.S. TIPS Index. As of August 31, 2014 the Barclay's Aggregate index duration was 5.39 years and the Barclay's U.S. TIPS Index duration was 6.87 years.

Investments in fixed income securities by investment type, fair value, and the effective weighted duration rate as of August 31, 2014 are as follows for the core fixed income portfolio and real return portfolio.

Investment Type	Fair Value	Effective Weighted Duration Years
Asset Backed Securities	$ 45,761,693	2.8076
Collateralized Loan Obligations	96,169,176	0.0951
Commercial Mortgage Backed Securities	134,978,233	2.8975
Corporate Obligations	1,116,394,130	7.5766
Yankee - Corporate Obligations	46,561,167	9.8353
Non-Agency Mortgage Backed Securities	59,544,430	5.6826
Non-U.S. Government Agency Obligations	65,880,449	2.3654
Non-U.S. Government Sovereign Debt	102,039,255	6.9096
Preferred Stock	914,920	N/A
U. S. Government Agency Commercial Mortgage Backed Securities	105,566,448	4.0021
U. S. Government Agency Mortgage Backed Securities	1,014,403,709	4.4372
U. S. Government Agency Obligations	186,953,106	5.0877
U.S. Taxable Municipal Bonds	56,081,364	11.1219
U. S. Treasury Securities	1,390,313,215	5.5766
U. S. Treasury TIPS	159,612,374	5.2863
Total Fixed Income Portfolio (Excluding Real Return TIPS)	4,581,173,669	5.6128
Real Return - U. S. Treasury TIPS Portfolio	892,939,327	7.8182
Total Fixed Income Investments	$ 5,474,112,996	5.9726

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
Asset Backed Floating Rate Notes	$ 1,143,158	$ 1,143,158	$ -
Certificates of Deposit	381,999,728	381,999,728	-
Commercial Paper	236,362,837	236,362,837	-
Floating Rate Notes	114,307,503	114,307,503	-
Interest Bearing Notes	24,353,020	24,353,020	-
Repurchase Agreements	407,084,931	407,084,931	-
Time Deposits	18,000,000	18,000,000	-
Total	$ 1,183,251,177	$ 1,183,251,177	$ -

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, 2014, the PSF(SBOE) held $636,600,823 in fixed income securities and mortgage backed obligations issued by the Federal National Mortgage Association (Fannie Mae) and $399,798,502 in fixed income securities and mortgage backed obligations issued by the Federal Home Loan Mortgage Corporation (Freddie Mac). Neither of these investments represent a concentration of more than 2.5% of the PSF(SBOE) total market value. The investments in both Fannie Mae and Freddie Mac securities equal more than 5% of the fixed income total portfolio market value. These entities are government-sponsored enterprises chartered by

Congress and, since September 2008, have 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.

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, 2014, 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, 2014, these securities totaled $1,314,492,820.

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, 2014 these securities totaled $96,169,176.

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, 2014, these securities totaled $45,761,693.

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, 2014, is as follows:

Deposits		Amount
Currency		
Australian Dollar	$	704,537
Brazil Real		153,398
British Pound Sterling		158,733
Canadian Dollar		6,299
Egyptian Pound		87,613
Euro Currency Unit		35,453
Indonesian Rupiah		53
Japanese Yen		33
Malaysian Ringgit		9,093
New Taiwan Dollar		2,290,355
New Turkish Lira		53
Peruvian Nuevo Sol		611
Philippines Peso		185
Polish Zloty		149
South Korean Won		14,985
Various Other Currency Balances		16
Total Deposits Subject to Foreign Currency Risk	$	3,461,566

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Securities	Amount
Currency	
Australian Dollar	$ 313,650,921
Brazil Real	144,080,621
British Pound Sterling	827,219,604
Canadian Dollar	425,205,012
Chilean Peso	16,689,305
Columbian Peso	12,151,349
Czech Koruna	2,684,924
Danish Krone	58,035,243
Egyptian Pound	2,877,004
Euro Currency Unit	1,168,018,598
Hong Kong Dollar	348,033,331
Hungarian Forint	2,335,029
Indonesian Rupiah	31,245,961
Israeli Shekel	11,768,464
Japanese Yen	782,304,110
Malaysian Ringgit	45,819,824
Mexican New Peso	64,084,297
New Taiwan Dollar	144,926,014
New Turkish Lira	20,039,174
New Zealand Dollar	5,112,739
Norwegian Krone	33,109,808
Philippines Peso	13,010,316
Polish Zloty	18,752,117
Qatari Riyal	6,167,355
Russian Ruble	42,476,476
Singapore Dollar	56,310,363
South African Rand	91,239,168
South Korean Won	184,646,082
Swedish Krona	115,460,514
Swiss Franc	347,207,788
Thailand Baht	27,755,925
United Arab Imarates Dirham	5,338,837
Total Securities Subject to Foreign Currency Risk	$5,367,756,273

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, however, foreign currency exchange forward contracts are only executed as part of normal trading of foreign denominated equity, real estate and private equity securities.

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

The changes in land acreage, historical cost, and fair value of PSF(SLB) land, mineral interests, and real assets investments during the year ending August 31, 2014 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 below are approximations.

Investment Type	Historical Cost	Fair Value
Investments in Real Assets		
Sovereign Lands (1)	$ 490,932	$ 258,789,768
Discretionary Internal Investments (3)	307,021,405	291,114,293
Other Lands	46,768,184	113,662,932
Minerals (1), (2)	13,407,946	3,263,814,444
Investments with External Managers (4)	1,793,392,472	1,844,940,068
Total Investments (5)	$2,161,080,939	$ 5,772,321,505
Cash in State Treasury (6)	1,960,207,461	1,960,207,461
Total Investments and Cash in State Treasury	$4,121,288,400	$ 7,732,528,966
Consisting of the following:		
Noncurrent Investments	2,161,080,939	5,772,321,505
Total Investments, as above	$2,161,080,939	$ 5,772,321,505

(1) Sovereign Lands and Minerals are reported at historical cost on the balance sheet.
(2) Includes an estimated 1,000,000 acres in freshwater rivers.
(3) Includes commercial real estate investments only.
(4) Includes investments in commercial real estate, infrastructure, and energy/minerals.
(5) Includes an estimated 1,747,600 in excess acreage.
(6) Cash in State Treasury is managed by the Treasury Operations Division of the Comptroller of Public Accounts of the state of Texas.

The current surface real property portfolio of the Fund is managed by the PSF(SLB) and consists of 698,567.15 surface acres valued at $617,660,545. Of this, 423,752 acres are sovereign lands with a fair value of $258,789,768 located primarily in West Texas and representing 61 percent of the total acreage, but only 42 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, 2013, beginning basis for the Fund's consolidated (including co-investments) land surface portfolio value was $363,581,282. From September 1, 2013, to August 31, 2014, six new discretionary internal real assets investments were acquired. Contributions of approximately $4.7 million were made to ongoing development projects. The basis of the Fund's land surface portfolio at August 31, 2014, is $354,280,521. 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 $13,407,946.

Dispositions for the fiscal year ended August 31, 2014, equaled 8,656.98 acres sold for net proceeds of $45.9 million.

Typically, the Fund does not convey its mineral interests when land is sold. No value is assigned to the estimated public domain acres. The fair value of the Fund's land surface value is based on the estimated appraisal values or independently determined by the staff in the Appraisal Division using the 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.

The fair value of the Fund's interest in oil, gas and hard minerals is based on an estimate of the present value of future royalty cash flows using a 10 percent discount rate. Future royalty cash flow projections from oil and gas are based on 12-month average prices preceding the valuation date and estimate of future production from existing wells. The estimate of future production is based on oil & and gas industry submissions of such volumes for the 12-month period prior to valuation and reduced to account for estimated depletion. Hard mineral future cash flows are also estimated based on future royalty approximations and discounted. Nonproducing proven reserves of oil, gas, and hard minerals are not included in the estimate.

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), 33.111(a), and 33.103 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 can also be 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 public entities, 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 outside an existing 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, agriculture, timber production, and other commercial activity (including commercial leases on investment property).

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 pay the required land-use fees may result in delinquent penalties and/or termination of the contract, and removal of the structures at the expense of the lease 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, codified as TNRC, Chapter 33, Subchapter H, and the regulations set forth in Texas Administrative Code, Title 31, Part 1, Chapter 15, Subchapter B. Special Documents 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. Special Documents may also be used for projects that do not explicitly fall into one of the other established categories.

The historical cost of all internally managed properties available for leasing activity is $354,280,522. The fair value of the properties is $663,566,993. Because the Fund is a permanent fund, real estate is held as an investment and is not depreciated.

Contingent rental revenues in the amount of $757,844 are reported for 20 leases for the year ended August 31, 2014.

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 2015	FY 2016	FY 2017	FY 2018	FY 2019	FYs 2020 & Beyond
Coastal Easements	$ 229,005	$ 223,788	$ 223,805	$ 219,360	$ 216,595	$ 452,839
Coastal Leases	1,245	1,245	1,245	1,245	1,245	78,413
Commercial Leases and Easements	1,429,798	1,387,916	1,307,810	1,275,626	1,121,005	11,490,939
Miscellaneous Easements	303,373	538,999	173,624	119,861	120,682	722,445
Surface Leases	3,099,942	2,655,894	2,264,415	2,126,676	2,075,010	26,258,280
Total Lease Payments	$ 5,063,363	$ 4,807,842	$3,970,899	$3,742,768	$3,534,537	$ 39,002,916

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, 2014, 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, 2014, the PSF(SBOE) invested in S&P 500 Index Futures contracts and S&P 400 Index Futures contracts as detailed below with Newedge USA, LLC:

Futures Contract	Maturity Date	Number of Contracts	Notional Value	FCM Margin Deposit
S&P 500 e-mini	September 19, 2014	55	$ 5,503,850	$ 253,000
S&P 500 e-mini	December 19, 2014	28	2,790,760	128,800
S&P 400 e-mini	September 19, 2014	10	1,437,100	67,000
S&P 400 e-mini	December 19, 2014	4	573,280	26,800
Total Futures			$ 10,304,990	$ 475,600

The amount of net realized gains on the futures contracts for the period ended August 31, 2014 was $4,674,126 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, 2014. If Newedge USA, LLC failed, the loss that would be recognized at August 31, 2014 would be $503,110 which is the sum of the FCM Margin Deposit of $475,600 and the net unpaid year-end variation margin gain of $27,510.

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, 2014 the Fund invested cash collateral had a weighted average maturity of 36 days to reset date.

During the fiscal year ending August 31, 2014, 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, 2013 no losses were recovered in the fiscal year ending August 31, 2014.

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 $58,824,270; however, the estimated market value is $0 as of August 31, 2014.

As of August 31, 2014, the fair value of securities on loan to brokers equaled $2,599,086,527 against non-cash collateral with a fair value of $1,424,413,596 and invested cash collateral with a cost basis of $1,241,999,322 and a fair value of $1,183,251,177.

The non-cash collateral along with the cash collateral was used to secure outstanding security loans. At August 31, 2014 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, 2014, income generated from the investment of cash collateral was insufficient to compensate the lender due to the extreme low level of interest rates, so the securities lending agent and broker agreed to a "negative rebate" to borrow the securities in addition to providing the cash collateral. 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 situations, 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 2014, gross securities lending revenue totaled $9,407,787, including negative rebates (brokers paid instead of receiving rebates) in the amount of $3,359,993. Gross expenditures for bank fees and other adjustments totaled $1,411,089. Net securities lending income totaled $7,996,698.

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 perpetual 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 the 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.

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, which was lowered from $2,300 to $1,500 on January 1, 2014. 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 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.

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 July 1, 2010, the SBOE authorized capacity multiplier for the State Capacity Limit was increased to three (3) times the cost value of the Fund, including the portion managed by the SLB.

As of August 31, 2014, the capacity of the Guarantee Program is $117,318,653,038 under Federal law and $82,790,077,623 under State law. Total outstanding bonds guaranteed by the PSF under this program total $58,364,350,784 at August 31, 2014; of that, $58,061,805,784 is for school district guarantees (815 school districts) and $302,545,000 is for charter district guarantees (6 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, 2014.

Guarantees extend through the maturity dates of the bonds. As of August 31, 2014, the total principal debt guaranteed on bond issues is $58,364,350,784, the expected interest to be paid out over the remaining life of those bond issues is $37,655,567,587, and the final maturity is scheduled to occur in the year 2051.

As of August 31, 2014, 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

Bond Guarantee Program (BGP)

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.

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, 2014 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, 2014, 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:

BP Deepwater Horizon Natural Resource Damage Department of Justice (DOJ) brought causes of action against BP for Natural Resource Damages (NRD), Clean Water Act (CWA) violations and criminal violations relating to the Deep Water Horizon Oil Spill off the Louisiana coast that lasted through July 15, 2010. DOJ settled the criminal violations for $4 billion, with payments to be made over five years, including $2.394 billion dedicated to the National Fish and Wildlife Foundation (NFWF) for projects to remedy spill-related harms to resources, and $191.52 million for projects in Texas. BP also agreed to pay $1 billion for NRD early restoration projects, and the states have been working through NRD assessments and presenting projects to BP and DOJ for approval. A date for final approval of an initial set of projects in Texas, which will cost approximately $18 million and include rebuilding portions of Sea Rim and Galveston Island State Park and construction of three artificial reefs, cannot currently be determined. MOEX, another Defendant, agreed to settle with the State for $3.25 million. Trial in federal court related to liability and gross negligence for CWA violations has been occurring in phases. Phase II ended in October 2013; Phase III, regarding determination of liability using OPA's criteria, is set for January 20, 2015 in the US District Court for the Eastern District of Louisiana. On February 14, 2014, BP moved to strike Alabama's jury trial demand; the deadline for supporting briefs was March 10, 2014. Formal discovery is beginning with TPWD. The GLO also filed a separate complaint asserting violations of the Texas Natural Resource Code and claims for economic damages under OPA, including the loss of tax and state park revenue, but no hearing has been scheduled. The likelihood of recovery is probable. The possible final amount 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. Plaintiffs are also seeking 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, the 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 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 a taking without just compensation. The probability of liability is possible. The possible final amount of the loss is indeterminable at this time.

Cimarex Energy Co. v. Aardvark Oil Co., et al. Interpleader action regarding rival claims to disputed royalties on production from oil and gas wells in Ward County, Texas in the amount of $4,083,886, as select defendants declined to sign a Stipulation of Interest. The GLO filed its answer, and the OAG is now handling the case. The likelihood of recovery is reasonably possible. The possible final amount is indeterminable at this time.

Galveston Bay Energy, LLC v. Tekoil & Gas Gulf Coast, LLC and Jerry Patterson 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. Petition has been filed. The probability of liability is possible. The possible final amount of loss is undeterminable at this time.

GLO v. UT Board of Regents, et al. The GLO received legislative permission to file for a declaratory judgment in Travis County against the Board of Regents for UT – the University Fund manager – regarding the boundary between PSF land and University Land in Pecos County. The GLO filed an Amended Petition on February 5, 2014, and discovery is in progress. On May 12, 2014, a hearing was held on the Board of Regents' motion to dismiss and the special exceptions. District Court Judge Tim Sulak denied both the motion and the Board's special exceptions through orders signed and filed 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. By letter of August 8, 2014, the GLO requested a Rule 2.6 assignment of Judge Sulak to the case, to which the Board objected by letter of August 11, 2014. The probability of liability is possible. The possible final amount of the 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 GLO, 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 right 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. Discovery is in progress; settlement discussions are ongoing. The probability of liability is reasonably possible. The possible final amount of loss is indeterminable at this time.

Mercury-Ward LLC, et al. v. Anadarko, Swepi, LP & Patterson Plaintiffs assert title to and possession of real property in Ward County, Texas, alleging the State does not hold title to any minerals under a highway tract for which the GLO authorized an oil and gas lease to Anadarko Petroleum Corporation in October 2012. Plaintiffs further allege that the lease is invalid and that they were wrongfully dispossessed by the Defendants, and seek a declaratory judgment, specific performance and exemplary damages and attorney's fees. On May 22, 2014 Commissioner Patterson filed a notice of withdrawal of his plea to the jurisdiction and motion to dismiss. On June 2, 2014, Plaintiffs filed a 3rd Amended Petition, through which by stipulation Plaintiffs removed the Commissioner in all capacities as a named Defendant, substituting the GLO as a party Defendant solely to the extent – and pursuant to the Commissioner's agreement – that the GLO and SLB will be bound by any final judgment as to any declaration regarding the underlying mineral estate lease. The probability of liability is possible. The possible final amount of loss is indeterminable at this time.

Poretto v. Commissioner Dewhurst and Texas General Land Office, et al. Plaintiffs assert ownership of certain acreage subject to GLO leases to the City of Galveston. District Court dismissed the case on a plea to the jurisdiction; the Court of Appeals reversed and remanded. At trial in January 2009, the jury found a taking by the State and awarded Plaintiffs $5,012,000, including pre- and post-judgment interest. First Court of Appeals reversed and rendered judgment in the State's favor in August 2011, awarding the State appellate costs. Plaintiffs' motion for rehearing was denied. Plaintiffs subsequently filed bankruptcy and a petition for review before the Texas Supreme Court. On July 3, 2014, the Supreme Court affirmed the Court of Appeals decision that no taking had occurred on the part of the State, but reversed the judgment dismissing Plaintiffs' title claims and denying discovery sanctions against the State, remanding these issues to the trial court for judgment in accordance with its opinion. On July 18, 2014, Plaintiffs filed a motion for rehearing; the State filed its motion for rehearing on August 18, 2014. The probability of liability is remote, with the exception of the aforementioned discovery sanctions.

State of Texas v. Larry Mark Polsky The GLO sought an injunction against Defendant to cease ongoing construction activities in Cameron County, Texas in violation of Section 63.091 of the Tex. Nat. Res. Code. A Temporary Restraining Order and Temporary Injunction were granted. Defendant filed a counterclaim seeking declaratory and injunctive relief, alleging an unconstitutional taking as the cause of action and adding selective enforcement as an alternative remedy in his second amended counterclaim. On September 20, 2013, the court granted the State's motion for sanctions against Defendant for filing a frivolous motion to disqualify the GLO's lead counsel, assessing a $2,500 fine. After a jury trial, final judgment was entered in favor of the GLO on November 14, 2013. Plaintiff's Motion for New Trial and Motion for JNOV were both denied on January 23, 2014. Plaintiff paid a superseded bond, proposed a settlement offer and filed his appellate brief with the Third Court of Appeals on May 20, 2014. The State filed its brief on July 25, 2014. By letter dated August 15, 2014, the 3rd Court granted Plaintiff's opposed motion to supplement the reporter's record with the complete jury trial transcript by September 15, 2014. State's supplemental brief is due October 17, 2014. The probability of liability is reasonably possible. The possible final amount of loss is indeterminable at this time.

State v. Riemer State alleges unlawful fencing of the Canadian River bed below Sanford Dam; Riemer filed multiple counterclaims. Trial Court denied the State's plea to the jurisdiction. The 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 back to the 7th Court of Appeals to address the remaining contested requirements of class certification. Appellate oral arguments were held on November 4, 2013. The probability of liability is reasonably possible. The possible final outcome of loss is indeterminable at this time.

State and GLO, et al. v. EPA and Lisa Jackson The GLO and other interested entities filed a Petition for Review to obtain a partial stay of the EPA's Cross-State Air Pollution Rule, requiring that states reduce power plant emissions distributing ozone and/or fine particles to other states. Pending final settlement of CSAPR, the 2005 Clean Air Interstate Rule – the EPA's previous air-transport rule – remains in effect. The U.S. Court of Appeals for the D.C. Circuit vacated the CSAPR and the EPA's motion for rehearing en banc that was denied. The EPA filed for Writ of Certiorari in the Supreme Court, as have the Environmental Defense Fund and the American Lung Association. State and local respondents, as well as industry and labor respondents, filed briefs in opposition. The Supreme Court granted cert in June of 2013, and the EPA filed their merits brief in September of 2013. On September 13, 2013 Texas joined North Dakota in suing the EPA for failure to meet deadlines to act for area designations, seeking to force the EPA to designate areas within the states with respect to their attainment of National Ambient Air Quality Standards (NAAQS), without which there is uncertainty about which permit requirements apply. The Supreme Court heard oral arguments on December 10, 2013. On April 29, 2014 the U.S. Supreme Court reversed the D.C. Circuit's vacatur of EPA's CSAPR and remanded the matter to the D.C. Circuit for further proceedings. On June 26, 2014, the US government filed a motion with the D.C. Circuit Court to lift the CSAPR stay. The probability of liability is possible. The possible final amount of the loss is indeterminable at this time.

Texaco v. State, et al. Plaintiff sued for determination of ownership of certain mineral interests located beneath a portion of Manahuilla Creek in Goliad County, and also seeks an unspecified amount of attorney's fees. Settlement discussions are ongoing. The probability of liability is reasonably possible. The possible final amount of loss is indeterminable at this time.

Vastar v. State Plaintiff claims subsidence caused its land to be submerged such that title should not transfer to the State, and seeks damages based on inverse condemnation: the dispute involves the San Jacinto River boundary in Harris County. Trial Court denied the State's plea to the jurisdiction. Third Court of Appeals affirmed in part, dismissed in part, reversed and rendered in part. In August 2011, the Texas Supreme Court denied the State's petition for review. The issues of the trespass-to-try title claim against Commissioner Patterson in his official capacity and Plaintiff's constitutional takings claim against the State Defendants were remanded to the Trial Court, and royalties have been deposited with the Court Registry. Settlement discussions are ongoing. The probability of liability is reasonably possible. The possible final amount of the loss is undeterminable at this time.

Wesley West Minerals, et al. v. SandRidge Energy and GLO, et al. Plaintiff/Lessor Wesley West Minerals alleges that Defendant/Lessee Sandridge has failed to pay royalties. The GLO has claimed sovereign immunity and has cross-claimed against Sandridge, alleging that Sandridge entered into an agreement with Oxy USA, Inc. which deprives the GLO of royalties from disposition of carbon dioxide, which Sandridge is required to pay to 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 the GLO and Plaintiffs on the Relinquishment Act Leases was granted. 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. The likelihood of recovery is reasonably possible. The possible final amount 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, 2014 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 has potential lost revenue for the Fund due to two currently pending bankruptcy claims associated with mineral activity on state lands.

The GLO has filed a claim of $57,042 against Heritage Standard. The recoverable amount has yet to be determined.

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 $2,755,258 through August 31, 2014.

12. SIGNIFICANT COMMITMENTS

The PSF(SLB) makes investments in certain limited partnerships that legally commit it to possible future capital contributions. At August 31, 2014, the remaining commitments totaled approximately $1.37 billion.

In August 2014, the SLB adopted a resolution that releases a total of $375 million from the RESFA during the Fiscal Years 2016 and 2017 to the SBOE for investment in the PSF(SBOE). The funds will be released in four quarterly installments of $43.75 million each in Fiscal Year 2016 and four quarterly installments of $50 million each in Fiscal Year 2017.

The current land inventory includes approximately 1,600 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 $23,894,109 as of August 31, 2014.

In November 2012, the SBOE set the distribution rate to the ASF for the 2014-2015 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) expects to distribute approximately $839 million annually for each year of the 2014-2015 biennium.

As of August 31, 2014 the SBOE has approved and the Fund made capital commitments to externally managed real estate investment funds in a total amount of $1.58 billion and capital commitments to private equity limited partnerships for a total of $2.23 billion, to be implemented over the next several years. Unfunded commitments at August 31, 2014 totaled $520 million in real estate investments and $1.27 billion in private equity investments.

SECTION THREE

STATISTICAL SUMMARY

(UNAUDITED)

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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. The Texas Permanent School Fund has guaranteed $120.4 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.

During 2014, charter district bonds were also included in the Fund's bond guarantee program.

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 2014 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. The SLB is required to use the prudent investor standard in determining the suitability of the potential investments.

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.

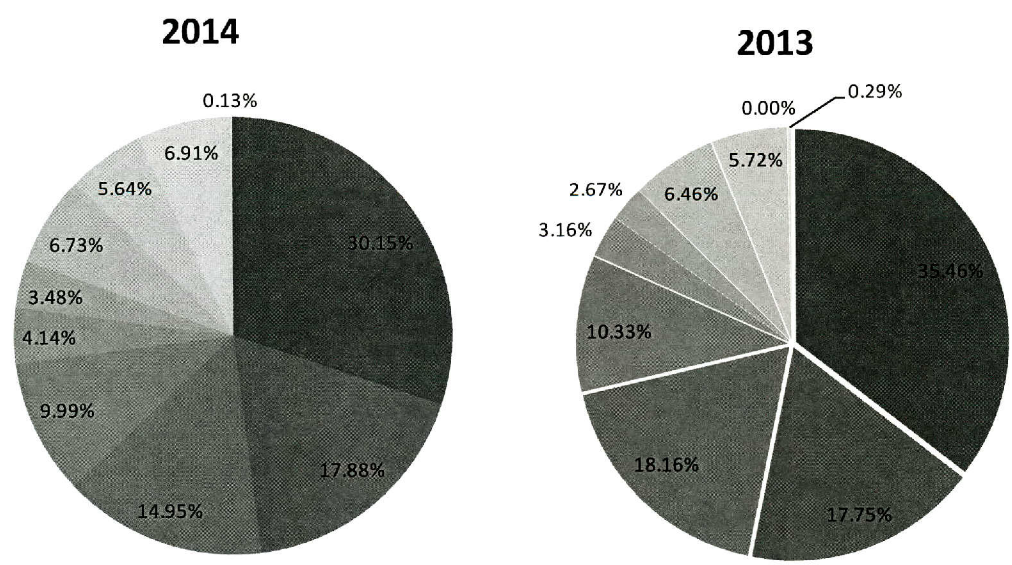
The current IAC is comprised of five members, chaired by the Deputy Commissioner of Funds Management/Chief Investment Officer of the GLO. The IAC meets periodically to review potential investments and works in conjunction with the SLB's real assets investment advisor, currently The Townsend Group, to 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 are then formally presented to the SLB for consideration and approval.

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 30.71 billion as of August 31, 2014. See Figure 1 graph and table below for the portfolio diversification at fair value at August 31, 2014 and 2013.

FIGURE 1
TEXAS PERMANENT SCHOOL FUND
Portfolio Diversification
Fair Value



Asset Class	August 31, 2014	Percent	August 31, 2013	Percent
Domestic Equity	$ 9,260,137,669	30.15%	$ 9,632,323,310	35.46%
International Equity	5,489,623,353	17.88%	4,822,910,037	17.75%
Domestic Fixed Income	4,592,075,762	14.95%	4,932,984,581	18.16%
Absolute Return	3,066,836,395	9.99%	2,806,109,527	10.33%
Real Estate	1,271,199,837	4.14%	858,103,624	3.16%
Private Equity	1,068,817,976	3.48%	724,500,410	2.67%
Risk Parity	2,066,634,303	6.73%	1,754,251,092	6.46%
Real Return	1,730,689,062	5.64%	1,554,283,603	5.72%
Emerging Market Debt	2,122,036,110	6.91%	-	0.00%
Unallocated Cash	41,180,203	0.13%	80,008,055	0.29%
Net Investment Balance	$ 30,709,230,670	100.00%	$ 27,165,474,239	100.00%

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

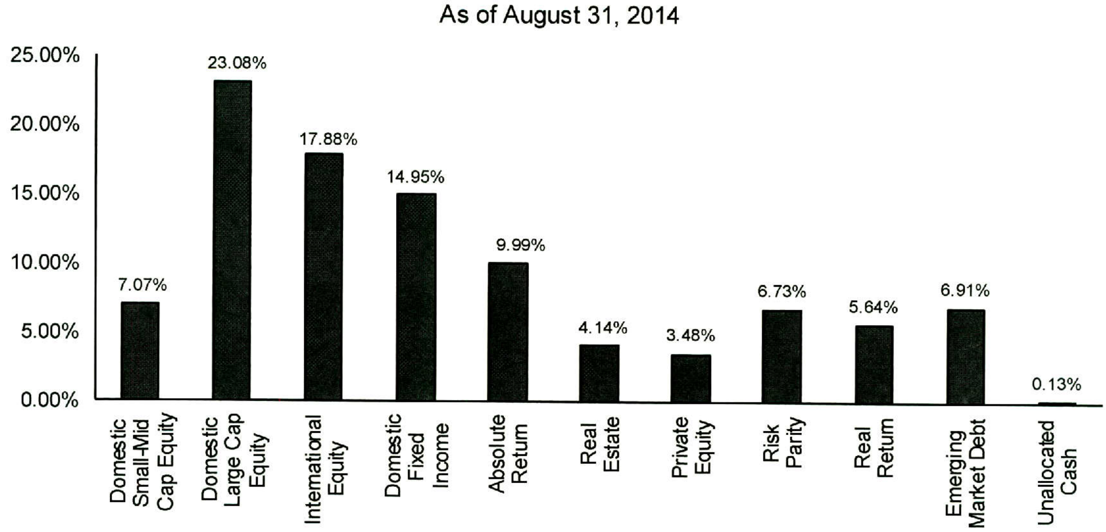
TEXAS PERMANENT SCHOOL FUND
ASSET ALLOCATION MIX - SBOE
AS OF AUGUST 31, 2014

ASSET CLASS	Book Value	Mix	Fair Value	Mix
Equity				
Public Market Equity				
Domestic Small-Mid Cap	$ 1,285,186,029	5.48%	$ 2,171,859,748	7.07%
Domestic Large Cap	3,692,108,215	15.73%	7,088,277,921	23.08%
Total Domestic Equity	4,977,294,244	21.21%	9,260,137,669	30.15%
Developed and Emerging Market International Equity	4,090,490,773	17.42%	5,489,623,353	17.88%
Total Public Market Equity	9,067,785,017	38.63%	14,749,761,022	48.03%
Fixed Income				
Domestic Fixed Income	4,482,494,705	19.10%	4,592,075,762	14.95%
Total Fixed Income	4,482,494,705	19.10%	4,592,075,762	14.95%
Alternative Investments				
Absolute Return	2,483,069,476	10.58%	3,066,836,395	9.99%
Real Estate	1,106,938,745	4.72%	1,271,199,837	4.14%
Private Equity	826,233,100	3.52%	1,068,817,976	3.48%
Risk Parity	1,561,455,040	6.65%	2,066,634,303	6.73%
Real Return	1,822,347,022	7.76%	1,730,689,062	5.64%
Emerging Market Debt	2,080,141,244	8.86%	2,122,036,110	6.91%
Total Alternative Investments	9,880,184,627	42.09%	11,326,213,683	36.89%
Unallocated Cash	41,180,203	0.18%	41,180,203	0.13%
Fund Total	$ 23,471,644,552	100.00%	$ 30,709,230,670	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.

FIGURE 2:
TEXAS PERMANENT SCHOOL FUND
Asset Allocation Mix
As of August 31, 2014



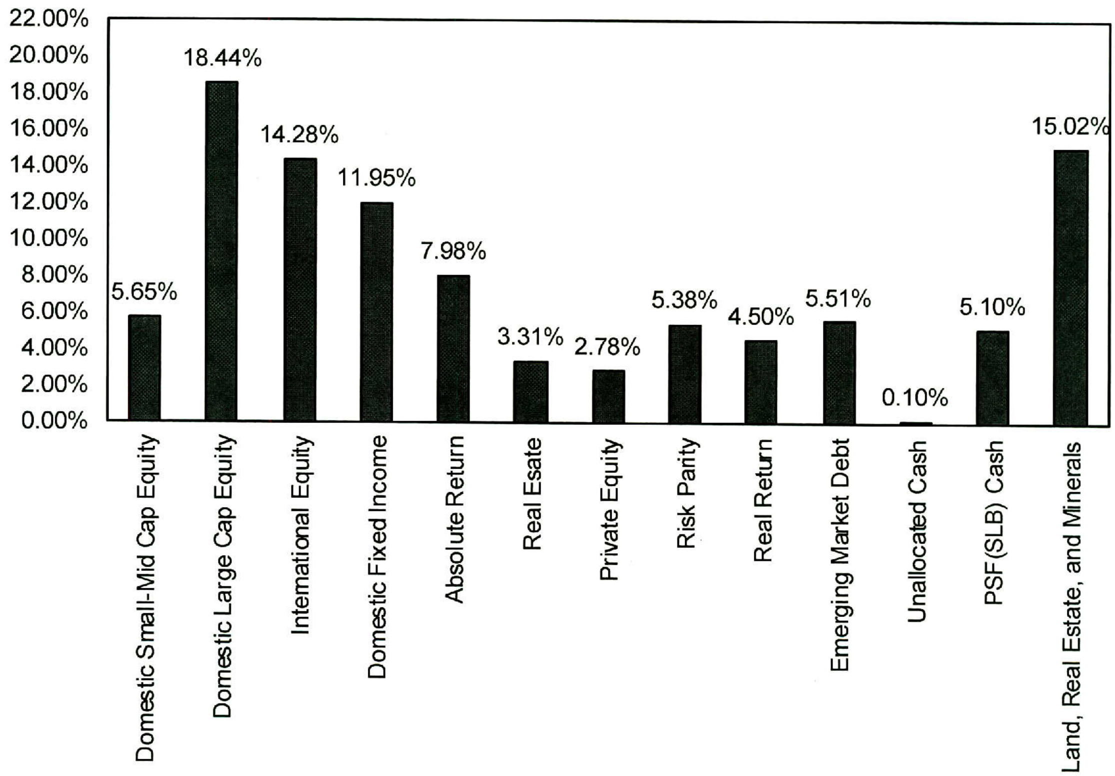
TEXAS PERMANENT SCHOOL FUND
ASSET ALLOCATION MIX INCLUDING ASSETS MANAGED BY THE SLB
AS OF AUGUST 31, 2014

ASSET CLASS	Book Value	Fair Value	Mix
PSF(SBOE)			
Equity			
Public Market Equity			
Domestic Small-Mid Cap Equity	$ 1,285,186,029	$ 2,171,859,748	5.65%
Domestic Large Cap Equity	3,692,108,215	7,088,277,921	18.44%
Total Domestic Equity	4,977,294,244	9,260,137,669	24.09%
International Equity	4,090,490,773	5,489,623,353	14.28%
Total Public Market Equity	9,067,785,017	14,749,761,022	38.37%
Fixed Income			
Domestic Fixed Income	4,482,494,705	4,592,075,762	11.95%
Total Fixed Income	4,482,494,705	4,592,075,762	11.95%
Alternative Investments			
Absolute Return	2,483,069,476	3,066,836,395	7.98%
Real Estate	1,106,938,745	1,271,199,837	3.31%
Private Equity	826,233,100	1,068,817,976	2.78%
Risk Parity	1,561,455,040	2,066,634,303	5.38%
Real Return	1,822,347,022	1,730,689,062	4.50%
Emerging Market Debt	2,080,141,244	2,122,036,110	5.51%
Total Alternative Investments	9,880,184,627	11,326,213,683	29.46%
Unallocated Cash	41,180,203	41,180,203	0.10%
PSF(SLB)			
Cash	1,960,207,461	1,960,207,461	5.10%
Land, Real Asset Investments and Minerals			
Soveriegn/Other Lands and Discretionary Internal Investments	354,280,522	663,566,993	1.72%
Investments with External Managers	1,793,392,472	1,844,940,068	4.80%
Mineral Investments	13,407,945	3,263,814,444	8.50%
Total Land, Real Assets, and Minerals	2,161,080,939	5,772,321,505	15.02%
FUND TOTAL	$ 27,592,932,952	$ 38,441,759,636	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, 2014

FIGURE 3:
TEXAS PERMANENT SCHOOL FUND
Asset Allocation Mix
As of August 31, 2014



TOTAL PSF (SBOE) FUND RATE OF RETURN FOR FISCAL YEAR ENDED AUGUST 31, 2014

The total market value of the PSF(SBOE) at August 31, 2014, was $30.7 billion. The PSF(SBOE) annual rates of return for the one year, five year and ten year periods ending August 31, 2014, were 15.94%, 11.30% and 7.77%, respectively. The Fund returned 15.94% for the fiscal year, exceeding its target index by approximately 58 basis points.

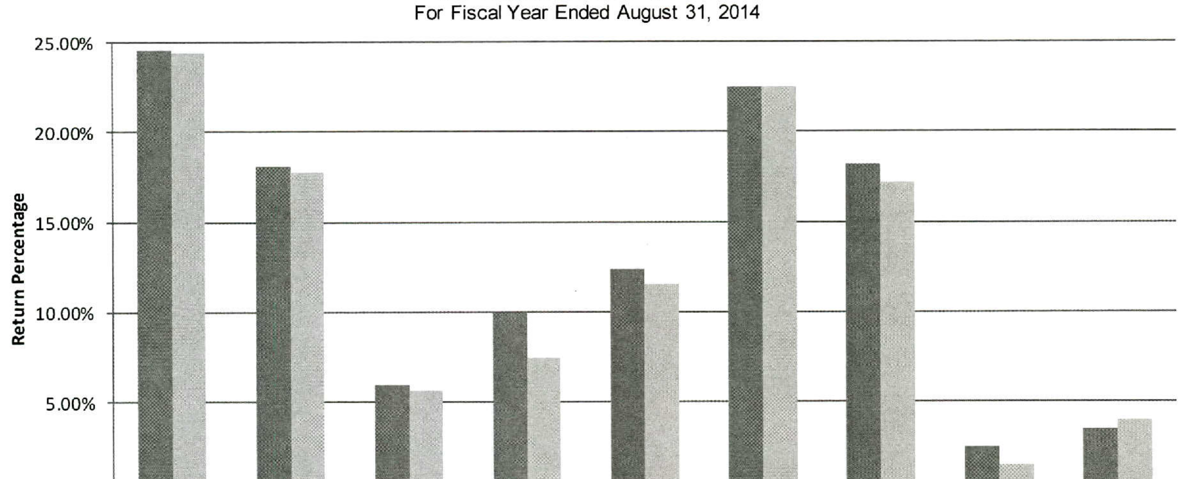
The capital markets continued to capture the previous year's momentum and experienced growth during the year with fixed income, international equities, absolute return, real estate, and private equity realizing impressive returns and the internally managed and domestic equity portfolios outperforming their benchmarks. Externally managed international equity also outperformed its benchmark. Real estate and absolute return, and private equity all exceeded their benchmark returns.

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 21% allocation to domestic equities, 19% allocation to international equities including emerging markets, 19% allocation to core fixed income, including emerging market debt, and a 41% allocation to alternative assets. Alternative assets include absolute return, real estate, risk parity, real return strategies (TIPS and commodities), and private equity.

Additional information about performance is included in the chart on the following page. The information shown is for fiscal year periods ending August 31 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, 2014

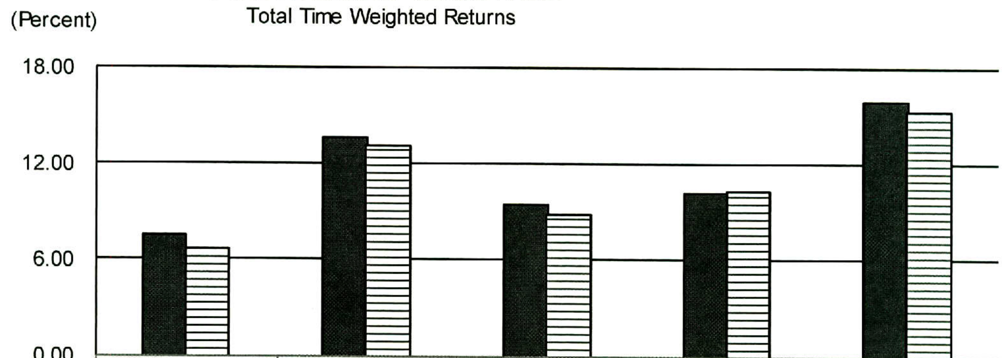


	Domestic Equities	Inter-national Equities	Domestic Fixed Income	Absolute Return	Real Estate	Private Equity	Risk Parity	Real Return	Emerging Market Debt*
Performance	24.53%	18.10%	5.93%	9.94%	12.35%	22.49%	18.15%	2.49%	3.49%
Benchmark	24.43%	17.75%	5.66%	7.44%	11.51%	22.49%	17.14%	1.45%	3.95%

* Asset class held for less than one year; performance noted is inception to date.

TOTAL PSF (SBOE) FUND RATE OF RETURN
FOR FISCAL YEAR ENDED AUGUST 31, 2014

FIGURE 5:
TEXAS PERMANENT SCHOOL FUND
Total Time Weighted Returns



	2010	2011	2012	2013	2014
■ PSF(SBOE)	7.51	13.64	9.45	10.16	15.94
⊟ Target Policy Benchmark	6.67	13.15	8.87	10.41	15.37

TOTAL PSF (SBOE) TIME WEIGHTED RETURNS
FOR FISCAL YEAR ENDED AUGUST 31, 2014

Total PSF(SBOE) Portfolio [1]	**2010**	**2011**	**2012**	**2013**	**2014**	**3 Years**	**5 Years**	**10 Years**
PSF(SBOE)	7.51	13.64	9.45	10.16	15.94	11.81	11.30	7.77
Target Policy Benchmark [2]	6.67	13.15	8.87	10.41	15.37	11.51	10.85	7.48
Domestic Equities								
PSF(SBOE)	6.25	19.29	17.32	20.13	24.53	20.62	17.34	8.97
Domestic Equity Benchmark [3]	5.99	19.36	17.13	20.00	24.43	20.48	17.21	8.85
International Equities								
PSF(SBOE)	3.11	10.52	(1.59)	13.10	18.10	9.54	8.42	7.91
International Equity Benchmark [4]	2.85	10.34	(1.92)	12.98	17.75	9.27	8.17	7.65
Fixed Income								
PSF(SBOE)	11.29	4.58	6.57	(2.02)	5.93	3.42	5.18	5.28
Fixed Income Benchmark [5]	9.18	4.62	5.78	(2.47)	5.66	2.91	4.48	4.72
Absolute Return								
PSF(SBOE)	7.85	4.48	3.69	10.23	9.94	7.91	7.20	---
Absolute Return Benchmark [6]	6.60	5.36	0.14	5.94	7.44	4.46	5.07	---
Real Estate								
PSF(SBOE)	0.20	15.53	7.38	11.85	12.35	10.50	---	---
Real Estate Benchmark [7]	0.20	14.69	10.40	10.52	11.51	10.81	---	---
Private Equity								
PSF(SBOE)	3.74	20.32	5.43	26.89	22.49	17.90	---	---
Private Equity Benchmark [8]	3.74	20.32	5.43	26.89	22.49	17.90	---	---
Risk Parity								
PSF(SBOE)		3.51	13.11	(3.28)	18.15	8.93	---	---
Risk Parity Benchmark [9]		(4.48)	13.34	9.87	17.14	13.41	---	---
Real Return								
PSF(SBOE)		(0.76)	8.49	(7.99)	2.49	0.76	---	---
Real Return Benchmark [10]		(0.76)	8.29	(6.13)	1.45	1.03	---	---
Emerging Market Debt								
PSF(SBOE) (inception to date)					3.49	---	---	---
Emerging Market Debt Benchmark [11]					3.95	---	---	---

[1] Time weighted rates of return adjusted for cash flows for the PSF(SBOE) investment assets. Does not include real estate assets or real assets managed by the GLO. Returns are gross of fees.

[2] As of 08/31/14, Total PSF Benchmark weights are fixed with the following: 23% S&P 500 Index, 7% S&P 1000 Index, 15% Barclays Capital Aggregate, 18% MSCI ACWI ex US Net, 3% Real Return Benchmark, 4% Real Estate Benchmark, 7% Risk Parity Benchmark, 10% Absolute Return Benchmark, 3% Private Equity Benchmark, 3% Commodities Benchmark, and 7% Emerging Market Debt Benchmark.

[3] As of 08/31/2014, 76.67% S&P 500, 23.33% S&P 1000

[4] As of 08/31/2014, 100% MSCI ACWI Ex-US Net Dividend.

[5] As of 08/31/2014, 100% Barclays Capital U.S. Aggregate Bond Index.

[6] As of 08/31/2014, HFRI Fund of Funds Composite Index.

[7] The benchmark is calculated by dynamically allocating market value of portfolios and applying the *NCREIF Property Index (1 quarter lag)* to each portfolio upon receipt of valuations.

[8] As of 08/31/2014, represents actual return of Private Equity investments.

[9] As of 08/31/2014, 60% S&P 500 and 40% Barclays Capital U.S. Aggregate Bond Index.

[10] As of 08/31/2014 weights are fixed with the following: 50% Barclays Capital U.S. Treasury: US TIPS Index and 50% Dow Jones UBS Commodities Total Return Index.

[11] As of 08/31/2014, 100% JPM GBI EM Global Diversified. Inception month of December 2013 represents actual return of the Total Emerging Markets Benchmark.

TOTAL PSF (SLB) TIME WEIGHTED RETURNS FOR FISCAL YEAR ENDED AUGUST 31, 2014

At August 31, 2014, 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 $4.1 billion, which was approximately 11.3% of the total Fund assets of approximately $36.3 billion. PSF(SLB) discretionary real assets investments, excluding Cash at the State Treasury, were approximately $2.1 billion, which was approximately 5.8% 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, 2014, 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	16.60%	16.51%	11.59%	9.95%	6.53%
Including Cash	9.73%	9.67%	7.00%	5.30%	4.52%

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.

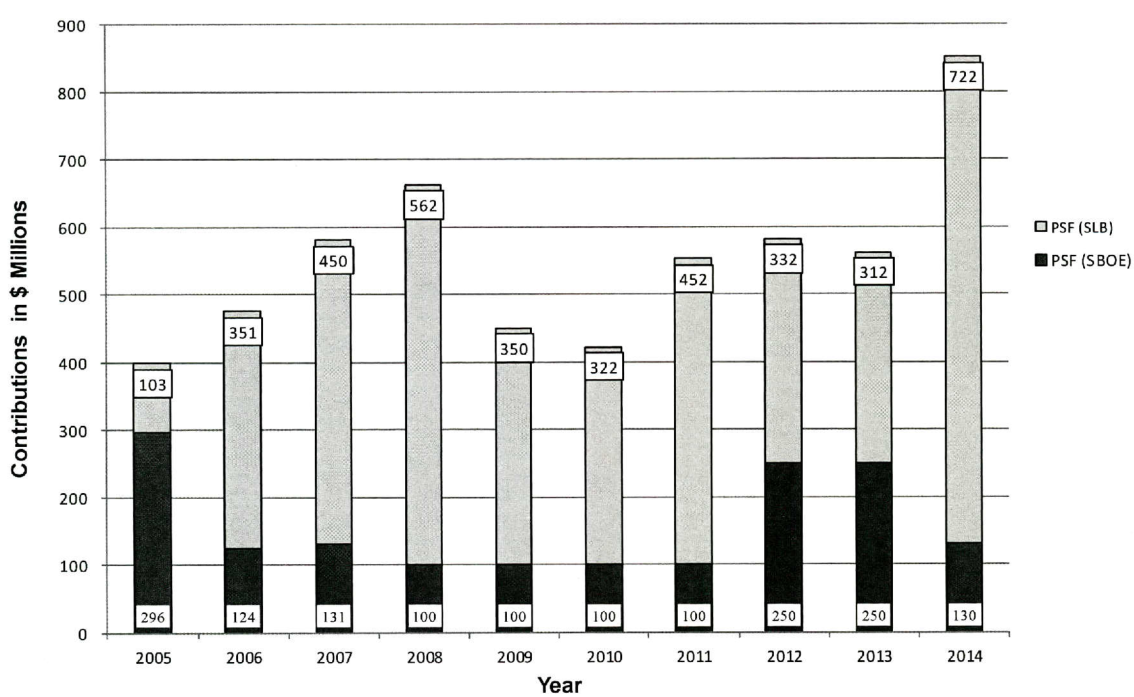
CONTRIBUTIONS TO THE TEXAS PERMANENT SCHOOL FUND ASSETS MANAGED BY THE SBOE

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 ten (10) 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 $4.1 billion at August 31, 2014.

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 $130 million in contributions from the SLB, which sourced from the SLB resolution adopted in July 2012 to release to the PSF(SBOE) a total of $280 million from the RESFA - $130 million in fiscal year 2014 and $150 million in fiscal year 2015.

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



DISTRIBUTIONS TO THE AVAILABLE SCHOOL FUND (ASF)

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 2014, $839 million 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),

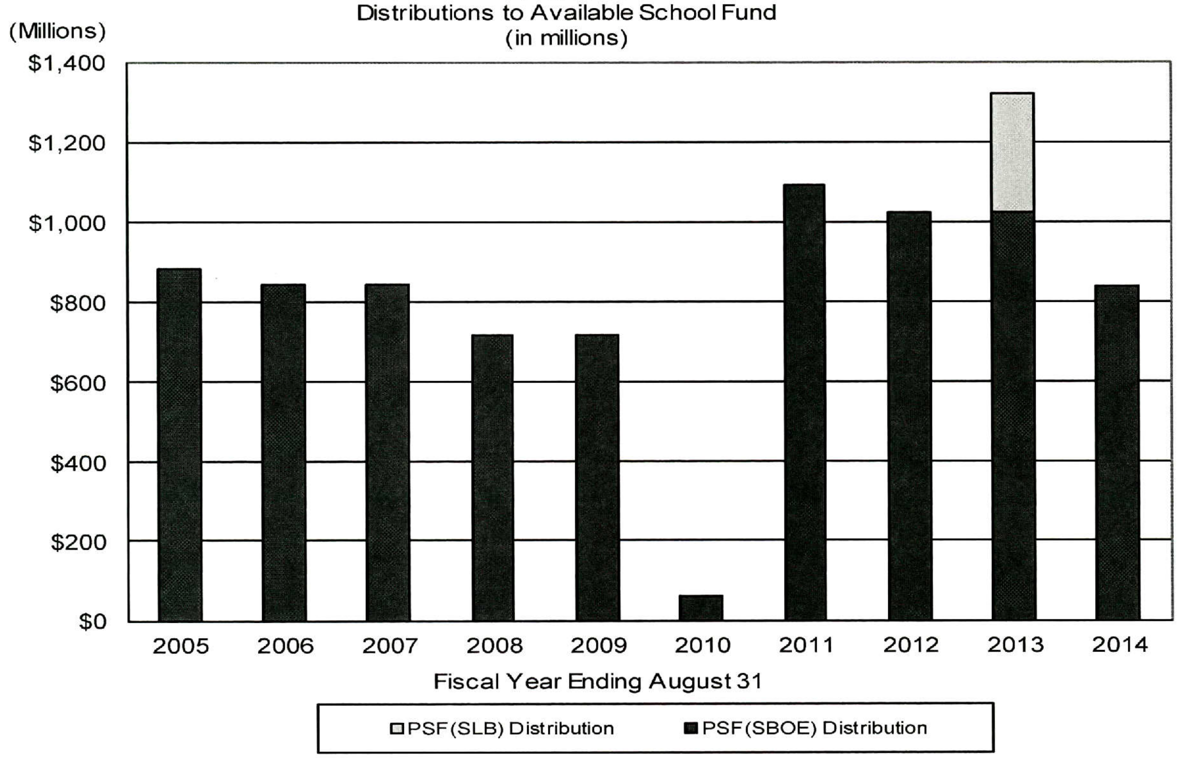
The ASF is distributed during the year to the school districts throughout the state based on their average daily attendance (ADA). For fiscal year 2014, the per capita income earned by the Fund and distributed to school districts was $175.43, the third year in which charter schools were included in the ADA. In fiscal years 2012 and 2013, this amount was $221 and $281, respectively (Figure 6).

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 3.3% for the 2014-15 biennium based on a commitment of the SLB to transfer $280 million to the PSF(SBOE) during the biennium, $130 million of which was received in fiscal year 2014 and $150 million of which is to be received in fiscal year 2015.

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 an amount not to exceed $300 million.

DISTRIBUTIONS TO THE AVAILABLE SCHOOL FUND (ASF)

FIGURE 7:
Distributions to Available School Fund
(in millions)



Fiscal Year Ending	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
PSF(SBOE) Distribution	$880	$842	$843	$717	$717	$61	$1,093	$1,021	$1,021	$839
PSF(SLB) Distribution	$0	$0	$0	$0	$0	$0	$0	$0	$300	$0
Per Capita Distribution (dollars)	$219	$204	$196	$166	$163	$14	$246	$221	$281	$175

SECTION FOUR

BOND GUARANTEE PROGRAM

(UNAUDITED)

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AN OVERVIEW OF THE BOND GUARANTEE PROGRAM

Since its inception in 1983, the Bond Guarantee Program (BGP) has guaranteed 5,592 school district bond issues for a total of more than $120.4 billion. At the end of fiscal year 2014, there were 2,869 issues of guaranteed school district bonds outstanding with a balance of $58.1 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 312 additional school district issues guaranteed by the Fund. This increased the total amount of school district bonds outstanding by $8.44 billion.

During the current year, the SBOE approved rules which allow the BGP to guarantee debt issued from qualified charter districts. At the end of the fiscal year, there were 10 charter district issues outstanding with a year-end balance of $302.5 million, 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 that was reduced from $2,300 to $1,500 on January 1, 2014. 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 300% 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 three 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, 2014, the ratio of guaranteed debt outstanding to the book value of the Fund was **2.11:1** and the ratio of guaranteed debt to the fair value of the Fund was **1.52:1.**

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 8 lists the districts with the ten largest aggregate amounts of bonds outstanding, which are guaranteed under the program as of August 31, 2014.

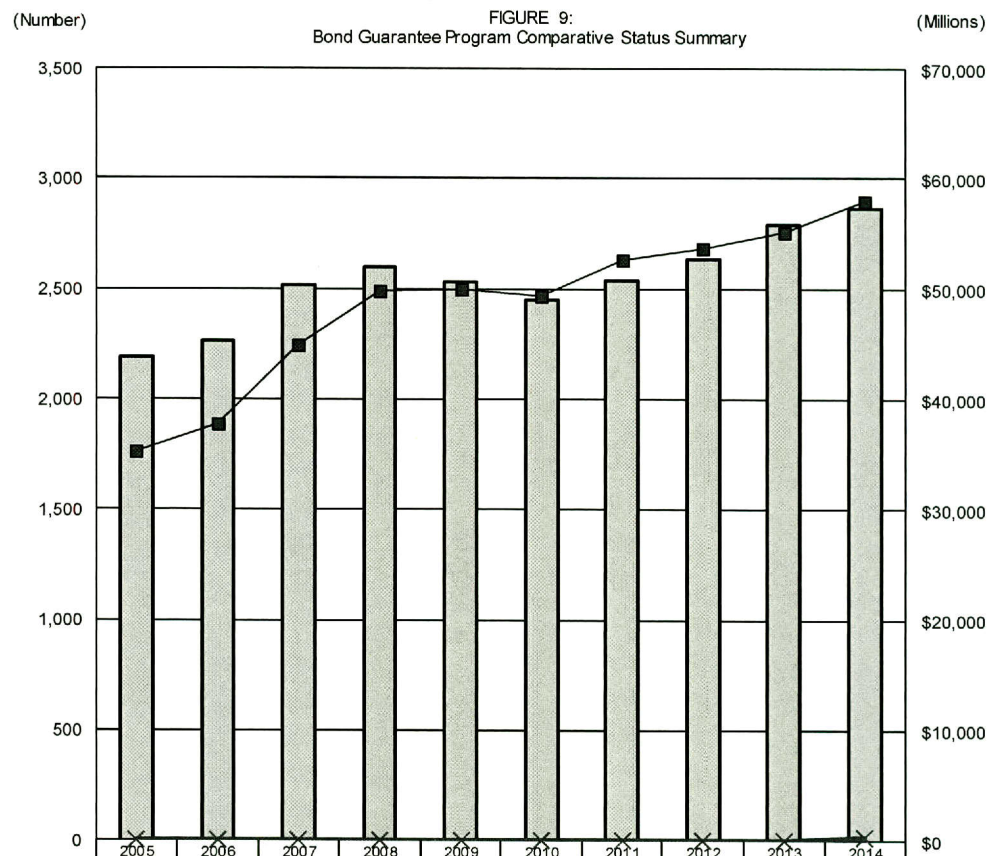
FIGURE 8:
Bond Guarantee Program
Ten Largest Total Debt Outstanding
Guaranteed Under the Program
At August 31, 2014

District Name	Balance
DALLAS ISD	$ 2,404,515,000
NORTHSIDE ISD	1,815,305,000
HOUSTON ISD	1,736,287,252
CYPRESS-FAIRBANKS ISD	1,634,623,390
NORTH EAST ISD	1,411,303,775
FRISCO ISD	1,337,540,843
KATY ISD	1,192,692,484
LEANDER ISD	967,565,349
CONROE ISD	860,145,000
CLEAR CREEK ISD	693,720,000

NUMBER OF ISSUES	Total	School Districts	Charter Districts
Number of Issues as of September 1, 2013	2,789	2,789	-
Fiscal Year Activity:			
District Issues Guaranteed During Fiscal Year	323	312	11
District Issues Matured	(184)	(183)	(1)
District Issues Refunded	(49)	(49)	-
Number of Issues as of August 31, 2014	2,879	2,869	10
BALANCE			
Balance as of September 1, 2013	$ 55,218,889,156	$55,218,889,156	$ -
Fiscal Year Activity:			
District Issues Guaranteed During Fiscal Year	8,745,481,511	8,442,626,511	302,855,000
District Issues Matured	(2,065,610,524)	(2,065,300,524)	(310,000)
District Issues Refunded	(3,516,482,338)	(3,516,482,338)	-
Adjustments	(17,927,022)	(17,927,022)	-
Balance as of August 31, 2014	$ 58,364,350,783	$58,061,805,783	$ 302,545,000

Bond Guarantee Program Comparative Status Summary
For the Fiscal Year Ended August 31, 2014

FIGURE 9:
Bond Guarantee Program Comparative Status Summary



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Number of Issues - School District	2,189	2,265	2,518	2,596	2,531	2,452	2,536	2,634	2,789	2,869
Number of Issues - Charter School	-	-	-	-	-	-	-	-	-	10
Issued Year-End Balance - School District	35,230	37,796	44,857	49,861	50,033	49,302	52,654	53,634	55,219	58,062
Issued Year-End Balance - Charter School	-	-	-	-	-	-	-	-	-	303

Bond Guarantee Program --- Issued and Guaranteed
For the Fiscal Year Ended August 31, 2014

School District Name	Balance	School District Name	Balance
Abbott ISD	3,268,000	Bay City ISD	15,933,484
Abernathy ISD	16,475,000	Beaumont ISD	273,610,000
Abilene ISD	121,891,605	Beckville ISD	4,265,000
Academy ISD	21,770,000	Beeville ISD	18,554,686
Alamo Heights ISD	99,045,000	Bells ISD	9,707,419
Alba-Golden ISD	1,995,000	Bellville ISD	24,111,960
Aldine ISD	398,980,000	Belton ISD	130,089,996
Aledo ISD	140,695,860	Ben Bolt-Palito Blanco ISD	4,910,000
Alice ISD	33,034,998	Benavides ISD	6,780,000
Alief ISD	142,348,793	Big Sandy ISD	1,705,000
Allen ISD	331,625,936	Big Spring ISD	59,840,000
Alpine ISD	1,795,000	Birdville ISD	188,860,198
Alto ISD	4,675,000	Bishop CISD	8,987,547
Alvarado ISD	76,724,393	Blackwell CISD	5,320,000
Alvin ISD	461,390,000	Blanco ISD	11,755,000
Alvord ISD	8,810,000	Bland ISD	13,737,685
Amarillo ISD	148,419,600	Blanket ISD	1,039,999
Anahuac ISD	14,565,000	Blooming Grove ISD	1,559,503
Anderson-Shiro CISD	22,345,000	Bloomington ISD	2,785,000
Andrews ISD	16,271,408	Blue Ridge ISD	15,380,000
Angleton ISD	126,867,352	Bluff Dale ISD	215,000
Anna ISD	80,100,024	Blum ISD	2,530,000
Anson ISD	6,800,000	Boerne ISD	187,182,928
Anthony ISD	5,860,000	Boles ISD	5,277,711
Aquilla ISD	1,991,000	Bonham ISD	9,465,000
Aransas Co ISD	30,950,000	Booker ISD	340,000
Aransas Pass ISD	1,710,000	Borger ISD	34,620,218
Archer City ISD	530,000	Bosqueville ISD	8,367,946
Argyle ISD	46,513,373	Bowie ISD	25,889,998
Arlington ISD	533,024,719	Boyd ISD	23,030,000
Arp ISD	9,723,602	Brady ISD	17,679,961
Aspermont ISD	8,200,000	Brazos ISD	15,504,991
Athens ISD	13,757,542	Brazosport ISD	129,674,050
Atlanta ISD	13,140,500	Breckenridge ISD	6,100,000
Aubrey ISD	51,675,714	Brenham ISD	37,027,086
Austin ISD	361,294,342	Bridge City ISD	17,584,734
Austwell-Tivoli ISD	461,000	Bridgeport ISD	25,540,000
Avalon ISD	1,050,000	Brock ISD	31,318,240
Azle ISD	36,775,000	Brookesmith ISD	845,000
Balmorhea ISD	1,145,000	Brooks Co ISD	34,065,000
Bandera ISD	23,212,954	Brownfield ISD	10,250,000
Bangs ISD	7,231,176	Brownsboro ISD	29,541,223
Banquete ISD	10,638,783	Brownsville ISD	149,315,000
Barbers Hill ISD	130,293,771	Bruceville-Eddy ISD	6,640,000
Bartlett ISD	1,310,000	Bryan ISD	131,370,000
Bastrop ISD	136,113,836	Bryson ISD	16,022,217

Bond Guarantee Program --- Issued and Guaranteed
For the Fiscal Year Ended August 31, 2014

School District Name	Balance	School District Name	Balance
Buckholts ISD	785,000	Chisum ISD	7,865,000
Buena Vista ISD	290,317	Christoval ISD	1,010,000
Buffalo ISD	16,235,000	City View ISD	3,405,447
Bullard ISD	35,654,833	Claude ISD	1,755,000
Buna ISD	26,070,000	Clear Creek ISD	693,720,000
Burkburnett ISD	5,160,000	Cleburne ISD	43,182,081
Burkeville ISD	1,830,000	Cleveland ISD	36,060,785
Burleson ISD	237,995,852	Clifton ISD	2,480,000
Burnet CISD	26,985,000	Clint ISD	113,950,915
Burton ISD	6,750,000	Clyde CISD	18,900,000
Bushland ISD	15,545,000	Coahoma ISD	13,020,000
Bynum ISD	1,015,000	Coldspring-Oakhurst CISD	1,535,000
Caddo Mills ISD	32,173,013	Coleman ISD	330,000
Calallen ISD	42,991,679	College Station ISD	245,225,000
Caldwell ISD	8,117,000	Collinsville ISD	915,000
Calhoun Co ISD	70,125,000	Colorado ISD	29,425,000
Callisburg ISD	19,044,997	Columbia-Brazoria ISD	38,044,984
Cameron ISD	21,721,157	Columbus ISD	12,469,988
Campbell ISD	197,573	Comal ISD	428,013,691
Canadian ISD	8,955,000	Comanche ISD	10,047,941
Canton ISD	37,396,209	Comfort ISD	18,964,994
Canutillo ISD	100,235,502	Commerce ISD	26,790,000
Canyon ISD	74,034,211	Community ISD	27,927,674
Carlisle ISD	10,130,000	Comstock ISD	2,500,000
Carrizo Springs CISD	48,210,000	Connally ISD	19,190,000
Carroll ISD	120,889,791	Conroe ISD	860,145,000
Carrollton-Farmers Branch ISD	273,505,000	Coolidge ISD	1,845,000
Carthage ISD	20,384,931	Cooper ISD	11,685,000
Castleberry ISD	46,909,997	Coppell ISD	144,303,905
Cedar Hill ISD	107,321,641	Copperas Cove ISD	26,638,510
Celeste ISD	7,680,000	Corpus Christi ISD	127,105,000
Celina ISD	53,894,169	Corrigan-Camden ISD	1,900,000
Center ISD	7,924,414	Corsicana ISD	55,865,550
Center Point ISD	1,355,000	Cotulla ISD	17,625,000
Central Heights ISD	2,700,000	Covington ISD	955,000
Central ISD	12,075,000	Crandall ISD	20,753,274
Channelview ISD	150,284,997	Crane ISD	1,460,000
Channing ISD	2,275,000	Crawford ISD	5,170,180
Chapel Hill ISD	19,245,000	Crockett ISD	12,749,999
Chapel Hill ISD	3,535,000	Crosby ISD	115,764,263
Charlotte ISD	2,767,630	Cross Plains ISD	85,000
Chester ISD	240,000	Cross Roads ISD	5,350,000
Chico ISD	17,970,000	Crowley ISD	301,892,982
Childress ISD	1,565,000	Crystal City ISD	19,530,753
China Spring ISD	44,820,000	Cuero ISD	65,856,352
Chireno ISD	1,040,000	Culberson Co-Allamoore ISD	625,000

Bond Guarantee Program --- Issued and Guaranteed
For the Fiscal Year Ended August 31, 2014

School District Name	Balance	School District Name	Balance
Cumby ISD	1,820,000	Edinburg CISD	152,200,000
Cushing ISD	14,090,000	Edna ISD	20,910,000
Cypress-Fairbanks ISD	1,634,623,390	El Campo ISD	19,324,996
D'Hanis ISD	5,095,000	El Paso ISD	383,715,208
Daingerfield-Lone Star ISD	9,733,999	Electra ISD	12,704,890
Dalhart ISD	14,460,000	Elgin ISD	58,309,984
Dallas ISD	2,404,515,000	Elysian Fields ISD	10,260,000
Danbury ISD	2,950,000	Ennis ISD	136,196,909
Darrouzett ISD	3,020,000	Era ISD	1,797,371
Dawson ISD	3,413,079	Etoile ISD	2,465,000
Dayton ISD	13,745,000	Eula ISD	5,282,648
De Leon ISD	885,000	Eustace ISD	3,560,000
Decatur ISD	23,462,612	Evadale ISD	2,430,000
Deer Park ISD	196,305,000	Everman ISD	86,525,000
Del Valle ISD	145,644,999	Fabens ISD	23,755,000
Denison ISD	81,388,954	Fairfield ISD	4,675,000
Denton ISD	669,856,832	Falls City ISD	34,660,000
Denver City ISD	27,989,315	Fannindel ISD	1,260,000
DeSoto ISD	91,683,884	Farmersville ISD	12,672,459
Detroit ISD	6,145,000	Ferris ISD	30,587,115
Devers ISD	1,025,000	Flatonia ISD	4,600,000
Devine ISD	13,505,000	Florence ISD	6,574,998
Deweyville ISD	9,745,000	Floresville ISD	70,904,985
Diboll ISD	15,889,924	Flour Bluff ISD	50,845,000
Dickinson ISD	274,623,777	Floydada ISD	5,110,000
Dilley ISD	28,800,000	Follett ISD	1,355,000
Dimmitt ISD	14,704,998	Forestburg ISD	100,000
Dodd City ISD	4,544,999	Forney ISD	250,699,931
Donna ISD	95,135,000	Forsan ISD	23,375,000
Dripping Springs ISD	203,864,998	Fort Bend ISD	611,218,711
Driscoll ISD	8,883,306	Fort Elliott CISD	2,065,000
Dublin ISD	7,245,000	Fort Hancock ISD	1,435,000
Dumas ISD	21,830,000	Fort Stockton ISD	20,250,000
Duncanville ISD	144,385,236	Fort Worth ISD	466,509,995
Eagle Mountain-Saginaw ISD	541,949,533	Franklin ISD	12,000,000
Eagle Pass ISD	59,310,000	Frankston ISD	16,561,275
Eanes ISD	69,100,000	Fredericksburg ISD	13,825,000
Early ISD	19,399,995	Freer ISD	19,820,000
East Bernard ISD	2,515,000	Frenship ISD	183,469,400
East Central ISD	69,410,000	Friendswood ISD	103,255,000
East Chambers ISD	7,385,000	Friona ISD	3,580,000
Ector Co ISD	188,024,942	Frisco ISD	1,337,540,843
Ector ISD	1,985,000	Frost ISD	782,000
Edcouch-Elsa ISD	42,045,000	Fruitvale ISD	940,000
Edgewood ISD	4,905,000	Gainesville ISD	32,330,000
Edgewood ISD	78,120,000	Galena Park ISD	195,248,669

Bond Guarantee Program --- Issued and Guaranteed
For the Fiscal Year Ended August 31, 2014

School District Name	Balance
Galveston ISD	59,104,999
Ganado ISD	4,005,000
Garland ISD	291,906,128
Garner ISD	1,715,000
Garrison ISD	1,840,000
Gary ISD	9,200,000
Gatesville ISD	18,015,317
George West ISD	15,865,000
Georgetown ISD	190,965,000
Giddings ISD	36,395,000
Gilmer ISD	14,760,000
Gladewater ISD	34,325,000
Glasscock Co ISD	21,095,000
Glen Rose ISD	24,595,000
Godley ISD	32,546,787
Goldthwaite ISD	7,530,000
Goliad ISD	12,300,000
Gonzales ISD	16,745,000
Goose Creek CISD	453,705,000
Gordon ISD	398,000
Gorman ISD	4,268,892
Grady ISD	6,425,000
Graford ISD	10,174,999
Graham ISD	29,505,000
Granbury ISD	119,039,406
Grand Prairie ISD	355,433,072
Grand Saline ISD	9,245,000
Grandview ISD	15,800,000
Grandview-Hopkins ISD	725,000
Granger ISD	780,000
Grape Creek ISD	4,005,000
Grapeland ISD	4,030,000
Grapevine-Colleyville ISD	254,953,481
Greenville ISD	83,120,000
Greenwood ISD	61,740,000
Gregory-Portland ISD	42,420,000
Groesbeck ISD	13,172,000
Groom ISD	1,525,000
Gruver ISD	1,885,714
Gunter ISD	14,675,000
Gustine ISD	1,110,000
Guthrie CSD	2,025,000
Hale Center ISD	6,103,356
Hallettsville ISD	23,535,000
Hallsburg ISD	2,363,452
Hallsville ISD	80,790,000
Hamilton ISD	1,580,000

School District Name	Balance
Hamlin ISD	3,899,998
Hamshire-Fannett ISD	8,205,000
Hardin ISD	11,005,000
Hardin-Jefferson ISD	22,696,249
Harlandale ISD	151,221,639
Harleton ISD	1,585,000
Harlingen CISD	144,275,000
Harmony ISD	1,674,000
Hartley ISD	6,275,000
Haskell CISD	604,000
Hawkins ISD	20,485,000
Hawley ISD	7,300,000
Hays CISD	328,155,000
Hearne ISD	10,705,000
Hedley ISD	175,000
Hempstead ISD	16,536,383
Henderson ISD	49,080,254
Henrietta ISD	10,825,000
Hermleigh ISD	3,730,000
Hico ISD	3,635,000
Hidalgo ISD	39,675,000
Higgins ISD	1,850,000
High Island ISD	1,200,000
Highland ISD	3,980,000
Highland Park ISD	2,485,000
Hillsboro ISD	14,864,164
Hitchcock ISD	32,332,354
Holland ISD	5,678,851
Holliday ISD	19,475,000
Hondo ISD	6,589,998
Honey Grove ISD	9,756,769
Hooks ISD	8,215,000
Houston ISD	1,736,287,252
Howe ISD	7,777,243
Hubbard ISD	9,710,000
Hudson ISD	17,376,093
Huffman ISD	40,524,998
Hull-Daisetta ISD	2,055,000
Humble ISD	345,300,000
Hunt ISD	4,395,000
Huntington ISD	18,084,189
Huntsville ISD	27,849,839
Hurst-Euless-Bedford ISD	186,862,648
Hutto ISD	146,906,004
Idalou ISD	14,195,000
Industrial ISD	1,555,000
Ingleside ISD	7,465,000

Bond Guarantee Program --- Issued and Guaranteed
For the Fiscal Year Ended August 31, 2014

School District Name	Balance	School District Name	Balance
Ingram ISD	2,700,000	La Vega ISD	42,618,564
Iowa Park CISD	15,780,000	La Vernia ISD	41,449,130
Ira ISD	12,180,000	La Villa ISD	5,310,000
Iraan-Sheffield ISD	9,429,997	Lago Vista ISD	41,564,867
Iredell ISD	180,000	Lake Dallas ISD	80,612,085
Irion Co ISD	7,580,000	Lake Travis ISD	277,933,303
Irving ISD	457,655,635	Lake Worth ISD	67,255,457
Italy ISD	1,165,000	Lamar CISD	629,325,000
Itasca ISD	7,620,000	Lampasas ISD	40,349,982
Jacksboro ISD	20,730,000	Lancaster ISD	27,740,000
Jacksonville ISD	74,659,631	Laredo ISD	221,041,316
Jarrell ISD	42,134,998	Lasara ISD	6,750,000
Jasper ISD	10,385,000	Latexo ISD	1,579,996
Jefferson ISD	7,235,000	Leander ISD	967,565,349
Jim Ned CISD	645,000	Lefors ISD	170,000
Joaquin ISD	5,035,000	Leon ISD	11,350,000
Johnson City ISD	7,575,000	Leonard ISD	1,020,000
Joshua ISD	64,375,887	Levelland ISD	56,344,992
Judson ISD	349,944,205	Lewisville ISD	632,745,156
Karnes City ISD	2,785,000	Lexington ISD	2,765,000
Katy ISD	1,192,692,484	Liberty Hill ISD	112,379,926
Kaufman ISD	19,860,881	Liberty ISD	11,614,995
Keene ISD	13,660,000	Liberty-Eylau ISD	5,805,000
Keller ISD	506,062,305	Lindale ISD	56,824,543
Kemp ISD	25,010,000	Lindsay ISD	475,000
Kenedy County-Wide CSD	1,605,000	Lingleville ISD	1,106,000
Kenedy ISD	18,220,000	Lipan ISD	4,062,747
Kennedale ISD	43,366,049	Little Cypress-Mauriceville CISD	54,510,000
Kerens ISD	1,915,000	Little Elm ISD	137,521,782
Kermit ISD	28,435,000	Livingston ISD	60,325,000
Kerrville ISD	24,940,000	Llano ISD	44,635,000
Kilgore ISD	56,045,000	Lockhart ISD	76,029,988
Killeen ISD	78,505,000	Lohn ISD	1,115,000
Kingsville ISD	74,514,993	Lometa ISD	4,735,000
Kirbyville CISD	23,060,000	London ISD	18,466,452
Klein ISD	663,340,000	Lone Oak ISD	10,550,000
Klondike ISD	7,150,000	Longview ISD	178,465,299
Knippa ISD	3,970,000	Loop ISD	2,870,000
Knox City-O'Brien CISD	255,000	Loraine ISD	10,890,000
Kopperl ISD	100,000	Lorena ISD	31,499,998
Kountze ISD	10,740,000	Los Fresnos CISD	39,375,000
Krum ISD	37,112,367	Louise ISD	495,000
La Feria ISD	29,505,000	Lovejoy ISD	147,060,471
La Joya ISD	271,223,156	Lubbock ISD	245,615,000
La Marque ISD	20,712,568	Lubbock-Cooper ISD	41,874,996
La Porte ISD	27,825,000	Lueders-Avoca ISD	1,175,000
La Pryor ISD	2,400,000	Lufkin ISD	52,502,969

Bond Guarantee Program --- Issued and Guaranteed
For the Fiscal Year Ended August 31, 2014

School District Name	Balance	School District Name	Balance
Luling ISD	3,060,000	Mission CISD	137,810,222
Lumberton ISD	8,300,000	Monahans-Wickett-Pyote ISD	20,589,145
Lyford CISD	3,749,997	Monte Alto ISD	14,460,000
Lytle ISD	19,030,000	Montgomery ISD	121,803,916
Mabank ISD	36,919,591	Moody ISD	10,673,540
Madisonville CISD	6,900,000	Moulton ISD	45,000
Magnolia ISD	70,895,000	Mount Calm ISD	1,500,000
Malakoff ISD	21,025,000	Mount Enterprise ISD	2,870,000
Malone ISD	1,060,000	Mount Pleasant ISD	34,354,991
Malta ISD	935,000	Mount Vernon ISD	14,000,000
Manor ISD	173,894,999	Muenster ISD	16,935,192
Mansfield ISD	690,838,374	Muleshoe ISD	20,150,000
Marble Falls ISD	62,767,221	Nacogdoches ISD	37,770,000
Marfa ISD	6,478,683	Natalia ISD	1,535,000
Marion ISD	9,740,000	Navarro ISD	19,210,490
Marlin ISD	1,350,000	Navasota ISD	11,265,000
Mart ISD	2,325,000	Nazareth ISD	697,207
Martins Mill ISD	695,000	Neches ISD	4,745,000
Martinsville ISD	4,130,000	Nederland ISD	27,755,000
Matagorda ISD	4,804,999	Needville ISD	44,955,000
Mathis ISD	14,834,999	New Boston ISD	15,468,112
Maud ISD	820,000	New Braunfels ISD	113,886,673
May ISD	2,887,000	New Caney ISD	239,809,409
Maypearl ISD	13,689,792	New Diana ISD	3,375,000
McAllen ISD	91,720,000	New Home ISD	5,260,000
McDade ISD	984,784	New Waverly ISD	6,625,000
McGregor ISD	23,893,775	Newcastle ISD	4,500,000
McKinney ISD	397,035,000	Newton ISD	6,290,000
McLean ISD	2,050,000	Nixon-Smiley CISD	12,565,500
McMullen Co ISD	7,950,000	Nordheim ISD	2,565,000
Meadow ISD	1,105,000	Normangee ISD	7,906,982
Medina Valley ISD	55,005,572	North East ISD	1,411,303,775
Melissa ISD	51,275,000	North Hopkins ISD	4,975,000
Mercedes ISD	62,189,693	North Lamar ISD	2,080,000
Meridian ISD	7,290,000	North Zulch ISD	7,254,000
Merkel ISD	9,750,000	Northside ISD	1,585,000
Mesquite ISD	342,461,132	Northside ISD	1,815,305,000
Mexia ISD	895,000	Northwest ISD	606,568,340
Miami ISD	28,695,000	Nursery ISD	2,915,000
Midland ISD	239,176,214	Oakwood ISD	3,408,000
Midlothian ISD	243,304,663	Odem-Edroy ISD	4,659,997
Midway ISD	113,324,179	Oglesby ISD	340,000
Mildred ISD	13,782,759	Olfen ISD	1,020,000
Miles ISD	835,000	Olney ISD	4,560,000
Miller Grove ISD	1,985,000	Olton ISD	720,000
Millsap ISD	18,977,204	Onalaska ISD	13,534,734
Mineral Wells ISD	57,190,000	Orange Grove ISD	13,535,000

Bond Guarantee Program --- Issued and Guaranteed
For the Fiscal Year Ended August 31, 2014

School District Name	Balance	School District Name	Balance
Orangefield ISD	9,268,986	Progreso ISD	28,450,000
Ore City ISD	9,625,000	Prosper ISD	267,875,581
Overton ISD	3,540,000	Queen City ISD	3,170,000
Paint Rock ISD	2,350,000	Quinlan ISD	18,577,214
Palacios ISD	4,680,000	Quitman ISD	4,675,000
Palmer ISD	19,435,000	Rains ISD	5,660,000
Palo Pinto ISD	3,250,000	Rankin ISD	6,780,000
Pampa ISD	46,265,000	Raymondville ISD	20,245,000
Panhandle ISD	22,735,000	Reagan Co ISD	23,445,000
Panther Creek CISD	905,000	Red Lick ISD	5,255,000
Paradise ISD	8,980,000	Red Oak ISD	89,612,143
Paris ISD	46,885,000	Redwater ISD	1,105,000
Pasadena ISD	495,250,000	Refugio ISD	1,335,000
Pawnee ISD	6,290,000	Rice CISD	14,245,000
Pearland ISD	290,825,767	Rice ISD	11,584,592
Pearsall ISD	15,925,584	Richardson ISD	347,919,988
Peaster ISD	19,993,451	Riesel ISD	26,073,029
Pecos-Barstow-Toyah ISD	23,575,000	Rio Grande City CISD	100,200,000
Perrin-Whitt CISD	6,180,000	Rio Hondo ISD	19,641,435
Perryton ISD	20,790,000	Rio Vista ISD	4,335,000
Petrolia CISD	3,875,000	River Road ISD	12,886,761
Pewitt CISD	1,640,000	Rivercrest ISD	6,418,577
Pflugerville ISD	539,430,000	Robert Lee ISD	9,270,342
Pharr-San Juan-Alamo ISD	343,755,000	Robinson ISD	8,278,797
Pilot Point ISD	17,645,000	Robstown ISD	55,955,290
Pine Tree ISD	56,725,000	Roby CISD	155,000
Pittsburg ISD	11,925,000	Rockdale ISD	26,239,996
Plains ISD	41,130,000	Rocksprings ISD	2,295,000
Plano ISD	642,395,466	Rockwall ISD	337,278,257
Pleasant Grove ISD	33,064,998	Rogers ISD	8,822,624
Pleasanton ISD	16,065,000	Roma ISD	62,845,000
Plemons-Stinnett-Phillips CISD	28,805,000	Roosevelt ISD	10,570,000
Point Isabel ISD	19,012,795	Ropes ISD	4,959,119
Ponder ISD	24,615,000	Roscoe Collegiate ISD	4,075,000
Poolville ISD	4,275,000	Rotan ISD	160,000
Port Aransas ISD	9,149,083	Round Rock ISD	297,785,000
Port Neches-Groves ISD	72,949,996	Round Top-Carmine ISD	760,000
Post ISD	26,795,000	Roxton ISD	420,000
Poteet ISD	28,959,996	Royal ISD	68,593,121
Poth ISD	5,100,000	Royse City ISD	94,548,021
Pottsboro ISD	5,835,915	Rusk ISD	2,830,000
Prairiland ISD	8,100,000	S & S CISD	5,680,091
Premont ISD	1,880,000	Sabinal ISD	1,145,000
Presidio ISD	6,094,840	Sabine ISD	19,120,000
Priddy ISD	200,000	Sabine Pass ISD	12,564,485
Princeton ISD	85,455,068	Saint Jo ISD	225,000
Pringle-Morse CISD	1,636,000	Salado ISD	20,115,000

Bond Guarantee Program --- Issued and Guaranteed
For the Fiscal Year Ended August 31, 2014

School District Name	Balance	School District Name	Balance
Sam Rayburn ISD	50,000	Somerset ISD	32,444,991
San Angelo ISD	7,435,000	Somerville ISD	2,000,000
San Antonio ISD	594,584,988	Sonora ISD	790,000
San Augustine ISD	13,030,000	South San Antonio ISD	179,301,867
San Benito CISD	85,945,000	Southside ISD	49,025,000
San Diego ISD	25,570,000	Southwest ISD	235,953,289
San Elizario ISD	1,242,000	Spearman ISD	8,850,000
San Felipe Del Rio CISD	44,319,993	Splendora ISD	52,225,000
San Isidro ISD	1,131,000	Spring Branch ISD	629,980,000
San Marcos CISD	160,199,959	Spring Hill ISD	36,560,000
San Perlita ISD	3,845,000	Spring ISD	438,205,000
San Saba ISD	6,401,000	Springtown ISD	63,035,000
Sands CISD	6,700,000	Spur ISD	5,875,000
Sanford-Fritch ISD	328,776	Spurger ISD	2,530,000
Sanger ISD	24,200,983	Stafford MSD	56,960,000
Santa Anna ISD	1,220,000	Stamford ISD	2,095,000
Santa Fe ISD	45,650,000	Stanton ISD	50,065,000
Santa Gertrudis ISD	5,275,000	Stephenville ISD	28,845,000
Santa Maria ISD	3,825,000	Sterling City ISD	5,600,000
Santa Rosa ISD	12,320,000	Stockdale ISD	9,320,000
Santo ISD	1,245,000	Stratford ISD	220,000
Savoy ISD	2,040,000	Sudan ISD	625,000
Schertz-Cibolo-Universal City	292,610,515	Sulphur Bluff ISD	826,000
Schulenburg ISD	5,750,000	Sulphur Springs ISD	8,090,000
Scurry-Rosser ISD	6,998,274	Sunnyvale ISD	57,301,802
Seagraves ISD	10,700,000	Sunray ISD	8,410,000
Sealy ISD	22,271,008	Sweeny ISD	22,095,000
Seguin ISD	113,379,279	Sweetwater ISD	8,830,867
Seminole ISD	68,510,000	Taft ISD	29,690,000
Shallowater ISD	30,288,298	Tarkington ISD	11,000,000
Sharyland ISD	120,094,508	Tatum ISD	23,125,000
Shelbyville ISD	1,450,000	Taylor ISD	10,730,000
Sheldon ISD	163,479,658	Teague ISD	29,850,000
Shepherd ISD	19,585,000	Temple ISD	84,645,000
Sherman ISD	81,375,000	Tenaha ISD	3,455,000
Sidney ISD	1,385,000	Terrell ISD	24,933,448
Silsbee ISD	31,340,000	Texarkana ISD	34,684,462
Simms ISD	1,483,479	Texas City ISD	82,790,000
Sinton ISD	21,435,000	Thorndale ISD	555,000
Skidmore-Tynan ISD	11,259,647	Thrall ISD	1,045,000
Slaton ISD	3,375,000	Three Rivers ISD	25,125,000
Slidell ISD	1,795,000	Tidehaven ISD	48,555,000
Slocum ISD	3,290,000	Tioga ISD	6,735,193
Smithville ISD	9,964,991	Tolar ISD	10,756,889
Smyer ISD	1,005,000	Tom Bean ISD	9,850,000
Snook ISD	8,770,000	Tomball ISD	318,640,000
Socorro ISD	535,915,098	Tornillo ISD	10,734,996

BOND GUARANTEE PROGRAM --- ISSUED AND GUARANTEED
FOR THE FISCAL YEAR ENDED AUGUST 31, 2014

SCHOOL DISTRICT NAME	BALANCE
Trent ISD	3,450,000
Trenton ISD	7,400,000
Trinidad ISD	1,365,000
Trinity ISD	4,295,000
Troup ISD	7,020,000
Troy ISD	18,325,011
Tuloso-Midway ISD	69,843,636
Turkey-Quitaque ISD	2,665,000
Tyler ISD	178,310,000
Union Grove ISD	4,130,000
United ISD	272,289,664
Uvalde CISD	20,104,996
Valley Mills ISD	7,800,000
Valley View ISD	8,930,000
Valley View ISD	49,139,764
Van Alstyne ISD	31,320,000
Van ISD	34,315,000
Vega ISD	3,200,000
Venus ISD	9,433,944
Veribest ISD	1,325,000
Vernon ISD	2,265,314
Victoria ISD	161,400,000
Vidor ISD	17,873,415
Waco ISD	136,815,000
Waelder ISD	3,237,884
Wall ISD	1,455,000
Waller ISD	76,900,000
Warren ISD	14,780,000
Water Valley ISD	3,005,120
Waxahachie ISD	115,092,537
Weatherford ISD	65,655,495
Webb CISD	1,352,310
Weimar ISD	8,547,881
Wellman-Union CISD	18,922,299
Wells ISD	3,470,000
Weslaco ISD	61,890,000
West Hardin Co CISD	2,815,000
West ISD	3,095,851
West Orange-Cove CISD	50,222,761
West Oso ISD	22,374,994
West Rusk Co CISD	14,830,000
West Sabine ISD	8,610,000
Wharton ISD	22,514,493
Wheeler ISD	6,715,000
White Oak ISD	2,695,000
White Settlement ISD	162,623,318
Whiteface CISD	8,445,000

SCHOOL DISTRICT NAME	BALANCE
Whitehouse ISD	29,763,933
Whitesboro ISD	12,650,252
Whitewright ISD	7,523,158
Whitney ISD	27,835,000
Wichita Falls ISD	45,420,000
Willis ISD	66,528,956
Wills Point ISD	3,105,000
Wimberley ISD	57,119,473
Windthorst ISD	2,012,670
Wink-Loving ISD	20,335,000
Winona ISD	15,143,324
Woden ISD	1,595,000
Wolfe City ISD	2,080,000
Woodsboro ISD	12,935,000
Wortham ISD	6,040,000
Wylie ISD	222,529,361
Yantis ISD	1,185,000
Yoakum ISD	53,980,000
Yorktown ISD	5,655,000
Ysleta ISD	177,440,000
Zavalla ISD	5,030,000
Zephyr ISD	2,840,000
TOTAL SCHOOL DISTRICT AMOUNT OUTSTANDING	**$58,061,805,783**

BOND GUARANTEE PROGRAM --- ISSUED AND GUARANTEED
FOR THE FISCAL YEAR ENDED AUGUST 31, 2014

CHARTER DISTRICT NAME	**BALANCE**
Eagle Advantage Schools, Inc.	20,065,000
Harmony Public Schools	101,555,000
Kipp, Inc.	51,740,000
Lifeschool Of Dallas	92,160,000
Riverwalk Education Foundation, Inc.	7,420,000
Trinity Basin Preparatory Inc.	29,605,000
TOTAL CHARTER DISTRICT AMOUNT OUTSTANDING	**$302,545,000**
GRAND TOTAL AMOUNT OUTSTANDING	**$58,364,350,783**

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SECTION FIVE

SUPPLEMENTAL SCHEDULES

(UNAUDITED)

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

Year	Total Investment Fund [1]	Increase 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	-
2005	21,354,333,727	2,092,534,442	-	-	-	879,981,967
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

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 the State Treasury, securities lending proceeds, and a one-time payment of $126,716,305 made to the ASF to change to the 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 2014	$16.6
Projected-Fiscal Year 2015	$30.2
Projected-Fiscal Year 2016	$30.2
Projected-Fiscal Year 2017	$30.2

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.

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December 2014