

Texas Permanent School Fund

Comprehensive Annual Financial Report
for the Fiscal Year Ending August 31, 2015



In Service of Texas' Children and Citizens

Financing tomorrow's education with sound investments

The cover photos were provided by the Killeen Independent School District and depict the Fort Hood Adopt-A-School (AAS) program within Killeen ISD. The AAS mission statement says:

“The mission of the AAS program is to routinely contribute military resources and services to schools in order to nurture the intellectual, emotional, social, and physical growth of children in the greater Fort Hood area.

- 1. This is grounded on the conviction that a general diffusion of knowledge is essential for the welfare of the nation that we, as soldiers in the United States Army, defend and for the preservation of the liberties and rights of citizenship.*
- 2. It is further grounded on the conviction that a successful public education system is directly related to a dedicated and supportive family and community, and that parental and community involvement in the school is essential for the maximum educational development of a child.”*

In essence, Soldiers tutor, coach and mentor students; all 52 campuses within Killeen ISD are “adopted.” Every year units from Fort Hood contribute thousands of hours in support of this program.

TEXAS PERMANENT SCHOOL FUND

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FISCAL YEAR ENDING
AUGUST 31, 2015**

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The Texas Permanent School Fund
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Austin, Texas 78701-1600

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Holdings – may be found at [http://tea.texas.gov/Finance and Grants/Texas Permanent School Fund/Permanent School Fund - Holdings/](http://tea.texas.gov/Finance_and_Grants/Texas_Permanent_School_Fund/Permanent_School_Fund_-_Holdings/)

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SECTION ONE

INTRODUCTION

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TEXAS EDUCATION AGENCY

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MESSAGE FROM THE COMMISSIONER OF EDUCATION

Michael L. Williams
Commissioner

December 18, 2015

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

Please find following this message the Comprehensive Annual Financial Report of the Texas Permanent School Fund (PSF or the Fund) for the fiscal year ending August 31, 2015. Since its inception in 1854 by Texas visionaries, the Fund has served as a perpetual endowment instrumental in helping finance public schools in the State of Texas. The Fund continued its tradition of improving its financial strength and providing valuable financial resources to fund public education in the State of Texas. During the current year the Fund also continued to maintain its position as the largest educational endowment in the nation. In addition to its financial investments, the Fund makes a significant investment in the education of all students enrolled in Texas public schools.

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

MANAGEMENT RESPONSIBILITY

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

FINANCIAL INFORMATION

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

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 18, 2015

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the Texas Permanent School Fund (PSF) for the year ended August 31, 2015.

The 161 year old Texas Permanent School Fund continued on its trajectory of financial strength in highly diversified domestic and global markets, and maintained the tradition of strong support for public education in Texas during fiscal year 2015.

INVESTMENTS

For the 12-month period ending August 31, 2015, the portion of the PSF managed by the State Board of Education (PSF[SBOE]) achieved a gross return of -3.36%, and the portion of the PSF managed by the School Land Board (PSF[SLB]) achieved a gross total return for the year of 5.79% (11.32% excluding cash). For the past ten years, the time-weighted annual return has been 5.99% for the PSF(SBOE) and 5.33% for the PSF(SLB) (10.05% excluding cash) since the inception date of May 1, 2002.

At the end of fiscal 2015, the Fund balance was \$33.8 billion, a decrease of \$1.1 billion from the prior year, primarily due to disbursement of \$0.8 billion in support of public education. 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 in process 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 2015 fiscal year, the Fund distributed approximately \$838.7 million for education. Since 1960, the Fund has distributed nearly \$25 billion to help fund the education of Texas students.

Second, the Fund provides a guarantee for bonds issued by participating local school districts. The PSF also guarantees bonds of qualified charter districts. Because of the PSF guarantee, qualified school and charter districts are able to pay lower interest rates when they issue debt since the debt carries a AAA rating by the three major rating agencies. At the end of the year, PSF assets guaranteed \$63.2 billion in school district bonds providing cost savings to 833 public school districts in the State, and \$757.9 million in charter district bonds providing cost savings to 13 Texas charter districts.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Texas Permanent School Fund for its CAFR for the fiscal year ended August 31, 2014. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

MESSAGE FROM THE EXECUTIVE ADMINISTRATOR

ACKNOWLEDGMENTS

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



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
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Presented to

Texas Permanent School Fund

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

August 31, 2014

Executive Director/CEO

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INVESTMENT COUNSEL

NEPC, LLC

CUSTODIAN AND SECURITIES LENDING AGENT

THE BANK OF NEW YORK
MELLON

ORGANIZATIONAL STRUCTURE

Texas Permanent School Fund Financial Assets

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

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

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

SECTION
TWO

FINANCIAL
STATEMENTS

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Permanent School Fund (Fund), as of and for the year ended August 31, 2015, 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.

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SAO Report No. 16-312

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

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, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Fund Financial Statements

As discussed in Note 1, the financial statements present only the Fund, a governmental permanent fund of the State of Texas, and do not purport to, and do not, present fairly the financial position of the State of Texas as of August 31, 2015, the changes in its financial position 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 \$13.4 billion and mineral valuations valued at \$2.14 billion as of August 31, 2015, whose fair values have been estimated by management in the absence of readily determinable fair values. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The Introduction, Statistical Summary, Bond Guarantee Program, and Supplemental Schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2015, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.



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

December 18, 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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

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

FINANCIAL HIGHLIGHTS

- The total fund balance of the Fund decreased \$1.1 billion or 3.2% during fiscal year 2015.
- 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, 2015, \$64.0 billion in school and charter district bond issues were guaranteed by the Fund in support of public education in Texas. The amount outstanding increased 9.6% 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
Emerging market equity	NAV provided by the fund's investment advisor

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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, 2015 the estimated fair value of the land, real assets investments and mineral rights (excluding cash) was approximately \$4.7 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 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 interests in oil and gas are based upon an industry-standard 3P report (i.e., proved, possible, and probable reserves) prepared by a third-party

expert, W.D. Von Gonten & Co., a Houston-based petroleum engineering firm widely recognized as an industry expert in oil and gas reserve evaluation and valuation. Employing a methodology for estimating reserves that conforms to all standards established by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists, and the Society of Petroleum Evaluation Engineers, Von Gonten estimated future revenues from those estimated reserves and discounted those revenues at 10% to arrive at the resulting total reserve valuation of \$2,141,676,506.

The properties evaluated for the purposes of this reserve estimate are located throughout Texas and produce from various conventional and unconventional reservoirs. The property set includes approximately 13,744 Proved Developed Producing (PDP) wells with an estimated discounted future net revenue value of \$1,121,125,875; approximately 3 Proved Developed Non-Producing (PDNP) opportunities with an estimated discounted net revenue value of \$3,468,326; 1,022 Proved Undeveloped (PUD) locations with an estimated discounted future net revenue value of \$448,853,594; 457 Probable Undeveloped (PROB) locations with an estimated discounted future net revenue value of \$242,303,203; 176 Possible Undeveloped (POSS) locations with an estimated discounted future net revenue value of \$92,476,086; and 1,965 Contingent Resources (CONT) locations with an estimated discounted future net revenue value of \$233,449,422. With regard to the Proved Reserves, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate; for Probable Reserves, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the estimate; and for Possible Reserves, there should be at least a 10% probability that the quantities actually recovered will equal or exceed the estimate. Contingent Resources are potentially recoverable but are not currently considered to be commercially recoverable due to one or more contingencies.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Liabilities

Liabilities represent claims against the Fund as of August 31, 2015. 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.

TABLE 1
Summarized Balance Sheet Accounts
(in Millions)

	As of August 31, 2015	As of August 31, 2014	Amount of Increase (Decrease)	Percent Change
ASSETS				
Investments	\$31,077.2	\$32,920.1	\$ (1,842.9)	-5.6%
Securities Lending Cash				
Collateral Invested	524.5	1,183.3	(658.8)	-55.7%
Cash, Receivables, and Other Assets	2,931.8	2,221.9	709.9	32.0%
TOTAL ASSETS	\$34,533.5	\$36,325.3	\$ (1,791.8)	-4.9%
LIABILITIES				
Payables for Investments				
Purchased	\$ 26.8	\$ 35.3	\$ (8.5)	-24.1%
Payables for Security				
Lending Cash				
Collateral Invested	575.8	1,242.0	(666.2)	-53.6%
Other Liabilities	72.9	70.8	2.1	3.0%
TOTAL LIABILITIES	\$ 675.5	\$ 1,348.1	\$ (672.6)	-49.9%
DEFERRED INFLOWS				
OF RESOURCES	\$ 24.5	\$ 26.0	\$ (1.5)	-5.8%
TOTAL FUND BALANCE	\$33,833.5	\$34,951.2	\$ (1,117.7)	-3.2%

Comparative Balance Sheet Highlights

- Total fund balance decreased by 3.2% during the fiscal year. This decrease was primarily attributable to the decrease in the fair value of the PSF(SBOE) equities and alternative assets, and to the current year disbursement of approximately \$0.8 billion in support of public education.
- The change in the fair value of the PSF(SBOE) and PSF(SLB) investments is consistent with the change in value of the markets in which those investments were made.

Statement of Revenues, Expenditures, and Changes in Fund Balance

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

TABLE 2
Summarized Revenue and Expenditure Accounts
(in Millions)

	Fiscal Year Ended August 31, 2015	Fiscal year Ended August 31, 2014	Amount of Increase (Decrease)	Percent Change
REVENUES				
Land Endowment Income	\$ 580.3	\$ 675.8	\$ (95.5)	-14.1%
Settlement of Claims	4.1	1.9	2.2	115.8%
Dividends and Interest				
Income	560.7	661.8	(101.1)	-15.3%
Securities Lending				
(net of rebates/fees)	6.6	8.0	(1.4)	-17.5%
Gain on Sale of				
Sovereign Land	2.7	6.9	(4.2)	-60.9%
Net Decrease in Fair				
Value of Investments	(1,387.6)	3,858.5	(5,246.1)	-136.0%
Revenue from Sales of				
Purchased Gas	83.9	67.2	16.7	24.9%
Other Income	5.2	2.2	3.0	136.4%
TOTAL REVENUES	(144.1)	5,282.3	(5,426.4)	-102.7%
EXPENDITURES				
PSF(SBOE) Operational				
Costs	20.6	16.6	4.0	24.1%
PSF(SLB) Operational				
Costs	32.8	22.5	10.3	45.8%
SEMP Gas Supplies				
Purchased for Resale	78.2	54.8	23.4	42.7%
TOTAL EXPENDITURES	131.6	93.9	37.7	40.1%
TOTAL NET TRANSFERS	(838.7)	(838.7)	-	0.0%
NET CHANGE IN				
FUND BALANCE	\$ (1,114.4)	\$ 4,349.7	\$ (5,464.1)	-125.6%

Comparative Revenue and Expenditure Highlights

- For fiscal year 2015, total revenues were \$-144.1 million, a change of \$5.4 billion from fiscal year 2014. This decrease is reflective of the performance of the markets in which the Fund was invested in fiscal year 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

- Total operating expenditures, net of security lending rebates and fees, increased 40.2% from \$93.9 million for fiscal year ending August 31, 2014 to \$131.6 million for the fiscal year ending August 31, 2015.
- 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 and from generally lower margins on sales of purchased gas. Overall, the fund balance decreased by \$1.1 billion for fiscal year ending August 31, 2015.

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 allocation plan to provide incremental total return at reduced risk, and anticipates that asset classes will be strategically added commensurate with the economic environment and the goals and objectives of the SBOE. Investments in absolute return launched during fiscal year 2008 and real estate and private equity launched during the latter part of fiscal year 2010. Risk parity strategies and real return investments in Treasury Inflation Protected Securities (TIPS) were implemented in the later months of fiscal year 2011. Real return investments in commodities were funded in fiscal year 2013 and increased allocations were made to both real estate and private equity. The emerging market debt in local currency asset class was added in 2014. The emerging international equity asset class funding was initiated in the later months of fiscal year 2015.

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

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

TABLE 3
Strategic Asset Allocation – PSF(SBOE)
August 31, 2015 and 2014

ASSET CLASS	2015	2014	Increase (Decrease)
EQUITY			
Domestic Small/Mid Cap	5.0%	5.0%	0.0%
Domestic Large Cap	16.0%	16.0%	0.0%
Total Domestic Equity	21.0%	21.0%	0.0%
International Developed and Emerging Large Cap	16.0%	16.0%	0.0%
Emerging International Equities	3.0%	3.0%	0.0%
Total International Equity	19.0%	19.0%	0.0%
TOTAL PUBLIC MARKET EQUITY	40.0%	40.0%	0.0%
FIXED INCOME			
Core Fixed Income	12.0%	12.0%	0.0%
Emerging Market Debt	7.0%	7.0%	0.0%
TOTAL FIXED INCOME	19.0%	19.0%	0.0%
ALTERNATIVE INVESTMENTS			
Absolute Return	10.0%	10.0%	0.0%
Real Estate	8.0%	8.0%	0.0%
Private Equity	10.0%	10.0%	0.0%
Risk Parity	7.0%	7.0%	0.0%
Real Return	6.0%	6.0%	0.0%
TOTAL ALTERNATIVE INVESTMENTS	41.0%	41.0%	0.0%
TOTAL	100.0%	100.0%	0.0%

Actual allocations within the portfolios fluctuate as the

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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 and in effect as of August 31, 2015.

The market value of the PSF(SBOE) is directly impacted by the performance of the various financial markets in which the assets are invested. In addition, the PSF(SBOE) investments are exposed to various risks, such as interest rate, market, and credit risks. The most important factor affecting investment performance is the asset allocation decision made by the SBOE. The various investment classes produced mixed returns. The PSF(SBOE) investment in public equity securities experienced a return of -4.4% during the fiscal year. The absolute return investments yielded a return of 2.6% and real estate and private equity investments each returned 13.0%. The return on investment in fixed income return was 1.5% for the fiscal year. Risk parity and real return portfolios returned -9.5% and -15.3%, respectively. The emerging market debt investment returned -21.3%. Emerging market equity returned -15.3% from inception during the fiscal year. Combined, all asset classes produced an investment return of -3.4% for the fiscal year ended August 31, 2015, which is reflective of the market conditions in which the various asset classes operate. Actual performance exceeded the target policy benchmark of -3.7% by 35 basis points.

Table 4 summarizes the changes in the composition of the PSF(SBOE) investment portfolio, including cash, during the fiscal year but does not include real assets or cash under the management of the (PSF)SLB. The total fair value of the PSF(SBOE) investments decreased by \$1.8 billion (5.7%) from the previous fiscal year. Unallocated Cash is on hand at fiscal year-end pending capital calls for alternative investments. At August 31, 2015, PSF(SBOE) unfunded commitments to real estate investments totaled \$751.2 million and unfunded commitments to the four private equity limited partnerships totaled \$981.5 million.

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TABLE 4
Comparative Investment Schedule –
PSF(SBOE) (in Millions)
August 31, 2015 and 2014

ASSET CLASS	August 31, 2015	August 31, 2014	Amount of Increase (Decrease)	Percent Change
EQUITY				
Domestic Small Cap	\$ 1,804.5	\$ 2,171.8	\$ (367.3)	-16.9%
Domestic Large Cap	6,247.9	7,088.3	(840.4)	-11.9%
Total Domestic Equity	8,052.4	9,260.1	(1,207.7)	-13.0%
International Equity	4,963.2	5,489.6	(526.4)	-9.6%
TOTAL EQUITY	13,015.6	14,749.7	(1,734.1)	-11.8%
FIXED INCOME				
Domestic Fixed Income	4,176.6	4,592.1	(415.5)	-9.0%
Emerging Market Debt	1,749.2	2,122.1	(372.9)	-17.6%
TOTAL FIXED INCOME	5,925.8	6,714.2	(788.4)	-11.7%
ALTERNATIVE INVESTMENTS				
Absolute Return	3,127.8	3,066.8	61.0	2.0%
Real Estate	1,824.6	1,271.2	553.4	43.5%
Private Equity	1,479.5	1,068.8	410.7	38.4%
Risk Parity	1,865.5	2,066.6	(201.1)	-9.7%
Real Return	1,607.3	1,730.7	(123.4)	-7.1%
TOTAL ALTERNATIVE INVESTMENTS	9,904.7	9,204.1	700.6	7.6%
UNALLOCATED CASH	103.4	41.2	62.2	151.0%
TOTAL PSF(SBOE) INVESTMENTS	\$28,949.5	\$30,709.2	\$ (1,759.7)	-5.7%

PSF(SLB) Portfolio

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

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

PSF(SLB) Discretionary Real Assets Investments – External

Approximately \$412.2 million of capital commitments to externally managed real assets investment funds, separate accounts, and co-investment vehicles were funded during fiscal year 2015. At August 31, 2015, the fair value of the externally managed investments was approximately \$1.9 billion.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

PSF(SLB) Discretionary Real Estate Investments – Internal

At August 31, 2015, there were approximately 17 internally managed discretionary real estate investments with a fair value of approximately \$242.8 million.

PSF(SLB) Sovereign and Other Lands

At August 31, 2015, the sovereign lands portfolio, which is primarily composed of approximately 421,254 acres of land-locked tracts in West Texas, had a fair value of approximately \$262.1 million. In addition to the sovereign lands portfolio, the PSF(SLB) also manages approximately 180,889 acres of other lands with a fair value of approximately \$115.3 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 \$2.1 billion.

TABLE 5
Comparative Investment Schedule – PSF(SLB)
August 31, 2015 and 2014
(in Millions)

Asset Class	As of August 31, 2015	As of August 31, 2014	Amount of Increase (Decrease)	Percent Change
Discretionary Real Assets				
Investments Externally Managed				
Real Assets Investment Funds*				
Energy/Minerals	\$ 349.3	\$ 311.0	\$ 38.3	12.3%
Infrastructure	428.9	398.6	30.3	7.6%
Real Estate	1,111.5	1,135.3	(23.8)	-2.1%
Internally Managed Direct				
Real Estate Investments	242.8	291.1	(48.3)	-16.6%
Total Discretionary				
Real Assets Investments	2,132.5	2,136.0	(3.5)	-0.2%
Sovereign and Other Land	377.4	372.5	4.9	1.3%
Mineral Interests	2,141.7	3,263.8	(1,122.1)	-34.4%
Cash at State Treasury**	2,595.2	1,960.1	635.1	32.4%
Total PSF(SLB)				
Investments	\$7,246.8	\$7,732.4	\$ (485.6)	-6.3%

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

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

OTHER PROGRAMS

Support Provided to the Public School System

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

ASF Distribution

The Fund annually distributes a predetermined percentage of its asset value to the ASF. For fiscal year 2015 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 fiscal year 2014, the SBOE authorized the BGP to guarantee qualified charter district bonds. Since the Program's inception in 1983, the Fund has guaranteed 6,135 school district and 29 charter district bond issues for a total of \$137.7 billion and \$764.7 million, respectively. During the past fiscal year, the number of all outstanding issues increased by 238 (8.3%). The dollar amount of all issues outstanding increased by approximately \$5.6 billion (9.6%). This program is designed for school districts and charter districts with credit ratings lower than AAA. Bonds issued by participants and guaranteed under the BGP are rated AAA, thus allowing participants to borrow at a lower cost.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

TABLE 6

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

	Fiscal Year Ending August 31, 2015	Fiscal Year Ending August 31, 2014	Amount of Increase (Decrease)	Percent Change
Number of Issues	3,117	2,879	238	8.3%
Issues Guaranteed During the Fiscal Year	\$17,747.9	\$ 8,745.5	\$9,002.4	102.9%
Issues Refunded or Matured During the Fiscal Year	\$12,156.8	\$ 5,600.0	\$6,556.8	117.1%
Year End Balance	\$63,955.5	\$58,364.4	\$5,591.1	9.6%
Total Guarantee Capacity	\$82,893.7	\$78,650.6	\$4,243.1	5.4%

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 times the latest cost value of the Fund. Texas Education Code Section 45.053(d) provides that the SBOE may, by rule,

increase the capacity of the Guarantee Program to an amount not to exceed five times the cost value of the Fund, provided that the increased limit does not violate federal laws or regulations and does not prevent bonds guaranteed by the BGP from receiving the highest available credit rating, subject to other constraints. IRS Notice 2010-5 changed the Internal Revenue Service Limit to a sum certain amount calculated on the date of the Notice, which totals \$117,318,653,038. Additionally, state law allows for and the SBOE has elected to reserve 5% of capacity as determined above from use in guaranteeing bonds. This reserve is held for purposes detailed in the Texas Administrative Code Title 19 Part 2 Chapter 33 Subchapter A Rule 33.65.

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

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**TEXAS PERMANENT SCHOOL FUND
BALANCE SHEET
AUGUST 31, 2015**

Assets

Current Assets:

Cash and Cash Equivalents	
Cash in Bank	\$ 3,187,703
Cash in State Treasury	2,607,580,153
Cash Equivalents	139,140,525
Securities Lending Cash Collateral Invested	524,451,933
Receivables	
Interest and Dividends Receivable	59,897,865
Investments Sold	18,259,870
Land Endowment Revenue	102,205,111
Land Sale Notes	28,699
Due from Broker for Margin Collateral	1,232,300
Due From Other Funds	325,429
Prepaid Items	-
Total Current Assets	\$ 3,456,309,588

Non-Current Assets

Investments, at fair value	\$ 28,812,233,527
Investments in Sovereign Land and Minerals, at historical cost	14,270,685
Investments in other Real Assets, at fair value	2,247,795,870
Land Sale Notes	2,901,806
Total Non-Current Assets	\$ 31,077,201,888
Total Assets	\$ 34,533,511,476

Liabilities, Deferred Inflow Of Resources And Fund Balances

Current Liabilities:

Accounts Payable	\$ 17,214,026
Payroll Payable	2,237,674
Payable for Investments Purchased	26,834,525
Unearned Revenue	53,026,429
Due To Other Funds	428,136
Payable for Securities Lending Cash Collateral Invested	575,807,211
Total Current Liabilities	\$ 675,548,001
Total Liabilities	\$ 675,548,001

Deferred Inflow Of Resources

Interest and dividends	24,420,918
Total Deferred Inflow Of Resources	\$ 24,420,918

Fund Financial Statement-Fund Balances

Nonspendable	\$ 13,496,147,958
Restricted for Public School Support	20,337,394,599
Total Fund Balance	\$ 33,833,542,557
Total Liabilities, Deferred Inflow of Resources And Fund Balance	\$ 34,533,511,476

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, 2015

Revenues	
Interest, Dividends and Other Investment Income	\$ 560,683,398
Settlement of Claims	4,082,689
Securities Lending	7,724,831
Gain on Sale of Sovereign Land	2,720,116
Net Increase/(Decrease) in Fair Value of Investments	(1,387,555,544)
Land Endowment Income	580,298,674
Revenue from Sales of Purchased Gas	83,889,868
Other	5,177,562
Total Revenues	\$ (142,978,406)
 Expenditures	
Salaries and Wages	\$ 22,997,771
Payroll Related Costs	5,296,711
Professional Fees and Services	10,827,136
Travel	318,093
Materials and Supplies	723,569
Communication and Utilities	2,733,563
Gas Supplies Purchased for Resale	78,156,664
Repairs and Maintenance	867,713
Rentals and Leases	1,134,627
Printing and Reproduction	21,196
Claims and Judgments	24,436
Securities Lending Rebates and Fees	1,158,502
Other Expenditures	8,257,208
Capital Outlay	155,285
Total Expenditures	\$ 132,672,474
Excess of Revenues Over Expenditures	\$ (275,650,880)
 Other Financing Sources/(Uses)	
Transfers Out	\$ (838,672,334)
Total Other Financing Sources/(Uses)	\$ (838,672,334)
Net Change in Fund Balance	(1,114,323,214)
 Fund Financial Statement-Fund Balance	
Fund Balance-September 1, 2014	\$ 34,951,220,216
Restatements	(3,354,445)
Fund Balance-September 1, 2014, as restated	\$ 34,947,865,771
Fund Balance-August 31, 2015	\$ 33,833,542,557

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

TEXAS PERMANENT SCHOOL FUND

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The Texas Permanent School Fund (the Fund) was created with a \$2,000,000 appropriation by the Legislature of 1854 expressly for the benefit of funding public education for present and future generations. The Constitution of 1876 stipulated that certain lands and all proceeds from the sale of these lands should also constitute the Fund. Additional Acts later gave more public domain land and rights to the Fund. In 1953, the U.S. Congress passed the Submerged Lands Acts that relinquished to coastal States all rights of the U.S. navigable waters within State boundaries. If the State, by law, had set a boundary larger than three miles prior to or at the time of admission to the U.S., or if the boundary had been approved by Congress, then the larger boundary applied. Concluding three years of litigation, the U. S. Supreme Court on May 31, 1960, affirmed Texas' historic three league (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the Fund. The Fund currently owns approximately 13 million total acres.

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

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

referred to within these notes as the PSF(SBOE) assets.

Texas law assigns control of the Fund's land, mineral rights, and certain real assets investments to the three-member School Land Board (SLB), which includes the elected Commissioner of the General Land Office (GLO), an appointee of the Governor, and an appointee of the Attorney General. Administrative duties related to the land and mineral rights reside with the GLO, which is under the guidance of the Commissioner of the GLO. SLB land and real assets investment operations are included in the GLO's annual financial report for inclusion in the State's CAFR. The portion of the Fund managed by the SLB shall be referred to within these notes as the PSF(SLB) assets.

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

B. Basis of Presentation and Basis of Accounting

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

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

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

TEXAS PERMANENT SCHOOL FUND NOTES TO THE FINANCIAL STATEMENTS

deferred inflows of resources. Amounts are considered measurable if they can be estimated or otherwise determined. Expenditures are recognized in the period in which the related fund liability is incurred, if measurable.

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

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

C. Assets, Income, Expenditures, and Operating Transfers

Cash and Cash Equivalents

Cash and cash equivalents consist of money market instruments, cash held at the State Treasury, cash held in a FDIC insured bank account, foreign currencies and other overnight funds. The PSF(SBOE) cash in bank balance represents the U.S. dollar equivalent of amounts held in foreign currencies for which trade settlement is pending and dividend payment is awaiting repatriation. The Fund's deposits with the State Treasury are available upon demand and are therefore presented as cash. Cash equivalents on the balance sheet represent cash balances that are invested in the money market fund managed by the PSF(SBOE) custodian, The Bank of New York Mellon Corporation (Custodian). Cash held

in the money market fund is primarily utilized to settle investment obligations. Cash and cash equivalents are an integral part of investment management of the Fund. PSF(SLB) cash and cash equivalents includes cash on hand, cash in local banks, cash in the State Treasury and short-term highly liquid investments with an original maturity of three months or less.

Receivables

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

The PSF(SLB) reports receivables based on revenues earned but not collected during the fiscal year. The voluntary oil and gas royalty receivables are calculated from production reports or remittance advices; the payments and reporting of these royalties are not legally due until the second month after production occurs. The receivables for voluntary oil and gas royalties are established based on the information received in the remittance advices from fiscal year end through October 2015 for the production months August 2015 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

TEXAS PERMANENT SCHOOL FUND NOTES TO THE FINANCIAL STATEMENTS

contributions and withdrawals subsequent to the latest available valuation reporting date.

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

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

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

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

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

Fair values of the internally managed PSF(SLB) real assets investments are based on estimated appraisal values or values independently determined by the staff in the Appraisal Division of the GLO. The GLO uses data from studies conducted by the Texas Chapter of the American Society of Farm Managers and Rural Appraisers, Multiple Listing Services throughout the state, and CoStar commercial sales data in certain metropolitan areas.

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

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

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.

TEXAS PERMANENT SCHOOL FUND NOTES TO THE FINANCIAL STATEMENTS

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 \$131,513,972 for fiscal year 2015. Under the direction of the GLO, \$32,796,066 was spent to manage the PSF(SLB) assets and \$20,561,242 was expended by the TEA to administer the PSF(SBOE) assets. SEMP expenditures of \$78,156,664 include the purchase of gas supplies in the open market and are reflected in the total expenditures for 2015.

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 \$150 million to the PSF(SBOE)

TEXAS PERMANENT SCHOOL FUND NOTES TO THE FINANCIAL STATEMENTS

during the year ended August 31, 2015. Interfund transfers from the PSF(SBOE) to the Available School Fund (ASF) totaled \$838,672,334 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.

2. DEPOSIT AND INVESTMENTS

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

A. Investment Policies

The Texas Constitution and applicable statutes delegate to the SBOE the authority and responsibility for investment of the Fund's assets excluding investment of the land endowment, which is the responsibility of the SLB. In making these investments, the SBOE is charged with exercising the judgment and care under the circumstances then prevailing which persons of ordinary prudence, discretion, and intelligence exercise in the management of their own affairs not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income there from as well as the probable safety of their capital. The Fund is authorized to purchase, sell, and invest its funds and funds under its control in accordance with the Texas Administrative Code. The deposit policy of the Fund states that all residual cash must be invested on a daily basis. Permissible investments

subject to Constitutional and SBOE imposed restrictions include the following:

- Equities listed on well recognized principal U.S. or foreign exchanges, including common or preferred stocks; futures; corporate bonds, debentures, and convertible preferred corporate stocks that may be converted into equities; and investment trusts.
- Fixed income securities, including U.S. or foreign treasury or government agency obligations, U.S. or foreign corporate bonds, asset or mortgage backed securities, taxable municipal obligations, Canadian bonds, Yankee bonds, supranational bonds denominated in U.S. dollars, and 144A securities. Fixed income securities, upon purchase, must be rated at least BBB by Standard and Poor's (S&P), Baa3 by Moody's Investors Service (Moody's) and BBB by Fitch. Fixed income securities may not be purchased unless there is a stated par value amount due at maturity.
- Real estate, including investments in real properties, such as apartments, office buildings, retail centers, infrastructure, timberlands and industrial parks. It also includes investments in real estate related securities and real estate related debt.
- Private equity, including venture capital, buy-out investing, mezzanine financing, distressed debt and special situation strategies.
- Absolute return investments which are a diversified bundle of primarily marketable investment strategies that seek positive returns, regardless of market direction.
- Real return investments which target a return that exceeds the rate of inflation, measured by the Consumer Price Index (CPI).
- Short-term U.S. Government or U.S. Government agency securities, money market funds, corporate discounted instruments, corporate-issued commercial paper, U.S. or foreign bank time deposits, bankers acceptances, and fully collateralized repurchase agreements. Short term money market instruments must be rated at least A-1 by S&P or P-1 by Moody's.
- Risk parity strategies.
- Any new form of investment or non-publicly traded investment approved by the SBOE based on risk and return characteristics consistent with Fund's goals and objectives, and
- Currency hedging strategies, as approved by the SBOE, for the international portfolio.

TEXAS PERMANENT SCHOOL FUND

NOTES TO THE FINANCIAL STATEMENTS

Investments other than PSF(SLB) managed land endowment and other real property at fair value as of August 31, 2015 are as follows:

PSF(SBOE) Investments	Fair Value
Absolute Return Investments	\$ 3,127,844,762
Real Estate Investments	1,840,978,082
Private Equity Investments	1,479,540,258
Risk Parity Strategies	1,865,486,221
Real Return - Commodities	718,943,441
Domestic Equity	8,035,532,626
International Equity - Foreign	
Currency Denominated	4,460,504,013
International Equity - USD	
Denominated (ADR/GDR)	104,884,189
International Equity -	
Emerging Markets	385,438,748
Emerging Market Debt	1,749,249,833
Asset Backed Securities	38,145,150
Collateralized Loan Obligations	148,507,164
Commercial Mortgage	62,785,214
Backed Securities	
Corporate Obligations	942,204,172
Yankee - Corporate Obligations	44,061,950
Non-Agency Mortgage	
Backed Securities	72,994,380
Non-U.S. Government Agency	
Obligations	50,217,292
Non-U.S. Government Sovereign Debt	
Obligations	89,533,018
U.S. Government Agency Commercial	
Mortgage Backed Securities	55,047,338
U.S. Government Agency Mortgage	
Backed Securities	914,388,419
U.S. Government Agency Obligations	127,315,774
U.S. Taxable Municipal Bonds	98,404,519
U.S. Treasury Securities	1,444,564,684
U.S. Treasury TIPS	955,662,280
Total Investments Other Than	
PSF(SLB) Managed Land	
Endowment and Real Property	<u>\$28,812,233,527</u>

The Texas Constitution also establishes the authority of the GLO which is responsible for managing most state-owned lands and minerals and is responsible for protecting the economic future of the Texas Gulf Coast by preserving all vital assets and natural resources from erosion. The GLO administers the land endowment and real assets investments under the direction of the SLB. Before using funds for

prescribed purposes, the SLB must determine, using the prudent investor standard, 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.

B. 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, 2015, there was \$2,714,194 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(SLB) balance of \$473,509 is uninsured and uncollateralized cash in bank subject to custodial credit risk. This represents the PSF(SLB) cash portion of a tenancy in common development project and other limited partnership development projects.

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

TEXAS PERMANENT SCHOOL FUND
NOTES TO THE FINANCIAL STATEMENTS

and invested as described in the preceding paragraph; therefore, those deposits are not exposed to custodial credit risk.

C. 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, 2015, 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, 2015 was \$575,807,211 and the fair value was \$524,451,933, which is detailed below.

Invested Securities Lending Collateral	Cost Basis	Fair Value
Asset Backed Floating Rate Notes	\$107,682,048	\$107,564,508
Corporate Floating Rate Notes	91,297,663	40,057,790
Repurchase Agreements	269,340,420	269,340,420
Commercial Paper	24,197,035	24,198,649
Certificates of Deposit	34,600,045	34,600,566
Time Deposits	48,690,000	48,690,000
Total Securities Lending Collateral (Ex. I)	\$575,807,211	\$524,451,933

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.

D. 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, 2015 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	Service	Fair Value
Asset Backed Securities	AAA	S&P	\$ 14,097,820
Asset Backed Securities	Aa	Moody's	14,935,514
Asset Backed Securities	A	S&P	6,631,188
Asset Backed Securities	A	Moody's	2,480,628
Collateralized Loan Obligations	BBB	S&P	104,718,284
Collateralized Loan Obligations	Baa	Moody's	43,788,880
Commercial Mortgage Backed Obligations	Aaa	Moody's	53,129,911
Commercial Mortgage Backed Obligations	AA	S&P	9,655,303
Corporate Obligations	AA	S&P	23,215,212
Corporate Obligations	Aa	Moody's	29,793,648
Corporate Obligations	A	Moody's	184,700,714
Corporate Obligations	A	S&P	34,002,690
Corporate Obligations	BBB	S&P	127,748,488
Corporate Obligations	Baa	Moody's	538,398,420
Corporate Obligations	Ba	Moody's	4,337,500
Yankee - Corporate Obligations	A	S&P	5,171,950
Yankee - Corporate Obligations	Baa	Moody's	28,419,030
Yankee - Corporate Obligations	BBB	S&P	10,470,970
Non-Agency Mortgage Backed Securities	AAA	S&P	67,208,120
Non-Agency Mortgage Backed Securities	CCC	S&P	5,786,260
Non-U.S. Government Agency Obligations	Aaa	Moody's	9,168,382
Non-U.S. Government Agency Obligations	Aa	Moody's	9,885,160
Non-U.S. Government Agency Obligations	BBB	S&P	25,111,250
Non-U.S. Government Agency Obligations	Baa	Moody's	6,052,500
Non-U.S. Sovereign Government Debt	Aa	Moody's	11,090,618
Non-U.S. Sovereign Government Debt	AA	S&P	5,125,000
Non-U.S. Sovereign Government Debt	A	S&P	11,204,900
Non-U.S. Sovereign Government Debt	BBB	S&P	30,650,000
Non-U.S. Sovereign Government Debt	Baa	Moody's	31,462,500
U.S. Government Agency Commercial Mortgage Backed Securities	AA	S&P	27,262,383
U.S. Government Agency Commercial Mortgage Backed Securities	A	Moody's	19,949,891
U.S. Government Agency Commercial Mortgage Backed Securities	A	Fitch	7,835,064
U.S. Government Agency Mortgage Backed Securities	AA	S&P	914,388,419
U.S. Government Agency Obligations	AA	S&P	117,179,464
U.S. Government Agency Obligations	A	S&P	10,136,310
U.S. Taxable Municipal Bonds	AAA	S&P	28,299,213
U.S. Taxable Municipal Bonds	AA	S&P	9,694,590
U.S. Taxable Municipal Bonds	Aa	Moody's	45,817,255
U.S. Taxable Municipal Bonds	A	S&P	6,824,802
U.S. Taxable Municipal Bonds	A	Moody's	7,768,659
U.S. Treasury Securities	AA	S&P	1,444,564,684
U.S. Treasury Inflation Protected Securities	AA	S&P	955,662,280
Total Credit Risk Rated Debt Securities			\$5,043,823,854
Corporate Obligations	Withdrawn Rating	Moody's	7,500
Total Fixed Income			\$5,043,831,354

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

The following presents the rated investments of the cash collateral as of August 31, 2015. 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		Fair Value
	Rating	Service	
Asset Backed Floating Rate Notes	AAA	S&P	\$ 85,887,895
Asset Backed Floating Rate Notes	Aaa	Moody's	16,549,233
Asset Backed Floating Rate Notes	BBB+	Fitch	5,127,380
Certificate of Deposit	A	Fitch	7,300,022
Certificate of Deposit	A-	Fitch	21,800,384
Certificate of Deposit	Not Rated	N/A	5,500,160
Commercial Paper	A-1	S&P	9,999,600
Commercial Paper	F1	Fitch	14,199,049
Floating Rate Notes	AAA	S&P	5,912,132
Floating Rate Notes	AA	S&P	7,293,591
Floating Rate Notes	A+	Fitch	6,795,230
Floating Rate Notes	Aa1	Moody's	7,794,324
Floating Rate Notes	Aa2	Moody's	12,262,513
Repurchase Agreements	Not Rated	N/A	269,340,420
Time Deposits	Not Rated	N/A	48,690,000
Total Investments			\$ 524,451,933

F. 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 to be consistent with the Barclay's Capital U.S. TIPS Index. As of August 31, 2015 the Barclay's Aggregate index duration was 5.62 years and the Barclay's U.S. TIPS Index duration was 8.05 years.

Investments in fixed income securities by investment type, fair value, and the effective weighted duration rate as of August 31, 2015 are as follows for the core fixed income, real return, and emerging market debt portfolios.

Investment Type	Fair Value	Effective Weighted Duration Years
Asset Backed Securities	\$ 38,145,150	1.878
Collateralized Loan Obligations	148,507,164	0.133
Commercial Mortgage Backed Securities	62,785,214	4.864
Corporate Obligations	942,204,172	7.227
Yankee - Corporate Obligations	44,061,950	6.918
Non-Agency Mortgage Backed Securities	72,994,380	4.110
Non-U.S. Government Agency Obligations	50,217,292	3.688
Non-U.S. Sovereign Government Debt	89,533,018	6.184
U. S. Government Agency Commercial Mortgage Backed Securities	55,047,338	3.538
U. S. Government Agency Mortgage Backed Securities	914,388,419	4.244
U. S. Government Agency Obligations	127,315,774	3.670
U.S. Taxable Municipal Bonds	98,404,519	9.824
U. S. Treasury Securities	1,444,564,684	6.181
U. S. Treasury TIPS	68,558,750	8.759
Total Fixed Income Portfolio (Excluding Real Return TIPS)	4,156,727,824	5.675
Real Return - U. S. Treasury TIPS Portfolio	887,103,530	8.267
Emerging Market Debt Portfolio	\$ 1,749,249,833	4.750

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G. 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	\$ 107,564,508	\$ 21,566,397	\$ 85,998,111
Corporate Floating Rate Notes	40,057,790	15,061,867	24,995,923
Repurchase Agreements	269,340,420	269,340,420	-
Commercial Paper	24,198,649	24,198,649	-
Certificates of Deposit	34,600,566	34,600,566	-
Time Deposits	48,690,000	48,690,000	-
Total	\$ 524,451,933	\$ 413,457,899	\$ 110,994,034

H. 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, 2015, the PSF(SBOE) held \$596,714,777 in fixed income securities and mortgage backed obligations issued by the Federal National Mortgage Association (Fannie Mae) and \$306,644,557 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.

I. 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, 2015, 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, 2015, these securities totaled \$1,105,215,351.

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, 2015 these securities totaled \$148,507,164.

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, 2015, these securities totaled \$38,145,150.

TEXAS PERMANENT SCHOOL FUND
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J. 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, 2015, is as follows:

Deposits	Amount
Currency	
Australian Dollar	\$ 215,922
Brazil Real	340
British Pound Sterling	35,445
Canadian Dollar	76
Chilean Peso	1,250
Czech Koruna	312,676
Danish Krone	(19)
Euro Currency Unit	100,426
Hong Kong Dollar	1
Indonesian Rupiah	44
Israeli Shekel	1,271
Malaysian Ringgit	11,919
Mexican Peso	12,978
Moroccan Dirham	1
New Taiwan Dollar	1,784,581
New Turkish Lira	40
New Zealand Dollar	1
Norwegian Krone	2
Qatari Riyal	118
Singapore Dollar	690
South Korean Won	24,057
Swedish Krona	(4)
Swiss Franc	212,377
Various Other Currency Balances	2
Total Deposits Subject to Foreign Currency Risk	\$ 2,714,194

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Investments in Equity Securities	Fair Value
Currency	
Australian Dollar	\$ 214,618,654
Brazil Real	61,633,422
British Pound Sterling	672,026,873
Canadian Dollar	294,217,080
Chilean Peso	12,624,188
Columbian Peso	5,175,948
Czech Koruna	1,983,667
Danish Krone	59,958,477
Egyptian Pound	2,051,324
Euro Currency Unit	1,027,981,592
Hong Kong Dollar	313,216,409
Hungarian Forint	2,440,322
Indonesian Rupiah	22,470,269
Israeli Shekel	12,053,123
Japanese Yen	771,868,542
Malaysian Ringgit	29,384,079
Mexican New Peso	44,576,875
New Taiwan Dollar	115,321,112
New Turkish Lira	13,517,365
New Zealand Dollar	4,638,474
Norwegian Krone	19,714,182
Philippines Peso	13,015,443
Polish Zloty	14,634,263
Qatari Riyal	9,346,701
Russian Ruble	20,433,400
Singapore Dollar	43,131,854
South African Rand	74,668,018
South Korean Won	134,909,907
Swedish Krona	98,011,635
Swiss Franc	323,106,203
Thailand Baht	21,686,119
United Arab Emirates Dirham	6,088,493
Total Securities Subject to Foreign Currency Risk	\$ 4,460,504,013

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 securities and real estate and private equity investments.

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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, 2015 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⁾	\$ 854,851	\$ 262,088,093
Discretionary Internal Investments ⁽³⁾	232,876,093	242,837,157
Other Lands	43,942,461	115,291,283
Minerals ^{(1), (2)}	13,415,834	2,141,676,506 ⁽⁷⁾
Investments with External Managers ⁽⁴⁾	<u>1,913,925,321</u>	<u>1,889,667,429</u>
Total Investments ⁽⁵⁾	<u>\$2,205,014,560</u>	<u>\$4,651,560,468</u>
Cash in State Treasury ⁽⁶⁾	<u>2,595,251,679</u>	<u>2,595,251,679</u>
Total Investments and Cash in State Treasury	<u>\$4,800,266,239</u>	<u>\$7,246,812,147</u>
Consisting of the following:		
Noncurrent Investments	<u>2,205,014,560</u>	<u>4,651,560,468</u>
Total Investments, as above	<u>\$2,205,014,560</u>	<u>\$4,651,560,468</u>

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

The current surface real property portfolio of the Fund is managed by the PSF(SLB) and consists of 687,211 surface acres valued at \$569,363,385. Of this, 421,254 acres are sovereign lands with a fair value of \$262,088,093 located primarily in West Texas and representing 61 percent of the total acreage, but only 46 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, 2014, beginning basis for the Fund's consolidated (including co-investments) land surface portfolio value was \$354,280,521. From September 1, 2014 to August 31, 2015, no new discretionary internal real assets investments were acquired. Contributions of approximately \$4.8 million were made to ongoing development projects. The basis of the Fund's land surface portfolio at August 31, 2015, is \$277,673,405. 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 \$13,415,834.

Dispositions for the fiscal year ended August 31, 2015, equaled 11,338.89 acres sold for net proceeds of \$82 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 interests in oil and gas are based upon an industry-standard 3P report (i.e., proved, possible, and probable reserves) prepared by a third-party expert, W.D. Von Gonten & Co., a Houston-based petroleum engineering firm widely recognized as an industry expert in oil and gas reserve evaluation and valuation. Employing a methodology for estimating reserves that conforms to all standards established by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists, and the Society of Petroleum Evaluation Engineers, Von Gonten estimated future revenues from those estimated reserves and discounted those revenues at 10% to arrive at the resulting total reserve valuation of \$2,141,676,506.

The properties evaluated for the purposes of this reserve estimate are located throughout Texas and produce from various conventional and unconventional reservoirs. The property set includes approximately 13,744 Proved Developed Producing

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(PDP) wells with an estimated discounted future net revenue value of \$1,121,125,875; approximately 3 Proved Developed Non-Producing (PDNP) opportunities with an estimated discounted net revenue value of \$3,468,326; 1,022 Proved Undeveloped (PUD) locations with an estimated discounted future net revenue value of \$448,853,594; 457 Probable Undeveloped (PROB) locations with an estimated discounted future net revenue value of \$242,303,203; 176 Possible Undeveloped (POSS) locations with an estimated discounted future net revenue value of \$92,476,086; and 1,965 Contingent Resources (CONT) locations with an estimated discounted future net revenue value of \$233,449,422. With regard to the Proved Reserves, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate; for Probable Reserves, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the estimate; and for Possible Reserves, there should be at least a 10% probability that the quantities actually recovered will equal or exceed the estimate. Contingent Resources are potentially recoverable but are not currently considered to be commercially recoverable due to one or more contingencies. Hard minerals are not included in the estimate.

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

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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 (CEPRA), codified as TNRC, Chapter 33, Subchapter H, and the regulations set forth in Texas Administrative Code, Title 31, Part 1, Chapter 15, Subchapter B. 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 \$277,673,405. The fair value of the properties is \$620,216,533.

Contingent rental revenues in the amount of \$2,204,778 are reported for 23 leases for the year ended August 31, 2015.

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 2016	FY 2017	FY 2018	FY 2019	FY 2020	FYs 2021 & Beyond
Coastal Easements	\$ 295,096	\$ 300,349	\$ 296,439	\$ 293,970	\$ 273,205	\$ 535,443
Coastal Leases	1,245	1,245	1,245	1,245	1,245	77,168
Commercial Leases and Easements	1,511,947	1,443,621	1,411,537	1,259,334	1,192,175	10,926,740
Miscellaneous Easement	536,419	171,043	117,280	118,102	95,274	199,380
Special Documents	10,000	10,000	10,000	10,000	10,000	40,000
Surface Leases	3,031,581	2,785,574	2,463,952	2,408,796	2,258,196	27,040,103
Total Lease Payments	\$ 5,386,288	\$ 4,711,832	\$ 4,300,453	\$ 4,091,447	\$ 3,830,095	\$ 38,818,834

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*

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for *Derivative Instruments* (GASB 53). As of August 31, 2015, 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, 2015, the PSF(SBOE) invested in S&P 500 Index Futures contracts and S&P 400 Index Futures contracts as detailed below with the futures commission merchant (FCM):

Futures Contract	Maturity Date	Number of Contracts	FCM Margin	
			Notional Value	Deposit
S&P 500 e-mini	September 18, 2015	156	\$ 15,359,760	\$ 717,600
S&P 500 e-mini	December 18, 2015	58	5,686,030	266,800
S&P 400 e-mini	September 18, 2015	37	5,233,650	247,900
Total Futures			\$ 26,279,440	\$ 1,232,300

The amount of net realized gains on the futures contracts for the period ended August 31, 2015 was \$1,297,358 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, 2015. If the FCM failed, the loss that would be recognized at August 31, 2015 would be \$941,587 which is the net of the FCM Margin Deposit of \$1,232,300 and the net unpaid year-end variation margin loss of \$290,713.

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

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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, 2015 the Fund invested cash collateral had a weighted average maturity of nine days to reset date.

During the fiscal year ending August 31, 2015, 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, 2014 no losses were recovered in the fiscal year ending August 31, 2015.

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 \$51,210,495; however, the estimated market value is \$0 as of August 31, 2015.

As of August 31, 2015, the fair value of securities on loan to brokers equaled \$2,557,596,483 against non-cash collateral with a fair value of \$2,064,805,206 and invested cash collateral with a cost basis of \$575,807,211 and a fair value of \$524,451,933.

The non-cash collateral along with the cash collateral was used to secure outstanding security loans. At August 31, 2015 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, 2015, 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 2015, gross securities lending revenue totaled \$7,724,831, including negative rebates (brokers paid instead of receiving rebates) in the amount of \$2,363,396. Gross expenditures for bank fees and other adjustments totaled \$1,158,502. Net securities lending income totaled \$6,566,329.

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.

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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 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.

The PSF beginning fund balance has been restated to reflect a decrease of \$3.35 million. This decrease resulted from implementation of an accounts receivable module enhancement, transitional activities in a prior period, and adjustments to prior period receivables.

10. NON-EXCHANGE FINANCIAL GUARANTEES

Bond Guarantee Program

In 1983, the voters of the State approved a constitutional amendment which provides for the guarantee of school district bonds by the Permanent School Fund. This amendment was statutorily codified in the Texas Education Code Title 2, Subtitle I, Chapter 45, Subchapter C. The Guarantee Program is administered by the Commissioner. For eligible bonds, including refunding bonds, school districts submit an application for guarantee and a

processing fee of \$1,500. The Commissioner may endorse bonds for guarantee only after investigating the accreditation and financial viability of the applying school district. If the school district is considered viable and the bonds are approved by the State of Texas Attorney General, then the guarantee is endorsed at a zero premium charge to the district. In the event of a default by a school district, and upon proper notice to the Commissioner, the PSF will transfer to the Paying Agent/Registrar an amount necessary to pay the maturing or matured principal and/or interest. Upon receipt of funds for payment of such principal or interest, the Paying Agent/Registrar must pay the amount due and forward the canceled Bond or evidence of payment of the interest to the State Comptroller of Public Accounts (the Comptroller). The Commissioner will instruct the Comptroller to withhold the amount paid, plus interest, from the first State money payable to the school district. The amount withheld will be deposited to the credit of the PSF. To date, no school districts have ever defaulted on their guaranteed bonded indebtedness.

In 2011, the 82nd Texas Legislature enacted a Bill that established the Charter District Bond Guarantee Program as a new component of the Bond Guarantee Program, and authorized the use of the PSF to guarantee revenue bonds issued by or for the benefit of certain open-enrollment charter schools that are designated as "charter districts" by the Commissioner. Charter district applicants are subject to the same application fee structure as described above for school districts. Upon meeting certain statutory eligibility requirements and approval by the Commissioner, bonds properly issued by a charter district participating in the Program are fully guaranteed by the corpus of the PSF. Implementation of the Charter District Bond Guarantee Program was deferred pending receipt of guidance from the Internal Revenue Service, which was received in September 2013, and the establishment of regulations to govern the program, which were published for public comment in December 2013, approved in January 2014, and became effective in March, 2014.

Statute requires charter district participants in the Program to contribute a portion of their savings that result from their participation in the Program to a Charter District Bond Guarantee Reserve Fund. This fund is maintained by the Comptroller in the state treasury. In the event of a default by a charter district,

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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 times the cost value of the Fund, including the portion managed by the SLB.

As of August 31, 2015, the capacity of the Guarantee Program is \$117,318,653,038 under Federal law and \$87,256,574,142 under State law. Total outstanding bonds guaranteed by the PSF under this program total \$63,955,449,047 at August 31, 2015; of that, \$63,197,514,047 is for school district guarantees (833 school districts) and \$757,935,000 is for charter district guarantees (13 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, 2015.

Guarantees extend through the maturity dates of the

bonds. As of August 31, 2015, the total principal debt guaranteed on bond issues is \$63,955,449,047, the expected interest to be paid out over the remaining life of those bond issues is \$39,767,456,363, and the final maturity is scheduled to occur in the year 2055.

As of August 31, 2015, no financial liability to the PSF has been recorded in relation to the Fund's obligation to stand ready to perform over the term of the guarantee. The guarantee functions as a liquidity facility and an intercept program that carries very little risk to the PSF. The guarantee is offered at a nominal cost to a school district or charter district that properly applies, receives endorsement by the Commissioner, and has its bonds approved by the State of Texas Attorney General.

11. CONTINGENCIES

A. Bond Guarantee Program

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

B. Pending Litigation

The PSF(SBOE) has potential liability in two sets of defense class actions asserting fraudulent conveyance claims and seeking to recover moneys paid the PSF(SBOE) for the sale of publicly-traded securities in response to tender offers made in the context of leveraged buy-outs. While ultimately uncertain whether the PSF(SBOE) will have any liability for these matters, management believes that it is unlikely that these suits will result in any liability to the Fund during the twelve months subsequent to August 31, 2015 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.

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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, 2015, 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. The 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 the 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. On July 2, 2015, an \$18.7 billion preliminary settlement was announced; the final distribution amounts of settlement funds are 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. A summary judgment hearing was held on January 27, 2015. On February 19, 2015, the GLO filed its reply brief in support of its

TEXAS PERMANENT SCHOOL FUND NOTES TO THE FINANCIAL STATEMENTS

Plea to the Jurisdiction and a Motion for Summary Judgment on the issue of attorney fees. Hearing on the above filed motions was held June 22 and no decision has been rendered. Also on June 22, the Court entered a signed order dismissing Brannan's takings claims against the Village of Surfside and its mayor. 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. Discovery is in process and the parties anticipate mediation. The likelihood of recovery is reasonably possible. The possible final amount is indeterminable at this time.

EOG Resources Inc., v. Jerry Patterson, GLO Commissioner, et al.

Plaintiff disputed the amount of royalties owed - and the underlying calculations bases - under two GLO audit billings pursuant to Tex. Nat. Res. Code 52.137. Plaintiff filed two petitions on November 25, 2014. The GLO requested and received OAG representation. The OAG filed an answer in the 98th District Court and the 345th District Court on December 23, 2014 and February 18, 2015, respectively. The probability of liability is reasonably possible. The possible final amount of the loss is indeterminable at this time.

Galan Family Trust, et al. v. State of Texas, et al.

Plaintiff claims that in 1874 the State of Texas improperly revoked a land patent granted to Plaintiffs' ancestors. The GLO filed its answer on August 31, 2015. On September 2, 2015, the GLO, along with the OAG filed a Joint Plea to the Jurisdiction. The probability of liability is remote. The possible final amount of the loss is indeterminable 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 GLO filed a Motion for Summary Judgment on September 18, 2014. Defendants/Cross Plaintiffs filed a Motion for Summary Judgment on October 23, 2014; on November 6, 2014, the GLO filed a response to the Board's Motion for Summary Judgment. All motions were heard November 13, 2014; by letter ruling dated November 21, 2014 the Court ruled in favor of the GLO and the order granting the GLO's motion and denying the Board's motion was signed and entered on December 5, 2014. Mediation was held June 11, 2015 and discussions are ongoing. 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

TEXAS PERMANENT SCHOOL FUND NOTES TO THE FINANCIAL STATEMENTS

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. Upon a non-jury trial, the Court entered judgment in favor of Defendants. Plaintiffs now seek to appeal the judgment and moves for a new trial. Appellant's brief was filed August 3, 2015 and Appellee's brief is due October 2, 2015. The probability of liability is reasonably possible. The possible final amount of loss is indeterminable at this time.

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. On October 20, 2014 the State filed an Amended Appellee's Brief; on October 22, 2014, Appellant filed its Reply Brief. On January 22, 2015, at the Court's request, Appellant filed and "additional authority" that Appellant attempted to file previously without seeking leave. On September 3,

2015, the Court issued a notice stating that the cause is set for submission on briefs Thursday September 24, 2015. 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. In an opinion issued November 26, 2014, the 7th Court affirmed the denial of class certification. On January 9, 2015, Riemer filed a petition for review with the Texas Supreme Court; the State filed its response on February 9, 2015; and Riemer filed a reply on February 24, 2015. The Court requested petitioner's brief of the merits of the petition. Petitioner's brief on the merits was filed July 1, 2015; the GLO's response was filed on August 20, 2015. 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 (CSAPR), 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

TEXAS PERMANENT SCHOOL FUND NOTES TO THE FINANCIAL STATEMENTS

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 motion to lift the stay was granted on October 23, 2014. On November 21, 2014, the EPA published its interim final rule on CSAPR. On July 28, 2015, the U.S. Court of Appeals for the D.C. Circuit on Tuesday ordered the EPA to revisit caps on nitrogen oxide and sulfur dioxide emissions. The probability of liability is reasonably possible. The possible final amount of the 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. In an opinion issued November 19, 2014, the 8th Court affirmed the trial court's judgment as regards the State leases. On December 17, 2014, the GLO filed a Motion for Rehearing/Motion for En Banc Reconsideration; on December 18, 2014, Co-Appellants Wesley West Minerals and Longfellow Ranch Partners filed their Motion for En Banc Reconsideration. On January 9, 2015, the 8th Court requested that Appellees file a response to Appellants' motions – due by February 2, 2015. On February 13, 2015, the 8th Court denied all pending Appellant motions. On March 30, 2015, Plaintiff and the GLO each filed petitions for review. On April 14, 2015, SandRidge filed a conditional cross petition. Plaintiffs filed a response to SandRidge's petition on May 21, 2015. On June 19, 2015, the Court requested SandRidge's response to the Plaintiff and GLO's Petition for Review. After being granted its Motion for Extension of Time, SandRidge filed its responses to the Petitions for Review on July 31, 2015. On August 24, 2015 SandRidge filed replies to Petitions for Review. 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, 2015 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.

TEXAS PERMANENT SCHOOL FUND NOTES TO THE FINANCIAL STATEMENTS

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 \$2,761,551 through August 31, 2015.

12. SIGNIFICANT COMMITMENTS

The PSF(SLB) makes investments in certain limited partnerships that legally commit it to possible future capital contributions. At August 31, 2015, the remaining commitments totaled approximately \$1.95 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.

On December 1, 2015, the PSF(SLB) approved a capital commitment of \$150 million to Lime Rock Resources IV, L.P., for inclusion in the externally managed portion of the PSF(SLB) Real Assets Investment Portfolio.

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 \$25,482,110 as of August 31, 2015.

In November 2014, the SBOE set the distribution rate to the ASF for the 2016-2017 biennium at 3.3%, which was expected to produce an effective rate of 3.5%, after taking into account broadening of the calculation

base for the Fund that was effected by a 2011 State Constitutional amendment; this amendment did not increase contributions from the PSF(SLB). The PSF(SBOE) will distribute approximately \$1.056 billion annually for each year of the 2016-2017 biennium.

As of August 31, 2015 the SBOE has approved and the Fund made capital commitments to externally managed real estate investment funds in a total amount of \$2.32 billion and capital commitments to private equity limited partnerships for a total of \$2.35 billion, to be implemented over the next several years. Unfunded commitments at August 31, 2015 totaled \$801 million in real estate investments and \$982 million in private equity investments.

13. RECENT ACCOUNTING PRONOUNCEMENTS

The Government Accounting Standards Board (GASB) has issued new accounting pronouncements that are not effective as of August 31, 2015. A discussion of the issued but not effective standards which could have potential impact on the PSF follows:

The GASB issued Statement No. 72 "Fair Value Measurements and Application," which addresses accounting and financial reporting issues related to fair value measurement for financial reporting purposes, and for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this standard are effective for periods beginning after June 15, 2015.

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

**SECTION
THREE**

**STATISTICAL
SUMMARY
(UNAUDITED)**

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

Contents

A History and Description of the Texas Permanent School Fund

An Overview of the Strength of the Texas Permanent School Fund Assets Managed By the State Board of Education (SBOE), Fiscal Years Ended August 31, 2015 and 2014 (Figure 1)

This figure and schedule present information regarding the diversification of the portfolio of assets in the Texas Permanent School Fund managed by the SBOE.

Asset Allocation Mix-SBOE, Fiscal Year Ended August 31, 2015 (Figure 2)

This schedule and figure present information regarding the portfolio mix by asset class as a percentage of total assets.

Asset Allocation Mix Including Assets Managed by the School Land Board (SLB), Fiscal Year Ended August 31, 2015 (Figure 3)

This schedule and figure present information regarding the portfolio mix by asset class as a percentage of total assets, including assets managed by the SLB.

Total PSF(SBOE) Fund Rate of Return, Current Fiscal Year (Figure 4)

These figures contain information comparing the actual performance of assets of the Fund to benchmarks, using a time weighted rate of return.

Total PSF(SBOE) Time Weighted Returns, Last Five Fiscal Years and Selected Cumulative Periods (Figure 5)

These schedules present information containing the time weighted rate of returns for assets managed by the SBOE for the last five fiscal years by asset class and also cumulative for three, five and ten years.

Total PSF(SLB) Time Weighted Returns, Selected Cumulative Periods

These schedules present information containing the time weighted rate of returns for assets managed by the SLB for selected cumulative periods.

Contributions to the Texas Permanent School Fund Assets Managed by the SBOE, Last Ten Fiscal Years (Figure 6)

This figure presents information regarding the contributions made by the SLB to PSF(SBOE) for the past ten fiscal years.

Distributions to the Available School Fund (ASF), Last Ten Fiscal Years (Figure 7)

This figure contains information regarding the distributions to the ASF by the SBOE and the SLB for the last ten fiscal years.

Fund Balances, Last Ten Fiscal Years (Figure 8)

This figure provides information regarding the breakdown of fund balances for the last ten fiscal years for comparison.

Changes in Fund Balances, Last Ten Fiscal Years (Figure 9)

This figure provides trend information including a summarized comparison of the net change in fund balances for the last ten fiscal years.

Average Daily Attendance and Contributions to ASF, Last Ten Fiscal Years (Figure 10)

This schedule provides trend information regarding the average daily attendance and distributions to the ASF for the last ten fiscal years in total and per capita.

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 \$138.5 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,

A HISTORY AND DESCRIPTION OF THE TEXAS PERMANENT SCHOOL FUND

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

A HISTORY AND DESCRIPTION OF THE TEXAS PERMANENT SCHOOL FUND

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.

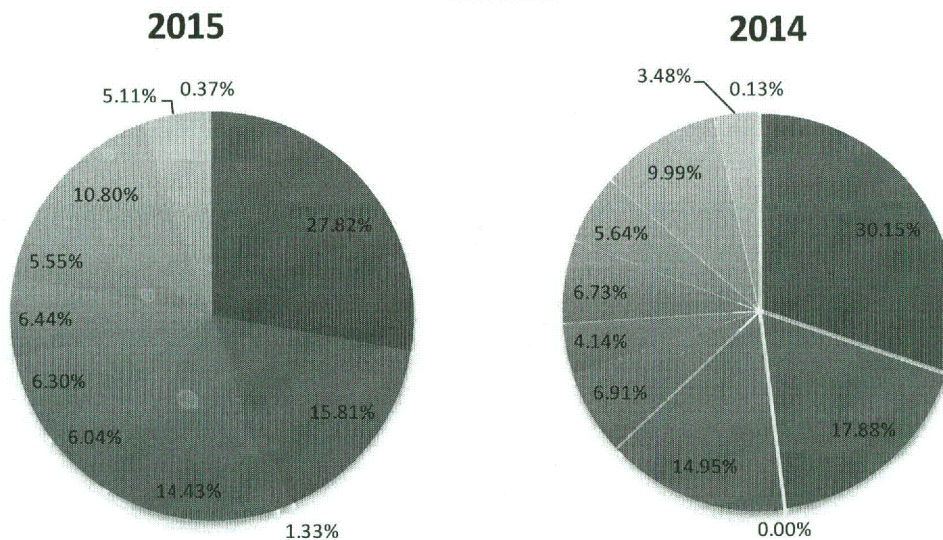
The current IAC is comprised of four members, chaired by the Chief Investment Officer of the GLO. The IAC meets periodically to review potential investments and works in conjunction with the SLB's real assets investment advisor, currently The Townsend Group, to evaluate potential investments and make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

Internally managed real estate investment acquisitions and dispositions are sourced and evaluated by GLO staff and 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 \$28.95 billion as of August 31, 2015. See Figure 1 graph and table below for the portfolio diversification at fair value at August 31, 2015 and 2014.

FIGURE 1
TEXAS PERMANENT SCHOOL FUND
Portfolio Diversification
Fair Value



Asset Class	August 31, 2015	Percent	August 31, 2014	Percent
Domestic Equity	\$ 8,052,395,743	27.82%	\$ 9,260,137,669	30.15%
International Equity	4,577,768,406	15.81%	5,489,623,353	17.88%
International Equity - Emerging Markets	385,438,748	1.33%	-	0.00%
Domestic Fixed Income	4,176,576,842	14.43%	4,592,075,762	14.95%
Emerging Market Debt	1,749,249,833	6.04%	2,122,036,110	6.91%
Real Estate	1,824,476,718	6.30%	1,271,199,837	4.14%
Risk Parity	1,865,486,221	6.44%	2,066,634,303	6.73%
Real Return	1,607,347,731	5.55%	1,730,689,062	5.64%
Absolute Return	3,127,844,762	10.80%	3,066,836,395	9.99%
Private Equity	1,479,508,489	5.11%	1,068,817,976	3.48%
Unallocated Cash	103,359,633	0.37%	41,180,203	0.13%
Net Investment Balance	<u>\$ 28,949,453,126</u>	<u>100.00%</u>	<u>\$ 30,709,230,670</u>	<u>100.00%</u>

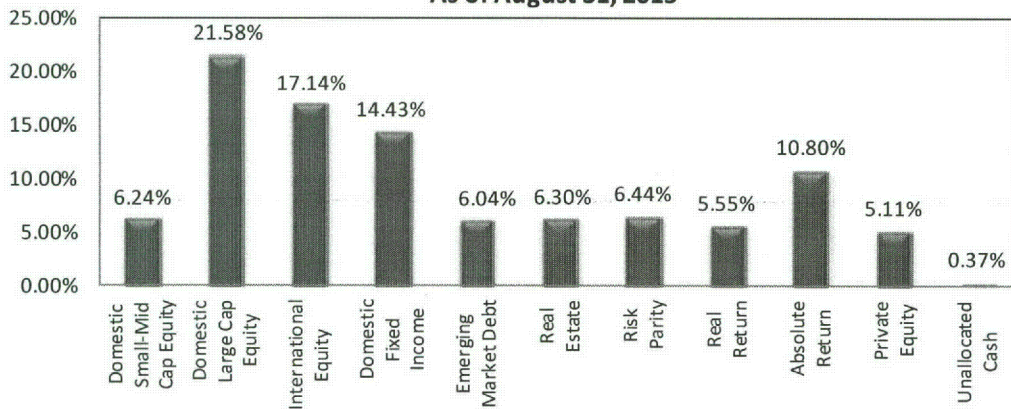
The asset classes include cash that has been allocated to the investment portfolios.

**TEXAS PERMANENT SCHOOL FUND
ASSET ALLOCATION MIX - SBOE
AS OF AUGUST 31, 2015**

ASSET CLASS	Book Value	Mix	Fair Value	Mix
Equity				
Public Market Equity				
Domestic Small-Mid Cap	\$ 1,188,954,334	4.90%	\$ 1,804,545,884	6.24%
Domestic Large Cap	3,456,020,710	14.23%	6,247,849,859	21.58%
Total Domestic Equity	4,644,975,044	19.13%	8,052,395,743	27.82%
Developed and Emerging Market				
International Equity	4,455,616,040	18.35%	4,963,207,154	17.14%
Total Public Market Equity	9,100,591,084	37.48%	13,015,602,897	44.96%
Fixed Income				
Domestic Fixed Income	4,164,478,336	17.15%	4,176,576,842	14.43%
Emerging Market Debt	2,176,917,466	8.97%	1,749,249,833	6.04%
Total Fixed Income	6,341,395,802	26.12%	5,925,826,675	20.47%
Alternative Investments				
Real Estate	1,540,284,052	6.34%	1,824,476,718	6.30%
Risk Parity	1,561,455,040	6.43%	1,865,486,221	6.44%
Real Return	1,972,635,966	8.12%	1,607,347,731	5.55%
Absolute Return	2,484,595,769	10.23%	3,127,844,762	10.80%
Private Equity	1,176,469,315	4.85%	1,479,508,489	5.11%
Total Alternative Investments	8,735,440,142	35.97%	9,904,663,921	34.20%
Unallocated Cash	103,359,633	0.43%	103,359,633	0.37%
Fund Total	\$ 24,280,786,661	100.00%	\$ 28,949,453,126	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, 2015**



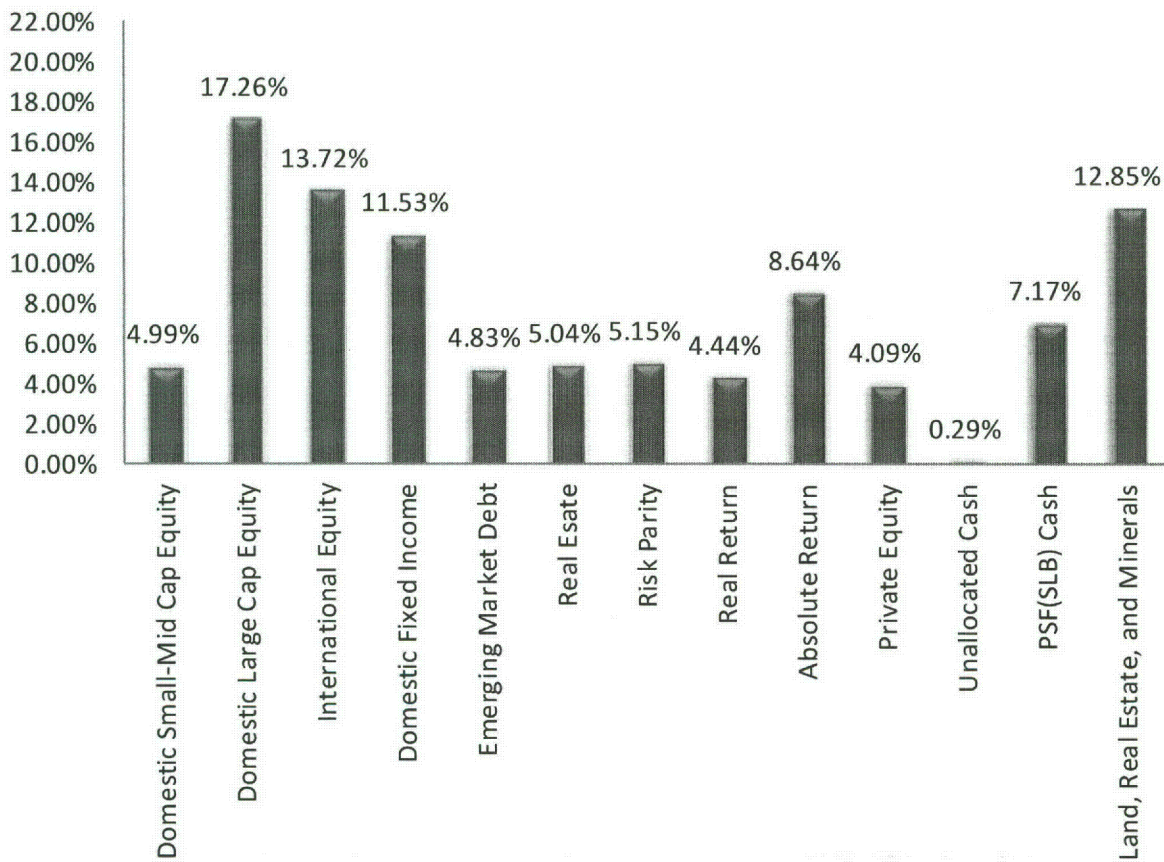
TEXAS PERMANENT SCHOOL FUND
ASSET ALLOCATION MIX INCLUDING ASSETS MANAGED BY THE SLB
AS OF AUGUST 31, 2015

<u>ASSET CLASS</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>Mix</u>
PSF(SBOE)			
Equity			
Public Market Equity			
Domestic Small-Mid Cap Equity	\$ 1,188,954,334	\$ 1,804,545,884	4.99%
Domestic Large Cap Equity	3,456,020,710	6,247,849,859	17.26%
Total Domestic Equity	<u>4,644,975,044</u>	<u>8,052,395,743</u>	22.25%
Developed and Emerging Market International Equity	4,455,616,040	4,963,207,154	13.72%
Total Public Market Equity	<u>9,100,591,084</u>	<u>13,015,602,897</u>	35.97%
Fixed Income			
Domestic Fixed Income	4,164,478,336	4,176,576,842	11.53%
Emerging Market Debt	2,176,917,466	1,749,249,833	4.83%
Total Fixed Income	<u>6,341,395,802</u>	<u>5,925,826,675</u>	16.36%
Alternative Investments			
Real Estate	1,540,284,052	1,824,476,718	5.04%
Risk Parity	1,561,455,040	1,865,486,221	5.15%
Real Return	1,972,635,966	1,607,347,731	4.44%
Absolute Return	2,484,595,769	3,127,844,762	8.64%
Private Equity	1,176,469,315	1,479,508,489	4.09%
Total Alternative Investments	<u>8,735,440,142</u>	<u>9,904,663,921</u>	27.36%
Unallocated Cash	103,359,633	103,359,633	0.29%
PSF(SLB)			
Cash	2,595,251,679	2,595,251,679	7.17%
Land, Real Asset Investments and Minerals			
Sovereign/Other Lands and Discretionary			
Internal Investments	277,673,405	620,216,533	1.70%
Investments with External Managers	1,913,925,321	1,889,667,429	5.22%
Mineral Investments	13,415,834	2,141,676,506	5.93%
Total Land, Real Assets, and Minerals	<u>2,205,014,560</u>	<u>4,651,560,468</u>	12.85%
FUND TOTAL	<u><u>\$ 29,081,052,900</u></u>	<u><u>\$ 36,196,265,273</u></u>	<u><u>100.00%</u></u>

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, 2015**

**FIGURE 3:
 TEXAS PERMANENT SCHOOL FUND
 Asset Allocation Mix
 As of August 31, 2015**



TOTAL PSF (SBOE) FUND RATE OF RETURN FOR FISCAL YEAR ENDED AUGUST 31, 2015

The total market value of the PSF(SBOE) at August 31, 2015, was \$28.9 billion. The PSF(SBOE) annual rates of return for the one year, five year and ten year periods ending August 31, 2015, were -3.36%, 8.95% and 5.99%, respectively. The Fund's fiscal year return of -3.36% exceeded the target benchmark of -3.71% by 35 basis points.

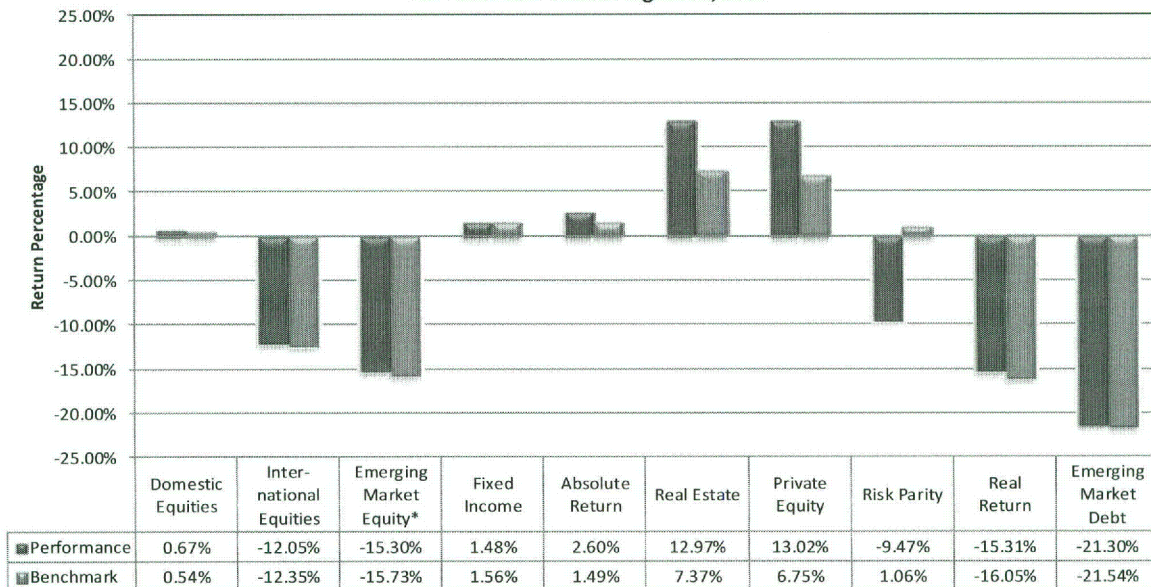
The capital markets experienced some drawdown during the year with the international equity, emerging market equity, risk parity, real return and emerging market debt portfolios ending the year in negative territory. Real estate and private equity investments realized impressive returns, providing returns well in excess of their benchmarks. Internally managed domestic equity portfolios also returned positive returns and outperformed the indexes. The performance of the international equity, emerging market equity, absolute return, real return and emerging market debt portfolios exceeded the associated benchmarks, as well.

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, 12% allocation to core fixed income, 7% allocation to emerging market debt, and a 41% allocation to alternative assets. Alternative assets include absolute return, risk parity, private equity, real estate, and real return strategies (TIPS and commodities).

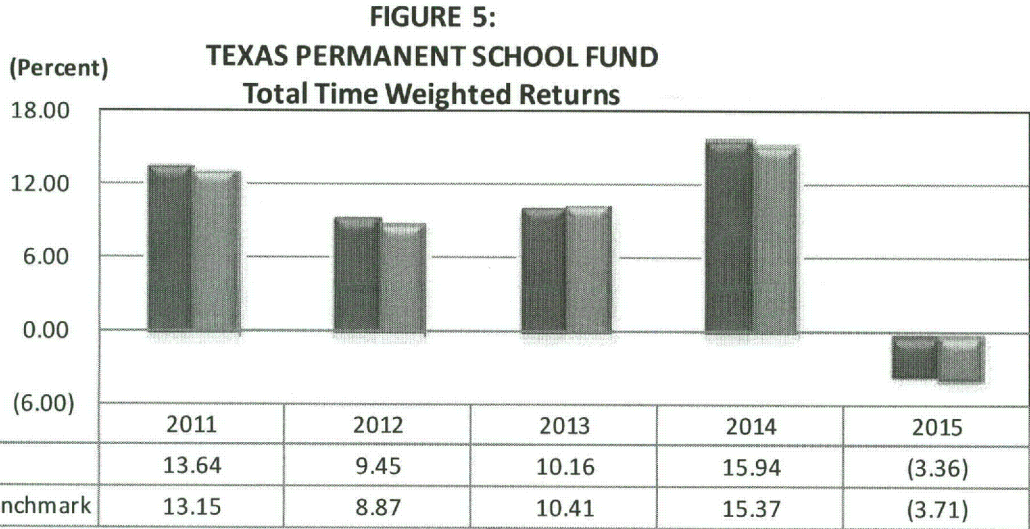
Additional information about performance is included in the chart on the following page. The information shown is for fiscal year periods ending August 31 and includes comparisons to established benchmarks for the same time periods. Benchmark compositions are defined in the footnotes. Investment performance 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, 2015



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

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



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

	2011	2012	2013	2014	2015	3 Years	5 Years	10 Years
Total PSF(SBOE) Portfolio ¹								
PSF(SBOE)	13.64	9.45	10.16	15.94	(3.36)	7.27	8.95	5.99
Target Policy Benchmark ²	13.15	8.87	10.41	15.37	(3.71)	6.93	8.52	5.63
Domestic Equities								
PSF(SBOE)	19.29	17.32	20.13	24.53	0.67	14.62	16.08	7.54
Domestic Equity Benchmark ³	19.36	17.13	20.00	24.43	0.54	14.50	15.98	7.42
International Equities								
PSF(SBOE)	10.52	(1.59)	13.10	18.10	(12.05)	5.51	5.02	4.19
International Equity Benchmark ⁴	10.34	(1.92)	12.98	17.75	(12.35)	5.25	4.76	3.91
Emerging Market Equity								
PSF(SBOE) (inception to date)	-	-	-	-	(15.30)	---	---	---
Emerging Market Benchmark ⁵	-	-	-	-	(15.73)	---	---	---
Fixed Income								
PSF(SBOE)	4.58	6.57	(2.02)	5.93	1.48	1.75	3.26	5.01
Fixed Income Benchmark ⁶	4.62	5.78	(2.47)	5.66	1.56	1.53	2.98	4.46
Absolute Return								
PSF(SBOE)	4.48	3.69	10.23	9.94	2.60	7.53	6.14	---
Absolute Return Benchmark ⁷	5.36	0.14	5.94	7.44	1.49	4.93	4.04	---
Real Estate								
PSF(SBOE)	15.53	7.38	11.85	12.35	12.97	12.39	11.99	---
Real Estate Benchmark ⁸	14.69	10.40	10.52	11.51	7.37	9.79	10.88	---
Private Equity								
PSF(SBOE)	20.32	5.43	26.89	22.49	13.02	20.66	17.38	---
Private Equity Benchmark ⁹	20.32	5.43	26.89	22.49	6.75	12.73	9.07	---
Risk Parity								
PSF(SBOE)	3.51	13.11	(3.28)	18.15	(9.47)	1.14	---	---
Risk Parity Benchmark ¹⁰	(4.48)	13.34	9.87	17.14	1.06	9.16	---	---
Real Return								
PSF(SBOE)	(0.76)	8.49	(7.99)	2.49	(15.31)	(7.22)	---	---
Real Return Benchmark ¹¹	(0.76)	8.29	(6.13)	1.45	(16.05)	(7.19)	---	---
Emerging Market Debt								
PSF(SBOE)	-	-	-	3.49	(21.30)	---	---	---
Emerging Market Debt Benchmark ¹²	-	-	-	3.95	(21.54)	---	---	---

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

² As of 08/31/2015, Total PSF Benchmark weights are fixed with the following: 22% S&P 500 Index, 6.50% S&P 1000 Index, 13.50% Barclays Capital Aggregate, 16.50% MSCI ACWI ex US Net, 1.50% MSCI Emerging Market Net Dividend Index, 3.00% Real Return Benchmark, 3.00% Dow Jones UBS Commodities Total Return Index, 5.50% Real Estate Benchmark, 7% Risk Parity Benchmark, 10% Absolute Return Benchmark, 4.50% Private Equity Benchmark, and 7% JPM GBI EM Global Diversified Index.

³ As of 08/31/2015, Total Domestic Equity Benchmark weights are fixed with the following: 77.19% S&P 500 Index and 22.81% S&P 1000 Index

⁴ As of 08/31/2015, Benchmark consists of 100% MSCI All Country World Ex-US Net Dividend Index.

⁵ As of 08/31/2015, Benchmark consists of 100% MSCI EM Net Dividend Index.

⁶ As of 08/31/2015, Benchmark consists of 100% Barclays Capital U.S. Aggregate Bond Index.

⁷ As of 08/31/2015, Benchmark consists of 100% HFRI Fund of Funds Composite Index.

⁸ As of 08/31/2015, Benchmark is calculated by using market value weighting of the Core and Non-Core time weighted return benchmark components. Core real estate benchmark is *NCREIF Fund Index Open End Diversified Core Equity, Equally Weighted, Net of Fee* time weighted return lagged one quarter. Non-core real estate benchmark is the custom *PrivateIQ*® time weighted return benchmark, lagged one quarter.

⁹ As of 08/31/2015, Benchmark represents the Burgiss custom *PrivateIQ*® benchmark time weighted return, one quarter lagged.

¹⁰ As of 08/31/2015, Benchmark consists of 60% S&P 500 and 40% Barclays Capital U.S. Aggregate Bond Index.

¹¹ As of 08/31/2015, Benchmark weights are fixed with the following: 50% Barclays Capital U.S. Treasury: US TIPS Index and 50% Dow Jones UBS Commodities Total Return Index.

¹² As of 08/31/2015, Benchmark consists of 100% JPM GBI EM Global Diversified.

TOTAL PSF (SLB) TIME WEIGHTED RETURNS SELECTED CUMULATIVE PERIODS

At August 31, 2015, 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 \$4.7 billion, which was approximately 12.7% of the total Fund assets of approximately \$36.9 billion. PSF(SLB) discretionary real assets investments, excluding Cash at the State Treasury, were approximately \$2.2 billion, which was approximately 6.0% 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, 2015, 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	11.32%	13.50%	15.38%	10.05%	6.56%
Including Cash	5.79%	7.69%	8.83%	5.33%	4.26%

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

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

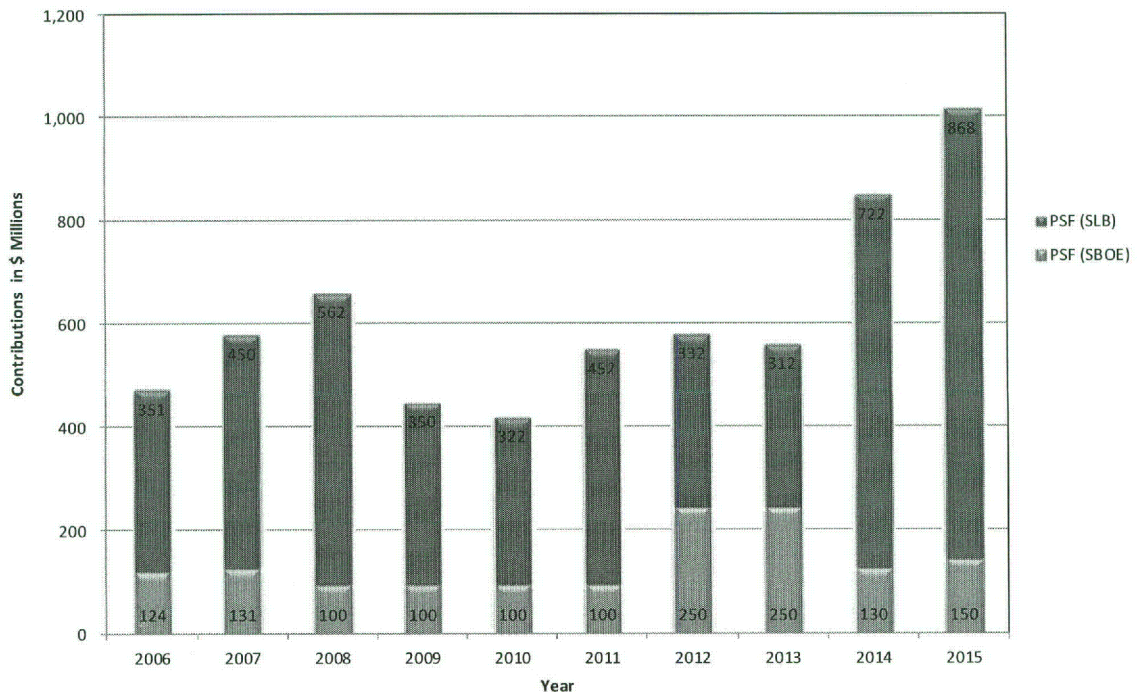
The School Land Board (SLB) makes contributions to the PSF(SBOE) from the revenue generated by royalties, lease payments, and other income derived from lands dedicated to the Fund. Legislative actions in the past ten (10) years have amended the Natural Resources Code (NRC) several times and have impacted 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 \$4.8 billion at August 31, 2015.

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 \$150 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), LAST TEN FISCAL YEARS

Since September 2003, the Fund has calculated its annual distribution to the Available School Fund using a total return methodology. Prior to that year, all interest and dividends earned from investments was paid immediately to the ASF. In fiscal year 2015, \$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).

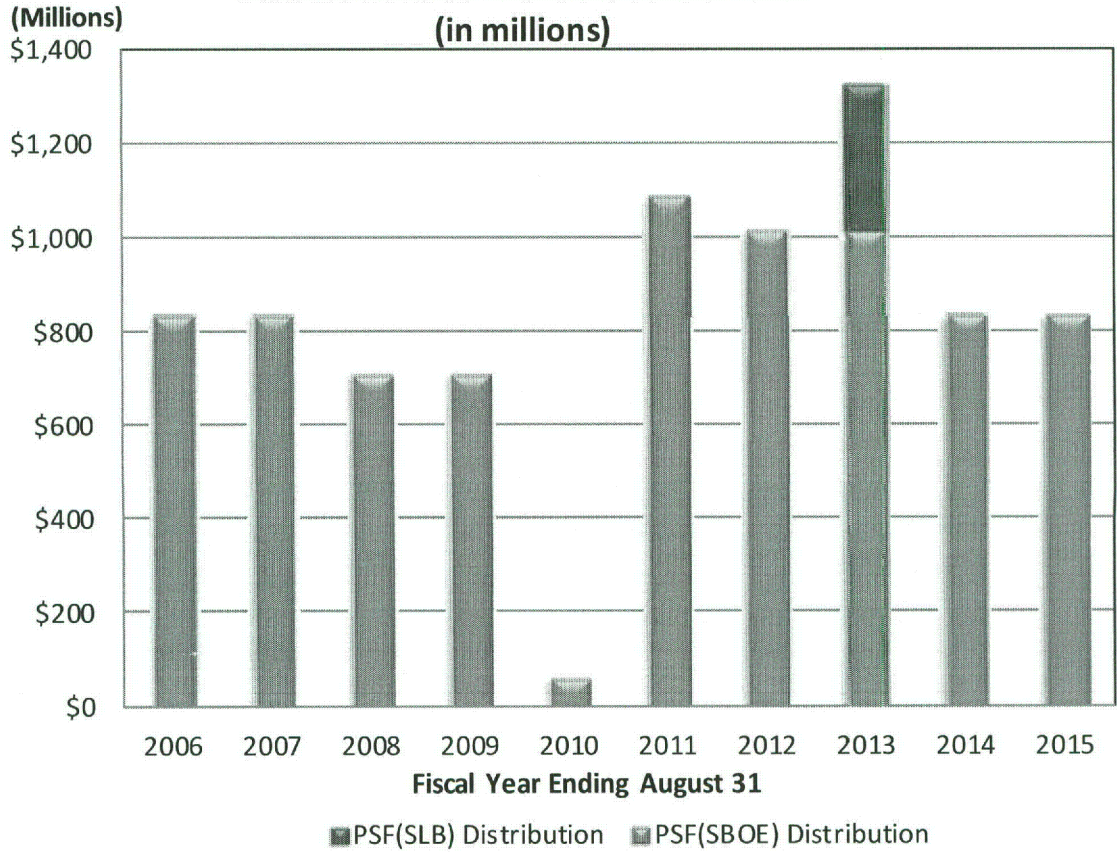
The ASF is distributed during the year to the school districts throughout the state based on their average daily attendance (ADA). For fiscal year 2015, the per capita income earned by the Fund and distributed to school districts was \$173, the third year in which charter schools were included in the ADA. In fiscal years 2013 and 2014, this amount was \$281 and \$175, respectively (Figure 7).

On November 8, 2011, Texas voters approved Proposition 6, a constitutional amendment which increases the base amount used in calculating the distribution rate from the PSF(SBOE) to the ASF by adding certain discretionary real assets and cash in the Fund that is managed by entities other than the SBOE (at present, by the SLB). While the amendment provided for an increase in the base for the calculation, no new resources were provided for deposit to the PSF(SBOE). The new calculation base is required to be used to determine all payments to the ASF from the PSF(SBOE) beginning with the 2012-13 biennium. The SBOE approved a distribution rate of 3.3% 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 was 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 in an amount not to exceed \$300 million. No such distribution was made by the PSF(SLB) during fiscal year 2015.

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

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



Fiscal Year Ending	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
PSF(SBOE) Distribution	\$842	\$843	\$717	\$717	\$61	\$1,093	\$1,021	\$1,021	\$839	\$839
PSF(SLB) Distribution	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$300	\$0	\$0
Per Capita Distribution (dollars)	\$204	\$196	\$166	\$163	\$14	\$246	\$221	\$281	\$175	\$173

FUND BALANCES, LAST TEN FISCAL YEARS

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

FIGURE 8:
Comparative Fund Balances
(in thousands)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Reserved for:										
Encumbrances	\$ 1,130	\$ 1,445	\$ 997	\$ 1,476	\$ 4,963	\$ -	\$ -	\$ -	\$ -	\$ -
Loans and Contracts	1,831	1,672	1,160	798	3,479	-	-	-	-	-
Public School Support	23,909,895	26,770,768	25,225,028	22,595,242	24,386,874	-	-	-	-	-
Nonspendable	-	-	-	-	-	11,392,526	12,041,080	12,279,926	12,860,783	13,496,148
Restricted	-	-	-	-	-	15,554,732	16,761,845	18,321,566	22,090,437	20,337,395
Total Fund Balance	\$23,912,856	\$26,773,885	\$25,227,185	\$22,597,516	\$24,395,316	\$26,947,258	\$28,802,925	\$30,601,492	\$34,951,220	\$ 33,833,543

NOTE - Prior to fiscal year 2011 the Fund classified its entire fund balance as reserved. During fiscal year 2011 the Fund implemented Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, which required several prescribed classifications of fund balance. Generally, the portion classified as nonspendable represents the Fund corpus, and the remainder is classified as restricted since it may only be disposed in accordance with the scope of constitutional and statutory requirements.

CHANGES IN FUND BALANCES, LAST TEN FISCAL YEARS

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

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues:										
Gain on Sale of Land	\$ 11,175	\$ 59,336	\$ 79,775	\$ 4,796	\$ 11,462	\$ -	\$ 9,779	\$ 2,687	\$ 6,949	\$ 2,720
Dividends and Interest	641,904	717,937	772,094	615,979	586,275	604,035	598,778	635,529	661,752	560,683
Securities Lending	157,412	242,729	159,426	23,444	7,059	6,341	7,418	10,330	9,408	7,725
Land Endowment Income	446,131	388,808	616,378	356,282	360,522	526,037	390,498	410,447	675,799	580,299
Sales of Purchased Gas	159,328	154,219	163,856	91,251	49,544	56,318	46,763	51,121	67,248	83,890
Net Increase/(Decrease) in Fair Value of Investments	1,559,591	2,540,647	(2,319,237)	(3,073,998)	918,173	2,537,670	1,897,573	2,064,158	3,858,498	(1,387,556)
Other	6,491	7,614	8,120	2,596	2	4,305	1,860	30,491	4,056	9,261
Total Revenues	2,982,032	4,111,290	(519,588)	(1,979,650)	1,933,037	3,734,706	2,952,669	3,204,763	5,283,710	(142,978)
Expenditures:										
Administrative	18,786	20,455	26,411	36,763	24,228	34,285	32,542	39,573	38,902	53,202
Gas Supplies Purchased for Resale	158,521	154,031	151,561	89,198	49,079	54,587	42,430	44,137	54,819	78,157
Securities Lending Rebates/Fees	149,460	232,431	132,298	4,700	1,059	946	1,107	1,549	1,411	1,159
Debt Service	56	34	-	-	-	-	-	-	-	-
Capital Outlay	266	173	307	33	170	136	37	50	177	155
Total Expenditures	327,089	407,124	310,577	130,694	74,536	89,954	76,116	85,309	95,309	132,673
Other Sources/(Uses)										
Transfers In	-	-	-	7,237	-	-	-	-	-	-
Transfers Out	(841,878)	(843,137)	(716,535)	(723,771)	(60,700)	(1,092,809)	(1,020,887)	(1,320,887)	(838,672)	(838,672)
Other Financing Sources/(Uses)	(841,878)	(843,137)	(716,535)	(716,534)	(60,700)	(1,092,809)	(1,020,887)	(1,320,887)	(838,672)	(838,672)
Net Change in Fund Balance	\$1,813,065	\$2,861,029	\$(1,546,700)	\$(2,826,878)	\$1,797,801	\$2,551,943	\$1,855,666	\$1,798,567	\$4,349,729	\$(1,114,323)

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

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

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Average Daily Attendance	4,125,882	4,295,251	4,318,530	4,393,893	4,365,254	4,440,621	4,618,495	4,699,372	4,780,830	4,854,882
Distribution to the Available School Fund	\$ 841,879	\$ 843,137	\$ 716,535	\$ 716,534	\$ 60,700	\$ 1,092,809	\$ 1,020,887	\$ 1,320,887	\$ 838,672	\$ 838,672
Per Capita Distribution	\$ 204	\$ 196	\$ 166	\$ 163	\$ 14	\$ 246	\$ 221	\$ 281	\$ 175	\$ 173

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SECTION
FOUR

BOND GUARANTEE
PROGRAM
(UNAUDITED)

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AN OVERVIEW OF THE BOND GUARANTEE PROGRAM

Since its inception in 1983, the Bond Guarantee Program (BGP) has guaranteed 6,135 school district bond issues for a total of more than \$137.7 billion. At the end of fiscal year 2015, there were 3,089 issues of guaranteed school district bonds outstanding with a balance of \$63.2 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 220 additional school district issues guaranteed by the Fund. This increased the total amount of school district bonds outstanding by \$5.14 billion.

The BGP may also guarantee debt issued from qualified charter districts. Total charter cumulative bonds guaranteed were \$764.7 million. At the end of fiscal year 2015, there were 18 additional charter district issues guaranteed by the Fund in the current year. This increased the total amount of charter school district bonds at the fiscal year end by \$455.4 million, leaving a \$757.9 million balance outstanding at year-end, which also contributed to the additional year-end bond issues guaranteed by the Fund. As with school district debt, this amount represents the principal amount of the bonds issued and does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities).

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

In the event of a default by a school district, and upon proper notice to the Commissioner, the Fund will transfer to the Paying Agent/Registrar an amount necessary to pay the maturing or matured principal and/or interest. Upon receipt of funds for payment of such principal or interest, the Paying Agent/Registrar must pay the amount due and forward the canceled Bond or evidence of payment of the interest to the State Comptroller of Public Accounts (Comptroller). The Commissioner will

instruct the Comptroller to withhold the amount paid, plus interest, from the first State money payable to the school district. The amount withheld will be deposited to the credit of the Fund. To date, no school district has ever defaulted on their guaranteed bonded indebtedness.

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

The guarantee maximum capacity of the overall Program is limited in two ways. The first limit is the lower of that imposed by the "State Capacity Limit" limiting the amount guaranteed to 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, 2015, the ratio of guaranteed debt outstanding to the book value of the Fund was 2.20:1 and the ratio of guaranteed debt to the fair value of the Fund was 1.77:1.

AN OVERVIEW OF THE BOND GUARANTEE PROGRAM

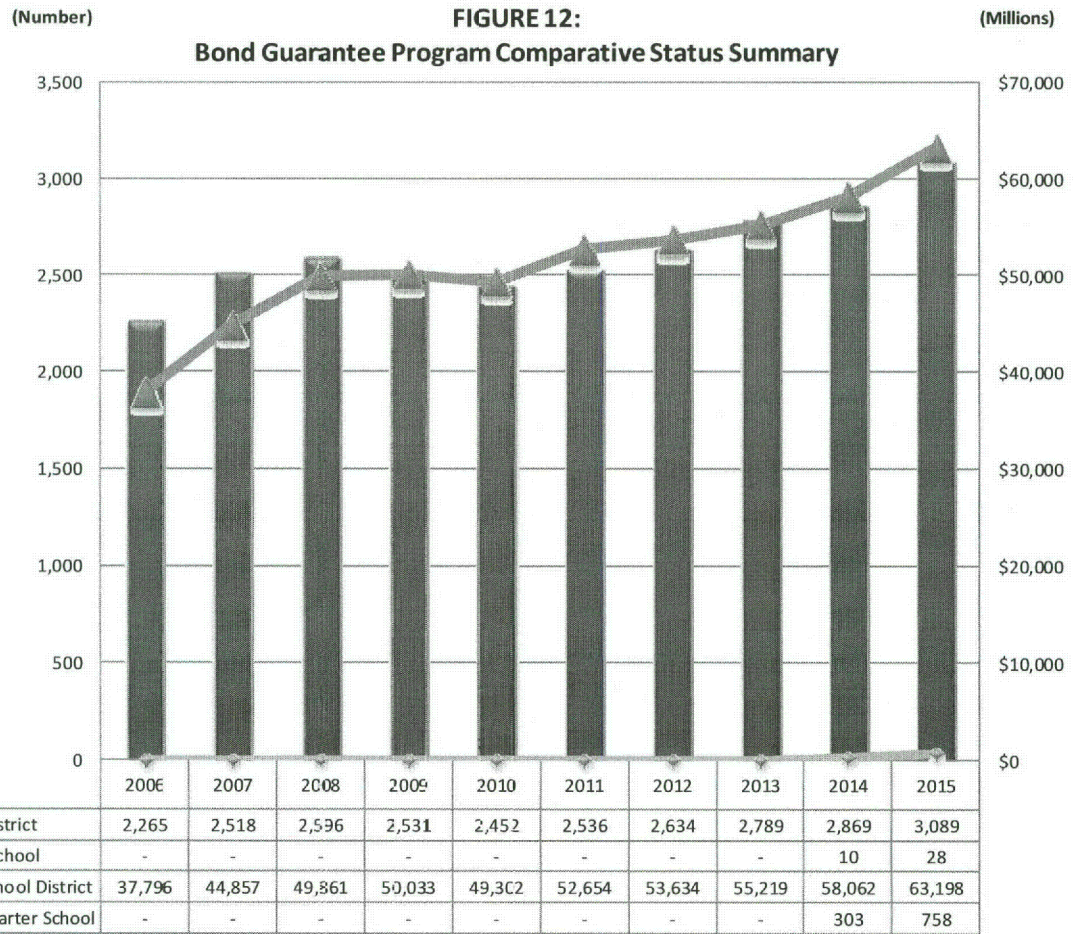
In order to be eligible for the bond guarantee program, school districts and charter districts must be accredited by the State, have bond ratings below AAA, and have their applications approved by the Commissioner of Education. If a school district or charter district fails to make scheduled payments 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 11 lists the districts with the ten largest aggregate amounts of bonds outstanding, which are guaranteed under the program as of August 31, 2015.

FIGURE 11: Bond Guarantee Program Ten Largest Total Debt Outstanding Guaranteed Under the Program At August 31, 2015	
District Name	Balance
Dallas ISD	\$ 2,326,650,000
Houston ISD	1,995,855,691
Northside ISD - Bexar County	1,927,900,000
Cypress-Fairbanks ISD	1,852,465,767
Frisco ISD	1,559,775,843
North East ISD	1,332,730,000
Katy ISD	1,271,035,662
Leander ISD	961,817,962
Conroe ISD	932,295,000
Klein ISD	872,010,000

NUMBER OF ISSUES	<u>Total</u>	<u>School Districts</u>	<u>Charter Districts</u>
Number of Issues as of September 1, 2014	2,879	2,869	10
Fiscal Year Activity:			
District Issues Guaranteed During Fiscal Year	561	543	18
District Issues Matured	(248)	(248)	-
District Issues Refunded	(75)	(75)	-
Number of Issues as of August 31, 2015	3,117	3,089	28
BALANCE			
Balance as of September 1, 2014	\$ 58,364,350,783	\$58,061,805,783	\$ 302,545,000
Fiscal Year Activity:			
District Issues Guaranteed During Fiscal Year	17,747,870,818	17,286,017,818	461,853,000
District Issues Matured	(2,335,486,333)	(2,329,023,333)	(6,463,000)
District Issues Refunded	(9,630,190,220)	(9,630,190,220)	-
Adjustments	(191,096,001)	(191,096,001)	-
Balance as of August 31, 2015	\$ 63,955,449,047	\$63,197,514,047	\$ 757,935,000

BOND GUARANTEE PROGRAM COMPARATIVE STATUS SUMMARY LAST TEN FISCAL YEARS



**BOND GUARANTEE PROGRAM --- ISSUED AND GUARANTEED
FOR THE FISCAL YEAR ENDED AUGUST 31, 2015**

SCHOOL DISTRICT NAME	BALANCE	SCHOOL DISTRICT NAME	BALANCE
Abbott ISD	3,971,010	Bay City ISD	13,828,484
Abernathy ISD	18,445,000	Beaumont ISD	264,365,000
Abilene ISD	117,732,883	Beckville ISD	3,240,000
Academy ISD	21,300,000	Beeville ISD	17,494,686
Alamo Heights ISD	94,840,000	Bells ISD	9,412,419
Alba-Golden ISD	1,935,000	Bellville ISD	23,283,039
Aldine ISD	428,755,000	Belton ISD	126,359,996
Aledo ISD	185,620,843	Ben Bolt-Palito Blanco ISD	4,645,000
Alice ISD	30,599,998	Benavides ISD	6,405,000
Alief ISD	135,620,000	Big Sandy ISD	1,610,000
Allen ISD	310,925,936	Big Spring ISD	58,380,000
Alpine ISD	1,525,000	Birdville ISD	260,581,620
Alto ISD	4,255,000	Bishop CISD	8,045,429
Alvarado ISD	80,273,631	Blackwell CISD	4,530,000
Alvin ISD	482,535,000	Blanco ISD	11,035,000
Alvord ISD	7,920,000	Bland ISD	13,685,400
Amarillo ISD	163,507,515	Blanket ISD	1,002,872
Anahuac ISD	13,885,000	Bloomburg ISD	799,000
Anderson-Shiro CISD	21,799,999	Blooming Grove ISD	1,369,503
Andrews ISD	20,226,408	Bloomington ISD	2,580,000
Angleton ISD	121,169,519	Blue Ridge ISD	14,970,000
Anna ISD	78,605,024	Bluff Dale ISD	165,000
Anson ISD	6,305,000	Blum ISD	2,360,000
Anthony ISD	5,700,000	Boerne ISD	181,547,910
Aquilla ISD	1,825,000	Boles ISD	4,890,000
Aransas Co ISD	29,495,000	Bonham ISD	8,870,000
Aransas Pass ISD	1,525,000	Booker ISD	170,000
Archer City ISD	17,290,000	Borger ISD	33,310,810
Argyle ISD	80,829,948	Bosqueville ISD	8,098,641
Arlington ISD	713,022,485	Bowie ISD	24,989,998
Arp ISD	18,961,652	Boyd ISD	22,440,000
Aspermont ISD	7,945,000	Brady ISD	17,175,000
Athens ISD	12,430,000	Brazos ISD	15,307,478
Atlanta ISD	12,890,500	Brazosport ISD	173,669,050
Aubrey ISD	50,685,143	Breckenridge ISD	5,580,000
Austin ISD	376,686,709	Bremond ISD	2,950,000
Austwell-Tivoli ISD	9,628,000	Brenham ISD	34,827,086
Avalon ISD	1,005,000	Bridge City ISD	17,100,000
Azle ISD	34,895,000	Bridgeport ISD	23,810,000
Baird ISD	4,715,000	Brock ISD	30,500,596
Balmorhea ISD	1,095,000	Brookesmith ISD	780,000
Bandera ISD	22,680,000	Brooks Co ISD	32,995,000
Bangs ISD	6,960,000	Brownfield ISD	9,755,000
Banquete ISD	10,010,000	Brownsboro ISD	28,120,479
Barbers Hill ISD	123,245,000	Brownsville ISD	139,645,000
Bartlett ISD	1,275,000	Bruceville-Eddy ISD	6,470,000
Bastrop ISD	132,889,094	Bryan ISD	166,220,000

**BOND GUARANTEE PROGRAM --- ISSUED AND GUARANTEED
FOR THE FISCAL YEAR ENDED AUGUST 31, 2015**

SCHOOL DISTRICT NAME	BALANCE	SCHOOL DISTRICT NAME	BALANCE
Bryson ISD	15,501,310	Chireno ISD	990,000
Buckholts ISD	725,000	Chisum ISD	6,960,000
Buena Vista ISD	220,317	Christoval ISD	945,000
Buffalo ISD	15,340,000	City View ISD	3,068,372
Bullard ISD	72,271,324	Claude ISD	1,665,000
Buna ISD	25,240,000	Clear Creek ISD	751,045,000
Burkburnett ISD	3,890,000	Cleburne ISD	36,997,081
Burkeville ISD	1,680,000	Cleveland ISD	35,397,395
Burleson ISD	231,205,852	Clifton ISD	2,040,000
Burnet CISD	47,735,000	Clint ISD	188,036,361
Burton ISD	6,535,000	Clyde CISD	17,219,999
Bushland ISD	17,895,000	Coahoma ISD	12,524,997
Bynum ISD	955,000	Coldspring-Oakhurst CISD	1,031,000
Caddo Mills ISD	31,094,089	College Station ISD	233,205,000
Calallen ISD	41,825,000	Collinsville ISD	804,000
Caldwell ISD	7,543,000	Colorado ISD	29,050,000
Calhoun Co ISD	65,035,000	Columbia-Brazoria ISD	36,664,984
Callisburg ISD	18,449,997	Columbus ISD	11,814,989
Cameron ISD	21,335,000	Comal ISD	551,108,905
Campbell ISD	149,294	Comanche ISD	9,835,000
Canadian ISD	5,000,000	Comfort ISD	18,109,994
Canton ISD	35,783,050	Commerce ISD	25,580,000
Canutillo ISD	97,633,349	Community ISD	26,759,632
Canyon ISD	70,985,715	Comstock ISD	2,300,000
Carlisle ISD	10,025,000	Connally ISD	18,325,000
Carrizo Springs CISD	46,500,000	Conroe ISD	932,295,000
Carroll ISD	116,157,749	Coolidge ISD	2,670,000
Carrollton-Farmers Branch ISD	246,120,000	Cooper ISD	11,365,000
Carthage ISD	23,705,000	Coppell ISD	140,342,381
Castleberry ISD	45,935,000	Copperas Cove ISD	22,959,994
Cedar Hill ISD	104,427,384	Corpus Christi ISD	220,610,000
Celeste ISD	7,235,000	Corrigan-Camden ISD	4,635,000
Celina ISD	52,519,047	Corsicana ISD	96,116,604
Center ISD	7,184,178	Cotulla ISD	38,175,000
Center Point ISD	1,270,000	Covington ISD	855,000
Centerville ISD	15,130,000	Crandall ISD	18,603,705
Central Heights ISD	2,700,000	Crane ISD	4,980,000
Central ISD	11,770,000	Crawford ISD	4,855,180
Channelview ISD	145,495,000	Crockett Co Cons CSD	3,000,000
Channing ISD	2,045,000	Crockett ISD	12,575,000
Chapel Hill ISD	21,155,000	Crosby ISD	132,106,468
Charlotte ISD	2,724,738	Cross Roads ISD	5,160,000
Chester ISD	185,000	Crowley ISD	323,591,408
Chico ISD	17,410,000	Crystal City ISD	51,853,237
Childress ISD	1,300,000	Cuero ISD	75,726,365
Chillicothe ISD	3,735,000	Culberson Co-Allamoore ISD	510,000
China Spring ISD	43,075,000	Cumby ISD	1,750,000

**BOND GUARANTEE PROGRAM --- ISSUED AND GUARANTEED
FOR THE FISCAL YEAR ENDED AUGUST 31, 2015**

SCHOOL DISTRICT NAME	BALANCE	SCHOOL DISTRICT NAME	BALANCE
Cushing ISD	13,525,000	El Paso ISD	355,610,664
Cypress-Fairbanks ISD	1,852,465,767	Electra ISD	12,319,890
Daingerfield-Lone Star ISD	9,358,862	Elgin ISD	55,279,984
Dalhart ISD	13,930,000	Elysian Fields ISD	9,665,000
Dallas ISD	2,326,650,000	Ennis ISD	129,676,181
Danbury ISD	2,820,000	Era ISD	1,702,371
Darrouzett ISD	2,435,000	Etoile ISD	2,410,000
Dawson ISD	3,340,634	Eula ISD	4,940,300
Dayton ISD	96,840,000	Eustace ISD	3,055,000
De Leon ISD	885,000	Evadale ISD	4,528,476
Decatur ISD	33,337,612	Everman ISD	89,695,000
Deer Park ISD	184,860,000	Ezzell ISD	3,865,000
Del Valle ISD	199,844,999	Fabens ISD	27,675,000
Denison ISD	80,613,124	Fairfield ISD	6,415,000
Denton ISD	800,912,344	Falls City ISD	31,935,000
Denver City ISD	26,265,000	Fannindel ISD	1,205,000
DeSoto ISD	84,503,884	Farmersville ISD	11,885,000
Detroit ISD	5,970,000	Ferris ISD	30,950,148
Devers ISD	905,000	Flatonia ISD	4,245,000
Devine ISD	12,870,000	Florence ISD	6,079,998
Deweyville ISD	8,375,000	Floresville ISD	69,114,990
D'Hanis ISD	4,810,000	Flour Bluff ISD	49,990,000
Diboll ISD	15,649,924	Floydada ISD	4,975,000
Dickinson ISD	262,843,564	Follett ISD	1,095,000
Dilley ISD	28,695,000	Forestburg ISD	50,000
Dimmitt ISD	14,239,998	Forney ISD	246,624,355
Dodd City ISD	4,514,999	Forsan ISD	21,805,000
Donna ISD	89,045,000	Fort Bend ISD	678,343,767
Dripping Springs ISD	197,499,998	Fort Elliott CISD	1,045,000
Driscoll ISD	8,588,306	Fort Hancock ISD	1,310,000
Dublin ISD	6,660,000	Fort Stockton ISD	18,250,000
Dumas ISD	20,505,000	Fort Worth ISD	514,615,000
Duncanville ISD	225,991,096	Franklin ISD	6,200,000
Eagle Mountain-Saginaw ISD	558,073,088	Frankston ISD	16,121,275
Eagle Pass ISD	55,625,000	Fredericksburg ISD	19,465,000
Eanes ISD	108,130,000	Freer ISD	24,934,908
Early ISD	18,839,995	Frenship ISD	216,170,181
East Bernard ISD	2,300,000	Friendswood ISD	101,325,000
East Central ISD	63,733,479	Friona ISD	3,340,000
East Chambers ISD	6,945,000	Frisco ISD	1,559,775,843
Ector Co ISD	180,957,425	Frost ISD	706,000
Ector ISD	1,885,000	Fruitvale ISD	880,000
Edcouch-Elsa ISD	39,065,000	Gainesville ISD	30,725,000
Edgewood ISD	77,845,000	Galena Park ISD	177,169,349
Edinburg CISD	140,090,000	Galveston ISD	55,309,999
Edna ISD	20,405,000	Ganado ISD	3,770,000
El Campo ISD	27,894,997	Garland ISD	440,891,118

**BOND GUARANTEE PROGRAM --- ISSUED AND GUARANTEED
FOR THE FISCAL YEAR ENDED AUGUST 31, 2015**

SCHOOL DISTRICT NAME	BALANCE	SCHOOL DISTRICT NAME	BALANCE
Garner ISD	1,610,000	Hardin ISD	10,945,000
Garrison ISD	1,760,000	Hardin-Jefferson ISD	22,221,399
Gary ISD	8,950,000	Harlandale ISD	206,337,066
Gatesville ISD	17,900,000	Harleton ISD	1,469,000
George West ISD	24,085,000	Harlingen CISD	134,060,000
Georgetown ISD	187,615,000	Harmony ISD	1,492,000
Giddings ISD	34,855,000	Hartley ISD	6,030,000
Gilmer ISD	14,315,000	Haskell CISD	538,000
Gladewater ISD	34,030,000	Hawkins ISD	18,705,000
Glasscock Co ISD	17,940,000	Hawley ISD	6,930,000
Glen Rose ISD	22,810,000	Hays CISD	320,650,000
Godley ISD	30,453,193	Hearne ISD	10,175,000
Goldthwaite ISD	7,465,000	Hedley ISD	90,000
Goliad ISD	11,400,000	Hempstead ISD	15,574,480
Gonzales ISD	24,320,000	Henderson ISD	46,885,254
Goose Creek CISD	496,040,000	Henrietta ISD	10,040,000
Gordon ISD	334,000	Hermleigh ISD	3,405,000
Gorman ISD	4,115,766	Hico ISD	3,550,311
Grady ISD	5,775,000	Hidalgo ISD	37,450,000
Graford ISD	9,834,999	Higgins ISD	1,400,000
Graham ISD	28,030,000	High Island ISD	1,060,000
Granbury ISD	114,008,062	Highland ISD	3,470,000
Grand Prairie ISD	336,762,267	Highland Park ISD	2,450,000
Grand Saline ISD	8,573,000	Hillsboro ISD	13,674,164
Grandfalls-Royalty ISD	11,255,000	Hitchcock ISD	32,570,394
Grandview ISD	15,280,000	Holland ISD	5,437,022
Grandview-Hopkins ISD	630,000	Holliday ISD	18,980,000
Granger ISD	700,000	Hondo ISD	15,259,998
Grape Creek ISD	3,500,000	Honey Grove ISD	9,207,222
Grapeland ISD	3,905,000	Hooks ISD	7,815,000
Grapevine-Colleyville ISD	248,290,150	Houston ISD	1,995,855,691
Greenville ISD	81,790,000	Howe ISD	7,344,753
Greenwood ISD	60,670,000	Hubbard ISD	9,443,000
Gregory-Portland ISD	52,195,000	Hudson ISD	16,629,692
Groesbeck ISD	9,324,000	Huffman ISD	38,979,996
Groom ISD	1,435,000	Hull-Daisetta ISD	1,803,000
Gruver ISD	1,571,429	Humble ISD	417,855,000
Gunter ISD	16,070,000	Hunt ISD	4,225,000
Gustine ISD	1,055,000	Huntington ISD	17,315,129
Guthrie CSD	1,535,000	Huntsville ISD	24,110,000
Hale Center ISD	5,807,706	Hurst-Euleless-Bedford ISD	171,188,170
Hallettsville ISD	23,025,000	Hutto ISD	177,911,563
Hallsburg ISD	2,319,279	Idalou ISD	13,830,000
Hallsville ISD	76,970,000	Industrial ISD	1,060,000
Hamilton ISD	1,200,000	Ingleside ISD	7,080,000
Hamlin ISD	3,806,110	Ingram ISD	15,190,000
Hamshire-Fannett ISD	24,150,000	Iowa Park CISD	14,930,000

**BOND GUARANTEE PROGRAM --- ISSUED AND GUARANTEED
FOR THE FISCAL YEAR ENDED AUGUST 31, 2015**

SCHOOL DISTRICT NAME	BALANCE	SCHOOL DISTRICT NAME	BALANCE
Ira ISD	12,065,000	La Pryor ISD	2,310,000
Iraan-Sheffield ISD	7,549,996	La Vega ISD	41,722,341
Iredell ISD	125,000	La Vernia ISD	40,279,802
Irion Co ISD	4,425,000	La Villa ISD	5,080,000
Irving ISD	437,497,809	Lago Vista ISD	39,694,720
Italy ISD	9,505,000	Lake Dallas ISD	84,935,014
Itasca ISD	7,395,000	Lake Travis ISD	264,443,275
Jacksboro ISD	18,630,000	Lake Worth ISD	65,923,978
Jacksonville ISD	73,775,000	Lamar CISD	748,580,000
Jarrell ISD	44,664,920	Lampasas ISD	38,639,982
Jasper ISD	9,855,000	Lancaster ISD	75,235,000
Jefferson ISD	6,955,000	Laredo ISD	201,974,910
Jim Hogg Co ISD	12,455,000	Lasara ISD	6,510,000
Jim Ned CISD	9,700,000	Latexo ISD	1,349,996
Joaquin ISD	4,775,000	Leander ISD	961,817,962
Johnson City ISD	7,170,000	Lefors ISD	2,850,000
Joshua ISD	109,521,524	Leon ISD	9,860,000
Judson ISD	340,484,205	Leonard ISD	775,000
Karnes City ISD	23,335,000	Levelland ISD	54,744,992
Katy ISD	1,271,035,662	Lewisville ISD	694,456,316
Kaufman ISD	27,331,300	Lexington ISD	8,840,000
Keene ISD	13,310,000	Liberty Hill ISD	111,955,536
Keller ISD	738,631,124	Liberty ISD	33,259,995
Kemp ISD	23,879,435	Liberty-Eylau ISD	5,550,000
Kenedy County-Wide CSD	1,329,000	Lindale ISD	54,384,271
Kenedy ISD	17,505,000	Lindsay ISD	360,000
Kennedale ISD	41,169,449	Lingleville ISD	1,066,000
Kerens ISD	1,825,000	Lipan ISD	7,944,991
Kermit ISD	27,305,000	Little Cypress-Mauriceville CISD	53,155,000
Kerrville ISD	22,475,000	Little Elm ISD	133,919,796
Kiigore ISD	54,180,000	Livingston ISD	58,465,000
Killeen ISD	69,295,000	Llano ISD	41,835,000
Kingsville ISD	72,249,993	Lockhart ISD	74,344,988
Kirbyville CISD	24,075,000	Lohn ISD	1,075,000
Klein ISD	872,010,000	Lometa ISD	4,520,000
Klondike ISD	6,325,000	London ISD	18,139,891
Knippa ISD	3,845,000	Lone Oak ISD	10,165,000
Knox City-O'Brien CISD	175,000	Longview ISD	175,748,834
Kopperl ISD	85,000	Loop ISD	2,480,000
Kountze ISD	10,445,000	Lorraine ISD	10,440,000
Kress ISD	2,855,000	Lorena ISD	31,331,541
Krum ISD	34,652,751	Los Fresnos CISD	37,075,000
La Feria ISD	27,060,000	Louise ISD	255,000
La Joya ISD	257,656,704	Lovejoy ISD	161,697,131
La Marque ISD	19,767,632	Lubbock ISD	246,630,000
La Porte ISD	189,295,000	Lubbock-Cooper ISD	167,234,951
La Poynor ISD	8,990,000	Lueders-Avoca ISD	1,120,000

**BOND GUARANTEE PROGRAM --- ISSUED AND GUARANTEED
FOR THE FISCAL YEAR ENDED AUGUST 31, 2015**

SCHOOL DISTRICT NAME	BALANCE	SCHOOL DISTRICT NAME	BALANCE
Lufkin ISD	49,845,294	Miller Grove ISD	1,870,000
Luling ISD	3,016,084	Millsap ISD	18,188,473
Lumberton ISD	7,015,000	Mineral Wells ISD	55,609,918
Lyford CISD	3,722,609	Mission CISD	125,780,222
Lytle ISD	18,640,000	Monahans-Wickett-Pyote ISD	19,124,145
Mabank ISD	34,914,029	Monte Alto ISD	14,125,799
Madisonville CISD	15,550,000	Montgomery ISD	308,578,204
Magnolia ISD	65,575,000	Moody ISD	10,619,487
Malakoff ISD	22,895,000	Mount Calm ISD	1,500,000
Malone ISD	1,023,000	Mount Enterprise ISD	2,795,000
Malta ISD	890,000	Mount Pleasant ISD	33,304,991
Manor ISD	278,284,999	Mount Vernon ISD	13,490,000
Mansfield ISD	761,735,000	Muenster ISD	16,328,298
Marble Falls ISD	59,069,872	Muleshoe ISD	19,435,000
Marfa ISD	6,304,297	Nacogdoches ISD	33,850,000
Marion ISD	9,325,000	Natalia ISD	1,345,000
Marlin ISD	1,025,000	Navarro ISD	18,405,490
Marshall ISD	82,070,000	Navasota ISD	10,645,000
Mart ISD	2,105,000	Nazareth ISD	566,873
Martins Mill ISD	625,000	Neches ISD	4,620,000
Martinsville ISD	4,050,000	Nederland ISD	32,170,000
Matagorda ISD	4,644,999	Needville ISD	43,900,000
Mathis ISD	14,154,999	New Boston ISD	14,908,112
Maud ISD	780,000	New Braunfels ISD	110,302,532
May ISD	2,649,000	New Caney ISD	315,014,957
Maypearl ISD	13,039,775	New Diana ISD	3,245,000
McAllen ISD	85,405,000	New Home ISD	5,225,000
McDade ISD	975,000	New Summerfield ISD	7,870,000
McGregor ISD	23,735,711	New Waverly ISD	6,205,000
McKinney ISD	419,690,000	Newcastle ISD	4,500,000
McLean ISD	1,915,000	Newton ISD	5,745,000
McMullen Co ISD	14,157,000	Nixon-Smiley CISD	18,020,500
Meadow ISD	1,055,000	Nordheim ISD	2,070,000
Medina Valley ISD	52,843,424	Normangee ISD	7,417,982
Melissa ISD	53,980,000	North East ISD	1,332,730,000
Mercedes ISD	62,065,000	North Hopkins ISD	4,825,000
Meridian ISD	7,065,000	North Lamar ISD	1,405,000
Merkel ISD	13,265,000	North Zulch ISD	6,009,000
Mesquite ISD	335,952,868	Northside ISD	1,929,420,000
Mexia ISD	5,300,000	Northwest ISD	728,611,815
Miami ISD	27,695,000	Nursery ISD	2,773,332
Midland ISD	234,045,000	Oakwood ISD	3,132,000
Midlothian ISD	238,328,978	Odem-Edroy ISD	27,484,997
Midway ISD	106,685,832	O'Donnell ISD	13,058,000
Milano ISD	3,765,000	Oglesby ISD	260,000
Mildred ISD	13,100,897	Olfen ISD	970,000
Miles ISD	7,795,759	Oliney ISD	2,390,000

**BOND GUARANTEE PROGRAM --- ISSUED AND GUARANTEED
FOR THE FISCAL YEAR ENDED AUGUST 31, 2015**

SCHOOL DISTRICT NAME	BALANCE	SCHOOL DISTRICT NAME	BALANCE
Olton ISD	550,000	Premont ISD	1,720,000
Onalaska ISD	12,831,591	Presidio ISD	5,839,014
Orange Grove ISD	12,735,000	Priddy ISD	135,000
Orangefield ISD	9,190,000	Princeton ISD	102,277,732
Ore City ISD	9,385,000	Pringle-Morse CISD	2,669,000
Overton ISD	3,365,000	Progreso ISD	27,585,000
Paint Rock ISD	2,251,620	Prosper ISD	270,181,146
Palacios ISD	3,580,000	Queen City ISD	2,990,000
Palmer ISD	19,080,000	Quinlan ISD	17,920,000
Palo Pinto ISD	3,120,000	Quitman ISD	4,560,000
Pampa ISD	45,025,000	Rains ISD	5,345,000
Panhandle ISD	19,590,000	Rankin ISD	31,725,000
Panther Creek CISD	860,000	Raymondville ISD	19,105,000
Paradise ISD	8,980,000	Reagan Co ISD	22,265,000
Paris ISD	45,555,000	Red Lick ISD	5,065,000
Pasadena ISD	636,245,000	Red Oak ISD	87,766,987
Pawnee ISD	6,005,000	Redwater ISD	745,000
Pearland ISD	309,349,059	Refugio ISD	13,775,623
Pearsall ISD	15,227,640	Rice CISD	18,544,992
Peaster ISD	19,206,930	Rice ISD	11,169,592
Pecos-Barstow-Toyah ISD	22,336,817	Richardson ISD	338,784,988
Perrin-Whitt CISD	5,850,000	Richland Springs ISD	2,670,000
Perryton ISD	18,335,000	Riesel ISD	25,830,732
Petrolia CISD	3,700,000	Rio Grande City CISD	94,755,000
Pettus ISD	8,905,000	Rio Hondo ISD	18,324,994
Pewitt CISD	1,535,000	Rio Vista ISD	4,100,000
Pflugerville ISD	522,305,000	River Road ISD	12,097,768
Pharr-San Juan-Alamo ISD	330,665,000	Rivercrest ISD	5,990,000
Pilot Point ISD	17,370,000	Robert Lee ISD	8,230,342
Pine Tree ISD	55,090,000	Robinson ISD	25,635,000
Pittsburg ISD	11,397,000	Robstown ISD	54,620,159
Plains ISD	39,395,000	Rockdale ISD	25,434,996
Plano ISD	582,855,313	Rocksprings ISD	2,070,000
Pleasant Grove ISD	31,395,000	Rockwall ISD	326,241,461
Pleasanton ISD	74,245,000	Rogers ISD	12,536,463
Plemons-Stinnett-Phillips CISD	25,260,000	Roma ISD	59,485,000
Point Isabel ISD	17,206,580	Roosevelt ISD	9,795,000
Ponder ISD	23,065,000	Ropes ISD	4,940,000
Poolville ISD	4,065,000	Roscoe Collegiate ISD	3,775,000
Port Aransas ISD	8,235,000	Rotan ISD	110,000
Port Arthur ISD	89,855,000	Round Rock ISD	408,280,000
Port Neches-Groves ISD	68,499,994	Round Top-Carmine ISD	480,000
Post ISD	40,330,000	Roxton ISD	358,000
Poteet ISD	28,219,996	Royal ISD	67,625,918
Poth ISD	4,860,000	Royse City ISD	92,467,395
Pottsboro ISD	5,542,274	Runge ISD	4,873,000
Prairiland ISD	7,915,000	Rusk ISD	2,090,000

**BOND GUARANTEE PROGRAM --- ISSUED AND GUARANTEED
FOR THE FISCAL YEAR ENDED AUGUST 31, 2015**

SCHOOL DISTRICT NAME	BALANCE	SCHOOL DISTRICT NAME	BALANCE
S & S CISD	5,341,335	Slidell ISD	1,655,000
Sabinal ISD	1,065,000	Slocum ISD	3,235,000
Sabine ISD	18,930,000	Smithville ISD	8,294,991
Sabine Pass ISD	11,774,485	Smyer ISD	737,000
Saint Jo ISD	100,000	Snook ISD	8,555,000
Salado ISD	19,250,000	Snyder CISD	12,025,000
Sam Rayburn ISD	3,760,000	Socorro ISD	522,574,725
San Angelo ISD	101,369,982	Somerset ISD	30,859,991
San Antonio ISD	735,034,988	Somerville ISD	1,875,000
San Augustine ISD	12,035,000	Sonora ISD	510,000
San Benito CISD	79,680,000	South San Antonio ISD	174,379,857
San Diego ISD	24,430,000	Southside ISD	47,240,000
San Elizario ISD	28,535,000	Southwest ISD	231,173,289
San Felipe Del Rio CISD	41,619,993	Spearman ISD	8,320,000
San Isidro ISD	989,000	Splendora ISD	50,670,000
San Marcos CISD	155,239,959	Spring Branch ISD	616,630,000
San Perlita ISD	3,730,000	Spring Hill ISD	36,840,000
San Saba ISD	5,967,000	Spring ISD	417,915,000
Sands CISD	6,010,000	Springtown ISD	60,415,000
Sanford-Fritch ISD	8,190,306	Spur ISD	5,350,000
Sanger ISD	22,978,207	Spurger ISD	2,420,000
Santa Anna ISD	1,165,000	Stafford MSD	55,690,000
Santa Fe ISD	51,215,000	Stamford ISD	2,005,000
Santa Gertrudis ISD	4,800,000	Stanton ISD	46,127,000
Santa Maria ISD	3,510,000	Stephenville ISD	27,340,000
Santa Rosa ISD	11,735,000	Sterling City ISD	14,235,000
Santo ISD	950,000	Stockdale ISD	8,955,000
Savoy ISD	1,865,000	Sudan ISD	4,490,000
Schertz-Cibolo-Universal City	319,376,474	Sulphur Bluff ISD	769,000
Schulenburg ISD	5,470,000	Sulphur Springs ISD	7,620,000
Scurry-Rosser ISD	6,788,538	Sunnyvale ISD	60,862,581
Seagraves ISD	10,275,000	Sunray ISD	6,470,000
Sealy ISD	21,044,889	Sweeny ISD	29,900,000
Seguin ISD	110,648,284	Sweetwater ISD	8,469,049
Seminole ISD	66,450,000	Taft ISD	29,170,000
Shallowater ISD	29,662,900	Tarkington ISD	10,600,000
Sharyland ISD	112,974,999	Tatum ISD	21,000,000
Shelbyville ISD	1,295,000	Taylor ISD	10,155,000
Sheldon ISD	153,629,996	Teague ISD	27,050,000
Shepherd ISD	19,049,998	Temple ISD	80,375,000
Sherman ISD	75,890,000	Tenaha ISD	3,365,000
Sidney ISD	1,340,000	Terrell ISD	21,668,448
Silsbee ISD	34,080,000	Texarkana ISD	58,138,307
Simms ISD	1,460,000	Texas City ISD	78,075,000
Sinton ISD	20,925,000	Thorndale ISD	280,000
Skidmore-Tynan ISD	10,952,174	Thrall ISD	8,980,000
Slaton ISD	17,450,000	Three Rivers ISD	29,940,000

**BOND GUARANTEE PROGRAM --- ISSUED AND GUARANTEED
FOR THE FISCAL YEAR ENDED AUGUST 31, 2015**

SCHOOL DISTRICT NAME	BALANCE	SCHOOL DISTRICT NAME	BALANCE
Tidehaven ISD	47,460,000	Wharton ISD	22,049,997
Tioga ISD	6,790,193	Wheeler ISD	5,650,000
Tolar ISD	10,419,850	White Deer ISD	14,010,000
Tom Bean ISD	9,650,000	White Oak ISD	2,475,000
Tomball ISD	371,995,000	White Settlement ISD	159,475,817
Tornillo ISD	10,189,996	Whiteface CISD	13,265,000
Trent ISD	3,300,000	Whitehouse ISD	28,577,707
Trenton ISD	7,175,000	Whitesboro ISD	12,226,919
Trinidad ISD	1,255,000	Whitewright ISD	7,358,736
Trinity ISD	4,060,000	Whitney ISD	38,255,000
Troup ISD	6,750,000	Wichita Falls ISD	94,630,000
Troy ISD	17,610,011	Wildorado ISD	12,385,000
Tuloso-Midway ISD	67,065,000	Willis ISD	59,512,296
Turkey-Quitaque ISD	2,665,000	Wills Point ISD	2,465,000
Tyler ISD	246,290,000	Wimberley ISD	56,273,695
Union Grove ISD	13,150,000	Windthorst ISD	2,010,773
United ISD	342,475,672	Wink-Loving ISD	23,705,000
Uvalde CISD	18,264,996	Winona ISD	15,124,379
Valley Mills ISD	7,595,000	Woden ISD	1,475,000
Valley View ISD	60,004,764	Wolfe City ISD	1,755,000
Van Alstyne ISD	36,985,000	Woodsboro ISD	12,570,000
Van ISD	33,355,000	Wortham ISD	5,645,000
Vega ISD	20,365,000	Wylie ISD	321,704,292
Venus ISD	8,686,203	Yantis ISD	1,055,000
Veribest ISD	1,260,000	Yoakum ISD	52,650,000
Vernon ISD	1,750,186	Yorktown ISD	5,475,000
Victoria ISD	154,550,000	Ysleta ISD	164,895,000
Vidor ISD	17,103,415	Zavalla ISD	5,030,000
Waco ISD	129,640,000	Zephyr ISD	2,750,000
Waelder ISD	3,183,153		
Wall ISD	1,295,000		
Waller ISD	72,730,000	TOTAL SCHOOL DISTRICT	
Warren ISD	14,564,881	AMOUNT OUTSTANDING	\$63,197,514,047
Water Valley ISD	2,951,501		
Waxahachie ISD	187,140,473		
Weatherford ISD	129,196,627		
Webb CISD	747,310		
Weimar ISD	8,352,123		
Wellman-Union CISD	18,865,000		
Wells ISD	3,350,000		
Weslaco ISD	54,140,000		
West Hardin Co CISD	2,670,000		
West ISD	2,742,125		
West Orange-Cove CISD	49,675,439		
West Oso ISD	21,459,994		
West Rusk Co CISD	14,795,000		
West Sabine ISD	8,304,999		

**BOND GUARANTEE PROGRAM --- ISSUED AND GUARANTEED
FOR THE FISCAL YEAR ENDED AUGUST 31, 2015**

CHARTER DISTRICT NAME	BALANCE
Eagle Advantage Schools, Inc.	19,630,000
Golden Rule Schools, Inc.	7,050,000
Harmony Public Schools	216,440,000
Idea Academy, Inc.	90,600,000
Kipp Austin Public Schools, Inc.	72,840,000
Kipp, Inc.	124,855,000
Lifeschool Of Dallas	91,830,000
Nova Academy	6,240,000
Odyssey Academy	12,245,000
Orenda Education	15,480,000
Responsive Education Solutions	63,965,000
Riverwalk Education Foundation, Inc.	7,155,000
Trinity Basin Preparatory Inc.	<u>29,605,000</u>
 TOTAL CHARTER DISTRICT AMOUNT OUTSTANDING	 \$757,935,000
 GRAND TOTAL AMOUNT OUTSTANDING	 \$63,955,449,047

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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		Net Income From Investments ³	Other Income ⁴	Total Income From Operations	Distributions ⁵
		(Decrease) Over Previous Year ²					
1854	\$ 2,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1900	9,102,873	682,284	337,437	445,705	783,142	-	-
1910	16,752,407	712,842	628,669	1,341,858	1,970,527	-	-
1920	25,698,282	2,832,785	899,946	1,988,609	2,888,555	-	-
1930	38,718,106	2,349,227	1,668,949	1,100,598	2,769,547	-	-
1940	68,299,082	5,119,511	2,353,046	978,828	3,331,874	-	-
1950	161,179,979	10,891,509	3,586,117	399,857	3,985,974	-	-
1961	454,391,643	28,570,043	13,474,481	291,955	13,766,436	4,593,565	-
1970	842,217,721	43,557,978	34,114,113	648,842	34,762,955	-	-
1980	2,464,579,397	401,868,617	158,079,171	8,396,255	166,475,426	-	-
1990	8,930,703,666	(160,746,667)	671,049,192	3,585,802	674,634,994	-	-
2000	22,275,586,452	2,659,856,111	694,916,560	3,570,745	698,487,305	-	-
2006	22,802,708,177	1,448,374,450	-	-	-	841,878,709	-
2007	25,311,835,346	2,509,127,169	-	-	-	843,136,949	-
2008	23,142,393,002	(2,169,442,344)	-	-	-	716,534,543	-
2009	20,545,271,679	(2,597,121,323)	-	-	-	716,533,764	-
2010	22,107,795,468	1,562,523,789	-	-	-	60,700,000	-
2011	24,091,592,601	1,983,797,133	-	-	-	1,092,809,024	-
2012	25,502,953,268	1,411,360,667	-	-	-	1,020,886,917	-
2013	27,165,474,239	1,662,520,971	-	-	-	1,020,886,919	-
2014	30,709,230,670	3,543,756,431	-	-	-	838,672,346	-
2015	28,949,453,126	(1,759,777,544)	-	-	-	838,672,334	-

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

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

³ For 2004, income from investments includes interest and dividends on debt and equity securities respectively, interest on funds in the State Treasury, and securities lending proceeds. Due to the change to the total return methodology, the net income from investments is through September 29, 2003 only.

For 2003, income from investments includes interest and dividends on debt and equity securities respectively, interest on funds in accrual basis of accounting.

For the years 1994-2002, income from investments includes interest and dividends on debt and equity securities respectively, interest on funds in the State Treasury, and securities lending proceeds.

For the years 1987-1993, income from investments includes interest and dividends on debt and equity securities, respectively and interest on funds in the State Treasury.

For the years 1854-1986, income from investments includes interest and dividends on debt and equity securities, respectively.

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

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

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

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

The Texas Permanent School Fund is required by the General Appropriations Act to publish the costs of administering 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 2015	\$20.6
Projected-Fiscal Year 2016	\$30.2
Projected-Fiscal Year 2017	\$30.2
Projected-Fiscal Year 2018	\$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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