

OFFERING MEMORANDUM
Dated May 10, 2018

NEW ISSUE - BOOK-ENTRY-ONLY

ENHANCED/UNENHANCED RATING: Moody's - "Aaa"/"Aa1"
PSF Guaranteed
(See "THE PERMANENT SCHOOL FUND GUARANTEE
PROGRAM" and "OTHER PERTINENT INFORMATION -
Municipal Bond Rating" herein)

In the opinion of Bond Counsel (defined below), assuming continuing compliance by the District (defined below) after the date of initial delivery of the Bonds (defined below) with certain covenants contained in the Order (defined below) and subject to the matters set forth under "TAX MATTERS" herein, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as described herein, corporations. See "TAX MATTERS" herein. Additionally, see "THE BONDS - Determination of Interest Rate; Rate Mode Changes" identifying circumstances when an opinion of nationally recognized bond counsel is required as a condition for an interest mode conversion. Bond Counsel expresses no opinion as to the effect on the excludability from gross income for federal income tax purposes of any action requiring such an opinion.

\$12,000,000
ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Bexar County, Texas)
VARIABLE RATE UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018B
INITIAL TERM RATE PERIOD OF 3 YEARS AT A PER ANNUM INITIAL RATE OF 3.00%
(PRICED TO YIELD 2.16% TO MANDATORY TENDER DATE)

Dated Date: May 15, 2018 (interest will accrue from the Closing Date)
CUSIP No.⁽¹⁾: 011338VP2

Mandatory Tender Date: February 1, 2021
Stated Maturity: February 1, 2028

The "Alamo Heights Independent School District Variable Rate Unlimited Tax School Building Bonds, Series 2018B" (the "Bonds" or the "Series 2018B Bonds") are direct obligations of the Alamo Heights Independent School District (the "District") and are payable from an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Sections 45.001 and 45.003(b)(1), as amended, Texas Education Code, Chapter 1371, as amended, of the Texas Government Code ("Chapter 1371"), an election held in the District on May 6, 2017 (the "Election"), and an order authorizing the issuance of the Bonds (the "Order") adopted by the Board of Trustees (the "Board") of the District on April 19, 2018. As permitted by the provisions of Chapter 1371, the Board, in the Order, delegated the authority to certain District officials (each an "Authorized Official") to execute an approval certificate (the "Approval Certificate") establishing the final pricing terms for the Bonds. The Approval Certificate was executed by an Authorized Official on May 10, 2018. See "THE BONDS - Authority for Issuance" herein.

During the Initial Rate Period (defined below), interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months and will be payable on each February 1 and August 1, commencing August 1, 2018. No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System" herein). The initial Tender Agent and Paying Agent/Registrar for the Bonds is ZB, National Association, dba Amegy Bank, Houston, Texas (see "THE BONDS - General Description").

The Bonds are issued as a single Term Bond scheduled to mature as shown above and subject to optional and mandatory redemption prior to maturity, in whole or in part, as described herein (see "THE BONDS - Redemption").

The Bonds will bear interest initially at the Initial Rate from the date of the initial delivery to the Underwriters (defined below), anticipated to occur on or about June 5, 2018 (the "Closing Date"), through January 31, 2021 (the "Initial Rate Period"), at the rate of 3.00% (being the rate so determined by the Underwriters identified below). Thereafter, the Bonds will convert to a Term Mode of like duration and bear interest at a Term Rate determined by the Remarketing Agent (defined below); provided, however, that the interest rate mode applicable to the Bonds may be (a) changed from time to time to a Term Mode during which the Bonds bear interest at a Term Rate for a period of different duration, or (b) converted to a Fixed Rate until stated maturity (as such terms are defined and described herein). This Offering Memorandum describes the Bonds only in the Initial Rate Period during which the Bonds bear interest at the Initial Rate (and, after conclusion of such Initial Rate Period and if at all, the period during which the Bonds bear interest at the Stepped Rate) and not the Bonds remarketed and sold into another interest rate period during which the Bonds bear interest in another interest rate mode.

The Bonds will be subject to mandatory tender without the right of retention on the Conversion Date immediately following the end of the Initial Rate Period, which occurs on February 1, 2021. During the Initial Rate Period, the Bonds are not subject to the benefit of a liquidity facility provided by a third party. Accordingly, a failure by the Remarketing Agent to remarket Bonds subject to mandatory tender on the Conversion Date at the end of the Initial Rate Period will result in the rescission of the notice of mandatory tender with respect thereto and the District not having any obligation to purchase such Bonds at that time. The occurrence of the foregoing will not result in an event of default under the Order or the Bonds. Until such time as the District redeems or remarkets Bonds that have been unsuccessfully remarketed as described above, such Bonds shall bear interest at the "Stepped Rate", which is defined herein to mean 7.00% per annum, calculated on the basis of twelve 30-day months and the number of days actually elapsed (see "THE BONDS - Tender Provisions" herein).

All tenders of Bonds must be made to the Tender Agent at its designated office in Houston, Texas. In the Order, the District has covenanted to identify and enter into a contract with a remarketing agent (the "Remarketing Agent") for the Bonds prior to the commencement of the remarketing period applicable to the Bonds. Bonds tendered for purchase on the initial Conversion Date will be bought from the proceeds derived from the remarketing of the Bonds, if any; provided, however, that should the date for tender of the Bonds occur on an Interest Payment Date, the accrued interest portion of the Purchase Price is to be paid by the District.

Proceeds from the sale of the Bonds will be used (i) for the purposes of designing, constructing, renovating, improving, acquiring and equipping school facilities (and any necessary or related removal of existing facilities), the purchase of the necessary sites for school facilities, and the purchase of new school buses, and (ii) to pay for professional services associated with the costs of issuance of the Bonds. See "SOURCES AND USES OF FUNDS" herein.

The Bonds are offered for delivery when, as and if issued and received by the initial purchasers thereof named below (the "Underwriters") and are subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. See "LEGAL MATTERS" herein for a discussion of Bond Counsel's opinion. Certain legal matters will be passed upon for the Underwriters by their legal counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas. It is expected that the Bonds will be available for delivery through the services of DTC, New York, New York, on or about June 5, 2018.

FROST BANK

PIPER JAFFRAY & CO.
HILLTOP SECURITIES

M. E. ALLISON & CO., INC.

⁽¹⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP numbers have been assigned to the Bonds by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association and are included solely for the convenience of owners of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the District, the Financial Advisor, or the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
7101 Broadway
San Antonio, Texas 78209

BOARD OF TRUSTEES

Name	Position	Years Served	Term Expires May	Occupation
John Tippit	President	5	2019	Executive
Margaret Judson	Vice President	4	2020	Homemaker
Lisa Krenger	Secretary	2	2018	Homemaker
Perry Shankle	Assistant Secretary	3	2018	Construction
Bonnie Giddens	Trustee	6	2018	Homemaker
Ryan Anderson	Trustee	1	2020	Attorney
David Hornberger	Trustee	2	2019	Attorney

ADMINISTRATION - FINANCE CONNECTED

Name	Title	Total Years Experience	Total Years With District
Dr. Kevin Brown*	Superintendent of Schools	27	18
Michael Howard Hagar	Assistant Superintendent for Business and Finance	28	22

* Dr. Brown has announced he will be leaving the District on June 30, 2018 to accept the position as Executive Director for the Texas Association of School Administrators. The Board has retained the search firm of Horn Educational Consultants, and Dr. Brown has agreed to remain as a consultant to the District until the Fall of 2018.

CONSULTANTS AND ADVISORS

Armstrong Vaughn & Assoc. Certified Public Accountants
San Antonio, Texas

Norton Rose Fulbright US LLP Bond Counsel
San Antonio, Texas

SAMCO Capital Markets, Inc. Financial Advisor
San Antonio, Texas

For Additional Information Contact:

Duane L. Westerman,
Senior Managing Director
SAMCO Capital Markets, Inc.
1020 N.E. Loop 410, Suite 640
San Antonio, Texas 78209
Phone: (210) 832-9760
Fax: (210) 832-9794
Email: dwesterman@samcocapital.com

or

Michael Howard Hagar, Assistant Superintendent
for Business and Finance
Alamo Heights Independent School District
7101 Broadway
San Antonio, Texas 78209
Phone: (210) 822-3374
Fax: (210) 822-2221
Email: mikeh@ahisd.net

USE OF INFORMATION IN OFFERING MEMORANDUM

No dealer, broker, salesman, or other person has been authorized by the District to give any information or to make any representation with respect to the Bonds, other than as contained in this Offering Memorandum, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing.

This Offering Memorandum does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale. The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Offering Memorandum nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Offering Memorandum. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Offering Memorandum nor any sale made hereunder will under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Offering Memorandum.

The Underwriters have provided the following sentence for inclusion in this Offering Memorandum. The Underwriters have reviewed the information in this Offering Memorandum in accordance with, and as part of their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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

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

None of the District, the Financial Advisor, or the Underwriters make any representation or warranty with respect to the information contained in this Offering Memorandum regarding (i) DTC or its book-entry-only system described under the caption "BOOK-ENTRY-ONLY SYSTEM" as such information has been provided by DTC, and (ii) the Texas Permanent School Fund Guarantee Program described in the caption "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" as such information has been provided by the Texas Education Agency.

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

(The remainder of this page has been left blank intentionally.)

TABLE OF CONTENTS

COVER PAGE	i	Levy and Collection of Taxes	29
BOARD OF TRUSTEES	ii	Public Hearing and Rollback Tax Rate	29
ADMINISTRATION - FINANCE CONNECTED	ii	The District's Rights in the Event of Tax Delinquencies	30
CONSULTANTS & ADVISORS	ii	The Texas Tax Code as Applied to the District	30
USE OF INFORMATION IN OFFERING MEMORANDUM	iii	STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS	30
TABLE OF CONTENTS	iv	CURRENT PUBLIC SCHOOL FINANCE SYSTEM	31
OFFERING MEMORANDUM SUMMARY INFORMATION	v	THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT	34
INTRODUCTION	1	TAX RATE LIMITATIONS	35
THE BONDS		DEBT LIMITATIONS	36
Authority for Issuance	1	EMPLOYEE BENEFITS, RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS	36
Security for Payment	1	INVESTMENT POLICIES	36
Use of Proceeds	1	LEGAL MATTERS	
General Description	2	Legal Opinions and No-Litigation Certificate	39
Interest Rate Modes	3	Litigation	39
Determination of Interest Rates; Rate Mode Changes	3	TAX MATTERS	
Tender Provisions	4	Opinion	39
Conversion to Fixed Rate	4	Tax Changes	40
Redemption	5	Ancillary Tax Consequences	40
Security	6	Tax Accounting Treatment of Discount Bonds	40
Permanent School Fund Guarantee	6	Tax Accounting Treatment of Premium Bonds	41
Defeasance	7	LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS	41
Amendments	7	CONTINUING DISCLOSURE	41
Defaults and Remedies	7	OTHER PERTINENT INFORMATION	
SOURCES AND USES OF FUNDS	8	Authenticity of Financial Information	43
REGISTRATION, TRANSFER AND EXCHANGE		Registration and Qualification of Bonds for Sale	43
Paying Agent/Registrar	8	Municipal Bond Rating	43
Successor Paying Agent/Registrar	8	Financial Advisor	43
Record Date	9	Underwriting	44
Registration, Transferability and Exchange	9	Certification of the Offering Memorandum	44
Limitation on Transfer of Bonds	9	Forward Looking Statements	44
Replacement Bonds	9	Information from External Sources	44
BOOK-ENTRY-ONLY SYSTEM	9	Authorization of the Offering Memorandum	45
THE PERMANENT SCHOOL FUND			
GUARANTEE PROGRAM	11		
AD VALOREM TAX PROCEDURES			
Property Tax Code and County Wide Appraisal District	27		
Ad Valorem Taxation	27		
Taxable Property, Exemptions and Agricultural Exclusions	27		
SELECTED FINANCIAL INFORMATION OF THE DISTRICT		APPENDIX A	
GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY		APPENDIX B	
AUDITED FINANCIAL STATEMENTS		APPENDIX C	
FORM OF OPINION OF BOND COUNSEL		APPENDIX D	

The cover page hereof, the appendices hereto, and any addenda, supplement or amendment hereto are part of this Offering Memorandum.

OFFERING MEMORANDUM SUMMARY INFORMATION

The following information is qualified in its entirety by more detailed information and financial statements appearing elsewhere in this Offering Memorandum:

THE DISTRICT	The Alamo Heights Independent School District (the "District") is located in Bexar County, Texas. The District is approximately 9.4 square miles in area and serves a population of approximately 31,163. The District was created under State statute and is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.
RATE PERIODS	The Bonds will initially bear interest at an Initial Rate during the Initial Rate Period, at the rate determined by the Underwriters, which will be in effect from the Closing Date (as defined in the Order, but anticipated to occur on or about June 5, 2018) through January 31, 2021, with interest being payable on February 1 and August 1, beginning August 1, 2018, at a rate of 3.00% calculated on the basis of a 360-day year of twelve 30-day months. Thereafter, the Bonds will convert to a Term Mode of like duration and bear interest at a Term Rate determined by the Remarketing Agent; provided, however, that the interest rate mode for the Bonds may be (a) changed from time to time to a Term Mode during which the Bonds bear interest at a Term Rate for a period of different duration or (b) converted to a Fixed Rate until stated maturity (as such terms are defined and described herein). (See "THE BONDS - Interest Rate Modes" herein.) The Stepped Rate for the Bonds is 7.00%. (See "THE BONDS - Tender Provisions" herein.)
DATED DATE	May 15, 2018.
REDEMPTION	After the Initial Rate Period and prior to conversion to a Fixed Rate, the Bonds are subject to optional and mandatory redemption at par, on the dates and in the manner, as described herein. (See "THE BONDS - Redemption".)
	During the Initial Rate Period the Bonds are not subject to optional redemption.
SECURITY FOR THE BONDS	The Bonds constitute direct obligations of the District payable from an annual ad valorem tax levied against all taxable property located therein, without legal limitation as to rate or amount.
TAX MATTERS	In the opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations. See "TAX MATTERS" and "APPENDIX D - Form of Opinion of Bond Counsel."
PERMANENT SCHOOL FUND GUARANTEE	The District has received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.
ADDITIONAL OBLIGATIONS ISSUED CONCURRENTLY AND IN CLOSE PROXIMITY TO THE BONDS	Concurrently with the sale of the Bonds, the District sold its \$82,750,000 "Alamo Heights Independent School District Unlimited Tax School Building Bonds, Series 2018A" (the "Series 2018A Bonds") for purposes authorized and approved by voters at the Election. The Bonds and the Series 2018A Bonds are separate and distinct securities offerings being issued and sold independently and, while the Bonds and the Series 2018A Bonds share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently including, without limitation, the type of obligation being offered, its terms for payment, the security for its payment, credit enhancement, the treatment of interest for federal income tax purposes, and the rights of the holders. Investors interested in purchasing any of the Series 2018A Bonds should review the offering document relating thereto. In addition, the District authorized its \$1,670,000 (preliminary, subject to change) "Alamo Heights Independent School District Unlimited Tax Refunding Bonds, Series 2018C" (the "Series 2018C Bonds") which will be issued and sold independently via private placement. The financial results of the issuance of the Series 2018C Bonds and the refunding of the District obligations with the proceeds thereof are not reflected in this Offering Memorandum, including APPENDIX A hereof.
MUNICIPAL BOND RATING	Moody's Investors Service, Inc. ("Moody's") has assigned its municipal bond rating of "Aaa" to the Bonds on the basis of the payment of the Bonds being guaranteed by the State of Texas Permanent School Fund. Moody's generally rates unlimited tax bonds guaranteed by the Permanent School Fund "Aaa." In addition, Moody's has assigned its underlying unenhanced rating of "Aa1" to the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "OTHER PERTINENT INFORMATION - Municipal Bond Rating" herein.

PAYING AGENT/REGISTRAR AND TENDER AGENT	The initial Paying Agent/Registrar and Tender Agent for the Bonds is ZB, National Association, dba Amegy Bank, Houston, Texas.
PAYMENT RECORD	The District has never defaulted on the payment of its bonded indebtedness.
DELIVERY	When issued, anticipated to occur on or about June 5, 2018.
LEGALITY	The Bonds are subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. See "APPENDIX D - Form of Opinion of Bond Counsel" herein.

(The remainder of this page has been left blank intentionally)

OFFERING MEMORANDUM

relating to

\$12,000,000

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Bexar County, Texas)
VARIABLE RATE UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018B

INTRODUCTION

This Offering Memorandum of Alamo Heights Independent School District (the "District") is provided to furnish certain information in connection with the sale of the District's \$12,000,000 Variable Rate Unlimited Tax School Building Bonds, Series 2018B (the "Bonds" or the "Series 2018B Bonds").

This Offering Memorandum, which includes the cover page and the appendices hereto, provides certain information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request from the District and, during the offering period, from the District's Financial Advisor, SAMCO Capital Markets, Inc., 1020 N.E. Loop 410, Suite 640, San Antonio, Texas 78209, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

This Offering Memorandum speaks only as to its date, and the information contained herein is subject to change. A copy of the Offering Memorandum pertaining to the Bonds will be filed by the Underwriters with the Municipal Securities Rulemaking Board through its Electronic Municipal Markets Access ("EMMA") system. See "CONTINUING DISCLOSURE" herein for a description of the District's undertaking to provide certain information on a continuing basis. Capitalized terms used, but not defined herein, shall have the meanings ascribed thereto in the Order (defined below).

Concurrently with the sale of the Bonds, the District sold its \$82,750,000 "Alamo Heights Independent School District Unlimited Tax School Building Bonds, Series 2018A" (the "Series 2018A Bonds") for purposes authorized and approved by voters at the Election. The Bonds and the Series 2018A Bonds are separate and distinct securities offerings being issued and sold independently and, while the Bonds and the Series 2018A Bonds share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently including, without limitation, the type of obligation being offered, its terms for payment, the security for its payment, credit enhancement, the treatment of interest for federal income tax purposes, and the rights of the holders. Investors interested in purchasing any of the Series 2018A Bonds should review the offering document relating thereto. In addition, the District authorized its \$1,670,000 (preliminary, subject to change) "Alamo Heights Independent School District Unlimited Tax Refunding Bonds, Series 2018C" (the "Series 2018C Bonds"), which will be issued and sold independently via private placement. The financial results of the Series 2018C Bonds and the refunding of the District obligations with the proceeds thereof are not reflected in this Offering Memorandum, including APPENDIX A hereof.

THE BONDS

Authority for Issuance

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Sections 45.001 and 45.003(b)(1), as amended, Texas Education Code, Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), an election held in the District on May 6, 2017 (the "Election"), and an order authorizing the issuance of the Bonds (the "Order") adopted by the Board of Trustees (the "Board") of the District on April 19, 2018. As permitted by the provisions of Chapter 1371, the Board, in the Order, delegated the authority to certain District officials (each an "Authorized Official") to execute an approval certificate (the "Approval Certificate") establishing the final pricing terms for the Bonds. The Approval Certificate was executed by an Authorized Official on May 10, 2018.

Security for Payment

The Bonds constitute direct obligations of the District payable from an annual ad valorem tax levied against all taxable property located therein, without any legal limitation as to rate or amount.

Use of Proceeds

The Bonds constitute the third installment (with the Series 2018A Bonds constituting the second such installment) of a total amount of \$135,000,000 authorized at the election held on May 6, 2017. After the issuance of the Bonds and the Series 2018A Bonds, the District will have \$20,000,000 remaining voter-authorized but unissued unlimited ad valorem tax-supported bonds. See "VALUATION AND DEBT DATA - Authorized but Unissued General Obligation Bonds" attached hereto as APPENDIX A.

A summary of the bonds authorized at said election is as follows:

Purpose	Amount Authorized	Amount Previously Issued	Amount Series 2018A Bonds and Series 2018B Bonds	Amount Remaining
Designing, constructing, renovating, improving, acquiring, and equipping school facilities (and any necessary or related removal of existing facilities), the purchase of the necessary sites for school facilities, and the purchase of new school buses	\$135,000,000	\$15,000,000	\$100,000,000*	\$20,000,000*

* Includes the Bonds and the Series 2018A Bonds (along with a net premium allocation applicable thereto).

General Description

Initial Issuance in Initial Rate Period. The Bonds are multi-modal variable rate bonds (convertible upon mandatory tender and remarketing into a Term Rate interest mode of different duration or a Fixed Rate interest mode), initially issued in a Term Mode effective upon initial delivery of the Bonds (anticipated to occur on or about June 5, 2018) and continuing through January 31, 2021 (such period referred to herein and in the Order as the "Initial Rate Period"). Upon expiration of the Initial Rate Period, the Bonds will be remarketed into a successive Term Mode interest period of the like duration, unless changed as described herein.

THE BONDS ARE SUBJECT TO CONVERSION AND REMARKETING INTO A SUBSEQUENT TERM RATE OR FIXED RATE INTEREST PERIOD AT THE TIMES AND UPON THE CONDITIONS DESCRIBED IN THE ORDER FOLLOWING A MANDATORY TENDER FOR PURCHASE OF SUCH BONDS. THIS OFFERING MEMORANDUM DESCRIBES THE BONDS ONLY IN THE INITIAL RATE PERIOD AND IS, THEREFORE, NOT INTENDED TO PROVIDE INFORMATION WITH RESPECT TO THE BONDS AFTER CONVERSION TO ANY NEW INTEREST RATE MODE OR INTEREST RATE PERIOD (INCLUDING ANY SUBSEQUENT TERM RATE PERIOD). PURCHASERS OF THE BONDS SHOULD NOT RELY ON THIS OFFERING MEMORANDUM FOR INFORMATION CONCERNING ANY INTEREST RATE MODE OR INTEREST RATE PERIOD FOR THE BONDS OTHER THAN IN THE INITIAL RATE PERIOD.

Authorized Denominations. During the Initial Rate Period, the Bonds are issued in denominations of \$5,000.

Calculation of Interest; Interest Payment Dates. Interest on the Bonds is calculated on the basis of a 360-day year of twelve 30- day months. Interest accruing on the Bonds during the Initial Rate Period will be paid on each February 1 and August 1 commencing August 1, 2018.

Interest Payment Methods. While the Bonds bear interest at the Initial Rate, interest will be paid by check, sent by first class mail, to the owner of record on the Record Date or by such other customary banking arrangement acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the owner.

Book-Entry System of Registration and Payment. The Bonds will be issued as Book-Entry-Only securities through The Depository Trust Company ("DTC"). Use of the DTC Book-Entry-Only System will effect the timing and receipt of payment of interest on and principal of the Bonds. See "THE BONDS – Book-Entry-Only System."

Paying Agent/Registrar. The initial Paying Agent/Registrar is ZB, National Association, dba Amegy Bank, Houston, Texas. In the Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Tender Agent. ZB, National Association, dba Amegy Bank, Houston, Texas, will serve as the initial tender agent (the "Tender Agent"), for the Bonds. All notices and Bonds required to be delivered to the Tender Agent shall be delivered to ZB, National Association, dba Amegy Bank, Houston, Texas, Attn: Ms. Arla Scott, 1801 Main Street, 8th Floor, Houston, Texas 77002. In the event that the Book-Entry-Only System herein is discontinued and registered bonds are issued, all notices and Bonds are required to be delivered to 1801 Main Street, 8th Floor, Houston, Texas 77002.

Remarketing Agent and Remarketing Agreement. In the Order, the District has covenanted to identify and enter into a contract with a qualified financial institution to serve as remarketing agent for the Bonds (the "Remarketing Agent") prior to the commencement of the remarketing of the Bonds into a new interest rate period prior to expiration of the Initial Rate Period, and to retain such Remarketing Agent for so long, as required by the provisions of the Order. The District anticipates identifying the initial Remarketing Agent for the Bonds at or about the time the Board, prior to the expiration of the Initial Rate Period, adopts the order authorizing the remarketing of the Bonds from the Initial Rate Period into a subsequent interest rate period. The offering memorandum prepared by the District in conjunction with such remarketing of the Bonds will describe the terms of the agreement between the District and the Remarketing Agent, serving the District in such capacity.

Legality. The Bonds are offered when, as and if issued, and subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. (See "LEGAL MATTERS" and "APPENDIX D - Form of Opinion of Bond Counsel").

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

Interest Rate Modes

The Bonds may be remarketed into a new Term Rate interest period or converted and remarketed into a new Term Rate interest period of different duration or to a Fixed Rate interest period. While the Bonds bear interest at a Term Rate, the interest rate will be determined in effect for a term of one year or any integral multiple of one year selected by the District commencing on the first calendar day of the Term Rate Period.

The interest rate mode selected by the District will remain in effect until changed by the District by notice to the Paying Agent/Registrar, the Tender Agent and the Remarketing Agent, in accordance with the Order. Notice of changes in interest rate modes will be given as described below. See "Determination of Interest Rates; Rate Mode Changes".

Determination of Interest Rates; Rate Mode Changes

Initial Rate. The Bonds will bear interest at the Initial Rate for an Initial Rate Period, beginning on the date of initial authentication and delivery (anticipated to occur on or about June 5, 2018) and ending on January 31, 2021 (the "Initial Rate Period"). The Interest Payment Dates during the Initial Rate Period will be on February 1 and August 1, commencing on August 1, 2018. Following the Initial Rate Period, the Bonds will bear interest at the rate or rates, as determined by the Remarketing Agent, dependent upon the interest rate mode in which the Bonds are remarketed and which mode may thereafter be changed from time to time, prior to conversion to a Fixed Rate, in the manner described below.

Rate Mode Changes after Initial Rate. While the Bonds bear interest at the Initial Rate or a Term Rate, the Paying Agent/Registrar is required to give notice to the owners of all Bonds of the conversion from one interest rate mode to another at least 30 days prior to the Conversion Date. Each notice of a change between interest rate modes will be sent by first class mail to each owner's address as it appears in the registration books of the Paying Agent/Registrar and will state: (a) the effective date and the type of interest rate mode to which the change will be made; (b) the dates by which the Remarketing Agent will determine the Term Rate and the dates by which the owners will be notified thereof; (c) if the Bonds will be subject to optional or mandatory tender on the effective date of the change in the interest rate mode, the procedure for such tender, including the date and time that any notices must be received; and (d) the procedure (including form of notice) to be followed if the owner desires to retain his Bonds and such option to retain has been granted by the District.

Any conversion (a) from a Term Rate Period of one duration to a Term Rate period of a different duration; or (b) to a Fixed Rate will be conditioned on delivery of an opinion of nationally recognized bond counsel to the effect that the conversion will not adversely affect the excludability of interest on the Bonds from gross income of the owners thereof for federal income tax purposes if such conversion results in a reissuance of the remarketed Bonds under applicable federal tax law. The opinion of Bond Counsel expresses no opinion as to the effect on excludability from gross income for federal income tax purposes of any action taken which requires the receipt of an opinion of a nationally recognized bond counsel. No opinion of Bond Counsel is required for a conversion of the interest rate mode applicable to the Bonds from the Initial Rate mode to a Term Rate mode.

Conversion of interest rate modes must take place only on an interest payment date for the interest rate mode then in effect. While in a Term Rate mode, Bonds may be converted to a different interest rate mode only at the expiration of a Term Rate period.

Any owner of Bonds who may be unable to take timely action on any notice should consider whether to make arrangements for another person to act in his or her stead.

Determination of Interest Rates. During each Rate Period after the Initial Rate Period, the rate of interest on the Bonds will be the rate that the Remarketing Agent determines, in conjunction with the District and under prevailing market conditions on the date of such determination, would result in the market value of the Bonds being not less than 100% of the principal amount thereof. The date of such determination is defined herein as the "Rate Determination Date".

The determination by the Remarketing Agent of the rate or rates of interest to be borne by the Bonds will be conclusive and binding on the holders of the Bonds, the District, the Paying Agent/Registrar and the Tender Agent. Failure by the Paying

Agent/Registrar to give notice to the Bondholders, or any defect therein, will not affect the interest rate borne by the Bonds or the rights of the owners thereof. In the event that the Remarketing Agent fails to determine the new interest rate or rates for any reason, the then-effective Term Rate will continue to be such rate or rates in effect for any subsequent Interest Rate Period. In no event will the interest rate borne by the Bonds exceed the "Highest Rate", which (as provided in the Order) is the lesser of 7.00% and the maximum net effective interest rate permitted under Chapter 1204, Texas Government Code, as amended.

Notice of Rates. owners will be notified by the Paying Agent/Registrar first-class mail of the Term Rate applicable to the Bonds promptly after the applicable Rate Determination Date.

Tender Provisions

No Optional Tender. The Bonds are not subject to optional tender.

Mandatory Tender. The Bonds are required to be tendered for purchase to the Tender Agent, without the right of retention, at the end of the Initial Rate Period on February 1, 2021.

Payment of the Purchase Price (defined in the Order to mean, with respect to each Bond (or any portion thereof) tendered for purchase, the par amount thereof, plus accrued but unpaid interest thereon to the date of purchase) of Bonds to be purchased upon mandatory tender as described herein will be made by the Tender Agent at its Corporate Trust Office or by wire transfer in immediately available funds.

If the Bonds are not converted and remarketed to new purchasers on the scheduled date of mandatory tender, the District shall have no obligation to purchase the Bonds tendered on such date, the failed conversion and remarketing shall not constitute an event of default under the Order or the Bonds, the mandatory tender will be deemed to have been rescinded for that date with respect to the Bonds subject to such failed remarketing only, and such Bonds (i) will continue to be Outstanding, (ii) will be purchased upon the availability of funds to be received from the subsequent remarketing of such Bonds, (iii) will bear interest at the Stepped Rate during the Stepped Rate Period, (iv) will be subject to redemption and mandatory tender for purchase on any date during the Stepped Rate Period upon which a conversion occurs (which shall occur at the District's discretion upon delivery of at least one day's notice to the holders of Bonds bearing interest at the Stepped Rate), and (v) will be deemed to continue in the then-applicable Initial Rate Period or Term Rate period for all other purposes of the Order, though bearing interest during such time at the Stepped Rate until remarketed or redeemed in accordance with the terms of the Order. In the event of a failed conversion and remarketing as described above, the District has covenanted in the Order to cause the Bonds to be converted and remarketed on the earliest reasonably practicable date on which they can be sold at par, in such interest rate mode or modes as the District directs, at a rate not exceeding the Highest Rate. The Order provides that the Stepped Rate means a rate per annum equal to 7.00%, calculated on the basis of twelve 30 day months and the number of days actually elapsed.

Interest on any Bond that the owner has not elected to continue to own after a mandatory purchase date and that is not tendered on the mandatory purchase date, but for which there has been irrevocably deposited with the Tender Agent an amount sufficient to pay the Purchase Price thereof, will cease to accrue on the mandatory Purchase Date. Thereafter, the owner of such Bond will not be entitled to any payment other than the Purchase Price for such Bond from money held by the Tender Agent for such payment, and such Bond will not otherwise be outstanding or entitled to the benefits of the Order. On the mandatory Purchase Date, the Tender Agent will authenticate and deliver substitute Bonds in lieu of such untendered Bonds.

Remarketing and Purchase. The Remarketing Agent is required, at a minimum, to use its best efforts to sell such Bonds at a price equal to not less than 100% of the principal amount thereof plus accrued interest, if any, on the forthcoming optional or mandatory purchase date or as quickly as possible thereafter.

The Purchase Price of Bonds tendered for purchase is required to be paid by the Tender Agent from money derived from the remarketing of such Bonds by the Remarketing Agent. If sufficient funds are not available for the purchase of all tendered Bonds, no purchase will be consummated.

Conversion to Fixed Rate

The Order provides that at the option of the District the Bonds bearing interest at the Initial Rate or a Term Rate may be converted in whole or in part to a Fixed Rate or Rates on the first Interest Payment Date that occurs after conclusion of such interest period during which the Bonds bear interest at the Initial Rate or Term Rate. In the event of a partial conversion, the Paying Agent/Registrar shall select by lot or other customary random method the Bonds to be converted to a Fixed Rate. Solely and exclusively with respect to the Remarketing Agent's setting of Fixed Rates on the Bonds to be converted on the Fixed Rate Conversion Date, the Remarketing Agent shall determine the rates for such converted Bonds that will cause such Bonds to have a market value, net of costs of issuance and remarketing fees, at least equal to the principal amount of Bonds. In addition, the District may reserve the right, exercisable at its sole option, to seek competitive bids on the Fixed Rate Conversion Date.

To exercise its option, the District must deliver to the Paying Agent/ Registrar, the Remarketing Agent (if any), and the Tender Agent written notice at least 45 calendar days prior to the interest payment date on which the Fixed Rate mode is to become

effective (the "Fixed Rate Conversion Date"). The Bonds converted to a Fixed Rate on a Fixed Rate Conversion Date shall mature, be subject to redemption and have the same terms and features (other than the right of owners to tender their Bonds for purchase) as set forth in the Order with respect to Bonds bearing interest at an Initial Rate or a Term Rate. Notwithstanding the previous sentence, in connection with a conversion to a Fixed Rate, the District may elect, at its sole option, to provide for serial maturities, revised redemption provisions and other terms applicable to the pricing of the Bonds on and after the Fixed Rate Conversion Date. If the District so elects, the serial maturities for the Bonds converted to a Fixed Rate shall be determined on the basis of providing similar relative principal payments on such Bonds (after giving pro rata effect for any prior sinking fund redemptions of the Bonds, if any, not then converted) in order to effectuate a pro rata allocation of the mandatory redemption schedule as set forth in "THE BONDS - Mandatory Redemption" below between the Bonds to be converted to a Fixed Rate and the Bonds remaining in a Term Rate. In addition, the District must deliver to the Paying Agent/Registrar prior to the Fixed Rate Mode Conversion Date an opinion of nationally recognized bond counsel to the effect that the conversion to the Fixed Rate Mode is authorized under the provisions of the Order and will not adversely affect the exclusion of interest on the Bonds from gross income of the owners thereof for federal income tax purposes.

The Paying Agent/Registrar is required to give notice by mail to all owners of the conversion to a Fixed Rate Mode not less than 30 calendar days prior to the Fixed Rate Conversion Date. Such notice is required to (a) specify the Fixed Rate Conversion Date and the dates by which the District will determine and the Paying Agent/Registrar will notify the owners of the Fixed Rate Bonds; (b) state that the Bonds will be subject to mandatory tender for purchase on the Fixed Rate Conversion Date without the right of the owners to retain their Bonds, and (c) specify the redemption provisions and other terms applicable to the Bonds after the Fixed Rate Conversion Date.

In advance of the Fixed Rate Conversion Date in accordance with the Order, the Remarketing Agent will, in consultation with and subject to the approval of the District, determine the Fixed Rate or Rates and give notice thereof to the Paying Agent/Registrar. The Paying Agent/Registrar will then give notice of such Fixed Rate or Rates by first class mail to the Tender Agent and the owners of the Bonds.

After the Fixed Rate Conversion Date, the owners of converted Bonds will have no right to tender their Bonds for purchase.

Redemption

Optional Redemption. The Bonds are not subject to optional redemption during the Initial Rate Period, but are subject to redemption, at the District's option, on the first Interest Payment Date immediately succeeding the conclusion of the Initial Rate Period.

The Paying Agent/Registrar is required to cause notice of any redemption of Bonds to be mailed to each owner of Bonds to be redeemed at the respective addresses appearing in the registration books for the Bonds. Notice of redemption is required to be mailed at least 30 days prior to the redemption date when Bonds bear interest at the Initial Rate or a Term Rate; (ii) identify the Bonds to be redeemed; (iii) specify the redemption date and the redemption price; and (iv) state that (a) on the redemption date the Bonds called for redemption will be payable at the corporate trust office of the Paying Agent/Registrar and (b) from the redemption date interest will cease to accrue. If notice of redemption is given as described above and if due provision for the payment of the redemption price is made, then the Bonds that are to be redeemed thereby will automatically be deemed to have been redeemed prior to their scheduled maturities and will not bear interest after the redemption date, nor will they be regarded as being outstanding except for the right of the owner thereof to receive the redemption price from the Paying Agent/Registrar.

Scheduled Mandatory Redemption. The Bonds are subject to mandatory redemption prior to stated maturity as follows:

Mandatory Redemption	
Date	Amount
February 1, 2021	\$1,050,000
February 1, 2022	1,850,000
February 1, 2023	2,075,000
February 1, 2024	2,500,000
February 1, 2025	3,025,000
February 1, 2026	500,000
February 1, 2027	500,000
February 1, 2028	500,000

The principal amount of Bonds required to be redeemed pursuant to the operation of such mandatory redemption provisions shall be reduced, at the option of the District, by the principal amount of any Bonds which, at least 50 days prior to the mandatory redemption date (1) shall have been defeased or acquired by the District and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District with money in the Bond Fund, or (3) shall have been redeemed pursuant to the optional redemption provisions set forth above and not theretofor credited against a mandatory redemption requirement.

Special Mandatory Redemption. While the Bonds are Outstanding and accruing interest at the Initial Rate or a Term Rate which includes a period longer than the period for which taxes are then being assessed, the District may, at its discretion and

in accordance with and as permitted by the Order, budget for such fiscal year and levy taxes for the payment of interest on the Bonds based on an interest rate on the Bonds equal to the actual rate borne thereby or up to the Highest Rate per annum. At the end of the fiscal year in which the District levies a tax based on the interest rate on the Bonds being equal to a rate of interest other than the actual rate borne by the Bonds up to the Highest Rate, the District shall determine whether the interest paid on the Bonds in such fiscal year is less than the amount of revenue collected. If in such circumstance the amount of interest paid on the Bonds is less than the amount collected, the District shall cause the difference between the amount budgeted at the assumed interest rate and the amount paid on the Bonds ("Excess Interest Funds") to be allocated and appropriated for the payment of the mandatory redemption of Bonds on the first February 1 next following the end of such fiscal year; provided the amount of such Excess Interest Funds is equal to or greater than \$100,000. In each fiscal year when the amount of Excess Interest Funds is equal to or greater than \$100,000, the District shall cause Bonds in a principal amount equivalent to the Excess Interest Funds to be redeemed on the February 1 next following the end of such fiscal year at the redemption price of par plus accrued interest to the date of redemption. The mandatory redemption of Bonds in accordance with the provisions of this paragraph shall be in addition to the amount of Bonds to be mandatorily redeemed as set forth in the schedule above in the years shown.

On or before December 15 of each year preceding each mandatory redemption date the Bonds are to be mandatorily redeemed, the District will notify the Paying Agent/Registrar in writing of the principal amount of Bonds to be mandatorily redeemed with Excess Interest Funds on the following February 1, and instruct the Paying Agent/Registrar to select by lot or other customary random selection method the Bonds or portions thereof to be redeemed.

Notice of Redemption. As discussed under "THE BONDS - Redemption- Optional Redemption", all notices of redemption shall (i) specify the date of redemption for the Bonds, (ii) identify the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state the Bonds, or the portion of the principal amount thereof, to be redeemed, shall become due and payable on the redemption date specified, and the interest thereof, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify the payment of the redemption price for the Bonds, or the principal amount thereof to be redeemed, shall be made at the designated corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the registered owner. If a Bond is subject by its terms to redemption and has been called for redemption and notice of redemption thereof has been duly given or waived, as provided in the Order, such Bonds (or the principal amount thereof to be redeemed) so called for redemption shall become due and payable, and on the redemption date designated in such notice, interest on such Bonds (or the principal amount thereof to be redeemed) called for redemption shall cease to accrue and such Bonds shall not be deemed to be outstanding.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

DTC Redemption Provision. The Paying Agent/Registrar, so long as a book-entry system is used for the Bonds, will send any notice of redemption, or other notices with respect to the Bonds only to DTC (or any successor securities depository for the Bonds). Any failure by DTC to advise any Direct Participant (defined herein), or of any Direct Participant or Indirect Participant (defined herein) to notify the Beneficial Owner (defined herein), will not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of Direct Participants in accordance with its rules or other agreements with Direct Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds from the Beneficial Owners. Any such selection of Bonds to be redeemed will not be governed by the Order and will not be conducted by the District or Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to Direct Participants, Indirect Participants, or the persons for whom Direct Participants act as nominees, with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or Beneficial Owners of the selection of portions of the Bonds for redemption. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Security

The Bonds are direct obligations of the District and are payable as to principal and interest from a direct and continuing ad valorem tax levied annually on all taxable property within the District, without legal limitation as to rate or amount, as provided in the Order. See "TAX RATE LIMITATIONS". Additionally, the District has made application and has received conditional approval for the payment of the scheduled principal of and interest on the Bonds to be guaranteed by the corpus of the Permanent School Fund of State of Texas; provided, however, the Permanent School Fund Guarantee is not effective with respect to the payment of the Purchase Price for mandatorily tendered Bonds. (See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Permanent School Fund Guarantee

In connection with the sale of the Bonds, the District has submitted an application to the Texas Education Agency and has received conditional approval from the Commissioner of Education for the payment on the Bonds to be guaranteed under the

Permanent School Fund Guarantee Program (Chapter 45, Subchapter C of the Texas Education Code). Subject to satisfying certain conditions discussed under the heading "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein, the Bonds will be absolutely and unconditionally guaranteed by the corpus of the Permanent School Fund of the State of Texas.

Defeasance

Any Bond will be deemed paid and shall no longer be considered to be outstanding within the meaning of the Order when payment of the principal of and interest on such Bond to its stated maturity or redemption date will have been made or will have been provided by depositing with the Paying Agent/Registrar or an authorized escrow agent, (1) cash in an amount sufficient to make such payment, (2) Government Obligations (defined below) of such maturities and interest payment dates and bearing such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make such payment, or (3) a combination of cash and Government Obligations. The foregoing deposits shall be certified as to sufficiency by an independent accounting firm, the District's Financial Advisor, the Paying Agent/Registrar, or such other qualified financial institution (as provided in the Order).

The Order provides that "Government Obligations" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the District adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, or (d) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. District officials may restrict such eligible securities as deemed appropriate. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Bonds, or those for any other Government Obligations, will be maintained at any particular rating category. Further, there is no assurance that current Texas law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the District has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Order does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the District to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under Texas law as permissible defeasance securities.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, the District has the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption at an earlier date those Bonds which have been defeased to their maturity date, if the District (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption, (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements, (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Defeasance will automatically cancel the Permanent School Fund Guarantee with respect to those defeased Bonds.

Amendments

The District may amend the Order without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Order; except that, without the consent of all of the registered owners of the Bonds then outstanding, no such amendment, addition, or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Bond is due and payable, reduce the principal amount, the redemption price therefor, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the percentage of the aggregate principal amount of Bonds required to be held for consent to any amendment, addition, waiver, or rescission.

Default and Remedies

If the District defaults in the payment of principal, interest or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, the registered owners may seek a writ of mandamus to compel District officials to carry out their

legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Order and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the registered owners upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and, accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), which pertains to the issuance of public securities by issuers such as the District, permits the District to waive sovereign immunity in the proceedings authorizing the issuance of the Bonds. Notwithstanding its reliance upon the provisions of Chapter 1371 in connection with the issuance of the Bonds (as further described under the caption "THE BONDS - Authority for Issuance"), the District has not waived the defense of sovereign immunity with respect thereto. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages beyond Chapter 1371, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the United States Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due). The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity which permit the exercise of judicial discretion.

SOURCES AND USES OF FUNDS

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

Sources of Funds:

Par Amount of Bonds	\$12,000,000
Original Issue Reoffering Premium on the Bonds	<u>258,480</u>
Total Sources	\$12,258,480

Uses of Funds:

Deposit to Construction Fund	\$12,000,000
Underwriters' Discount	45,000
Costs of Issuance	156,000
Deposit to Bond Fund (including capitalized interest and contingency)	<u>57,480</u>
Total Uses	\$12,258,480

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is ZB, National Association, dba Amegy Bank, Houston, Texas. The Bonds will be issued in fully registered form in multiples of \$5,000 or integral multiple thereof for any one stated maturity, and principal and interest will be paid by the Paying Agent/Registrar. If the date for the payment of the principal of or interest on, or redemption price of, the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

Successor Paying Agent/Registrar

The District covenants that until the Bonds are paid it will at all times maintain and provide a paying agent/registrar. In the Order, the District retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar must accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District must be a

bank, trust company, financial institution or other entity duly qualified and legally authorized to serve and perform the duties of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District will promptly cause a notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall give the address of the new Paying Agent/Registrar.

Record Date

The record date ("Record Date") for determining the registered owner entitled to receive a payment of interest on a Bond is the fifteenth day of the month next preceding each interest payment date.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a Bond appearing on the Bond Register at the close of business on the last business day next preceding the date of mailing of such notice.

Registration, Transferability and Exchange

In the event the Book-Entry-Only System shall be discontinued, printed certificates will be issued to the registered owners of the Bonds and thereafter the Bonds may be transferred, registered, and assigned on the Bond Register only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds being transferred or exchanged at the designated office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. New Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in authorized denominations and for a like kind and aggregate principal amount and having the same maturity or maturities as the Bond or Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Limitation on Transfer of Bonds

Neither the District nor the Paying Agent/Registrar are required (1) to make any transfer or exchange during a period beginning at the opening of business 45 days before the day of the first mailing of a notice of redemption of Bonds and ending at the close of business on the day of such mailing, or (2) to transfer or exchange any Bonds so selected for redemption when such redemption is scheduled to occur within 45 calendar days; provided however, that such limitation of transfer is not applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Replacement Bonds

In the event the Book-Entry-Only System has been discontinued, and any Bond is mutilated, destroyed, stolen or lost, a new Bond of like kind and in the same maturity and amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and in substitution for a Bond which has been destroyed, stolen, or lost, such new Bond will be delivered only (a) upon filing with the District and the Paying Agent/Registrar evidence satisfactory to establish to the District and the Paying Agent/Registrar that such Bond has been destroyed, stolen or lost and proof of the ownership thereof, and (b) upon furnishing the District and the Paying Agent/Registrar with bond or indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond must comply with such other reasonable regulations as the Paying Agent/Registrar may prescribe and pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

BOOK-ENTRY-ONLY SYSTEM

The following describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC (defined below) while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Offering Memorandum. The District, the Financial Advisor and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The District cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption, or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption, or other notices, to the Beneficial Owners, or

that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Offering Memorandum. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry-only system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC [nor its nominee], the

Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but none of the District, the Financial Advisor, or the Underwriters takes any responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of This Offering Memorandum

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

Effect of Termination of Book-Entry-Only System

In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the District, printed physical Bond certificates will be issued to the respective holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under the caption "REGISTRATION, TRANSFER AND EXCHANGE" above.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

History and Purpose

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

“Attorney General”). As of August 31, 2017, the General Land Office (the “GLO”) managed approximately 21% of the PSF, as reflected in the fund balance of the PSF at that date.

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

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

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

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

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

The sole purpose of the PSF is to assist in the funding of public education for present and future generations. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividends produced by Fund investments flowed into the Available School Fund (the “ASF”), where they are distributed to local school districts and open-enrollment charter schools based on average daily attendance. Any net gains from investments of the Fund accrue to the corpus of the PSF. Prior to the approval by the voters of the State of the Total Return Constitutional Amendment, costs of administering the PSF were allocated to the ASF. With the approval of the Total Return Constitutional Amendment, the administrative costs of the Fund have shifted from the ASF to the PSF. In fiscal year 2017 distributions to the ASF amounted to an estimated \$212.49 per student and the total amount distributed to the ASF was \$1,056.4 million.

Audited financial information for the PSF is provided annually through the PSF Comprehensive Annual Financial Report (the “Annual Report”), which is filed with the Municipal Securities Rulemaking Board (“MSRB”). The Annual Report includes the Message of the Executive Administrator of the Fund (the “Message”) and the Management’s Discussion and Analysis (“MD&A”). The Annual Report for the year ended August 31, 2017, when filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 (“Rule 15c2-12”) of the federal Securities and Exchange Commission (the “SEC”), as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended August 31, 2017 is derived from the audited financial statements of the PSF, which are included in the Annual Report when it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2017 and for a description of the financial results of the PSF for the year ended August 31, 2017, the most recent year for which audited financial information regarding the Fund is available. The 2017 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2017 Annual Report or any other Annual Report. The TEA posts each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, the most recent disclosure for the Guarantee Program, the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (the “Investment Policy”), monthly updates with respect to the capacity of the Guarantee Program (collectively, the “Web Site Materials”) on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/ and with the MSRB at www.emma.msrb.org. Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund’s holdings of securities specified in Section 13(f), including exchange-traded (e.g., NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at www.sec.gov/edgar.shtml. A list of the Fund’s equity and fixed income holdings as of August 31 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund’s securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes.

The Total Return Constitutional Amendment

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

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

See "2011 Constitutional Amendment" below for a discussion of the historic and current Distribution Rates, and a description of amendments made to the Texas Constitution on November 8, 2011 that may affect Distribution Rate decisions.

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

With respect to the management of the Fund's financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE generally reviews the asset allocations during its summer meeting in even numbered years. The first asset allocation policy adopted by the SBOE following the Total Return Constitutional Amendment was in February 2004, and the policy was reviewed and modified or reaffirmed in the summers of 2006, 2008, 2010, 2012, 2014 and 2016. The Fund's investment policy provides for minimum and maximum ranges among the components of each of the asset classifications: equities, fixed income and alternative asset investments. The 2004 asset allocation policy decreased the fixed income target from 45% to 25% of Fund investment assets and increased the allocation for equities from 55% to 75% of investment assets. Subsequent asset allocation policies have continued to diversify Fund assets, and have added an alternative asset allocation to the fixed income and equity allocations. The alternative asset allocation category includes real estate, real return, absolute return and private equity components. Alternative asset classes diversify the SBOE-managed assets and are not as correlated to traditional asset classes, which is intended to increase investment returns over the long run while reducing risk and return volatility of the portfolio. The most recent asset allocation, from 2016, is as follows: (i) an equity allocation of 35% (consisting of U.S. large cap equities targeted at 13%, emerging and international equities at 17% and U.S. small/mid cap equities at 5%), (ii) a fixed income allocation of 19% (consisting of a 12% allocation for core bonds and a 7% allocation for emerging market debt in local currency) and (iii) an alternative asset allocation of 46% (consisting of a private equity allocation of 13%, a real estate allocation of 10%, an absolute return allocation of 10%, a risk parity allocation of 7% and a real return allocation of 6%). The 2016 asset allocation decreased U.S. large cap equities and international equities by 3% and 2%, respectively, and increased the allocations for private equity and real estate by 3% and 2%, respectively.

For a variety of reasons, each change in asset allocation for the Fund, including the 2016 modifications, have been implemented in phases, and that approach is likely to be carried forward when and if the asset allocation policy is again modified. At August 31, 2017, the Fund's financial assets portfolio was invested as follows: 43.16% in public market equity investments; 12.86% in fixed income investments; 9.99% in absolute return assets; 7.02% in private equity assets; 7.40% in real estate assets; 6.83% in risk parity assets; 5.44% in real return assets; 6.99% in emerging market debt; and 0.31% in unallocated cash.

Following on previous decisions to create strategic relationships with investment managers in certain asset classes, in September 2015 and January 2016, the SBOE approved the implementation of direct investment programs in private equity and absolute return assets, respectively, which has continued to reduce administrative costs with respect to those portfolios. The Attorney General has advised the SBOE in Op. Tex. Att'y Gen. No. GA-0998 (2013) ("GA-0998"), that the PSF is not subject to requirements of certain State competitive bidding laws with respect to the selection of investments. In GA-0998, the Attorney General also advised that the SBOE generally must use competitive bidding for the selection of investment managers and other third party providers of investment services, such as record keeping and insurance, but excluding certain professional services, such as accounting services, as State law prohibits the use of competitive bidding for specified professional services. GA-0998 provides guidance to the SBOE in connection with the direct management of alternative investments through investment vehicles to be created by the SBOE, in lieu of contracting with external managers for such services, as has been the recent practice of the PSF. The PSF staff and the Fund's investment advisor are tasked with advising the SBOE with respect to the implementation of the Fund's asset allocation policy, including the timing and manner of the selection of any external managers and other consultants.

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

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

Management and Administration of the Fund

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

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

Texas law assigns control of the Fund's land and mineral rights to the three-member SLB, which consists of the elected Commissioner of the GLO, an appointee of the Governor, and an appointee of the Attorney General. Administrative duties related to the land and mineral rights reside with the GLO, which is under the guidance of the Commissioner of the GLO. In 2007, the Legislature established the real estate special fund account of the PSF (the "Real Estate Account") consisting

of proceeds and revenue from land, mineral or royalty interest, real estate investment, or other interest, including revenue received from those sources, that is set apart to the PSF under the Texas Constitution and laws, together with the mineral estate in riverbeds, channels, and the tidelands, including islands. The investment of the Real Estate Account is subject to the sole and exclusive management and control of the SLB and the Land Commissioner, who is also the head of the GLO. The 2007 legislation presented constitutional questions regarding the respective roles of the SBOE and the SLB relating to the disposition of proceeds of real estate transactions to the ASF, among other questions. Amounts in the investment portfolio of the PSF are taken into account by the SBOE for purposes of determining the Distribution Rate. An amendment to the Texas Constitution was approved by State voters on November 8, 2011, which permits the SLB to make transfers directly to the ASF, see “2011 Constitutional Amendment” below.

The SBOE contracts with its securities custodial agent to measure the performance of the total return of the Fund’s financial assets. A consultant is typically retained for the purpose of providing consultation with respect to strategic asset allocation decisions and to assist the SBOE in selecting external fund management advisors. The SBOE also contracts with financial institutions for custodial and securities lending services. Like other State agencies and instrumentalities that manage large investment portfolios, the PSF has implemented an incentive compensation plan that may provide additional compensation for investment personnel, depending upon the criteria relating to the investment performance of the Fund.

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

Capacity Limits for the Guarantee Program

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

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

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

On July 18, 2016, the IRS issued final regulations enacting the IRS Notice (the “Final IRS Regulations”). The Final IRS Regulations are effective for bonds sold on or after October 17, 2016. The IRS Notice, the Proposed IRS Regulations and the Final IRS Regulations establish a static capacity for the Guarantee Program based upon the cost value of Fund assets on December 16, 2009 multiplied by five. On December 16, 2009, the cost value of the Guarantee Program was \$23,463,730,608 (estimated and unaudited), thereby producing an IRS Limit of approximately \$117.3 billion. The State Capacity Limit is determined on the basis of the cost value of the Fund from time to time multiplied by the capacity multiplier determined annually by the SBOE, but not to exceed a multiplier of five. The capacity of the Guarantee Program will be

limited to the lower of the State Capacity Limit or the IRS Limit. On May 21, 2010, the SBOE modified the regulations that govern the School District Bond Guarantee Program (the "SDBGP Rules"), and increased the State Law Capacity to an amount equal to three times the cost value of the PSF. Such modified regulations, including the revised capacity rule, became effective on July 1, 2010. The SDBGP Rules provide that the Commissioner may reduce the multiplier to maintain the AAA credit rating of the Guarantee Program, but provide that any changes to the multiplier made by the Commissioner are to be ratified or rejected by the SBOE at the next meeting following the change. See "Valuation of the PSF and Guaranteed Bonds," below.

At its September 2015 meeting, the SBOE voted to modify the SDBGP Rules and the CDBGP Rules to increase the State Law Capacity from 3 times the cost value multiplier to 3.25 times. At that meeting, the SBOE also approved a new 5% capacity reserve for the Charter District Bond Guarantee Program. The change to the State Law Capacity became effective on February 1, 2016. At its November 2016 meeting, the SBOE again voted to increase the State Law Capacity and, in accordance with applicable requirements for the modification of SDBGP and CDBGP Rules, a second and final vote to approve the increase in the State Law Capacity occurred on February 3, 2017. As a result, the State Law Capacity increased from 3.25 times the cost value multiplier to 3.50 times effective March 1, 2017 and increased again to 3.75 times effective September 1, 2017; however, as described under "2017 Legislative Changes to the Charter District Bond Guarantee Program," the SBOE took action at its Winter 2018 meeting to rollback of a portion of the multiplier increase. The regulatory change effecting the rollback will be effective 20 days after filing as adopted with the *Texas Register*, which is expected to make the change effective in late-March 2018. Based upon the cost basis of the Fund at August 31, 2017, the State Law Capacity increased from \$97,933,360,905 on August 31, 2016 to \$111,568,711,072 on August 31, 2017. Since July 1991, when the SBOE amended the Guarantee Program Rules to broaden the range of bonds that are eligible for guarantee under the Guarantee Program to encompass most Texas school district bonds, the principal amount of bonds guaranteed under the Guarantee Program has increased sharply. In addition, in recent years a number of factors have caused an increase in the amount of bonds issued by school districts in the State. See the table "Permanent School Fund Guaranteed Bonds" below. Effective September 1, 2009, the Act provides that the SBOE may annually establish a percentage of the cost value of the Fund to be reserved from use in guaranteeing bonds. The capacity of the Guarantee Program in excess of any reserved portion is referred to herein as the "Capacity Reserve." The SDBGP Rules provide for a minimum Capacity Reserve for the overall Guarantee Program of no less than 5%, and provide that the amount of the Capacity Reserve may be increased by a majority vote of the SBOE. The CDBGP Rules provide for an additional 5% reserve of CDBGP capacity. The Commissioner is authorized to change the Capacity Reserve, which decision must be ratified or rejected by the SBOE at its next meeting following any change made by the Commissioner. The current Capacity Reserve is noted in the monthly updates with respect to the capacity of the Guarantee Program on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/, which are also filed with the MSRB.

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

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

The School District Bond Guarantee Program

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

In the event of default, holders of guaranteed school district bonds will receive all payments due from the corpus of the PSF. Following a determination that a school district will be or is unable to pay maturing or matured principal or interest on any guaranteed bond, the Act requires the school district to notify the Commissioner not later than the fifth day before the stated maturity date of such bond or interest payment. Immediately following receipt of such notice, the Commissioner must cause to be transferred from the appropriate account in the PSF to the Paying Agent/Registrar an amount necessary to pay the maturing or matured principal and interest. Upon receipt of funds for payment of such principal or interest, the Paying Agent/Registrar must pay the amount due and forward the canceled bond or evidence of payment of the interest to the State Comptroller of Public Accounts (the "Comptroller"). The Commissioner will instruct the Comptroller to withhold the amount paid, plus interest, from the first State money payable to the school district. The amount withheld pursuant to this funding "intercept" feature will be deposited to the credit of the PSF. The Comptroller must hold such canceled bond or evidence of payment of the interest on behalf of the PSF. Following full reimbursement of such payment by the school district to the PSF with interest, the Comptroller will cancel the bond or evidence of payment of the interest and forward it

to the school district. The Act permits the Commissioner to order a school district to set a tax rate sufficient to reimburse the PSF for any payments made with respect to guaranteed bonds, and also sufficient to pay future payments on guaranteed bonds, and provides certain enforcement mechanisms to the Commissioner, including the appointment of a board of managers or annexation of a defaulting school district to another school district.

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

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

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

The Charter District Bond Guarantee Program

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

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

As of February 21, 2018 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 5.5%. As of February 28, 2018, there were 181 active open-enrollment charter schools in the State and there were 719 charter school campuses operating under such charters (though as of such date, five of such campuses' operations have not begun serving students for various reasons). Section 12.101, Texas Education Code, as amended by the Legislature in 2013, limits the number of charters that the Commissioner may grant to 215 charters as of the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

The Charter District Bond Guarantee Program does not apply to the payment of principal and interest upon redemption of bonds, except upon mandatory sinking fund redemption, and does not apply to the obligation, if any, of a charter district to pay a redemption premium on its guaranteed bonds. The guarantee applies to all matured interest on guaranteed charter district bonds, whether the bonds were issued with a fixed or variable interest rate and whether the interest rate changes as a result of an interest reset provision or other bond resolution provision requiring an interest rate change. The guarantee

does not extend to any obligation of a charter district under any agreement with a third party relating to guaranteed bonds that is defined or described in State law as a "bond enhancement agreement" or a "credit agreement," unless the right to payment of such third party is directly as a result of such third party being a bondholder.

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

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

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

Beginning in July 2015, TEA began limiting new guarantees under the Charter District Bond Guarantee Program to conform to the Act and, subsequently, with CDBGP Rules that require the maintenance of a capacity reserve for the Charter District Bond Guarantee Program. Following the increase in the Program multiplier in February 2016 and the update of the percentage of students enrolled in open-enrollment charter schools to the total State scholastic census in March 2016, some new capacity became available under the Charter District Bond Guarantee Program, but that capacity was quickly exhausted. In accordance with the action of the SBOE on February 3, 2017, additional capacity for the Charter District Bond Guarantee Program became effective in two increments, implemented on March 1, 2017 and on September 1, 2017 (as described under "2017 Legislative Changes to the Charter District Bond Guarantee Program," an item to reverse the September 1, 2017 increase in the Program multiplier was approved by the SBOE at its Winter 2018 meeting). In addition, legislation enacted during the Legislature's 2017 regular session modifies the manner of calculating the capacity of the Charter District Bond Guarantee Program (the "CDBGP Capacity"), which further increases the amount of the CDBGP Capacity, beginning with State fiscal year 2018, but that provision of the law does not increase overall Program capacity, it merely allocates capacity between the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. See "Capacity Limits for the Guarantee Program" and "2017 Legislative Changes to the Charter District Bond Guarantee Program." Other factors that could increase the CDBGP Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBGP Capacity, as described below, growth in the relative percentage of students enrolled in open-enrollment charter schools to the total State scholastic census, legislative and administrative changes in funding for charter districts, changes in level of school district or charter district participation in the Program, or a combination of such circumstances.

2017 Legislative Changes to the Charter District Bond Guarantee Program

The CDBG Capacity is established by the Act. During the 85th Texas Legislature, which concluded on May 29, 2017, Senate Bill 1480 ("SB 1480") was enacted. The complete text of SB 1480 can be found at <http://www.capitol.state.tx.us/tlodocs/85R/billtext/pdf/SB01480F.pdf#navpanes=0>. SB 1480 modified how the CDBG Capacity will be established under the Act effective as of September 1, 2017, and made other substantive changes to the Act that affects the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the CDBG Capacity was calculated as the State Capacity Limit less the amount of outstanding bond guarantees under the Guarantee Program multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population. As of August 31, 2017, the amount of outstanding bond guarantees represented 66.57% of the State Capacity Limit for the Guarantee Program. SB 1480 amended the CDBG Capacity calculation so that the State Capacity Limit is multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population prior to the subtraction of the outstanding bond guarantees, thereby potentially substantially increasing the CDBG Capacity. However, certain provisions of SB 1480, described below, and other additional factors described herein, could result in less than the maximum amount of the potential increase provided by SB 1480 being implemented by the SBOE or otherwise used by charter districts. Still other factors used in determining the CDBG Capacity, such as the percentage of the charter district scholastic population to the overall public school scholastic population, could, in and of itself, increase the CDBG Capacity, as that percentage has grown from 3.53% in September, 2012 to 5.5% in February 2018, representing a cumulative growth during that period of 56%. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

SB 1480 provides that the implementation of the new method of calculating the CDBG Capacity will begin with the State fiscal year that commences September 1, 2021 (the State's fiscal year 2022). However, for the intervening four fiscal years, beginning with fiscal year 2018, SB 1480 provides that the SBOE may establish a CDBG Capacity that increases the amount of charter district bonds that may be guaranteed by up to a cumulative 20% in each fiscal year (for a total maximum increase of 80% in fiscal year 2021) as compared to the capacity figure calculated under the Act as of January 1, 2017. However, SB 1480 provides that in making its annual determination of the magnitude of an increase for any year, the SBOE may establish a lower (or no) increase if the SBOE determines that an increase in the CDBG Capacity would likely result in a negative impact on the bond ratings for the Bond Guarantee Program (see "Ratings of Bonds Guaranteed Under the Guarantee Program") or if one or more charter districts default on payment of principal or interest on a guaranteed bond, resulting in a negative impact on the bond ratings of the Bond Guarantee Program. The provisions of SB 1480 that provide for discretionary, incremental increases in the CDBG Capacity expire September 1, 2022. If the SBOE makes a determination for any year based upon the potential ratings impact on the Bond Guarantee Program and modifies the increase that would otherwise be implemented under SB 1480 for that year, the SBOE may also make appropriate adjustments to the schedule for subsequent years to reflect the modification, provided that the CDBG Capacity for any year may not exceed the limit provided in the schedule set forth in SB 1480. In September 2017, the SBOE voted to authorize the full 20% increase in the amount of charter district bonds that may be guaranteed for fiscal year 2018, which increases the relative capacity of the Charter District Bond Guarantee Program to the School District Bond Guarantee Program for that fiscal year.

Taking into account the enactment of SB 1480 and the increase in the CDBG Capacity effected thereby, at Winter 2018 meeting the SBOE approved the second of two required readings amending the SDBG Rules to rollback the multiplier from 3.75 times market value to 3.50 times (to ensure compliance with State administrative law requirements, the rollback is expected to be effective in late March 2018).

In addition to modifying the manner of determining the CDBG Capacity, SB 1480 provides that the Commissioner, in making a determination as to whether to approve a guarantee for a charter district, may consider any additional reasonable factor that the Commissioner determines to be necessary to protect the Bond Guarantee Program or minimize risk to the PSF, including: (1) whether the charter district had an average daily attendance of more than 75 percent of its student capacity for each of the preceding three school years, or for each school year of operation if the charter district has not been in operation for the preceding three school years; (2) the performance of the charter district under certain performance criteria set forth in Education Code Sections 39.053 and 39.054; and (3) any other indicator of performance that could affect the charter district's financial performance. Also, SB 1480 provides that the Commissioner's investigation of a charter district application for guarantee may include an evaluation of whether the charter district bond security documents provide a security interest in real property pledged as collateral for the bond and the repayment obligation under the proposed guarantee. The Commissioner may decline to approve the application if the Commissioner determines that sufficient security is not provided. The Act and the CDBG Rules previously required the Commissioner to make an investigation of the accreditation status and certain financial criteria for a charter district applying for a bond guarantee, which remain in place.

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10 percent of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20 percent of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be

paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to three percent (3.00%) of the total amount of outstanding guaranteed bonds issued by charter districts. As of August 31, 2017, the Charter District Reserve Fund represented approximately 0.23% of the guaranteed charter district bonds. SB 1480 also authorized the SBOE to manage the Charter District Reserve Fund in the same manner as it manages the PSF. Previously, the Charter District Reserve Fund was held by the Comptroller, but in September 2017, the SBOE authorized the PSF staff to begin the process of transferring the management of the Reserve Fund to the PSF, where it is expected to be held and invested as a non-commingled fund under the administration of the PSF staff. A target date in Spring 2018 has been established for that change in management of the Reserve Fund to become effective.

Charter District Risk Factors

Open-enrollment charter schools in the State may not charge tuition and, unlike school districts, charter districts have no taxing power. Funding for charter district operations is largely from amounts appropriated by the Legislature. The amount of such State payments a charter district receives is based on a variety of factors, including the enrollment at the schools operated by a charter district. The overall amount of education aid provided by the State for charter schools in any year is also subject to appropriation by the Legislature. The Legislature may base its decisions about appropriations for charter schools on many factors, including the State's economic performance. Further, because some public officials, their constituents, commentators and others have viewed charter schools as controversial, political factors may also come to bear on charter school funding, and such factors are subject to change.

Other than credit support for charter district bonds that is provided to qualifying charter districts by the Charter District Bond Guarantee Program, under current law, open-enrollment charter schools generally do not receive a dedicated funding allocation from the State to assist with the construction and acquisition of new facilities. However, during the 85th Regular Session of the Legislature in 2017, legislation was enacted that, for the first time, provided a limited appropriation in the amount of \$60 million for the 2018-2019 biennium for charter districts having an acceptable performance rating. A charter district that receives funding under this program may use the funds to lease or pay property taxes imposed on an instructional facility; to pay debt service on bonds that financed an instructional facility; or for any other purpose related to the purchase, lease, sale, acquisition, or maintenance of an instructional facility. Charter schools generally issue revenue bonds to fund facility construction and acquisition, or fund facilities from cash flows of the school. Some charter districts have issued non-guaranteed debt in addition to debt guaranteed under the Charter District Bond Guarantee Program, and such non-guaranteed debt is likely to be secured by a deed of trust covering all or part of the charter district's facilities. In March 2017, the TEA began requiring charter districts to provide the TEA with a lien against charter district property as a condition to receiving a guarantee under the Charter District Bond Guarantee Program. However, charter district bonds issued and guaranteed under the Charter District Bond Guarantee Program prior to the implementation of the new requirement did not have the benefit of a security interest in real property, although other existing debts of such charter districts that are not guaranteed under the Charter District Bond Guarantee Program may be secured by real property that could be foreclosed on in the event of a bond default.

The maintenance of a State-granted charter is dependent upon on-going compliance with State law and TEA regulations, and TEA monitors compliance with applicable standards. TEA has a broad range of enforcement and remedial actions that it can take as corrective measures, and such actions may include the loss of the State charter, the appointment of a new board of directors to govern a charter district, the assignment of operations to another charter operator, or, as a last resort, the dissolution of an open-enrollment charter school.

As described above, the Act includes a funding "intercept" function that applies to both the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. However, school districts are viewed as the "educator of last resort" for students residing in the geographical territory of the district, which makes it unlikely that State funding for those school districts would be discontinued, although the TEA can require the dissolution and merger into another school district if necessary to ensure sound education and financial management of a school district. That is not the case with a charter district, however, and open-enrollment charter schools in the State have been dissolved by TEA from time to time. If a charter district that has bonds outstanding that are guaranteed by the Charter District Bond Guarantee Program should be dissolved, debt service on guaranteed bonds of the district would continue to be paid to bondholders in accordance with the Charter District Bond Guarantee Program, but there would be no funding available for reimbursement of the PSF by the Comptroller for such payments. As described under "The Charter District Bond Guarantee Program," the Act establishes a Charter District Reserve Fund, which could in the future be a significant reimbursement resource for the PSF. At January 31, 2018, the Charter District Reserve Fund contained \$4,729,390.

Potential Impact of Hurricane Harvey on the PSF

Hurricane Harvey struck coastal Texas on August 26, 2017, resulting in historic levels of rainfall. The TEA believes that the storm impacted more than 1.3 million students enrolled in some 157 school districts, and approximately 58,000 students in 27 charter schools along the Texas Gulf Coast. Many of the impacted school districts and two charter districts have bonds guaranteed by the PSF. It is possible that the affected districts will need to borrow to repair or replace damaged facilities, which could require increased bond issuance and applications to the TEA for PSF bond guarantees. In addition, the storm damage and any lingering economic damage in the area could adversely affect the tax base (for school districts) and credit quality of school districts and charter districts with bonds that are or will be guaranteed by the PSF.

The TEA, members of the Legislature and the Governor, among others, have stated that they are developing programs to provide financial assistance to affected school districts and charter districts, particularly with regard to funding assistance for facility repairs and construction and to offset tax base and/or revenue loss to affected districts. The composition of any final programs that may be implemented cannot be predicted, and are likely to be subject to future State legislative and administrative actions, available amounts of federal and private disaster relief for affected schools, and other factors. In early October, the TEA initiated programs designed to hold school districts and charter districts harmless for the loss of State funding associated with declines in average daily attendance for the remainder of fiscal year 2018. In the past, storm damage has caused multiple year impacts to affected schools with respect to both attendance figures and tax base (for school districts), and the damage caused by Harvey could be well in excess of previous storm damage. TEA conducted a survey of districts affected by the hurricane with respect to the collection of fiscal year 2017 taxes. In general, tax revenues of affected districts appear to have increased for fiscal 2017, but at a somewhat lower rate than had been anticipated. It should be noted that most of the fiscal year 2017 taxes had been collected when the hurricane hit the Texas coast in late August. TEA has not conducted any surveys with respect to fiscal year 2018 taxes, but notes that as of late February 2018 the negative effect of the hurricane on the average daily attendance of districts in the affected area appears to have been less than TEA had initially anticipated.

Most school district and charter district bonds that are guaranteed by the PSF are fixed rate bonds that pay principal on an annual basis and interest on a semiannual basis, in February and August of each year. The hurricane hit the Texas coast after the August 2017 payment dates, so the first payment cycle that could have been affected by the storm was the February 2018 payment date. TEA notes that no district has applied for financial exigency or failed to timely pay bond payments as a result of the hurricane or otherwise. The PSF is managed to maintain liquidity for any draws on the program. Moreover, as described under “The School District Bond Guarantee Program” and “The Charter District Bond Guarantee Program,” both parts of the Bond Guarantee Program operate in accordance with the Act as “intercept” programs, providing liquidity for guaranteed bonds, and draws on the PSF are required to be restored from the first State money payable to a school district or a charter district that fails to make a guaranteed payment on its bonds.

Ratings of Bonds Guaranteed Under the Guarantee Program

Moody’s Investors Service, Inc., S&P Global Ratings and Fitch Ratings, Inc., rate bonds guaranteed by the PSF “Aaa,” “AAA” and “AAA,” respectively. Not all districts apply for multiple ratings on their bonds, however. See “OTHER PERTINENT INFORMATION – Municipal Bond Rating” herein.

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations		
Fiscal Year Ended 8/31	Book Value ⁽¹⁾	Market Value ⁽¹⁾
2013	\$25,599,296,902	\$33,163,242,374
2014	27,596,692,541	38,445,519,225
2015	29,081,052,900	36,196,265,273
2016	30,128,037,903	37,279,799,335
2017 ⁽²⁾	31,870,581,428	41,438,672,573

⁽¹⁾ SLB managed assets are included in the market value and book value of the Fund. In determining the market value of the PSF from time to time during a fiscal year, the TEA uses current, unaudited values for TEA managed investment portfolios and cash held by the SLB. With respect to SLB managed assets shown in the table above, market values of land and mineral interests, internally managed real estate, investments in externally managed real estate funds and cash are based upon information reported to the PSF by the SLB. The SLB reports that information to the PSF on a quarterly basis. The valuation of such assets at any point in time is dependent upon a variety of factors, including economic conditions in the State and nation in general, and the values of these assets, and, in particular, the valuation of mineral holdings administered by the SLB, can be volatile and subject to material changes from period to period.

⁽²⁾ At August 31, 2017, mineral assets, sovereign and other lands and internally managed discretionary real estate, external discretionary real estate investments, domestic equities, and cash managed by the SLB had book values of approximately \$13.43 million, \$247.64 million, \$2,797.05 million, \$4.71 million, and \$3,399.05 million, respectively, and market values of approximately \$1,870.22 million, \$651.40 million, \$2,788.02 million, \$2.09 million, and \$3,399.05 million, respectively. At January 31, 2018, the PSF had a book value of \$32,415,438,326 and a market value of \$43,741,388,620. January 31, 2018 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds

At 8/31	Principal Amount ⁽¹⁾
2013	\$55,218,889,156
2014	58,364,350,783
2015	63,955,449,047
2016	68,303,328,445
2017	74,266,090,023 ⁽²⁾

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

⁽²⁾ As of August 31, 2017 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$117,195,729,512, of which \$42,929,639,489 represents interest to be paid. As shown in the table above, at August 31, 2017, there were \$74,266,090,023 in principal amount of bonds guaranteed under the Guarantee Program and based on the cost value of the Fund at August 31, 2017 the capacity of the Guarantee Program at that date was \$111,568,711,072. The Program capacity at August 31, 2017 takes into account the increases in the cost value multiplier effective February 1, 2016 and March 1, 2017, which cumulatively increased the multiplier from 3 times to 3.50 times, but does not take into account the September 1, 2017 increase in the multiplier to 3.75. Using the IRS Limit, which is the lower of the two federal and State capacity limits of Program capacity, of \$117,318,653,038, at August 31, 2017 98.28% of Program capacity was available to the School District Bond Guarantee Program and 1.72% was available to the Charter District Bond Guarantee Program..

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

Fiscal Year	School District Bonds		Charter District Bonds		Totals	
	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
2014 ⁽²⁾	2,869	\$58,061,805,783	10	\$ 302,545,000	2,879	\$58,364,350,783
2015	3,089	63,197,514,047	28	757,935,000	3,117	63,955,449,047
2016	3,244	67,342,303,445	35	961,025,000	3,279	68,303,328,445
2017 ⁽³⁾	3,253	72,884,480,023	40	1,381,610,000	3,293	74,266,090,023

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

⁽²⁾ Fiscal 2014 was the first year of operation of the Charter District Bond Guarantee Program.

⁽³⁾ At January 31, 2018 (based on unaudited data, which is subject to adjustment), there were \$76,112,811,568 of bonds guaranteed under the Guarantee Program, representing 3,354 school district issues, aggregating \$74,700,936,568 in principal amount and 43 charter district issues, aggregating \$1,411,875,000 in principal amount. At January 31, 2018, the capacity allocation of the Charter District Bond Guarantee Program was \$2,013,789,828 (based on the then effective capacity multiplier of 3.75 times and on unaudited data, which is subject to adjustment).

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2017

The following discussion is derived from the Annual Report for the year ended August 31, 2017, including the Message of the Executive Administrator of the Fund and the Management's Discussion and Analysis contained therein. Reference is made to the Annual Report, when filed, for the complete Message and MD&A. Investment assets managed by the fifteen-member SBOE are referred to throughout this MD&A as the PSF(SBOE) assets. As of August 31, 2017, the Fund's land, mineral rights and certain real assets are managed by the three-member SLB and these assets are referred to throughout as the PSF(SLB) assets. The current PSF asset allocation policy includes an allocation for real estate investments, and as such investments are made, and become a part of the PSF investment portfolio, those investments will be managed by the SBOE and not the SLB.

At the end of fiscal 2017, the Fund balance was \$41.4 billion, an increase of \$4.2 billion from the prior year. This increase is primarily due to overall increases in value of all asset classes in which the Fund has invested. During the year, the SBOE continued implementing the long term strategic asset allocation, diversifying the PSF(SBOE) to strengthen the Fund. The asset allocation is projected to increase returns over the long run while reducing risk and portfolio return volatility. The PSF(SBOE) annual rates of return for the one-year, five-year, and ten-year periods ending August 31, 2017, were 11.96%, 8.26% and 5.49%, respectively (total return takes into consideration the change in the market value of the Fund during the year as well as the interest and dividend income generated by the Fund's investments). In addition, the SLB continued its shift into externally managed real asset investment funds, and the one-year, three-year, and five-year annualized total returns for the PSF(SLB) real assets, including cash, were 10.35%, 7.19%, and 7.77%, respectively.

The market value of the Fund's assets is directly impacted by the performance of the various financial markets in which the assets are invested. The most important factors affecting investment performance are the asset allocation decisions made by the SBOE and SLB. The current SBOE long term asset allocation policy allows for diversification of the PSF(SBOE) portfolio into alternative asset classes whose returns are not as positively correlated as traditional asset

classes. The implementation of the long term asset allocation will occur over several fiscal years and is expected to provide incremental total return at reduced risk. As of August 31, 2017, the PSF(SBOE) portion of the Fund had diversified into emerging market and large cap international equities, absolute return funds, real estate, private equity, risk parity, real return Treasury Inflation-Protected Securities, real return commodities, and emerging market debt.

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

The PSF(SLB) portfolio is generally characterized by three broad categories: (1) discretionary real assets investments, (2) sovereign and other lands, and (3) mineral interests. Discretionary real assets investments consist of externally managed real estate, infrastructure, and energy/minerals investment funds; internally managed direct real estate investments, and cash. Sovereign and other lands consist primarily of the lands set aside to the PSF when it was created. Mineral interests consist of all of the minerals that are associated with PSF lands. The investment focus of PSF(SLB) discretionary real assets investments has shifted from internally managed direct real estate investments to externally managed real assets investment funds. The PSF(SLB) makes investments in certain limited partnerships that legally commit it to possible future capital contributions. At August 31, 2017, the remaining commitments totaled approximately \$2.042 billion.

The PSF(SBOE)'s investment in domestic large cap, domestic small/mid cap, international large cap, and emerging market equity securities experienced returns of 16.30%, 12.80%, 19.04%, and 26.28%, respectively, during the fiscal year ended August 31, 2017. The PSF(SBOE)'s investment in domestic fixed income securities produced a return of 1.61% during the fiscal year and absolute return investments yielded a return of 7.32%. The PSF(SBOE) real estate and private equity investments returned 10.52% and 16.35%, respectively. Risk parity assets produced a return of 8.77%, while real return assets yielded 2.38%. Emerging market debt produced a return of 11.84%. Combined, all PSF(SBOE) asset classes produced an investment return of 11.96% for the fiscal year ended August 31, 2017, out-performing the benchmark index of 10.66% by approximately 130 basis points. All PSF(SLB) real assets (including cash) returned 10.35% for the fiscal year ending August 31, 2017.

For fiscal year 2017, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled \$5.4 billion, an increase of \$2.7 billion from fiscal year 2016 earnings of \$2.7 billion. This increase reflects the performance of the securities markets in which the Fund was invested in fiscal year 2017. In fiscal year 2017, revenues earned by the Fund included lease payments, bonuses and royalty income received from oil, gas and mineral leases; lease payments from commercial real estate; surface lease and easement revenues; revenues from the resale of natural and liquid gas supplies; dividends, interest, and securities lending revenues; the net change in the fair value of the investment portfolio; and, other miscellaneous fees and income.

Expenditures are paid from the Fund before distributions are made under the total return formula. Such expenditures include the costs incurred by the SLB to manage the land endowment, as well as operational costs of the Fund, including external management fees paid from appropriated funds. Total operating expenditures, net of security lending rebates and fees, increased 30.6% for the fiscal year ending August 31, 2017. This increase is primarily attributable to an increase in PSF(SLB) operational costs and generally larger quantities of purchased gas for resale in the State Energy Management Program, which is administered by the SLB as part of the Fund.

The Fund supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. For fiscal years 2016 and 2017, the distribution from the SBOE to the ASF totaled \$1.06 billion and \$1.06 billion, respectively. There was no contribution to the ASF by the SLB in fiscal year 2017.

At the end of the 2017 fiscal year, PSF assets guaranteed \$74.27 billion in bonds issued by 858 local school districts and charter districts, the latter of which entered into the Program during the 2014 fiscal year. Since its inception in 1983, the Fund has guaranteed 6,980 school district and charter district bond issues totaling \$166.3 billion in principal amount. During the 2017 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program increased by 14, or 0.4%. The dollar amount of guaranteed school and charter bond issues outstanding increased by \$6.0 billion or 8.7%. The guarantee capacity of the Fund increased by \$13.9 billion, or 13.9%, during fiscal year 2017 due to continued growth in the cost basis of the Fund and the increase in the cost multiplier (from 3.25 to 3.50, as discussed above) used to calculate Program capacity.

2011 Constitutional Amendment

On November 8, 2011, a referendum was held in the State as a result of legislation enacted that year that proposed amendments to various sections of the Texas Constitution pertaining to the PSF. At that referendum, voters of State approved non-substantive changes to the Texas Constitution to clarify references to the Fund, and, in addition, approved amendments that effected an increase to the base amount used in calculating the Distribution Rate from the Fund to the ASF, and authorized the SLB to make direct transfers to the ASF, as described below.

The amendments approved at the referendum 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 (at present, by the SLB). The value of those assets were already included in the value of the Fund for purposes

of the Guarantee Program, but prior to the amendment had not been included in the calculation base for purposes of making transfers from the Fund to the ASF. While the amendment provided for an increase in the base for the calculation of approximately \$2 billion, no new resources were provided for deposit to the Fund. As described under "The Total Return Constitutional Amendment" the SBOE is prevented from approving a Distribution Rate or making a pay out from the Fund if the amount distributed would exceed 6% of the average of the market value of the Fund, excluding real property in the Fund, but including discretionary real asset investments on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium or if such pay out would exceed the Ten Year Total Return.

If there are no reductions in the percentage established biennially by the SBOE to be the Distribution Rate, the impact of the increase in the base against which the Distribution Rate is applied will be an increase in the distributions from the PSF to the ASF. As a result, going forward, it may be necessary for the SBOE to reduce the Distribution Rate in order to preserve the corpus of the Fund in accordance with its management objective of preserving intergenerational equity.

The Distribution Rates for the Fund were set at 3.5%, 2.5%, 4.2%, 3.3% and 3.5% for each of two year periods 2008-2009, 2010-2011, 2012-2013, 2014-2015 and 2016-2017, respectively. In September 2017, the SBOE approved a \$2.5 billion distribution to the ASF for State fiscal biennium 2018-2019, to be made in equal monthly increments of \$102.99 million, which represents a 3.7% Distribution Rate for the biennium and a per student distribution of \$248.58, based on 2017 preliminary student average daily attendance of 4,971,656.277.

Changes in the Distribution Rate for each biennial period has been based on a number of financial and political reasons, as well as commitments made by the SLB in some years to transfer certain sums to the ASF. The new calculation base described above has been used to determine all payments to the ASF from the Fund beginning with the 2012-13 biennium. The broader base for the Distribution Rate calculation could increase transfers from the PSF to the ASF, although the effect of the broader calculation base has been somewhat offset since the 2014-2015 biennium by the establishment by the SBOE of somewhat lower Distribution Rates than for the 2012-2013 biennium. In addition, the changes made by the amendment that increased the calculation base that could affect the corpus of the Fund include the decisions that are made by the SLB or others that are, or may in the future be, authorized to make transfers of funds from the PSF to the ASF.

The constitutional amendments approved on November 8, 2011 also provide authority to the GLO or any other entity other than the SBOE that has responsibility for the management of land or other properties of the Fund to determine whether to transfer an amount each year from Fund assets to the ASF revenue derived from such land or properties, with the amount transferred limited to \$300 million. Any amount transferred to the ASF by an entity other than the SBOE is excluded from the 6% Distribution Rate limitation applicable to SBOE transfers.

Other Events and Disclosures

The State Investment Ethics Code governs the ethics and disclosure requirements for financial advisors and other service providers who advise certain State governmental entities, including the PSF. In accordance with the provisions of the State Investment Ethics Code, the SBOE periodically modifies its code of ethics, which occurred most recently in July 2016. The SBOE code of ethics includes prohibitions on sharing confidential information, avoiding conflict of interests and requiring disclosure filings with respect to contributions made or received in connection with the operation or management of the Fund. The code of ethics applies to members of the SBOE as well as to persons who are responsible by contract or by virtue of being a TEA PSF staff member for managing, investing, executing brokerage transactions, providing consultant services, or acting as a custodian of the PSF, and persons who provide investment and management advice to a member of the SBOE, with or without compensation under certain circumstances. The code of ethics is codified in the Texas Administrative Code at 19 TAC sections 33.5 et seq., and is available on the TEA web site at <http://ritter.tea.state.tx.us/rules/tac/chapter033/ch033a.html#33.5>.

In addition, the GLO has established processes and controls over its administration of real estate transactions and is subject to provisions of the Texas Natural Resources Code and its own internal procedures in administering real estate transactions for assets it manages for the Fund. A report of the State Auditor released in March 2016 noted that based on an audit of certain real estate transactions managed by the GLO, during the period from September 2009 to May 2015, the GLO failed to comply with certain of such legal requirements relating to conflict of interest reporting, complying with written procedures and maintenance of documentation and other statutory and procedural requirements. That report, which includes the response of GLO management agreeing to the recommendations of the report, is available at <http://www.sao.texas.gov/reports/main/16-018.pdf>.

Since 2007, TEA has made supplemental appropriation requests to the Legislature for the purpose of funding the implementation of the 2008 Asset Allocation Policy, but those requests have been denied or partly funded. In the 2011 legislative session, the Legislature approved an increase of 31 positions in the full-time equivalent employees for the administration of the Fund, which was funded as part of an \$18 million appropriation for each year of the 2012-13 biennium, in addition to the operational appropriation of \$11 million for each year of the biennium. The TEA has begun increasing the PSF administrative staff in accordance with the 2011 legislative appropriation, and the TEA received an appropriation of \$30.0 million and \$30.2 million for the administration of the PSF for fiscal years 2014 and 2015, respectively, and \$30.2 million for each of the fiscal years 2016 and 2017.

As of August 31, 2017, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property, and other litigation arising in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

PSF Continuing Disclosure Undertaking

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

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

Annual Reports

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

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

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

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

Material Event Notices

The TEA will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing

repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA will provide timely notice of any failure by the TEA to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information

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

Limitations and Amendments

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

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

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

AD VALOREM TAX PROCEDURES

Property Tax Code and County Wide Appraisal District

The Texas Property Tax Code (the “Tax Code”) provides for county-wide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board responsible for appraising property for all taxable units within the county. The Bexar Appraisal District, (the “Appraisal District”) is responsible for appraising property within the county that comprises the District as of January 1 of each year. The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board (the “Appraisal Review Board”) which is appointed by the Appraisal District’s Board of Directors. Such appraisal rolls, as approved by the Appraisal Review Board, are used by the District in establishing its tax roll and tax rate.

Ad Valorem Taxation

The Bonds are payable from an annual ad valorem tax levied on all taxable property within the District, without legal limit as to rate or amount. Reference is hereby made to the Tax Code for identification of property subject to taxation, property exempt or which may be exempted from taxation, the appraisal of property for taxation purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes. Among other features, the Tax Code contains the following provisions with respect to the assessment of property and the levy and collection of ad valorem taxes:

- (1) a single appraisal district in each county to appraise property for taxation purposes for all taxing units located wholly or partly within the county;
- (2) subject to certain exceptions, all property to be assessed at 100% of its market value and the assessment of property on the basis of a percentage of its appraised value is prohibited;
- (3) requires an “effective tax rate” and “rollback tax rate” to be annually calculated and the holding of a referendum election whenever the proposed tax rate exceeds the roll back tax rate; and
- (4) the value of property is generally assessed for purposes of taxation on January 1 of each year and taxes levied each year generally become due and payable on October 1 and become delinquent on January 31 of the year following the year in which the taxes are imposed.

Taxable Property, Exemptions and Agricultural Exclusions

All real property located in the taxing unit and certain personal property is taxable property unless exempt by law. With certain exceptions, intangible personal property is not taxable property. Excluding open space land (ranch and farm land) and timberland that may be taxed on the basis of its productive capacity, property subject to taxation is to be taxed at 100% of its market value. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. Effective January 1, 2016, the valuation of assessment of oil and gas reserves depends upon pricing information in either the standard edition of the Annual Energy Outlook or, if the most recently published edition of the Annual Energy Outlook was published before December 1 of the preceding calendar year, the Short-Term Energy Outlook report published in January of the current calendar year. State law requires the appraised value of a residence homestead to be based solely on the property’s value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised plus (c) the market value of all new improvements to the property.

Property exempt from taxation includes: (1) property owned and used for public purposes by the State of Texas or its political subdivisions; (2) property exempt by federal law; (3) family supplies, household goods and personal effects not held or used in the production of income; (4) certain property owned by charitable organizations, youth development associations, and religious organizations; (5) certain properties used for school purposes; (6) solar and wind-powered energy devices; (7) farm products, livestock, and poultry in the hands of the producer, and family supplies for home and farm use; (8) implements of husbandry used in the production of farm and ranch products; (9) personally owned

automobiles (unless affirmatively provided to be taxed by taxing entity); and (10) property owned by disabled veterans or by the surviving spouse and surviving minor children of disabled veterans is exempt from taxation in amounts ranging from \$5,000 to \$12,000 depending on the disability rating of the veteran.

The Texas Tax Code provides that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Furthermore, the surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries. Effective January 1, 2018, a partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled to an exemption equal to the percentage of the veteran's disability, if the residence was donated for less than market value to the veteran by a charitable organization.

Also, the surviving spouse of a member of the armed forces who is killed in action is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

Following the approval by the voters at a November 7, 2017 statewide election (and effective as of January 1, 2018), the surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the first responder's death and said property was the first responder's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

Article VIII, Section 1-j of the Constitution exempts from taxation goods, wares, merchandise, other tangible personal property and ores (other than oil, natural gas and other petroleum products) acquired or imported for assembling, storing, manufacturing, processing or fabricating purposes while such property is being detained in the State, and such property is to be forwarded outside the State within 175 days after the date of its acquisition or importation. Notwithstanding such exemption, counties, school districts, junior college districts and cities may tax such tangible personal property provided official action to tax is taken before April 1, 1990. The official action to tax such property can subsequently be rescinded and, if rescinded, such property shall thereafter be exempt from taxation.

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. The Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the first year in which goods-in-transit are proposed to be taxed, and after holding a public hearing, to take official action to tax goods-in-transit during the following tax year and to continue to tax those goods until the action authorizing such taxation is rescinded or repealed. A taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property. Senate Bill 1, passed by the 82nd Texas Legislature, 1st Called Session, requires again that the governmental entities take affirmative action on or after October 1 of the previous year but prior to January 1 of the first tax year in which the governing body proposes to tax good-in-transit to continue its taxation of good-in-transit in the 2012 tax year and beyond.

With respect to school district taxation, \$25,000 of the market value of the residence homestead of an adult is exempt from taxation; and for persons 65 years of age or older and certain disabled persons, an additional exemption is granted not to exceed \$10,000 of the market value of the residence homestead of such persons. Furthermore, the total amount of taxes imposed on the residence homestead of persons 65 years of age or older (and receiving the additional \$10,000 exemption mentioned above) may not be increased while it remains the residence homestead of the person or that person's spouse who received the exemption, unless improvements (other than to comply with government requirements) are made to such homestead, and such freeze on ad valorem taxes on the homesteads of persons 65 years of age or older for general elementary and secondary public school purposes is also transferable to a different residence homestead. Also, the surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as (i) the taxpayer died in a year he or she qualified for the exemption, (ii) the surviving spouse is at least 55 years of age when the taxpayer died, and (iii) the property was the residence homestead of the surviving spouse when the taxpayer died and the property remains the residence homestead of the surviving spouse. A constitutional amendment was approved by the voters on May 12, 2007, and implementation legislation subsequently enacted to apply to the 2007 and subsequent tax years, that reduces the school property tax limitation (commonly referred to as a "freeze" on ad valorem taxes) on residence homesteads of persons 65 years of age or over or of disabled persons to correspond to reductions in local school district tax rates from the 2005 tax year to the 2006 tax year and from the 2006 tax year to the 2007 tax year.

Additionally, a percentage of the value of the residence homestead of a person may be exempt from taxation at the option of the governing body of the taxing entity, such exemption not to exceed 20% each year. Furthermore, not less than \$3,000 of the market value of the residence homestead of a person 65 years of age or older and certain disabled persons may be exempt from taxation, if such exemption is allowed by the governing body of the taxing entity or imposed by referendum election. The governing body of a political subdivision is prohibited from repealing or reducing the amount of an optional homestead exemption that was in place for the 2014 tax year (fiscal year 2015) for a period ending December 31, 2019.

Levy and Collection of Taxes

The District is responsible for the collection of its taxes unless it elects to transfer such functions to another governmental agency. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service. Before adopting its annual tax rate, a public meeting must be held for the purpose of adopting a budget for the succeeding year. A notice of public meeting to discuss budget and proposed tax rate must be published in the time, format and manner prescribed in Section 44.004 of the Texas Education Code. Section 44.004(e) of the Texas Education Code provides a person who owns taxable property in a school district is entitled to an injunction restraining the collection of taxes by the district if the district has not complied with such notice requirements or the language and format requirements of such notice as set forth in Section 44.004(b), (c) and (d) and if such failure to comply was not in good faith. Section 44.004(e) further provides the action to enjoin the collection of taxes must be filed before the date the district delivers substantially all of its tax bills. Furthermore, Section 26.05 of the Tax Code provides the governing body of a taxing unit is required to adopt the annual tax rate for the unit before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit for the tax year to be the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year.

In setting its annual tax rate, the governing body of a school district generally cannot adopt a tax rate exceeding the district's "rollback tax rate" without approval by a majority of the voters voting at an election approving the higher rate.

Taxes are due October 1, or when billed, whichever is the later to occur, and such taxes become delinquent after January 31 of the following year. A delinquent tax incurs a penalty from six percent (6%) to twelve percent (12%) of the amount of the tax, depending on the time of payment, and interest accrues on the delinquent tax amount at the rate of one percent (1%) per month. If the tax is not paid by the following July 1, an additional penalty of up to twenty percent (20%) of the delinquent tax, penalty, and interest collected may be imposed by the District. Split payment of taxes owed, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances are also allowed under existing statutory authority.

Public Hearing and Rollback Tax Rate

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

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

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

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

The District's Rights in the Event of Tax Delinquencies

The District has no lien for unpaid taxes on personal property, but does have a lien granted by statute for unpaid taxes on real property that is discharged upon payment. Thereafter, no lien exists in favor of the District until it again levies taxes. In the event a taxpayer fails to make timely payment of taxes due to the District on real property, a penalty of 6% of unpaid taxes is incurred in February and 1% is added monthly until the penalty reaches 10%, after which it becomes a flat 12%.

In addition, delinquent taxes incur interest at the rate of 1% per month. The District may file suit for the collection thereof and may foreclose such lien in a foreclosure proceeding. The District may assess up to an additional 20% charge against delinquent taxes, penalty and interest to defray the legal costs of collecting the delinquent taxes. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incurs a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the District's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due.

Taxes levied by the District are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with tax liens of all other such taxing units. A tax lien on real property has priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty and interest. At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. The ability of the District to collect delinquent taxes by foreclosure may be adversely affected by the amount of taxes owed to other taxing units, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of a taxpayer's debt. **Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.**

The Texas Tax Code as Applied to the District

The District grants an exemption to the market value of residence homesteads of \$25,000; the District has not granted an additional exemption of 20% of the market value of residence homesteads.

The District grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$10,000; the disabled are also granted an exemption of \$10,000.

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

The District does not tax non-business personal property, and Bexar County collects the District's taxes.

The District does permit split payments.

The District does not tax freeport property.

The District has adopted a resolution authorizing its continued taxation of goods-in-transit for the 2012 tax year and beyond.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

On seven occasions in the last thirty years, the Texas Supreme Court has issued decisions assessing the constitutionality of the Texas public school finance system (the "Finance System"). The litigation has primarily focused on whether the Finance System, as amended by the Texas Legislature (the "Legislature") from time to time, (i) met the requirements of article VII, section 1 of the Texas Constitution, which requires the legislature to "establish and make suitable provision for the support and maintenance of an efficient system of public free schools," or (ii) imposed a statewide ad valorem tax in violation of article VIII, section 1-e of the Texas Constitution because the statutory limit on property taxes levied by school districts for maintenance and operation purposes had become both a floor and a ceiling, denying school districts meaningful discretion in setting their tax rates. In response to the Texas Supreme Court decisions, the Legislature enacted multiple laws which made substantive changes in the way the Finance System is funded, in efforts to address decisions declaring the Finance System unconstitutional.

On May 13, 2016, the Texas Supreme Court issued its opinion in the most recent litigation, *Morath, et al v. The Texas Taxpayer and Student Fairness Coalition, et al.*, 490 S.W.3d 826 (Tex. 2016) (“*Morath*”). The plaintiffs and intervenors in the case had alleged that the Finance System, as modified by the Legislature in part in response to prior decisions of the Texas Supreme Court, violated article VII, section 1 and article VIII, section 1-e of the Texas Constitution. In its opinion, the Texas Supreme Court held that “[d]espite the imperfections of the current school funding regime, it meets minimum constitutional requirements.” The Court also noted that:

Lawmakers decide if laws pass, and judges decide if those laws pass muster. But our lenient standard of review in this policy-laden area counsels modesty. The judicial role is not to second-guess whether our system is optimal, but whether it is constitutional. Our Byzantine school funding “system” is undeniably imperfect, with immense room for improvement. But it satisfies minimum constitutional requirements.

Possible Effects of Litigation and Changes in Law on District Bonds

The Court’s decision in *Morath* upheld the constitutionality of the Finance System but noted that the Finance System was “undeniably imperfect.” While not compelled by the *Morath* decision to reform the Finance System, the Legislature could enact future changes to the Finance System. Any such changes could benefit or be a detriment to the District. If the Legislature enacts future changes to, or fails adequately to fund the Finance System, or if changes in circumstances otherwise provide grounds for a challenge, the Finance System could be challenged again in the future. In its 1995 opinion in *Edgewood Independent School District v. Meno*, 917 S.W.2d 717 (Tex. 1995), the Court stated that any future determination of unconstitutionality “would not, however, affect the district’s authority to levy the taxes necessary to retire previously issued bonds, but would instead require the Legislature to cure the system’s unconstitutionality in a way that is consistent with the Contract Clauses of the U.S. and Texas Constitutions” (collectively, the “Contract Clauses”), which prohibit the enactment of laws that impair prior obligations of contracts.

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview

The following language constitutes only a summary of the Finance System as it is currently structured. For a more complete description of school finance and fiscal management in the State, reference is made to Chapters 41 through 46 of the Texas Education Code, as amended.

Funding for school districts in the State is provided primarily from State and local sources. State funding for all school districts is provided through a set of funding formulas comprising the “Foundation School Program”, as well as two facilities funding programs. Generally, the Finance System is designed to promote wealth equalization among school districts by balancing State and local sources of funds available to school districts. In particular, because districts with relatively high levels of property wealth per student can raise more local funding, such districts receive less State aid, and in some cases, are required to disburse local funds to equalize their overall funding relative to other school districts. Conversely, because districts with relatively low levels of property wealth per student have limited access to local funding, the Finance System is designed to provide more State funding to such districts. Thus, as a school district’s property wealth per student increases, State funding to the school district is reduced. As a school district’s property wealth per student declines, the Finance System is designed to increase that district’s State funding. The Finance System provides a similar equalization system for facilities funding wherein districts with the same tax rate for debt service raise the same amount of combined State and local funding. Facilities funding for debt incurred in prior years is expected to continue in future years; however, State funding for new school facilities has not been consistently appropriated by the Texas Legislature, as further described below.

Local funding is derived from collections of ad valorem taxes levied on property located within each district’s boundaries. School districts are authorized to levy two types of property taxes: a limited M&O tax to pay current expenses and an unlimited interest and sinking fund (“I&S”) tax to pay debt service on bonds. Generally, under current law, M&O tax rates are subject to a statutory maximum rate of \$1.17 per \$100 of taxable value for most school districts (although a few districts can exceed the \$1.17 limit as a result of authorization approved in the 1960s). Current law also requires school districts to demonstrate their ability to pay debt service on outstanding indebtedness through the levy of an ad valorem tax at a rate of not to exceed \$0.50 per \$100 of taxable property at the time bonds are issued. Once bonds are issued, however, districts may levy a tax to pay debt service on such bonds unlimited as to rate or amount (see “TAX RATE LIMITATIONS”

herein). As noted above, because property values vary widely among school districts, the amount of local funding generated by the same tax rate is also subject to wide variation among school districts.

Local Funding for School Districts

The primary source of local funding for school districts is collections from ad valorem taxes levied against taxable property located in each school district. Prior to reform legislation that became effective during the 2006-2007 fiscal year (the "Reform Legislation"), the maximum M&O tax rate for most school districts was generally limited to \$1.50 per \$100 of taxable value. At the time the Reform Legislation was enacted, the majority of school districts were levying an M&O tax rate of \$1.50 per \$100 of taxable value. The Reform Legislation required each school district to "compress" its tax rate by an amount equal to the "State Compression Percentage". The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For the 2018-19 State fiscal biennium, the State Compression Percentage has been set at 66.67%, effectively setting the maximum compressed M&O tax rate for most school districts at \$1.00 per \$100 of taxable value. School districts are permitted, however, to generate additional local funds by raising their M&O tax rate by up to \$0.04 above the compressed tax rate without voter approval (for most districts, up to \$1.04 per \$100 of taxable value). In addition, if the voters approve a tax rate increase through a local referendum, districts may, in general, increase their M&O tax rate up to a maximum M&O tax rate of \$1.17 per \$100 of taxable value and receive State equalization funds for such taxing effort (see "AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate" herein). Elections authorizing the levy of M&O taxes held in certain school districts under older laws, however, may subject M&O tax rates in such districts to other limitations (See "TAX RATE LIMITATIONS" herein).

State Funding for School Districts

State funding for school districts is provided through the Foundation School Program, which provides each school district with a minimum level of funding (a "Basic Allotment") for each student in average daily attendance ("ADA"). The Basic Allotment is calculated for each school district using various weights and adjustments based on the number of students in average daily attendance and also varies depending on each district's compressed tax rate. This Basic Allotment formula determines most of the allotments making up a district's basic level of funding, referred to as "Tier One" of the Foundation School Program. The basic level of funding is then "enriched" with additional funds known as "Tier Two" of the Foundation School Program. Tier Two provides a guaranteed level of funding for each cent of local tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates above \$1.00 per \$100 of taxable value). The Finance System also provides an Existing Debt Allotment ("EDA") to subsidize debt service on eligible outstanding school district bonds, an Instructional Facilities Allotment ("IFA") to subsidize debt service on newly issued bonds, and a New Instructional Facilities Allotment ("NIFA") to subsidize operational expenses associated with the opening of a new instructional facility. IFA primarily addresses the debt service needs of property-poor school districts. In 2017, the 85th Texas Legislature appropriated funds in the amount of \$1,378,500,000 for the 2018-19 State fiscal biennium for the EDA, IFA, and NIFA.

Tier One and Tier Two allotments represent the State's share of the cost of M&O expenses of school districts, with local M&O taxes representing the district's local share. EDA and IFA allotments supplement a school district's local I&S taxes levied for debt service on eligible bonds issued to construct, acquire and improve facilities. Tier One and Tier Two allotments and existing EDA and IFA allotments are generally required to be funded each year by the Texas Legislature. Since future-year IFA awards were not funded by the Texas Legislature for the 2018-19 State fiscal biennium and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service on new bonds issued by districts to construct, acquire and improve facilities must be funded solely from local I&S taxes.

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

As described above, the cost of the basic program is based on an allotment per student known as the "Basic Allotment". For the 2018-19 State fiscal biennium, the Basic Allotment is \$5,140 for each student in average daily attendance. The Basic Allotment is then adjusted for all districts by several different weights to account for inherent differences between school districts. These weights consist of (i) a cost adjustment factor intended to address varying economic conditions that affect teacher hiring known as the "cost of education index", (ii) district-size adjustments for small and mid-size districts, and (iii) an adjustment for the sparsity of the district's student population. The cost of education index, district-size and population sparsity adjustments, as applied to the Basic Allotment, create what is referred to as the "Adjusted Allotment". The Adjusted Allotment is used to compute a "regular program allotment", as well as various other allotments associated with educating students with other specified educational needs.

Tier Two supplements the basic funding of Tier One and provides two levels of enrichment with different guaranteed yields (i.e., guaranteed levels of funding by the State) depending on the district's local tax effort. The first six cents of tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates ranging from \$1.00 to \$1.06 per \$100 of taxable value) will, for most districts, generate a guaranteed yield of \$99.41 and \$106.28 per cent per weighted student in average daily attendance ("WADA") in the 2017-18 and 2018-19 State fiscal years, respectively. The second level of Tier Two is generated by tax effort that exceeds the district's compressed tax rate plus six cents (for most districts eligible for this level of funding, M&O tax rates ranging from \$1.06 to \$1.17 per \$100 of taxable value) and has a guaranteed yield per cent per

WADA of \$31.95 for the 2018-19 State fiscal biennium. Property-wealthy school districts that have an M&O tax rate that exceeds the district's compressed tax rate plus six cents are subject to recapture above this tax rate level at the equivalent wealth per student of \$319,500 (see "Wealth Transfer Provisions" below).

Previously, a district with a compressed tax rate below \$1.00 per \$100 of taxable value (known as a "fractionally funded district") received a Basic Allotment which was reduced proportionately to the degree that the district's compressed tax rate fell short of \$1.00. Beginning in the 2017-2018 fiscal year, the compressed tax rate of a fractionally funded district now includes the portion of such district's current M&O tax rate in excess of the first six cents above the district's compressed tax rate until the district's compressed tax rate is equal to the state maximum compressed tax rate of \$1.00. Thus, for fractionally funded districts, each eligible one cent of M&O tax levy above the district's compressed tax rate plus six cents will have a guaranteed yield based on Tier One funding instead of the Tier Two yield, thereby reducing the penalty against the Basic Allotment.

In addition to the operations funding components of the Foundation School Program discussed above, the Foundation School Program provides a facilities funding component consisting of the Instructional Facilities Allotment (IFA) program and the Existing Debt Allotment (EDA) program. These programs assist school districts in funding facilities by, generally, equalizing a district's I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the "IFA Guaranteed Yield") in State and local funds for each cent of tax effort to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The guaranteed yield per cent of local tax effort per student in ADA has been \$35 since this program first began in 1997. New awards of IFA are only available if appropriated funds are allocated for such purpose by the State Legislature. To receive an IFA award, in years where the State Legislature allocates appropriated funds for new IFA awards, a school district must apply to the Commissioner in accordance with rules adopted by the Commissioner before issuing the bonds to be paid with IFA state assistance. The total amount of debt service assistance over a biennium for which a district may be awarded is limited to the lesser of (1) the actual debt service payments made by the district in the biennium in which the bonds are issued; or (2) the greater of (a) \$100,000 or (b) \$250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. The 85th State Legislature did not appropriate any funds for new IFA awards for the 2018-2019 State fiscal biennium; however, awards previously granted in years the State Legislature did appropriate funds for new IFA awards will continue to be funded. State financial assistance is provided for certain existing eligible debt issued by school districts through the EDA program. The EDA guaranteed yield (the "EDA Yield") was the same as the IFA Guaranteed Yield (\$35 per cent of local tax effort per student in ADA). The 85th Texas Legislature changed the EDA Yield to the lesser of (i) \$40 or a greater amount for any year provided by appropriation; or (ii) the amount that would result in a total additional EDA of \$60 million more than the EDA to which districts would have been entitled to if the EDA Yield were \$35. The yield for the 2017-2018 fiscal year is approximately \$37. The portion of a district's local debt service rate that qualifies for EDA assistance is limited to the first 29 cents of debt service tax (or a greater amount for any year provided by appropriation by the Texas Legislature). In general, a district's bonds are eligible for EDA assistance if (i) the district made payments on the bonds during the final fiscal year of the preceding State fiscal biennium, or (ii) the district levied taxes to pay the principal of and interest on the bonds for that fiscal year. Each biennium, access to EDA funding is determined by the debt service taxes collected in the final year of the preceding biennium. A district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the district receives IFA funding.

A district may also qualify for a NIFA allotment, which provides assistance to districts for operational expenses associated with opening new instructional facilities. The 85th Texas Legislature appropriated funds in the amount of \$23,750,000 for each of the 2017-18 and 2018-19 State fiscal years for NIFA allotments.

2006 Legislation

Since the enactment of the Reform Legislation in 2006, most school districts in the State have operated with a "target" funding level per student ("Target Revenue") that is based upon the "hold harmless" principles embodied in the Reform Legislation. This system of Target Revenue was superimposed on the Foundation School Program and made existing funding formulas substantially less important for most school districts. The Reform Legislation was intended to lower M&O tax rates in order to give school districts "meaningful discretion" in setting their M&O tax rates, while holding school districts harmless by providing them with the same level of overall funding they received prior to the enactment of the Reform Legislation. To make up for this shortfall, the Reform Legislation authorized Additional State Aid for Tax Reduction ("ASATR") for each school district in an amount equal to the difference between the amount that each district would receive under the Foundation School Program and the amount of each district's Target Revenue funding level. However, in subsequent legislative sessions, the Texas Legislature has gradually reduced the reliance on ASATR by increasing the funding formulas, and beginning with the 2017-18 school year, the statutes authorizing ASATR are repealed (eliminating revenue targets and ASATR funding).

2017 Legislation

The 85th Texas Legislature, including the regular session which concluded on May 29, 2017 and the special session which concluded on August 15, 2017, did not enact substantive changes to the Finance System. However, certain bills during the regular session and House Bill 21, which was passed during the special session and signed by the Governor on August 16, 2017, revised certain aspects of the formulas used to determine school district entitlements under the Finance System. In addition to amounts previously discussed, the 85th Texas Legislature additionally appropriated funds to (i) establish a Financial Hardship Transition Program, which provides grants ("Hardship Grants") to those districts which were heavily reliant on ASATR funding, and (ii) provide an Adjustment for Rapid Decline in Taxable Value of Property ("DPV Decline Adjustment") for districts which experienced a decline in their tax base of more than four percent for tax years 2015 and 2016. A district may receive either a Hardship Grant or a DPV Decline Adjustment, but cannot receive both. In a case where a district would have been eligible to receive funding under both programs, the district will receive the greater of the two amounts.

Wealth Transfer Provisions

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

The equalized wealth levels that subject Chapter 41 districts to recapture for the 2018-2019 State fiscal biennium are set at (i) \$514,000 per student in WADA with respect to that portion of a district's M&O tax effort that does not exceed its compressed tax rate (for most districts, the first \$1.00 per \$100 of taxable value) and (ii) \$319,500 per WADA with respect to that portion of a district's M&O tax effort that is beyond its compressed rate plus \$.06 (for most districts, M&O taxes levied above \$1.06 per \$100 in taxable value). So long as the State's equalization program under Chapter 42 of the Texas Education Code is funded to provide tax revenue equivalent to that raised by the Austin Independent School District on the first six pennies of tax effort that exceed the compressed tax rate, then M&O taxes levied above \$1.00 but at or below \$1.06 per \$100 of taxable value ("Golden Pennies") are not subject to the wealth equalization provisions of Chapter 41. Because funding at the Austin Independent School District level is currently being provided to school districts under Chapter 42 of the Texas Education Code, no recapture is currently associated with the Golden Pennies. Chapter 41 districts with a wealth per student above the lower equalized wealth level but below the higher equalized wealth level must equalize their wealth only with respect to the portion of their M&O tax rate, if any, in excess of \$1.06 per \$100 of taxable value. Under Chapter 41, a district has five options to reduce its wealth per student so that it does not exceed the equalized wealth levels: (1) a district may consolidate by agreement with one or more districts to form a consolidated district; all property and debt of the consolidating districts vest in the consolidated district; (2) a district may detach property from its territory for annexation by a property-poor district; (3) a district may purchase attendance credits from the State; (4) a district may contract to educate nonresident students from a property-poor district by sending money directly to one or more property-poor districts; or (5) a district may consolidate by agreement with one or more districts to form a consolidated taxing district solely to levy and distribute either M&O taxes or both M&O taxes and I&S taxes. A Chapter 41 district may also exercise any combination of these remedies. Options (3), (4) and (5) require prior approval by the Chapter 41 district's voters.

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

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

The District's wealth per student for the 2017-18 school year is more than the equalized wealth value. Accordingly, the District is required to exercise one of the permitted wealth equalization options. As a district with wealth per student in excess of the equalized wealth value, the District has notified the Texas Education Agency it intends to reduce its wealth per student by exercising Option 3, an agreement for the purchase of attendance credits (netting Chapter 42 funding) pursuant to Chapter 41, Texas Education Code, as amended.

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

TAX RATE LIMITATIONS

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters under Section 45.003(d) of the Texas Education Code, as amended. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the succeeding paragraphs. The maximum voted M&O Tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on December 7, 1963 pursuant to the provisions of Texas Revised Civil Statutes Annotated, Article 2784e-1, as amended ("Article 2784e-1").

Article 2784e-1 limits the District's annual M&O tax rate based upon a comparison between the District's outstanding bonded indebtedness and the District's taxable assessed value per \$100 of assessed valuation. Article 2784e-1 provides for a reduction of \$0.10 for each one percent (1%) or major fraction thereof increase in bonded indebtedness beyond seven percent (7%) of assessed valuation of property in the District. This limitation is capped when the District's bonded indebtedness is ten percent (10%) (or greater) of the District's assessed valuation which would result in an annual M&O tax rate not to exceed \$1.20. Lastly, the Texas Attorney General in reviewing the District's transcript of proceedings will allow the District to reduce the amount of its outstanding bonded indebtedness by the amount of funds (on a percentage basis) that the District receives in State assistance for the repayment of this bonded indebtedness (for example, if the District anticipates that it will pay 75% of its bonded indebtedness from State assistance, for the purposes of Article 2784e-1, the Texas Attorney General will assume that only 25% of the bonded indebtedness is outstanding and payable from local ad valorem taxes). The bonded indebtedness of the District after the issuance of the Bonds and the Series 2018A Bonds will be approximately 2.70% of the District's current taxable assessed valuation of property. See "APPENDIX A - VALUATION AND DEBT DATA - Valuation Information, Direct Debt Information, and Direct Debt Ratios" herein.

The maximum tax rate per \$100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) \$1.50 and (B) the sum of (1) the rate of \$0.17, and (2) the product of the "State Compression Percentage" multiplied by \$1.50. The State Compression Percentage has been set, and will remain, at 66.67% for the 2018-19 State fiscal biennium. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For a more detailed description of the State Compression Percentage, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Local Funding for School Districts." Furthermore, a school district cannot annually increase its tax rate in excess of the district's "rollback tax rate" without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate. See "AD VALOREM TAX PROCEDURES - Public Hearing and Rollback Tax Rate."

A school district is also authorized to issue bonds and levy taxes for payment of bonds subject to voter approval of one or more propositions submitted to the voters under Section 45.003(b)(1), Texas Education Code, as amended, which provides a tax unlimited as to rate or amount for the support of school district bonded indebtedness (see "THE BONDS -Security for Payment").

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

projected future taxable value of property in the district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five years after the current tax year or the tax year in which the final payment for the bonds is due.

However, if a district uses projected future taxable values to meet the \$0.50 threshold tax rate test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the \$0.50 threshold tax rate test from a tax rate of \$0.45 per \$100 of valuation. The District has not used State assistance other than EDA or IFA allotment funding or projected property values to satisfy this threshold test.

DEBT LIMITATIONS

Under State law, there is no explicit bonded indebtedness limitation, although the tax rate limits described above under "TAX RATE LIMITATIONS" effectively impose a limit on the incurrence of debt. Such tax rate limits require school districts to demonstrate the ability to pay "new debt" from a tax rate of \$0.50. In demonstrating compliance with the requirement, a district may take into account State equalization payments and, if compliance with such requirement is contingent on receiving state assistance, a district may not adopt a tax rate for a year for purposes of paying the principal of and interest on the bonds unless the district credits to the interest and sinking fund for the bonds the amount of State assistance received or to be received in that year. The State Attorney General reviews a district's calculations showing the compliance with such test as a condition to the legal approval of the debt. As stated above, the Bonds are new debt and are subject to this limitation.

EMPLOYEE BENEFITS, RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS

The District contributes to the Teacher Retirement System of Texas (the "System"), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the District, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates primarily under the provisions of the Texas Constitution and Texas Government Code, Title 8, Subtitle C. See "Notes to the Financial Statements - Note G - Pension Plan" as set out in the audited financial statements of the District for the year ended August 31, 2017 as set forth in APPENDIX C hereto.

The District contributes to the Texas Public School Retired Employees Group Insurance Program ("TRS-Care"), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the TRS. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under TRS. See "Notes to the Financial Statements, Note H - Retiree Health Care Plan" in the audited financial statements of the District for the year ended August 31, 2017 as set forth in APPENDIX C hereto.

During the year ended August 31, 2017, employees of the District were covered by a health insurance plan (the "Plan"). The District contributed \$316 to \$366 per month, per employee to the Plan. Employees, at their option, authorize payroll withholdings to pay the remaining premiums for themselves and dependents. See "Notes to the Financial Statements - Note I - Employee Health Care Coverage" in the audited financial statements for the District for the year ended August 31, 2017 as set forth in Appendix C hereto.

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

INVESTMENT POLICIES

The District invests its funds in investments authorized by Texas law in accordance with investment policies approved by the Board. Both Texas law and the District's investment policies are subject to change.

Legal Investments

Under Texas law, the District is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent, (6) bonds issued, assumed, or guaranteed by the State of Israel, (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the national Credit Union Share Insurance Fund or its successors, (8) certificates of deposit, share certificates,

and interest-bearing banking deposits other than those described in (7) above, meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (i) that are issued by or through an institution that has its main office or a branch office in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (7) or in any other manner and amount provided by law for District deposits; or (ii) where (a) the funds are invested by the District through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the United States Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (9) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1) and require the security being purchased by the District to be pledged to the District, held in the District's name and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (7) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (7) above, clauses (12) through (14) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less, certain bankers' acceptances with the remaining term of 270 days or less from the date of issuance (and will be, in accordance with their terms, liquidated in fully at maturity, are eligible for collateral for borrowing from a Federal Reserve Bank, and are accepted by a State or Federal bank), if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency, (12) commercial paper with the remaining term of 270 days or less from the date of issuance that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (13) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that comply with Federal Securities and Exchange Commission Rule 2a-7, and (14) no-load mutual fund registered with the United States Securities and Exchange Commission that: have an average weighted maturity of less than two years and have a duration of one year or more and are invested exclusively in obligations described in this paragraph or have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. Texas law also permits the District to invest bond proceeds in a guaranteed investment contract subject to the limitations set forth in Chapter 2256, as amended, Texas Government Code.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAA-m" or an equivalent by at least one nationally recognized rating service. The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

As a school district that qualifies as an "issuer" under Chapter 1371, the District is also authorized to purchase, sell, and invest its funds in corporate bonds. State law defines "corporate bonds" as senior secured debt obligations issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm. The term does not include a bond that is convertible into stocks or shares in the entity issuing the bond (or an affiliate or subsidiary thereof) or any unsecured debt. Corporate bonds must finally mature not later than 3 years from their date of purchase by the school district. A school district may not (1) invest more than 15% of its monthly average fund balance (excluding bond proceeds, reserves, and other funds held for the payment of debt service) in corporate bonds; or (2) invest more than 25% of the funds invested in corporate bonds in any one domestic business entity (including subsidiaries and affiliates thereof). Corporate bonds held by a school district must be sold if they are at any time downgraded below "AA-" (or the equivalent thereof) or, with respect to a corporate bond rated "AA-" (or the equivalent thereof), such corporate bond is placed on negative credit watch. Corporate bonds are not an eligible investment for a public funds investment pool. To invest in corporate bonds, an eligible school district must first (i) amend its investment policy to authorize corporate bonds as an eligible investment, (ii) adopt procedures for monitoring rating changes in corporate bonds and liquidating an investment in corporate bonds, and (iii) identify funds eligible to be invested in corporate bonds. As of the date of this Offering Memorandum, the District has not taken the steps necessary to allow for investing in corporate bonds or made investments in that type of instrument.

Investment Policies

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, District investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived". At least quarterly the investment officers of the District shall submit an investment report detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) State law. No person may invest District funds without express written authority from the Board of Trustees.

Additional Provisions

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

Current Investments*

As of April 1, 2018, the following percentages of the District's investable funds were invested as indicated below:

<u>Category of Investments</u>	<u>Amount</u>	<u>Percentage</u>	<u>Term of Investments</u>
U.S. Government Agencies	\$ 7,618,000	12.25%	6 months to 2 years
Investment Pools	<u>54,550,748</u>	<u>87.75%</u>	Daily liquidity
Total	\$62,168,748	100.00%	

* Unaudited.

As of such date, the market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) was approximately 100% of their book value. No funds of the District are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

LEGAL MATTERS

Legal Opinions and No-Litigation Certificate

The District will furnish the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Bonds are valid and legally binding obligations of the District and, subject to the qualifications set forth herein under "TAX MATTERS," the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Offering Memorandum, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions "THE BONDS" (exclusive of the subcaptions "Payment Record," "Future Issues," "Permanent School Fund Guarantee," and "Default and Remedies," as to which no opinion is expressed), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM," "TAX RATE LIMITATIONS" (first paragraph only), "LEGAL MATTERS" (excluding the last two sentences of the first paragraph under the caption "Legal Opinions and No-Litigation Certificate" and excluding the information under the subcaption "Litigation," as to which no opinion is expressed), "TAX MATTERS," "CONTINUING DISCLOSURE" (excluding the information under the subcaption "Compliance with Prior Agreements," as to which no opinion is expressed), "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," and "OTHER PERTINENT INFORMATION - Registration and Qualification of Bonds for Sale" in the Offering Memorandum and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. Bond Counsel's legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, whose compensation is contingent on the sale and delivery of the Bonds. McCall, Parkhurst & Horton L.L.P. also advises the TEA in connection with its disclosure obligations under the federal securities laws, but such firm has not passed upon any TEA disclosures contained in this Offering Memorandum.

Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the Bonds, Bond Counsel has been engaged by and only represents the District with respect to the issuance of the Bonds. The legal opinion to be delivered concurrently with the delivery of the Bonds expresses the professional judgment of the attorneys rendering the opinion as to the legal issues expressly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise from the transaction.

Litigation

In the opinion of various officials of the District, except as disclosed in this Offering Memorandum, there is no litigation or other proceeding pending against or, to their knowledge, threatened against the District in any court, agency, or administrative body (either state or federal) wherein an adverse decision would materially adversely affect the financial condition of the District.

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

TAX MATTERS

Opinion

The delivery of the Bonds is subject to the opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel, to the effect that interest on the Bonds for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change. Bond Counsel's opinion does not cover the effect on excludability of interest of subsequent action under the terms of the Order that may be taken only upon receipt of an opinion of counsel of nationally recognized standing in the field of municipal bond law. A form of Bond Counsel's opinion appears in APPENDIX D hereto.

For taxable years that began before January 1, 2018, interest on the Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of computing the alternative minimum tax on such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment

conduit, or a financial asset securitization investment trust. The alternative minimum tax on corporations has been repealed for taxable years beginning on or after January 1, 2018.

In rendering the foregoing opinion, Bond Counsel will rely upon the representations and certifications of the District made in a certificate of even date with the initial delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Order by the District subsequent to the issuance of the Bonds. The Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities and equipment financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, if required, the calculation and payment to the United States Treasury of any arbitrage “profits” and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Bond Counsel’s opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Issuer described above. No ruling has been sought from the Internal Revenue Service (the “IRS”) with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel’s opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the District as the “taxpayer,” and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the Issuer may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Tax Changes

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

Ancillary Tax Consequences

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Tax Accounting Treatment of Discount Bonds

The initial public offering price to be paid for certain bonds may be less than the amount payable on such bonds at maturity (the “Discount Bonds”). An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bonds. A portion of such original issue discount, allocable to the holding period of a Discount Bond by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the Bonds. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

However, such accrued interest may be taken into account in determining the alternative minimum tax on corporations for taxable years that began before January 1, 2018, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

Tax Accounting Treatment of Premium Bonds

The initial public offering price to be paid for certain bonds may be greater than the stated redemption price on such bonds at maturity (the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium with respect to the Premium Bonds. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201, as amended), the Bonds (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (iii) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256, as amended), the Bonds may have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. See "OTHER PERTINENT INFORMATION - Municipal Bond Rating" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital and savings and loan associations.

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

CONTINUING DISCLOSURE

The District in the Order has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board ("MSRB"). This information will be available to the public free of charge from the MSRB via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org, as further described below under "Availability of Information from MSRB".

Annual Reports

The District will file certain updated financial information and operating data with the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Offering Memorandum in APPENDIX A, attached hereto, exclusive of the tables reflecting "Direct and Estimated Gross Overlapping Funded Debt Payable from Ad Valorem Taxes," "Estimated Interest & Sinking Fund Management Index 2017/18" and "2018/2019 Pro Forma Interest & Sinking Fund Management Index," respectively, and in APPENDIX C attached hereto. The District will update and provide this information to the MSRB within 6 months after the end of each fiscal year ending in or after 2018.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the United States Securities and Exchange Commission (the "SEC") Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the District commissions an audit and it is completed

by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX C or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's current fiscal year end is August 31. Accordingly, it must provide updated information by the last day of February in each year, unless it changes its fiscal year. If the District changes its fiscal year, it will file notice of such change with the MSRB.

Notice of Certain Events

The District will file with the MSRB notice of any of the following events with respect to the Bonds in a timely manner (not more than 10 business days after occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional Paying Agent/Registrar or the change of name of a Paying Agent/Registrar, if material. Neither the Bonds nor the Order make any provision for debt service reserves, credit enhancement (with the exception of the Texas Permanent School Fund guarantee), or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The District will provide each notice described in this paragraph to the MSRB.

For these purposes, any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

Availability of Information from MSRB

Effective July 1, 2009 (the "EMMA Effective Date"), the SEC implemented amendments to the Rule which approved the establishment by the MSRB of EMMA, which is now the sole successor to the national municipal securities information repositories with respect to filings made in connection with undertakings made under the Rule after the EMMA Effective Date. Commencing with the EMMA Effective Date, all information and documentation filing required to be made by the District in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

With respect to debt of the District issued prior to the EMMA Effective Date, the District remains obligated to make annual required filings, as well as notices of material events, under its continuing disclosure obligations relating to those debt obligations (which includes a continuing obligation to make such filings with the Texas state information depository (the "SID")). Prior to the EMMA Effective Date, the Municipal Advisory Council of Texas (the "MAC") had been designated by the State and approved by the SEC staff as a qualified SID. Subsequent to the EMMA Effective Date, the MAC has entered into a Subscription Agreement with the MSRB pursuant to which the MSRB makes available to the MAC, in electronic format, all Texas-issuer continuing disclosure documents and related information posted to EMMA's website simultaneously with such posting. Until the District receives notice of a change in this contractual agreement between the MAC and EMMA or of a failure of either party to perform as specified thereunder, the District has determined, in reliance on guidance from the MAC, that making its continuing disclosure filings solely with the MSRB will satisfy its obligations to make filings with the SID pursuant to its continuing disclosure agreements entered into prior to the EMMA Effective Date.

Limitations and Amendments

The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any

breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders or beneficial owners of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (1) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also repeal or amend these provisions if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but in either case only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the District amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Agreements

During the last five (5) years, the District has complied in all material respects with all previous continuing disclosure agreements made by it in accordance with the Rule.

OTHER PERTINENT INFORMATION

Authenticity of Financial Information

The financial data and other information contained herein have been obtained from the District's records, audited financial statements and other sources, which are believed to be reliable. All of the summaries of the statutes, documents and orders contained in this Offering Memorandum are made subject to all of the provisions of such statutes, documents and orders. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

Registration and Qualification of Bonds for Sale

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

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

Municipal Bond Rating

Moody's Investors Service, Inc. ("Moody's") has assigned its municipal bond rating of "Aaa" to the Bonds on the basis of the payment of the Bonds being guaranteed by the State of Texas Permanent School Fund. Moody's generally rates unlimited tax bonds guaranteed by the Permanent School Fund "Aaa." In addition, Moody's has assigned its underlying unenhanced rating of "Aa1" to the Bonds. See "PERMANENT SCHOOL FUND GUARANTEE PROGRAM."

An explanation of the significance of any rating may be obtained from the company furnishing the rating. The rating reflects only the view of such organization and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

Financial Advisor

SAMCO Capital Markets, Inc. (the "Financial Advisor") is employed as the Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. SAMCO Capital Markets, Inc., in its capacity as Financial Advisor,

has relied on the opinions of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the bond documentation with respect to the federal income tax status of the Bonds. In the normal course of business, the Financial Advisor may also from time to time sell investment securities to the District for the investment of bond proceeds or other funds of the District upon the request of the District.

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

Underwriting

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District at the price equal to the initial offering prices to the public, as shown on page -ii- herein, less an Underwriters' discount of \$45,000.00, and no accrued interest. The Underwriters' obligation is subject to certain conditions precedent. The Underwriters will be obligated to purchase all of the Bonds, if any of the Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

The Underwriters have provided the following sentence for inclusion in this Offering Memorandum. The Underwriters have reviewed the information in this Offering Memorandum in accordance with their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Certification of the Offering Memorandum

At the time of payment for and delivery of the Initial Bond, the Underwriters will be furnished a certificate, executed by proper officials of the District, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements pertaining to the District contained in its Offering Memorandum, and any addenda, supplement, or amendment thereto, for the Bonds, on the date of such Offering Memorandum, and on the date of the initial delivery of the Bonds, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, such Offering Memorandum did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the District, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the District believes to be reliable and the District has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the District, since August 31, 2017, the date of the last financial statements of the District appearing in the Offering Memorandum.

Forward Looking Statements

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

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

Information from External Sources

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Offering Memorandum for purposes of, and as that term is defined in, SEC Rule 15c2-12.

Authorization of the Offering Memorandum

No person has been authorized to give any information or to make any representations other than those contained in this Offering Memorandum, and if given or made, such other information or representations must not be relied upon as having been authorized by the District.

This Offering Memorandum has been approved by the Board of the District for distribution in accordance with provisions of the SEC's Rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

The Order approved the form and content of this Offering Memorandum and any addenda, supplement or amendment thereto and authorized its further use in the reoffering of the Bonds by the Underwriters.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT

/s/ John Tippit
President, Board of Trustees

ATTEST:

/s/ Lisa Krenger
Secretary, Board of Trustees

(this page intentionally left blank)

APPENDIX A
Selected Financial Information
of the District

(this page intentionally left blank)

VALUATION AND DEBT DATA

Valuation Information

Total 2017 Appraised Valuation of District	\$7,333,984,885
Less: Exemptions and Exclusions ⁽¹⁾	<u>301,310,811</u>
Total Taxable Assessed Valuation	\$7,032,674,074

Source: Bexar Appraisal District.

⁽¹⁾ Includes valuations against which a freeze of tax levy has been granted for persons 65 years or older in 2017.

Direct Debt Information

Total All Bonded Indebtedness Payable from Ad Valorem Taxes (at 5-10-2018)	\$190,160,000*
Less: Interest & Sinking Fund Cash Balance (at 4-01-2018)	<u>3,005,837</u>
Net Bonded Indebtedness Payable from Ad Valorem Taxes	\$187,154,163

* Includes the Series 2018A Bonds and the Series 2018B Bonds.

Direct Debt Ratios

Ratio of Total Bonded Debt (\$190,160,000*) to Taxable Assessed Valuation (\$7,032,674,074)	2.70%
Ratio of Total Bonded Debt (\$190,160,000*) to Total Appraised Valuation (\$7,333,984,885)	2.59%
Ratio of Net Bonded Debt (\$187,154,163*) to Taxable Assessed Valuation (\$7,032,674,074)	2.66%
Ratio of Net Bonded Debt (\$187,154,163*) to Total Appraised Valuation (\$7,333,984,885)	2.55%

* Includes the Series 2018A Bonds and the Series 2018B Bonds.

Non-Funded Debt

The District has no non-funded debt.

Source: District's 2017 Annual Financial Report.

Authorized But Unissued General Obligation Bonds

After the issuance of the Series 2018A Bonds and the Series 2018B Bonds, the District will have \$20,000,000 in voter authorized but unissued unlimited ad valorem tax-supported bonds.

Anticipated Issuance of Additional Bonds

Concurrently with the sale of the Series 2018B Bonds, the District sold its \$82,750,000 "Alamo Heights Independent School District Variable Rate Unlimited Tax School Building Bonds, Series 2018A" (the "Series 2018A Bonds") for purposes authorized and approved by voters at the Election. The Series 2018A Bonds and the Series 2018B Bonds are separate and distinct securities offerings being issued and sold independently and, while the Series 2018B Bonds and the Series 2018A Bonds share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently including, without limitation, the type of obligations being offered, its terms for payment, the security for its payment, credit enhancement, the treatment of interest for federal income tax purposes, and the rights of the holders. Investors interested in purchasing any of the Series 2018A Bonds should review the offering document relating thereto. In addition, the District authorized its \$1,670,000 (preliminary, subject to change) Alamo Heights Independent School District Unlimited Tax Refunding Bonds, Series 2018C (the "Series 2018C Bonds") which will be issued and sold independently via private placement. The financial results of the issuance of the Series 2018C Bonds and the refunding of District obligations with the proceeds thereof are not reflected in this APPENDIX A.

Population and Per Capita Indebtedness

2017/18 District Population Estimate	30,939
2017/18 Per Capita Taxable Assessed Valuation (\$7,032,674,074)	\$227,307.74
Per Capita Direct Debt (\$190,160,000*)	\$6,146.29

* Includes the Series 2018A Bonds and the Series 2018B Bonds.

Enrollment and Average Daily Attendance Data

2017/18 Enrollment (at 12-1-2017)	4,790
2017/18 Estimated Average Daily Attendance (at 12-1-2017)	4,598
2017 Taxable Assessed Valuation (\$7,032,674,074) Per Enrollment	\$1,468,199.18

Valuation and Bonded Debt Data

Area of District in Square Miles	9.4
Area of District in Acres	6,016
Total Direct Bonded Debt (\$190,160,000*) Per Acre	\$31,609.04
2017 Taxable Assessed Valuation (\$7,032,674,074) Per Acre	\$1,168,995.03

* Includes the Series 2018A Bonds and the Series 2018B Bonds.

Outstanding Debt By Issues

Unlimited Tax Bonds	Original Amount	Outstanding at 5-10-2018 ⁽¹⁾
School Building Bonds, Series 2007	\$ 2,999,998	\$ 1,670,000
School Building Bonds, Series 2012	9,000,000	7,900,000
School Building and Refunding Bonds, Series 2013	43,585,000	36,935,000
School Building and Refunding Bonds, Series 2014	9,365,000	7,995,000
Refunding Bonds, Series 2014	620,000	210,000
Refunding Bonds, Series 2015	4,505,000	1,930,000
Refunding Bonds, Series 2016	26,280,000	24,340,000
School Building Bonds, Series 2017	15,000,000	14,430,000
The Series 2018A Bonds	82,750,000	82,750,000
The Series 2018B Bonds	12,000,000	<u>12,000,000</u>
Total Debt		\$190,160,000

⁽¹⁾ Unaudited

(The remainder of this page has been left blank intentionally.)

Consolidated Schedule of Bonded Issue Principal Requirements
(Year Ending August 31 In Each Of The Years 2018 - 2043 Inclusive)*

2018	\$ 6,390,000	
2019	7,200,000	
2020	7,940,000	
2021	8,155,000	
2022	9,280,000	19.88%
	-	
2023	9,785,000	
2024	10,425,000	
2025	10,600,000	
2026	8,300,000	
2027	8,540,000	44.18%
	-	
2028	7,915,000	
2029	7,985,000	
2030	7,555,000	
2031	6,435,000	
2032	6,405,000	62.44%
	-	
2033	6,505,000	
2034	6,315,000	
2035	6,520,000	
2036	6,580,000	
2037	6,745,000	79.10%
	-	
2038	6,860,000	
2039	7,005,000	
2040	7,010,000	
2041	6,970,000	
2042	6,975,000	96.86%
	-	
2043	<u>6,155,000</u>	100.00%
	\$196,550,000	

* Includes the Series 2018A Bonds and the Series 2018B Bonds.

(The remainder of this page has been left blank intentionally.)

Direct and Estimated Gross Overlapping Funded Debt Payable from Ad Valorem Taxes

Expenditures of the various taxing bodies overlapping the territory of the District are paid out of ad valorem taxes levied by these taxing bodies on properties overlapping the District. These political taxing bodies are independent of the District and may incur borrowings to finance their expenditures. The following statements of direct and estimated overlapping ad valorem tax bonds was developed from information contained in the "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have authorized or issued additional bonds since the date stated below, and such entities may have programs requiring the authorization and/or issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of direct and overlapping extended debt of these various taxing bodies:

Political Subdivision	Gross Debt		Percent Overlapping	Amount Overlapping
	Amount	As Of		
Alamo CCD ⁽¹⁾	\$ 488,500,000	4-1-2018	4.70%	\$ 22,959,500
Alamo Heights, City of	8,375,000	4-1-2018	100.00%	8,375,000
Bexar County	1,713,465,000	7-1-2018	4.70%	80,532,855
Bexar County Hospital District	891,565,000	7-1-2018	4.70%	41,903,555
Olmos Park, City of	1,780,000	7-1-2018	95.87%	1,706,486
San Antonio River Authority	19,100,000	7-1-2018	5.02%	958,820
San Antonio, City of ⁽²⁾	1,614,365,000	7-1-2018	3.31%	53,435,482
Terrell Hills, City of	8,300,000	7-1-2018	89.26%	7,408,580
Estimated Overlapping Funded Debt				\$217,280,278
Alamo Heights ISD ⁽³⁾	190,160,000	4-1-2018	100.00%	190,160,000
Total Direct and Estimated Overlapping Funded Debt				\$407,440,278
Ratio to 2017 Assessed Valuation (\$7,032,674,074)				5.79%

⁽¹⁾ Approved a principal amount of \$450,000,000 at a bond election held on May 6, 2017.

⁽²⁾ Approved a principal amount of \$850,000,000 at a bond election held on May 6, 2017.

⁽³⁾ Includes the Series 2018A Bonds and the Series 2018B Bonds.

TAXATION DATA

Historical Valuations, Tax Rates, and Collection Data

Tax Year	Assessed Valuation*	Tax Rate	% Collections		Year Ending
			Current	Total	
2006	\$4,267,048,996	\$1.49	99.12%	100.14%	8-31-07
2007	\$4,767,216,449	\$1.16	99.30%	99.99%	8-31-08
2008	5,274,323,919	1.16	98.60%	97.00%	8-31-09
2009	5,400,162,673	1.16	99.14%	100.01%	8-31-10
2010	5,236,696,545	1.17	99.21%	99.01%	8-31-11
2011	5,223,583,114	1.20	99.37%	100.13%	8-31-12
2012	5,313,500,497	1.22	99.18%	99.00%	8-31-13
2013	5,550,207,567	1.22	99.34%	99.63%	8-31-14
2014	5,858,541,056	1.21	99.29%	99.83%	8-31-15
2015	6,389,322,301	1.20	99.28%	99.88%	8-31-16
2016	6,826,849,870	1.20	99.93%	100.20%	8-31-17
2017	7,032,674,074 **	1.20	(In Process of Collection)		8-31-18

* District's 2017 Annual Financial Report (2007-2016). These values include values against which a freeze of tax levy has been granted.

** Bexar Appraisal District.

Tax Rate Distribution

Tax Year	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Local Maintenance	\$1.060	\$1.060	\$1.060	\$1.060	\$1.060
Interest & Sinking Fund	<u>.140</u>	<u>.135</u>	<u>.135</u>	<u>.145</u>	<u>.158</u>
Total	\$1.200	\$1.195	\$1.195	\$1.205	\$1.218

⁽¹⁾ On September 15, 2012, the District successfully held a tax ratification election. The voters of the District approved a maintenance and operations tax not to exceed \$1.06.

Schedule of Delinquent Taxes Receivable Fiscal Year Ended August 31, 2017

<u>Last Ten Years Ended August 31</u>	<u>Ending Balance</u>
2007 and prior years	\$ 154,275
2008	32,004
2009	182,825
2010	72,196
2011	75,490
2012	77,816
2013	88,200
2014	117,893
2015	141,420
2016	183,942
2017	<u>421,255</u>
Total	\$1,547,316

Source: District's 2017 Annual Financial Report

Ten Largest Taxpayers

<u>Name</u>	<u>Type of Property</u>	<u>2017 Net Taxable Assessed</u>	<u>% of Total 2017 Assessed Valuation</u>
AAT Alamo Quarry LLC	Retail	\$127,693,478	1.82%
US Reif Artesa San Antonio Texas LLC	Real Estate Investment	103,200,000	1.47%
Ean Holdings LLC	Car Rental	88,460,330	1.26%
Alamo Multifamily San Antonio LP	Real Estate	54,592,000	0.78%
Siete Acres LLC	Land/Improvements	48,615,420	0.69%
BPP Lincoln Heights LP	Retail Center	42,475,000	0.60%
200 Concord LLC	Office Building	41,395,596	0.59%
LR One International LLC	Office Buildings	40,000,810	0.57%
Franklin Park Alamo Heights LTD	Senior Living 419,014	39,662,170	0.56%
Union Square SPE LLC	Real Estate	<u>38,419,014</u>	<u>0.55%</u>
Total		\$624,513,818	8.89%

Source: Bexar Appraisal District

2017 Tax Exemptions/Deductions Allowed

The District has granted exemptions to property owners and for persons over 65 years of age and has granted those exemptions under the law for disabled property owners and veterans, and agricultural exclusions as provided. The exemptions in each of the categories listed are shown below:

Homestead - State-mandated General \$25,000	\$169,574,748
State-mandated Over-65 or Disabled \$10,000	28,627,165
100% Disabled or Unemployable Veterans	2,417,500
Homestead - Disabled or Deceased Veterans	23,567,007
Disabled Persons	540,000
Homestead - 10% Appraisal Cap Loss	64,238,511
Freeport	11,443,460
Other	<u>902,420</u>
Total Deductions Allowed	\$301,310,811

Source: Bexar Appraisal District

Taxpayers by Classification

<u>Classification</u>	<u>2017 Assessed Valuation</u>	<u>Percent Of Total</u>	<u>2016 Assessed Valuation</u>	<u>Percent Of Total</u>	<u>2015 Assessed Valuation</u>	<u>Percent Of Total</u>
Single Family Residential	\$4,923,257,282	67.13%	\$4,714,167,900	67.39%	\$4,575,979,112	67.76%
Multi-Family Residential	543,220,233	7.40%	471,977,628	6.75%	433,385,836	6.42%
Vacant-Platted Lots	47,769,562	0.65%	47,908,209	0.69%	54,363,631	0.81%
Acreage	54,890	0.00%	45,950	0.00%	304,115	0.00%
Real Commercial	1,392,345,175	18.98%	1,321,128,614	18.89%	1,296,670,373	19.20%
Real Industrial	695,000	0.01%	977,070	0.01%	820,920	0.01%
Oil, Gas, Minerals	-0-	0.00%	-0-	0.00%	-0-	0.00%
Utilities	12,973,772	0.18%	13,652,739	0.20%	12,858,806	0.19%
Personal Commercial	367,258,527	5.01%	383,391,026	5.48%	343,919,055	5.09%
Personal Industrial	15,913,224	0.22%	16,157,845	0.23%	13,732,611	0.20%
Mobile Homes	-0-	0.00%	-0-	0.00%	-0-	0.00%
Residential Inventory	8,013,420	0.11%	3,091,060	0.04%	2,647,238	0.04%
Special Inventory	<u>22,483,800</u>	<u>0.31%</u>	<u>22,653,900</u>	<u>0.32%</u>	<u>18,141,000</u>	<u>0.27%</u>
Total Valuation	\$7,333,984,885	100.00%	\$6,995,151,941	100.00%	\$6,752,822,697	100.00%
Less Exemptions & Exclusions	<u>301,310,811</u>		<u>286,714,677</u>		<u>697,333,478</u>	
Net Taxable Assessed Valuation	<u>\$7,032,674,074</u>		<u>\$6,708,437,264</u>		<u>\$6,055,489,219</u>	

Source: Bexar Appraisal District.

(The remainder of this page has been left blank intentionally.)

ESTIMATED INTEREST & SINKING FUND MANAGEMENT INDEX 2017/18

Interest & Sinking Fund Balance at 8-31-2017.....	\$ 2,327,453
Estimated Income from \$0.14 I&S Tax Rate @ 97% Collected Using	
2017 Taxable Assessed Valuation of \$7,032,674,074	9,550,371
Estimated Other Income	<u>956,000</u>
Estimated Total Funds Available	12,833,824
2017/18 Debt Service Requirement	<u>10,330,234</u>
Estimated Interest & Sinking Fund Balance at 8-31-2018.....	\$ 2,503,590

CONSOLIDATED DEBT SERVICE REQUIREMENTS INCLUDING THE SERIES 2018A BONDS AND THE SERIES 2018B BONDS

FISCAL YEAR 8-31	CURRENTLY OUTSTANDING DEBT SERVICE	UNLIMITED TAX BONDS			GRAND TOTAL ALL DEBT SERVICE
		\$82,750,000 SERIES 2018A ⁽¹⁾	\$12,000,000 SERIES 2018B ⁽²⁾	TOTAL NEW DEBT SERVICE	
2018	\$ 9,531,107.03	\$ 743,126.94	\$ 56,000.00	\$ 799,126.94	\$10,330,233.97
2019	9,355,383.75	4,308,075.00	360,000.00	4,668,075.00	14,023,458.75
2020	9,654,909.25	4,519,825.00	360,000.00	4,879,825.00	14,534,734.25
2021	9,599,438.75	3,443,575.00	1,394,250.00	4,837,825.00	14,437,263.75
2022	9,585,832.50	3,443,575.00	2,150,750.00	5,594,325.00	15,180,157.50
2023	9,558,167.50	3,443,575.00	2,316,875.00	5,760,450.00	15,318,617.50
2024	9,513,982.50	3,443,575.00	2,673,250.00	6,116,825.00	15,630,807.50
2025	8,922,925.00	3,443,575.00	3,115,375.00	6,558,950.00	15,481,875.00
2026	8,912,851.25	3,443,575.00	537,500.00	3,981,075.00	12,893,926.25
2027	8,918,101.25	3,443,575.00	522,500.00	3,966,075.00	12,884,176.25
2028	8,087,856.25	3,443,575.00	507,500.00	3,951,075.00	12,038,931.25
2029	7,980,084.38	3,931,075.00		3,931,075.00	11,911,159.38
2030	3,027,900.00	8,215,675.00		8,215,675.00	11,243,575.00
2031	1,904,512.50	7,961,075.00		7,961,075.00	9,865,587.50
2032	1,862,562.50	7,740,462.50		7,740,462.50	9,603,025.00
2033	1,943,993.75	7,538,250.00		7,538,250.00	9,482,243.75
2034	739,437.50	8,320,150.00		8,320,150.00	9,059,587.50
2035	744,812.50	8,271,850.00		8,271,850.00	9,016,662.50
2036	749,687.50	8,074,050.00		8,074,050.00	8,823,737.50
2037	759,000.00	7,987,912.50		7,987,912.50	8,746,912.50
2038	767,687.50	7,862,662.50		7,862,662.50	8,630,350.00
2039	763,750.00	7,726,125.00		7,726,125.00	8,489,875.00
2040	776,506.25	7,380,625.00		7,380,625.00	8,157,131.25
2041	787,700.00	6,992,750.00		6,992,750.00	7,780,450.00
2042	797,756.25	6,652,500.00		6,652,500.00	7,450,256.25
2043	-	6,308,875.00		6,308,875.00	6,308,875.00
	\$125,245,945.66	\$148,083,664.44	\$13,994,000.00	\$162,077,664.44	\$287,323,610.10

⁽¹⁾ Interest calculated at actual rates.

⁽²⁾ Interest calculated at the actual rate through January 31, 2021 and at an assumed rate thereafter.

2018/2019 PRO FORMA INTEREST & SINKING FUND MANAGEMENT INDEX

Estimated Interest & Sinking Fund Balance at 8-31-2018.....	\$ 2,503,590
Estimated Income from \$0.195 I&S Tax Rate @ 95% Collected Using	
2018 Estimated Taxable Assessed Valuation of \$7,185,607,778	13,311,338
Estimated Other Income	<u>25,000</u>
Total Estimated Funds Available	15,839,928
2018/19 Debt Service Requirement	<u>14,023,459</u>
Estimated Interest & Sinking Fund Balance at 8-31-2019	\$ 1,816,469

FIVE-YEAR RECORD OF FINANCIAL OPERATIONS

The following summary of the District's results of operation reflects the District's historical performance under prior systems of school finance in Texas. For a description of the prior systems, the revised current system, and how the District's future financial performance may be affected by the revised system and ongoing litigation see "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS."

	Year Ended 8/31				
	2017	2016	2015	2014	2013
<u>REVENUES</u>					
Local Sources	\$82,866,684	\$75,759,282	\$71,095,536	\$68,472,978	\$64,818,641
State Sources	4,583,260	3,397,463	5,624,117	6,010,585	6,544,490
Federal Sources	<u>3,304,036</u>	<u>2,998,256</u>	<u>2,775,598</u>	<u>2,476,769</u>	<u>2,392,049</u>
Total all Revenue	<u>90,753,980</u>	<u>82,155,001</u>	<u>79,495,251</u>	<u>76,960,332</u>	<u>73,755,180</u>
<u>EXPENDITURES</u>					
Instruction & Instruction Related	30,032,651	28,937,098	28,870,126	28,732,680	27,281,363
Instructional & School Leadership	3,360,050	3,133,622	3,114,393	3,045,342	2,956,386
Intergovernmental Charges	33,906,697	28,810,394	25,866,004	23,731,233	23,243,303
Pupil Services	7,499,178	6,725,843	6,842,100	6,377,655	6,446,800
General Administration	2,004,422	1,879,814	1,636,117	1,807,264	1,721,914
Debt Service	8,704,918	7,922,499	7,925,208	15,095,827	8,236,789
Plant Maintenance & Operation	5,668,050	5,281,059	4,924,214	4,552,982	4,487,562
Ancillary Services	-0-	-0-	-0-	-0-	-0-
Capital Outlay	3,708,169	1,608,230	1,768,177	2,699,693	4,166,484
Community Services	<u>31,171</u>	<u>26,797</u>	<u>19,140</u>	<u>23,305</u>	<u>28,053</u>
Total all Expenditures	<u>94,915,306</u>	<u>84,325,356</u>	<u>80,965,479</u>	<u>86,065,981</u>	<u>78,568,654</u>
Total Other Sources and (Uses)	<u>21,228,487</u>	<u>1,926,696</u>	<u>(62,000)</u>	<u>10,291,531</u>	<u>4,628,708</u>
Excess (Deficiency) of Revenues and Other Resources Over Expenditures and Other Uses	17,067,161	(243,659)	(1,532,228)	1,185,882	(184,766)
Fund Balance Beginning of Year	18,025,099	18,268,758	19,800,986	18,615,104	18,799,870
Fund Balance End of Year	<u>\$35,092,260</u>	<u>\$18,025,099</u>	<u>\$18,268,758</u>	<u>\$19,800,986</u>	<u>\$18,615,104</u>
Fund Balance - General Fund	\$19,137,258 ⁽¹⁾	\$14,238,121	\$13,092,662	\$12,906,016	\$12,407,123

⁽¹⁾ The District anticipates drawing down this General Fund balance by approximately \$2,209,000 in fiscal year 2018.

	Year Ended 8/31				
	2017	2016	2015	2014	2013
Assessed Valuation	\$6,826,849,870	\$6,389,322,301	\$5,858,541,056	\$5,550,207,567	\$5,313,500,497
Total Tax Rate	\$1.195	\$1.195	\$1.205	\$1.218	\$1.218
Percent of Debt Service to Total	9.17%	10.64%	9.79%	17.54%	10.48%

Source: District's audited financial statements.

APPENDIX B

General Information Regarding the District

And Its Economy

(this page intentionally left blank)

THE DISTRICT

This Appendix contains a brief discussion of certain economic and demographic characteristics of the area in which the District is located. Information in this Appendix has been obtained from sources that are believed to be reliable, although no investigation has been made to verify the accuracy of such information.

General

Alamo Heights Independent School District (the "District") is located entirely in Bexar County, Texas (the "County") and is bordered on the north, east and west by North East Independent School District, on the west and south by the San Antonio Independent School District, and on the southeast by the Fort Sam Houston Independent School District. The District is just northeast of downtown San Antonio.

The boundaries of the District extend to Loop 410 south access road, to include the North Frost Bank Center at 1250 NE Loop 410, continuing westward along the south access road to Jones-Maltsberger, crossing Loop 410 to include a portion of the San Antonio International Airport. Several office buildings along Loop 410 are within the District.

The District originally operated as a common school district and constructed its first building in 1909. The District converted to an independent school district in 1923 and took over administrative operations from the County Superintendent's office. The area of the District is defined as approximately 9.25 square miles. The first graduation, consisting of 16 members, occurred in 1925.

The present high school construction was completed in 1950. Additions have been made as required, including the construction of an indoor swimming pool. The District now consists of five operating campuses as shown elsewhere herein.

Located within the boundaries of the District are all of the City of Alamo Heights, part of the City of Terrell Hills, part of the City of Olmos Park and part of the City of San Antonio.

District residents support approximately 100 individual businesses offering automotive, electrical, general retail food and other items found in most communities.

Administration

Policy making and supervisory functions are the responsibility of and are vested in a seven-member Board of Trustees (the "Board"). Members of the Board serve three year staggered terms with elections being held each year on the first Saturday in May. The Board delegates administrative responsibilities to the Superintendent of Schools.

Present Facilities

<u>School Facility</u>	<u>Grade Span</u>	<u>Capacity</u>	<u>Enrollment 2017-2019 (At 3/1/18)</u>
Alamo Heights High School	9-12	1,500	1,558
Alamo Heights Junior School	6-8	950	1,106
Cambridge Elementary School	1-5	950	824
Woodridge Elementary School	1-5	950	928
Howard Early Childhood Center	Pre K-K	575	<u>373</u>
Total			4,789

Source: The District

Student Performance

The overall performance of students in the District on their achievement tests is consistently very high. The District uses the Iowa Test of Basic Skills to measure the achievement of students Grades 2-8. The national pupil norms rank in the upper 50% nationally and the national school norms rank the District's schools consistently in the upper 25% of schools in the national norming group. The third and fifth grade language scores place the District elementary schools in the top 9% on the national school norms.

The 2015 scores on the Texas statewide testing program, STAAR, in the District are higher than the state average in every grade level tested and in every subject area tested.

Accreditation

Every campus is fully accredited by the Texas Education Agency and the high school is also accredited by the Southern Association of Colleges and Schools.

Curriculum

The District provides pre-kindergarten classes for disadvantaged four-year old students. The all-day kindergarten program and the elementary curriculum consist of instruction in reading, English, spelling, handwriting, composition, mathematics, science, health, physical education, art, choral music, string music, theatre arts, social studies, and computer literacy.

The secondary curriculum is designed to meet the range of needs of remedial to enriched level students. Honors level courses in social studies and mathematics at the junior school level, and English and mathematics, foreign language, science, and social studies at the high school level are provided for students who demonstrate the capability and desire to do more intensive work in a subject. The specific Advanced Placement courses offered are biology, chemistry, computer science, English literature and composition, French, government and politics, economics, calculus, physics, Spanish language, and Spanish Literature.

Food Service

All campuses have their own cafeteria facilities.

Budget and Personnel

The budget for the 2017-2018 year is \$80,170,270. The District employs approximately 629 people, including professional and other, and will have a payroll of \$38,666,949.

Employee Retirement, Teacher Retirement System of Texas

The District has no financial responsibility for the Teacher Retirement System of Texas, with employees contributing 6.65% of their annual compensation and the State of Texas contributing 7.31%.

Average Daily Attendance and Percentage Change

<u>School Year</u>	<u>Average Daily Attendance</u>	<u>% ADA Change</u>
2006-07	4,271	(0.30%)
2007-08	4,319	1.13%
2008-09	4,367	1.12%
2009-10	4,456	2.04%
2010-11	4,483	0.61%
2011-12	4,529	1.03%
2012-13	4,577	0.60%
2013-14	4,557	(0.04%)
2014-15	4,529	(0.06%)
2015-16	4,590	1.33%
2016-17	4,590	0.00%
2017-18	4,595	0.10%

THE AREA

City of Alamo Heights

The City of Alamo Heights was incorporated in 1922. Some of the earliest history of the City goes back to 1854.

Alamo Heights is a primarily residential city, modern in every respect. The City owns and operates its water distribution system and its sewer collection system. The City's source of water is from wells in the Edwards Aquifer. The City contracts with San Antonio for sewer treatment.

Broadway Street bisects the City north and south. Primary commercial development is along Broadway and the Austin Highway for that part located in the Alamo Heights city limits. Austin Highway development continues in that portion of the District lying in the City of San Antonio.

The City has churches of practically every major denomination. In addition to the public schools, there are church schools with kindergarten and pre-kindergarten programs.

The City is completely encircled with no room for expansion.

City of Terrell Hills

The City of Terrell Hills was incorporated in 1957. Terrell Hills is a primarily residential city. Some of the metropolitan area's most expensive residences are located in Terrell Hills. The City receives water, sewer, gas and electric service from the City of San Antonio. San Antonio City Public Service provides electric and gas utilities. It is estimated that 75% of the area in Terrell Hills is in the Alamo Heights Independent School District.

City of Olmos Park

The City of Olmos Park was incorporated in 1939. Like Alamo Heights and Terrell Hills, Olmos Park is a primarily residential city. Some of the metropolitan area's most expensive houses are located in Olmos Park. The City does not own or operate a waterworks and sewer system. The City of San Antonio provides water service as well as sewer transportation and treatment. San Antonio City Public Service provides electric and gas utility service. An estimated 95% of Olmos Park is located in the Alamo Heights Independent School District.

City of San Antonio

The City of San Antonio ("San Antonio") is the county seat of Bexar County and covers approximately 467 square miles. The United States Census Bureau ranks it as the second largest city in the State of Texas and the seventh largest in the United States. San Antonio is located on the I-35 corridor, the fastest growing region of the state, and approximately 80 miles south of Austin, the State capital. A small portion of San Antonio is in the Alamo Heights Independent School District in the area northeast of downtown. San Antonio completely surrounds the District and the cities mentioned above. Three of the District's campuses - Woodridge, Howard and Alamo Heights Junior High School - are located in San Antonio.

The dynamic and diverse economy is a healthy mix of business services, a rapidly growing medical and health delivery sector, a diversified manufacturing sector which produces everything from aircraft and semiconductors to rolled aluminum sheet and cement, and a well-established convention and visitor industry.

County Characteristics

The County was created in 1836 and organized in 1837 as one of the original counties of the Republic of Texas and is now the third most populous of the 254 counties in the State of Texas. The County has an area of approximately 1,248 square miles, and contains 21 other incorporated cities within its boundaries.

The County is located in south central Texas and is a component of the San Antonio Metropolitan Statistical Area. The San Antonio MSA is one of the nation's largest Metropolitan Statistical Areas and the third largest MSA in Texas. The principal city within the County is San Antonio.

Minerals produced in the County include cement, stone, oil, gas, sand and gravel.

The military represents a significant component of the County's economy providing an annual economic impact over \$13 billion for the County and providing over 72,500 defense-related jobs. The active military installations in the County include Fort Sam Houston and Lackland and Randolph Air Force Bases, as well as the "privatized" installation of Brooks City-Base.

Economic Factors

The County has a diversified economic base which is composed of financial services, healthcare, agriculture, manufacturing, construction, military, and tourism. Support for these economic activities is demonstrated by the County's ongoing commitment to economic development projects along with ongoing infrastructure improvements to support the County's growing population. As Bexar County has continued to add jobs it has also fared better than the nation with the current unemployment issues. Bexar County's unemployment rate in April 2016 was 3.5%, down from 3.8%¹ the same month in 2015, and still well below the national unemployment rate in April of 5.2%.² Another economic factor attracting companies and families to the San Antonio area is the low cost of living. For metropolitan areas San Antonio is ranked among the lowest in cost of living with a composite score of 87.3, 12.7% below the national average.³ With one of the lowest cost workforces of any major cities in the United States, Bexar County is continually positioned to increase employment across various industries.

¹ U.S Bureau of Labor Statistics - <http://data.bls.gov/map/MapToolServlet>

² U.S Bureau of Labor Statistics - <http://data.bls.gov/pdq/SurveyOutputServlet>

³ San Antonio EDF - <http://www.sanantonioedf.com/living/cost-living/>

Higher Educational Facilities

San Antonio has 20 institutions of higher learning offering degrees in all major fields of study, many at the graduate level. Among universities, the University of Texas at San Antonio (UTSA) has over 30,000 students enrolled and has represented many first-time college students within their family. In May of 2009, the Texas A&M University San Antonio became the newest four-year college in San Antonio. Among junior colleges, Alamo Colleges includes five colleges, San Antonio, Palo Alto, St. Philips, Northeast Lakeview, and Northwest Vista, totaling over 62,377 students enrolled.

Population Trends (U.S. Census Bureau)

Census Year	<u>Bexar County</u>	<u>City of Alamo Heights</u>	<u>City of Olmos Park</u>	<u>City of San Antonio</u>	<u>City of Terrell Hills</u>
1970	830,460	7,029	2,345	773,248	4,825
1980	988,971	6,252	2,069	786,023	4,644
1990	1,185,394	6,502	2,161	935,933	4,592
2000	1,392,931	7,319	2,343	1,144,646	5,019
2010	1,714,773	7,031	2,237	1,327,407	4,878
2016 est.	1,928,680	8,284	2,278	1,492,450	5,201

Source: U.S. Census Bureau

2015 Ten Largest Employers

<u>Firm Name</u>	<u>Total</u>	<u>Category</u>	<u>Percent of County Employment</u>
Joint Base San Antonio ⁽¹⁾	88,760	Government	10.55%
H.E.B. Grocery Company	18,715	Retail	2.22%
USAA	17,000	Finance/Insurance	2.02%
Northside Independent School District	13,161	Services	1.56%
City of San Antonio	11,922	Government	1.41%
Northeast Independent School District	9,141	Services	1.09%
Methodist Healthcare System	8,600	Medical	1.02%
University Health System	7,708	Medical	0.92%
San Antonio Independent School District	7,382	Services	0.88%
Wells Fargo	6,100	Banking	0.73%
Total	188,189		22.40%
Total County Employment for 2015 ⁽²⁾	841,401		

Source: San Antonio Business Journal Book of Lists 2014-15, Greater San Antonio Chamber of Commerce and confirmation from individual corporate human resource offices.

⁽¹⁾ Under the BRAC Joint Basing Recommendation for San Antonio, installation support functions at the Army's Fort Sam Houston were combined with those at Randolph and Lackland Air Force Bases under a single organization (Joint Base San Antonio). Includes military personnel and civilian personnel.

⁽²⁾ Total County Employment figure for 2015 - Texas Workforce Commission website.

APPENDIX C

Audited Financial Statements

The information contained in this appendix consists of the Alamo Heights Independent School District Audited Financial Statements (the "Report") for the fiscal year ended August 31, 2017.

The information presented represents only a part of the Report and does not purport to be a complete statement of the District's financial condition. Reference is made to the complete Annual Audit Report for additional information.

(this page intentionally left blank)



**ALAMO HEIGHTS INDEPENDENT
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2017**

CERTIFICATE OF BOARD

Alamo Heights Independent School District
Name of School District

Bexar
County

015-901
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) ☒ approved ___disapproved for the year ended August 31, 2017, at a meeting of the board of trustees of such school district on the 14th day of December, 2017.



Signature of Board Secretary



Signature of Board President

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Alamo Heights Independent School District
7101 Broadway
San Antonio, TX 78209

Members of the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, discretely presented component unit, each major fund, and the aggregate remaining fund information of Alamo Heights Independent School District, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise Alamo Heights Independent School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Alamo Heights School Foundation, which represents the only discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Alamo Heights School Foundation, is based solely on the report of the other auditors. 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. The financial statements of Alamo Heights School Foundation were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, discretely presented component unit, each major fund, and the aggregate remaining fund information of Alamo Heights Independent School District, as of August 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Alamo Heights Independent School District's basic financial statements. The supplementary information (individual budgetary comparison statements and schedule of expenditures of federal awards as required by the audit requirements of Title I U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit*) and other information (schedule of delinquent taxes receivable and schedule of school first indicators) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2017 on our consideration of Alamo Heights Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Alamo Heights Independent School District's internal control over financial reporting and compliance.

Respectfully submitted,

A handwritten signature in cursive script that reads "Armstrong, Vaughan & Associates, P.C.".

Armstrong, Vaughan & Associates, P.C.

November 13, 2017



Alamo Heights Independent School District

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Alamo Heights Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2017. Please read it in conjunction with the independent auditors' report, and the District's Basic Financial Statements.

FINANCIAL HIGHLIGHTS

- The District's net position increased by \$4.2 million as a result of this year's operations.
- During the year, the District had expenses that were \$4.2 thousand less than the \$96.9 million generated in tax and other revenues for governmental programs.
- In the District's business-type activities, revenues decreased to \$124 thousand (9%) while expenses decreased to \$177 thousand (4%). These decreases were primarily related to decreases in program participation.
- Total cost of all of the District's programs increased \$8.4 million (10%). \$5.1 million of the increase was state recapture payments. Excluding that, expenses increased 4%.
- The General Fund ended the year with a fund balance of \$19.1 million, a 34% increase. The majority of the increase came from insurance proceeds for damage to roofing. Repairs are expected within the next year.
- The expenditures for the 2016-2017 school year were \$24 thousand less than budgeted in the General Fund.
- The District issued a refunding bond in 2016 with a present value savings of \$7.0 million. The District also issued bonds in 2017 for \$15 million to start the voter approved building renovations.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net position and the Statement of Activities. These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the district.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations can be found in the government-wide Statements of Net Position and Activities. Their primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies. These statements also include the financials of the Alamo Heights School Foundation, a legally separate entity that exists solely to benefit the District and its constituents.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as tuition received from students from outside the district and grants provided by the U.S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net position and changes in them. The District's net position (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider non-financial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Position and the Statement of Activities, we divide the District into two kinds of activities:

- **Governmental activities**—Most of the District's basic services are reported here, including the instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.
- **Business-type activities**—The District charges a fee to “customers” to help it cover all or most of the cost of services it provides.

In addition, these statements present financial information for the District's component unit (the Alamo Heights School Foundation) in a separate column. The Foundation is a legally separate entity that exists to raise money in the interest of the District.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's two kinds of funds – governmental and proprietary – use different accounting approaches:

- **Governmental funds**—Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

- Proprietary funds—The District reports the activities for which it charges users (whether outside customers or other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. In fact, the District's enterprise funds (one category of proprietary funds) are the business-type activities reported in the government-wide statements but containing more detail and additional information, such as cash flows.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position of the District's governmental activities increased \$4.2 million. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$1.0 million at August 31, 2017.

A summarized statement of net position follows:

	August 31, 2017			August 31, 2016
	Governmental Activities	Business-type Activities	Total	Total
Current and Other Assets	\$ 39,808,874	\$ 93,337	\$ 39,902,211	\$ 23,862,062
Capital Assets	76,553,893	-	76,553,893	79,371,053
<i>Total Assets</i>	<u>116,362,767</u>	<u>93,337</u>	<u>116,456,104</u>	<u>103,233,115</u>
<i>Deferred Outflows</i>	<u>6,178,859</u>	<u>-</u>	<u>6,178,859</u>	<u>5,451,713</u>
Current Liabilities	3,500,229	551	3,500,780	4,503,977
Long-Term Liabilities	117,211,269	-	117,211,269	107,678,509
<i>Total Liabilities</i>	<u>120,711,498</u>	<u>551</u>	<u>120,712,049</u>	<u>112,182,486</u>
<i>Deferred Inflows</i>	<u>2,031,229</u>	<u>-</u>	<u>2,031,229</u>	<u>787,470</u>
Net Investment in Capital Assets	(5,451,162)	-	(5,451,162)	(7,474,638)
Restricted	4,203,719	-	4,203,719	3,344,350
Unrestricted	1,046,342	92,786	1,139,128	(154,840)
<i>Total Net Position</i>	<u>\$ (201,101)</u>	<u>\$ 92,786</u>	<u>\$ (108,315)</u>	<u>\$ (4,285,128)</u>

The District's total revenues increased substantially from increases in property tax rates and insurance proceeds.

The cost of all governmental activities this year was \$92.7 million compared to \$84.5 million in the prior year. State recapture represents \$5.1 million of the increase in expenses. The amount that our taxpayers ultimately financed for these activities through District taxes was \$77.1 million while some of the costs were paid by those who directly benefited from the programs (\$3.6 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$9.7 million).

A summarized statement of activities follows:

	2017			2016
	Governmental Activities	Business-type Activities	Total	Total
<i>Program Revenues:</i>				
Charges for Services	\$ 3,439,485	\$ 124,339	\$ 3,563,824	\$ 3,115,935
Operating Grants & Contributions	4,673,725	-	4,673,725	4,017,082
Capital Grants & Contributions	-	-	-	-
<i>General Revenues:</i>				
Property Taxes	77,124,336	-	77,124,336	70,858,157
General Grants	4,989,543	-	4,989,543	4,728,941
Investment Earnings	410,615	-	410,615	169,632
Miscellaneous	6,297,962	-	6,297,962	2,457,383
<i>Total Revenues</i>	<u>96,935,666</u>	<u>124,339</u>	<u>97,060,005</u>	<u>85,347,130</u>
<i>Expenses</i>				
Instruction	31,390,971	-	31,390,971	30,949,180
Instructional Resources and Media	659,642	-	659,642	579,643
Curriculum and Staff Development	685,304	-	685,304	615,280
Instructional Leadership	1,034,825	-	1,034,825	995,364
School Leadership	2,710,989	-	2,710,989	2,564,007
Guidance, Counseling, & Evaluation	1,451,691	-	1,451,691	1,445,673
Social Work Services	232,735	-	232,735	244,172
Health Services	488,196	-	488,196	461,414
Student transportation	1,221,243	-	1,221,243	1,052,102
Food Services	1,585,965	-	1,585,965	1,474,647
Cocurricular/Extracurricular Activities	3,565,371	-	3,565,371	3,138,256
General Administration	2,032,063	-	2,032,063	1,929,290
Plant Maintenance and Operations	4,885,315	-	4,885,315	4,559,462
Security and Monitoring	-	-	-	4,710
Data Processing Services	983,891	-	983,891	1,060,338
Community Services	31,171	-	31,171	26,797
Interest on Long-Term Debt	2,338,862	-	2,338,862	3,175,955
Bond Issuance Costs and Fees	436,413	-	436,413	4,031
Facilities Acquisition and Construction	3,064,611	-	3,064,611	1,175,107
Contracted Instructional Services	33,888,357	-	33,888,357	28,801,835
Payments to Juvenile Justice Programs	18,340	-	18,340	8,559
Enterprising Activities	-	177,237	177,237	184,420
<i>Total Expenses</i>	<u>92,705,955</u>	<u>177,237</u>	<u>92,883,192</u>	<u>84,450,242</u>
Transfers	(72,076)	72,076	-	-
<i>Increase (Decrease) in Net Position</i>	<u>\$ 4,157,635</u>	<u>\$ 19,178</u>	<u>\$ 4,176,813</u>	<u>\$ 896,888</u>

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported a combined fund balance of \$35.1 million, which was an increase of \$17.1 million. New bonds and insurance proceeds contributed to the increase.

Over the course of the year, the Board of Trustees revised the District's budget. The General Fund expenditures were \$24 thousand less than the final budgeted appropriations and the fund balance increased \$344 thousand more than anticipated.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the District had \$76.6 million (net) invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. No significant additions were made this year, but initial costs for voter approved renovations have begun.

	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 2,900,273	\$ -	\$ -	\$ 2,900,273
Construction in Progress	275,412	616,032	-	891,444
Buildings and Improvements	137,586,073	16,178	-	137,602,251
Equipment	5,293,883	6,600	-	5,300,483
Vehicles	2,115,088	36,437	-	2,151,525
Less: Accumulated Depreciation	(68,799,676)	(3,492,407)	-	(72,292,083)
Net Capital Assets	<u>\$ 79,371,053</u>	<u>\$ (2,817,160)</u>	<u>\$ -</u>	<u>\$ 76,553,893</u>

Land and construction in progress are not depreciated.

Debt

At year-end, the District had \$106.6 million in bonds outstanding versus \$97.0 million from the prior year. More detail information about the district's debt is presented in the notes to the financial statements.

	Beginning Balances	Increases	Decreases	Ending Balances	Amounts Due Within One Year
Governmental Activities:					
Unlimited Tax School					
Building Bonds	\$ 37,030,000	\$ 15,000,000	\$ (26,860,000)	\$ 25,170,000	\$ 1,170,000
Refunding Bonds	6,675,000	26,280,000	(3,195,000)	29,760,000	3,280,000
Building/Refunding Bonds	48,760,000	-	(1,890,000)	46,870,000	1,940,000
Unamortized Premiums	4,574,994	2,141,009	(1,892,762)	4,823,241	504,617
<i>Total Governmental Activities</i>	<u>\$ 97,039,994</u>	<u>\$ 43,421,009</u>	<u>\$ (33,837,762)</u>	<u>\$ 106,623,241</u>	<u>\$ 6,894,617</u>

ECONOMIC & AREA FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's 2017-2018 budget projects general fund expenditures will increase \$3.2 million to \$80.2 million. All of the increase is expected to be from state recapture to fund other districts. The overall tax rate for the district increased from 1.195 to 1.20. All of the increase is for debt service. The District does not expect any significant changes to operations for the upcoming fiscal year, however more of the voter approved bonds will be issued to continue renovations.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Alamo Heights Independent School District, 7101 Broadway, San Antonio, Texas 78209.

BASIC FINANCIAL STATEMENTS

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2017

		1	2	3	4
Data		Primary Government			Component
Control		Governmental	Business-type		Unit
Codes		Activities	Activities	Total	AH School Foundation
ASSETS:					
1110	Cash and Cash Equivalents	\$ 30,408,387	\$ 93,337	\$ 30,501,724	\$ 92,031
1120	Current Investments	6,222,711	-	6,222,711	7,210,160
1225	Property Taxes Receivable (Net)	1,485,474	-	1,485,474	-
1240	Due from Other Governments	1,196,725	-	1,196,725	-
1290	Other Receivables (Net)	37,477	-	37,477	1,410
1300	Inventory	130,947	-	130,947	-
1410	Prepaid Expenses	327,153	-	327,153	11,664
Capital Assets:					
1510	Land	2,900,273	-	2,900,273	-
1520	Buildings and Improvements, Net	71,432,214	-	71,432,214	-
1531	Vehicles, Net	602,738	-	602,738	-
1539	Furniture and Equipment, Net	727,224	-	727,224	-
1580	Construction in Progress	891,444	-	891,444	-
1000	<i>Total Assets</i>	<u>116,362,767</u>	<u>93,337</u>	<u>116,456,104</u>	<u>7,315,265</u>
DEFERRED OUTFLOWS:					
1700	Deferred Loss on Debt Refunding	1,319,664	-	1,319,664	-
1705	Deferred Pension Related Outflows	<u>4,859,195</u>	<u>-</u>	<u>4,859,195</u>	<u>-</u>
	<i>Total Deferred Outflows</i>	<u>6,178,859</u>	<u>-</u>	<u>6,178,859</u>	<u>-</u>
LIABILITIES:					
2110	Accounts Payable	882,351	551	882,902	146,595
2140	Interest Payable	269,087	-	269,087	-
2160	Accrued Wages	1,750,989	-	1,750,989	5,466
2180	Due to Other Governments	55,299	-	55,299	-
2300	Unearned Revenue	542,503	-	542,503	9,500
Noncurrent Liabilities:					
2501	Due Within One Year	6,894,617	-	6,894,617	-
2502	Due in More Than One Year	99,728,624	-	99,728,624	-
2540	Net Pension Liability	<u>10,588,028</u>	<u>-</u>	<u>10,588,028</u>	<u>-</u>
2000	<i>Total Liabilities</i>	<u>120,711,498</u>	<u>551</u>	<u>120,712,049</u>	<u>161,561</u>
DEFERRED INFLOWS:					
2605	Deferred Pension Related Inflows	<u>2,031,229</u>	<u>-</u>	<u>2,031,229</u>	<u>-</u>
	<i>Total Deferred Inflows</i>	<u>2,031,229</u>	<u>-</u>	<u>2,031,229</u>	<u>-</u>
NET POSITION:					
3200	Net Investment in Capital Assets	(5,451,162)	-	(5,451,162)	-
	Restricted For:				
3800	State and Federal Programs	205,312	-	205,312	-
3800	Debt Service	2,226,883	-	2,226,883	-
3800	Permanently Restricted Donations	-	-	-	4,689,327
3800	Campus Activities and Donations	1,771,524	-	1,771,524	1,632,201
3900	Unrestricted	<u>1,046,342</u>	<u>92,786</u>	<u>1,139,128</u>	<u>832,176</u>
3000	<i>Total Net Position</i>	<u>\$ (201,101)</u>	<u>\$ 92,786</u>	<u>\$ (108,315)</u>	<u>\$ 7,153,704</u>

The accompanying notes are an integral part of this statement.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2017

		1	3	4
			Program Revenues	
Data			Charges for	Operating
Control			Services	Grants and
Codes	Functions/Programs	Expenses		Contributions
	PRIMARY GOVERNMENT:			
	Governmental Activities:			
11	Instruction	\$ 31,390,971	\$ 736,977	\$ 1,306,166
12	Instructional Resources and Media Services	659,642	-	3,777
13	Curriculum and Staff Development	685,304	-	58,479
21	Instructional Leadership	1,034,825	-	109
23	School Leadership	2,710,989	-	-
31	Guidance, Counseling, & Evaluation Services	1,451,691	-	19,110
32	Social Work Services	232,735	-	848
33	Health Services	488,196	-	876,784
34	Student Transportation	1,221,243	40,200	16,308
35	Food Services	1,585,965	761,050	1,383,641
36	Cocurricular/Extracurricular Activities	3,565,371	1,901,258	900,239
41	General Administration	2,032,063	-	-
51	Plant Maintenance and Operations	4,885,315	-	-
53	Data Processing Services	983,891	-	2,497
61	Community Services	31,171	-	14,848
72	Interest on Long-Term Debt	2,338,862	-	90,919
73	Bond Issuance Costs and Fees	436,413	-	-
81	Facilities Acquisition and Construction	3,064,611	-	-
91	Contracted Instructional Services	33,888,357	-	-
95	Payments to Juvenile Justice Programs	18,340	-	-
TG	Total Governmental Activities	<u>92,705,955</u>	<u>3,439,485</u>	<u>4,673,725</u>
	Business-Type Activities:			
01	Excel After School Program	60,075	46,415	-
02	Aquatic Center	12,145	32,430	-
03	Tennis Center	105,017	45,494	-
TB	Total Business-type Activities	<u>177,237</u>	<u>124,339</u>	<u>-</u>
TP	Total Primary Government	<u>\$ 92,883,192</u>	<u>\$ 3,563,824</u>	<u>\$ 4,673,725</u>
	COMPONENT UNIT:			
1C	Alamo Heights School Foundation	<u>\$ 1,248,380</u>	<u>\$ 63,923</u>	<u>\$ 931,933</u>
	General Revenues:			
MT	Property Taxes, Levied for General Purposes			
DT	Property Taxes, Levied for Debt Service			
IE	Investment Earnings (Loss)			
GC	Unrestricted Grants and Contributions			
MI	Miscellaneous			
FR	Transfers			
TR	Total General Revenues			
CN	Change in Net Position			
NB	Net Position - Beginning			
NE	Net Position - Ending			

The accompanying notes are an integral part of this statement.

EXHIBIT B-1

5	6	7	8	9
Program Revenues	Net (Expense) Revenue and Changes in Net Position			
Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Unit
\$ -	\$ (29,347,828)		\$ (29,347,828)	
-	(655,865)		(655,865)	
-	(626,825)		(626,825)	
-	(1,034,716)		(1,034,716)	
-	(2,710,989)		(2,710,989)	
-	(1,432,581)		(1,432,581)	
-	(231,887)		(231,887)	
-	388,588		388,588	
-	(1,164,735)		(1,164,735)	
-	558,726		558,726	
-	(763,874)		(763,874)	
-	(2,032,063)		(2,032,063)	
-	(4,885,315)		(4,885,315)	
-	(981,394)		(981,394)	
-	(16,323)		(16,323)	
-	(2,247,943)		(2,247,943)	
-	(436,413)		(436,413)	
-	(3,064,611)		(3,064,611)	
-	(33,888,357)		(33,888,357)	
-	(18,340)		(18,340)	
-	(84,592,745)		(84,592,745)	
-		\$ (13,660)	(13,660)	
-		20,285	20,285	
-		(59,523)	(59,523)	
-		(52,898)	(52,898)	
\$ -			(84,645,643)	
\$ -				\$ (252,524)
	68,411,807	-	68,411,807	-
	8,712,529	-	8,712,529	-
	410,615	-	410,615	874,060
	4,989,543	-	4,989,543	-
	6,297,962	-	6,297,962	-
	(72,076)	72,076	-	-
	88,750,380	72,076	88,822,456	874,060
	4,157,635	19,178	4,176,813	621,536
	(4,358,736)	73,608	(4,285,128)	6,532,168
\$ (201,101)	\$ 92,786	\$ (108,315)	\$ 7,153,704	

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
AUGUST 31, 2017

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects Fund
<i>ASSETS:</i>			
1110 Cash and Cash Equivalents	\$ 14,398,403	\$ 2,327,452	\$ 12,090,352
1120 Current Investments	6,222,711	-	-
1225 Taxes Receivable, Net	1,316,955	168,519	-
1240 Due from Other Governments	678,412	-	-
1290 Other Receivables	37,477	-	-
1300 Inventory	98,845	-	-
1410 Prepaid Items	271,975	-	-
1000 <i>Total Assets</i>	<u>\$ 23,024,778</u>	<u>\$ 2,495,971</u>	<u>\$ 12,090,352</u>
<i>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:</i>			
<i>Liabilities:</i>			
2110 Accounts Payable	\$ 221,774	\$ -	\$ 439,640
2160 Accrued Wages Payable	1,750,989	-	-
2180 Due to Other Governments	55,299	-	-
2300 Unearned Revenue	542,503	-	-
2000 <i>Total Liabilities</i>	<u>2,570,565</u>	<u>-</u>	<u>439,640</u>
<i>Deferred Inflows of Resources:</i>			
2600 Unavailable Property Tax Revenue	<u>1,316,955</u>	<u>168,518</u>	<u>-</u>
<i>Fund Balance:</i>			
<i>Nonspendable:</i>			
3410 Inventory	98,845	-	-
3430 Prepaid Items	271,975	-	-
<i>Restricted Fund Balances:</i>			
3450 Federal and State Grants	-	-	-
3470 Capital Acquisitions	-	-	11,650,712
3480 Retirement of Long-Term Debt	-	2,327,453	-
3490 Other Restrictions of Fund Balance	-	-	-
3600 <i>Unassigned</i>	18,766,438	-	-
3000 <i>Total Fund Balances</i>	<u>19,137,258</u>	<u>2,327,453</u>	<u>11,650,712</u>
4000 <i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	<u>\$ 23,024,778</u>	<u>\$ 2,495,971</u>	<u>\$ 12,090,352</u>

The accompanying notes are an integral part of this statement.

EXHIBIT C-1

Other Nonmajor Governmental Funds	98 Total Governmental Funds
\$ 1,592,181	\$ 30,408,388
-	6,222,711
-	1,485,474
518,313	1,196,725
-	37,477
32,102	130,947
55,178	327,153
<u>\$ 2,197,774</u>	<u>\$ 39,808,875</u>

\$ 220,937	\$ 882,351
-	1,750,989
-	55,299
-	542,503
<u>220,937</u>	<u>3,231,142</u>

<u>-</u>	<u>1,485,473</u>
----------	------------------

32,102	130,947
55,178	327,153
124,329	124,329
-	11,650,712
-	2,327,453
1,765,228	1,765,228
-	18,766,438
<u>1,976,837</u>	<u>35,092,260</u>

<u>\$ 2,197,774</u>	<u>\$ 39,808,875</u>
---------------------	----------------------

(this page intentionally left blank)

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AUGUST 31, 2017

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 35,092,260
Amounts reported for governmental activities in the Statement of Net Position ("SNA") are different because:	
Capital Assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	76,553,893
Net pension liabilities (and related deferred inflows and outflows of resources) do not consume current financial resources and are not reported in the funds.	
Net Pension Liability	(10,588,028)
Pension Related Deferred Inflows	(2,031,229)
Pension Related Deferred Outflows	<u>4,859,195</u>
	(7,760,062)
Deferred inflows of resources are not available to pay for current-period expenditures and therefore, are deferred in the funds.	1,485,472
Long-term liabilities, including bonds payable and unamortized premiums, are not due and payable in the current period and therefore, not reported in the funds.	(106,623,241)
Losses on debt refundings do not consume current financial resources and are not reported in the funds.	1,319,664
Accrued interest payable on long-term bonds is not due and payable in the current period, and therefore, not reported in the funds.	<u>(269,087)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	<u><u>\$ (201,101)</u></u>

The accompanying notes are an integral part of this statement.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes		10 General Fund	50 Debt Service Fund	60 Capital Projects Fund
Functions/Programs				
REVENUES:				
5700	Local and Intermediate Sources	\$ 70,932,946	\$ 8,751,066	\$ 20,706
5800	State Program Revenues	4,156,730	90,919	-
5900	Federal Program Revenues	949,273	-	-
5020	<i>Total Revenues</i>	<u>76,038,949</u>	<u>8,841,985</u>	<u>20,706</u>
EXPENDITURES:				
0011	Instruction	26,422,642	-	-
0012	Instructional Resources and Media Services	489,974	-	-
0013	Curriculum and Staff Development	566,060	-	-
0021	Instructional Leadership	1,015,263	-	-
0023	School Leadership	2,344,584	-	-
0031	Guidance, Counseling, & Evaluation Services	1,368,978	-	-
0032	Social Work Services	226,515	-	-
0033	Health Services	449,671	-	-
0034	Student Transportation	1,126,435	-	-
0035	Food Service	-	-	-
0036	Cocurricular/Extracurricular Activities	1,346,679	-	-
0041	General Administration	2,004,422	-	-
0051	Plant Maintenance and Operations	4,786,949	-	-
0053	Data Processing Services	876,441	-	-
0061	Community Services	3,460	-	-
0071	Principal on Long-Term Debt	-	5,665,000	-
0072	Interest on Long-Term Debt	-	2,603,505	-
0073	Bond Issuance Costs and Fees	-	240,332	196,081
0081	Facilities Acquisition and Construction	-	-	3,708,169
0091	Contracted Instructional Services			
	Between Public Schools	33,888,357	-	-
0095	Payments to Juvenile Justice Programs	18,340	-	-
6030	<i>Total Expenditures</i>	<u>76,934,770</u>	<u>8,508,837</u>	<u>3,904,250</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(895,821)</u>	<u>333,148</u>	<u>(3,883,544)</u>
Other Financing Sources and (Uses)				
5745	Insurance Recovery	5,867,034	-	-
7911	Issuance of Bonds	-	26,280,000	15,000,000
7916	Premium on Bond Issuance	-	1,944,928	196,081
8949	Payment to Refunding Escrow Agent	-	(27,987,480)	-
8911	Transfers Out	(72,076)	-	-
7080	Total Other Financing Sources and (Uses)	<u>5,794,958</u>	<u>237,448</u>	<u>15,196,081</u>
1200	Net Change in Fund Balances	<u>4,899,137</u>	<u>570,596</u>	<u>11,312,537</u>
0100	Fund Balances - Beginning	<u>14,238,121</u>	<u>1,756,857</u>	<u>338,175</u>
3000	Fund Balances - Ending	<u>\$ 19,137,258</u>	<u>\$ 2,327,453</u>	<u>\$ 11,650,712</u>

The accompanying notes are an integral part of this statement.

Other Nonmajor Governmental Funds	98 Total Governmental Funds
\$ 3,161,966	\$ 82,866,684
335,611	4,583,260
2,354,763	3,304,036
<u>5,852,340</u>	<u>90,753,980</u>
2,437,782	28,860,424
7,050	497,024
109,143	675,203
203	1,015,466
-	2,344,584
35,667	1,404,645
1,582	228,097
-	449,671
30,436	1,156,871
1,368,331	1,368,331
1,544,884	2,891,563
-	2,004,422
-	4,786,949
4,660	881,101
27,711	31,171
-	5,665,000
-	2,603,505
-	436,413
-	3,708,169
-	33,888,357
-	18,340
<u>5,567,449</u>	<u>94,915,306</u>
<u>284,891</u>	<u>(4,161,326)</u>
-	5,867,034
-	41,280,000
-	2,141,009
-	(27,987,480)
-	(72,076)
<u>-</u>	<u>21,228,487</u>
284,891	17,067,161
<u>1,691,946</u>	<u>18,025,099</u>
<u>\$ 1,976,837</u>	<u>\$ 35,092,260</u>

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED AUGUST 31, 2017

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 17,067,161

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlay as expenditures. However in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay. (2,817,160)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds. This is the net change in those revenues over the year. (53,660)

Governmental funds report required contributions to employee pensions as expenditures. However in the Statement of Activities the cost of the pension is recorded based on the actuarially determined cost of the plan. This is the amount that actuarially determined pension expense exceeded contributions. (534,820)

The issuance of long-term debt (e.g. bonds & notes payable) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on Net Position.

Proceeds from Issuance of Bonds	(41,280,000)	
Premiums Received on Issuance of Bonds	(2,141,009)	
Payment to Refunding Agent to Defease Debt	27,987,480	
Principal Payments	5,665,000	(9,768,529)

Some expenses reported in the Statement of Activities (including accreted and accrued interest expense) do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. Governmental funds report the net effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Accrued Interest	10,665	
Amortization of Losses on Debt Refundings	(248,625)	
Amortization of Bond Premiums	502,603	264,643

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES \$ 4,157,635

The accompanying notes are an integral part of this statement.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
ENTERPRISE FUNDS
AUGUST 31, 2017

Data Control Codes		Nonmajor Enterprise Funds
	ASSETS:	
	<i>Current Assets:</i>	
1110	Cash and Cash Equivalents	\$ 93,337
1000	<i>Total Assets</i>	<u>93,337</u>
	LIABILITIES:	
	<i>Current Liabilities</i>	
2110	Accounts Payable	551
2000	<i>Total Liabilities</i>	<u>551</u>
	NET POSITION:	
3900	Unrestricted	92,786
3000	<i>Total Net Position</i>	<u><u>\$ 92,786</u></u>

The accompanying notes are an integral part of this statement.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
ENTERPRISE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes		Nonmajor Enterprise Funds
	OPERATING REVENUES:	
5700	Local and Intermediate Sources	\$ 124,340
5020	<i>Total Revenues</i>	<u>124,340</u>
	OPERATING EXPENSES:	
0011	Instruction	60,075
0036	Cocurricular/Extracurricular Activities	117,163
6030	<i>Total Expenses</i>	<u>177,238</u>
	Income (Loss) before Contributions and Transfers	(52,898)
7915	Transfers In	<u>72,076</u>
1300	Change in Net Position	19,178
0100	Total Net Position - Beginning	73,608
3300	Total Net Position - Ending	<u><u>\$ 92,786</u></u>

The accompanying notes are an integral part of this statement.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

	Nonmajor Enterprise Funds
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 124,340
Cash Payments to Employees for Services	(129,444)
Cash Payments to Other Suppliers for Goods and Services	(47,317)
Net Cash Provided (Used) by Operating Activities	<u>(52,421)</u>
Cash Flows from Noncapital Financing Activities:	
Transfers From (To) Governmental Funds	<u>72,076</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>72,076</u>
Net Increase (Decrease) in Cash and Cash Equivalents	19,655
Cash and Cash Equivalents at Beginning of Year	<u>73,682</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 93,337</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (52,898)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Change in Assets and Liabilities:	
Increase (Decrease) in Accounts Payable	<u>477</u>
<i>Total Adjustments</i>	<u>477</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (52,421)</u></u>

The accompanying notes are an integral part of this statement.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
AUGUST 31, 2017

Data Control Codes		Private Purpose Trust Funds	Agency Funds
	<i>ASSETS:</i>		
1110	Cash and Cash Equivalents	\$ 130,596	\$ 87,368
1000	<i>Total Assets</i>	<u>130,596</u>	<u>87,368</u>
	<i>LIABILITIES:</i>		
	<i>Current Liabilities</i>		
2110	Accounts Payable	-	15,604
2190	Due to Student Groups	-	71,764
2000	<i>Total Liabilities</i>	<u>-</u>	<u>87,368</u>
	<i>NET POSITION</i>		
3000	<i>Total Net Position</i>	<u>\$ 130,596</u>	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED AUGUST 31, 2017

	Private Purpose Trust Funds
Additions:	
Investment Income	\$ 507
Contributions	18,671
Total Additions	<u>19,178</u>
Deductions:	
Scholarship Awards	<u>7,184</u>
Total Deductions	<u>7,184</u>
Change in Net Position	11,994
Net Position - Beginning of Year	118,602
Net Position - End of Year	<u><u>\$ 130,596</u></u>

The accompanying notes are an integral part of this statement.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2017

A. Summary of Significant Accounting Policies

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

1. Reporting Entity

The Board of School Trustees ("Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental "reporting entity."

The Alamo Heights School Foundation ("Foundation") is a 501(c)3 nonprofit organization whose purpose is to receive and administer gifts for the Alamo Heights Independent School District. The Foundation is legally separate from the District but solely benefits the District and its constituents. The Foundation is included in the District's financial statements as a discretely presented component unit. Separate financial statements are issued by the Foundation and can be obtained from Alamo Heights School Foundation, P.O Box 171393, San Antonio, TX 78217.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2017

A. Summary of Significant Accounting Policies (Continued)

2. Basis of Presentation, Basis of Accounting (Continued)

a. Basis of Presentation (Continued)

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

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

The District reports the following major governmental funds:

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

Debt Service Fund: Is used to account for all funds collected and disbursed in the retirement of governmental debt.

Capital Projects Fund: The District reports proceeds from bond issuances related to capital acquisition in this fund. The related capital acquisitions are also reported in this fund.

The District reports no major enterprise funds.

In addition, the District reports the following fund types:

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

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

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

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2017

A. Summary of Significant Accounting Policies (Continued)

2. Basis of Presentation, Basis of Accounting (Continued)

b. Measurement Focus, Basis of Accounting

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

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

3. Financial Statement Amounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased. Equivalents include checking accounts and local government investment pools.

b. Investments

The District reports investments at fair value based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2017

A. Summary of Significant Accounting Policies (Continued)

3. Financial Statement Amounts (Continued)

b. Investments (Continued)

The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool maintains a consistent net asset value per share that approximates the fair value of the underlying securities. These investments are reported at net asset value.

c. Inventories and Prepaid Items

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

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

d. Property Taxes

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

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. Taxes Receivable in the governmental funds are stated net of allowance for uncollectible tax receivables in the amount of \$54,873 and \$6,970 for the General and Debt Service Funds, respectively.

e. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances. There are no significant receivables which are not scheduled for collection within one year of year end.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2017

A. Summary of Significant Accounting Policies (Continued)

3. Financial Statement Amounts (Continued)

f. Capital Assets

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and Improvements	40
Vehicles	10
Equipment	3-25

g. Deferred inflows and outflows

A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period while a deferred inflow of resources is an acquisition of net position. These items are presented in separate sections following assets (deferred outflows) or liabilities (deferred inflows) on the statement of net position.

h. Interfund Activity

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

i. Net position - Proprietary Funds and Government-wide Statement of Net position

Net position is classified as follows:

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

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2017

A. Summary of Significant Accounting Policies (Continued)

3. Financial Statement Amounts (Continued)

i. Net position - Proprietary Funds and Government-wide Statement of Net position (Cont.)

Net Investment in Capital Assets - Represents the balances of capital assets less the outstanding balances of debt related to the acquisition of the capital assets. This amount is separated from unrestricted net position so that the unrestricted classification represents net position more readily available to fund operations.

Unrestricted - Represents the residual net position that is not restricted or capital in nature.

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily or permanently restricted net position are reclassified to unrestricted net position.

j. Pensions

The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teacher Retirement System of Texas (TRS) and additions to/ deductions from TRS's fiduciary net position have been determined on the same basis as they are reported by TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

k. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

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

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

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

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2017

A. Summary of Significant Accounting Policies (Continued)

3. Financial Statement Amounts (Continued)

j. Fund Balances – Governmental Funds (Continued)

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

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

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

k. Use of Estimates

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

l. Data Control Codes

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

B. Deposits and Investments

1. Cash Deposits

The District's funds are deposited and invested under the terms of a depository contract which requires the District's agent bank to pledge securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The District's cash deposits at August 31, 2017 and during the year ended August 31, 2017, were entirely covered by FDIC insurance and pledged collateral. At year end, the District also had certificates of deposit at various institutions that were fully insured by FDIC.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2017

B. Deposits and Investments (Continued)

2. Investments:

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

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

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

The District's investments at August 31, 2017 are shown below.

Investment or Investment Type	Weighted Average Maturity (Days)	Reported Value
Local Government Debt Securities	244	\$ 1,063,765
Federal Government Debt Securities	481	1,945,920
Certificates of Deposit	341	3,213,026
Total Investments		<u>\$ 6,222,711</u>

The Foundation's investments at August 31, 2017 are shown below.

Investment or Investment Type	Fair Value
Cash Equivalents	\$ 125,474
Equity Securities	7,084,686
Total Investments	<u>\$ 7,210,160</u>

The certificates of deposit are reported at amortized cost. The debt securities are reported at fair value based on Level 1 inputs. The Foundation invests in debt and equity securities, which are reported at fair value based on Level 1 inputs.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2017

B. Deposits and Investments (Continued)

3. Analysis of Specific Deposit and Investment Risks:

The District has evaluated the following specific investment risks at year end:

a. Credit Risk

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

b. Custodial Credit Risk

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

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

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

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2017

B. Deposits and Investments (Continued)

3. Analysis of Specific Deposit and Investment Risks (Continued):

Investment Accounting Policy

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares. The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. The District reports its investments in Pools as cash and cash equivalents. As of August 31, 2017, the District was invested in the following Pools:

<u>Local Government Investment Pool</u>	<u>Rating</u>	<u>Fair Value</u>
Texpool	AAAm	\$ 141,476
Texas TERM - TexasDAILY	AAAm	69
Lone Star	AAAm	800,395
Texas Class	AAAm	31,547,043
Total Investment Pools		<u>\$ 32,488,983</u>

C. Interfund Balances and Activities

Transfers between funds during the year ending August 31, 2017 were the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Nonmajor Enterprise Funds	\$ 72,076	Supplement other funding
	Total	<u>\$ 72,076</u>	

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2017

D. Capital Assets

Capital asset activity for the year ended August 31, 2017, was as follows:

	Beginning Balances	Increases	Transfers/ Decreases	Ending Balances
Governmental Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 2,900,273	\$ -	\$ -	\$ 2,900,273
Construction in Progress	275,412	616,032	-	891,444
<i>Total Capital Assets Not Being Depreciated</i>	<u>3,175,685</u>	<u>616,032</u>	<u>-</u>	<u>3,791,717</u>
<i>Capital Assets Being Depreciated:</i>				
Buildings and Improvements	137,586,073	16,178	-	137,602,251
Equipment	5,293,883	6,600	-	5,300,483
Vehicles	2,115,088	36,437	-	2,151,525
<i>Total Capital Assets Being Depreciated</i>	<u>144,995,044</u>	<u>59,215</u>	<u>-</u>	<u>145,054,259</u>
<i>Less Accumulated Depreciation For:</i>				
Buildings and Improvements	(62,902,852)	(3,267,185)	-	(66,170,037)
Equipment	(4,378,458)	(194,801)	-	(4,573,259)
Vehicles	(1,518,366)	(30,421)	-	(1,548,787)
<i>Total Accumulated Depreciation</i>	<u>(68,799,676)</u>	<u>(3,492,407)</u>	<u>-</u>	<u>(72,292,083)</u>
Total Capital Assets Being Depreciated, Net	<u>76,195,368</u>	<u>(3,433,192)</u>	<u>-</u>	<u>72,762,176</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 79,371,053</u>	<u>\$ (2,817,160)</u>	<u>\$ -</u>	<u>\$ 76,553,893</u>

Land and construction in progress are not depreciated. Depreciation was charged to functions as follows:

11 Instruction	\$ 1,881,744
12 Instructional Resources and Media Services	153,437
23 School Leadership	306,873
31 Guidance, Counseling, & Evaluation Services	15,779
33 Health Services	30,479
34 Student Transportation	78,116
35 Food Services	217,634
36 Cocurricular/Extracurricular Activities	646,692
51 Plant Maintenance and Operations	64,262
53 Data Processing Services	96,139
81 Facilities Acquisition	1,252
	<u>\$ 3,492,407</u>

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2017

E. Long-Term Obligations

1. Long-Term Obligation Activity

The District issued two new bond series during the fiscal year:

Series 2016 – The District issued \$26.28 million to advance refund a portion of the 2010 series. The refunding resulted in gross savings of \$10.4 million with a present value of \$7.0 million.

Series 2017 – The District issued \$15 million out of the \$135 million authorized by voters in May 2017 for school building renovations and equipment.

Long-term obligations include building and refunding bonds. Changes in long-term obligations for the year ended August 31, 2017, are as follows:

	Beginning Balances	Increases	Decreases	Ending Balances	Amounts Due Within One Year
Governmental Activities:					
Unlimited Tax School					
Building Bonds	\$ 37,030,000	\$ 15,000,000	\$ (26,860,000)	\$ 25,170,000	\$ 1,170,000
Refunding Bonds	6,675,000	26,280,000	(3,195,000)	29,760,000	3,280,000
Building/Refunding Bonds	48,760,000	-	(1,890,000)	46,870,000	1,940,000
Unamortized Premiums	4,574,994	2,141,009	(1,892,762)	4,823,241	504,617
<i>Total Governmental Activities</i>	<u>\$ 97,039,994</u>	<u>\$ 43,421,009</u>	<u>\$ (33,837,762)</u>	<u>\$ 106,623,241</u>	<u>\$ 6,894,617</u>

Unlimited Tax School Building/Refunding Bonds have interest rates of 2.0-5.0%.

Unlimited Tax School Building Bonds have interest rates of 2.5-5.0%.

Unlimited Tax School Refunding Bonds have interest rates of 0.97-5.0%.

2. Debt Service requirements on bonded debt at August 31, 2017, are as follows:

Year Ending August 31,	Principal	Interest	Total
2018	\$ 6,390,000	\$ 3,140,859	\$ 9,530,859
2019	6,400,000	3,036,385	9,436,385
2020	6,890,000	2,764,910	9,654,910
2021	7,105,000	2,494,439	9,599,439
2022	7,430,000	2,155,833	9,585,833
2023-2027	39,050,000	6,776,030	45,826,030
2028-2032	20,770,000	2,092,916	22,862,916
2033-2037	4,170,000	766,931	4,936,931
2038-2042	3,595,000	298,400	3,893,400
Totals	<u>\$ 101,800,000</u>	<u>\$ 23,526,703</u>	<u>\$ 125,326,703</u>

In accordance with Securities and Exchange Act of 1934 Rule 15c2-12, the District has entered into a continuing disclosure agreement with the Municipal Securities Rulemaking Board. The District has complied with these continuing disclosures.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2017

E. Long-Term Obligations (Continued)

3. Other Long-term Debt Disclosures

In May 2017, the voters approved \$135 million in new bonds. \$15 million was issued in the 2017 fiscal year, leaving \$120 million authorized but not issued.

Advance refundings of debt result in difference between the carrying amount of refunded obligations and the payment to defease the debt. These differences are recorded on the Statement of Net Position and amortized over the life of the shorter of the new or refunded obligations. As of August 31, 2017, the District reported \$1,319,664 in deferred refunding losses that will be amortized in future periods. In addition, the defeased debts are still outstanding until their call date but are removed from these financial statements. As of August 31, 2017, the District had \$26.28 million in bonds outstanding that have been removed from these financial statements.

G. Pension Plan

1. Plan Description

The District contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple employer defined benefit pension plan that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). It is a defined benefit pension plan established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms. All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

2. Pension Plan Fiduciary Net Position

Detail information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at https://www.trs.texas.gov/TRS%20Documents/cafr_2016.pdf; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

3. Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2017

G. Pension Plan (Continued)

3. Benefits Provided (Continued)

There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment Page 1 of 7 benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description above.

4. Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

	Contribution Rates	
	Plan fiscal year	
	2016	2017
Member (Employee)	7.2%	7.7%
Non-employer Contributing Entity (State)	6.8%	6.8%
Employer	6.8%	6.8%

	Contributions Required and Made	
Member (Employee)	\$	2,451,359
Non-employer contributing agency (State)		1,568,560
District		975,137
	\$	4,995,056

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2017

G. Pension Plan (Continued)

4. Contributions (Continued)

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

In addition to the employer contributions listed above, there are two additional surcharges an employer is subject to.

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2017

G. Pension Plan (Continued)

5. Actuarial Assumptions

The total pension liability in the August 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2016
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Salary Increases Including Inflation	3.5% to 9.5%
Payroll Growth Rate	2.50%
Benefit Changes During the Year	None
Ad Hoc Post-Employment Benefit Changes	None

The actuarial methods and assumptions are based primarily on a study of actual experience for the four year period ending August 31, 2014 and adopted on September 24, 2015.

6. Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the nonemployer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of Page 3 of 7 current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2017

G. Pension Plan (Continued)

6. Discount Rate (Continued)

Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2016 are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy & Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Estimate			2.2%
Alpha			1.0%
Total	<u>100%</u>		<u>8.7%</u>

*The expected contribution to returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.

7. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2016 Net Pension Liability.

	1% Decrease 7.0%	Current 8.0%	1% Increase 9.0%
District's proportionate share of the net position liability	\$ 16,386,701	\$ 10,588,028	\$ 5,669,581

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2017

G. Pension Plan (Continued)

8. Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

At August 31, 2017, the District reported a liability of \$10,588,028 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the net position liability	\$ 10,588,028
State's proportionate share of the net pension liability associated with the District	<u>18,618,568</u>
Total	<u><u>\$ 29,206,596</u></u>

The net pension liability was measured as of August 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2015 thru August 31, 2016.

At August 31, 2016 the employer's proportion of the collective net pension liability was 0.0280192% which was a decrease of 0.0019090% from its proportion measured as of August 31, 2015.

There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period. There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

For the year ended August 31, 2017, the District recognized pension expense of \$1,932,163 and revenue of \$1,932,163 for support provided by the State. At August 31, 2017, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows	Deferred Inflows
Differences between expected and actual experience	\$ 166,018	\$ 316,152
Changes of assumptions	322,704	293,486
Net difference between projected and actual earnings on pension plan investments	2,040,327	1,143,755
Changes in proportion and differences between District contributions and proportionate share of contributions	1,355,009	277,836
District contributions subsequent to the measurement date	<u>975,137</u>	<u>-</u>
Total	<u><u>\$ 4,859,195</u></u>	<u><u>\$ 2,031,229</u></u>

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2017

G. Pension Plan (Continued)

8. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The \$975,137 in deferred outflows of resources related to pensions from District contributions after the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2018. The net amounts of the District's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending August 31,</u>	<u>Pension Expense</u>
2018	\$ 311,301
2019	311,301
2020	883,178
2021	267,367
2022	104,775
Thereafter	<u>(25,093)</u>
	<u><u>\$ 1,852,829</u></u>

H. Retiree Health Care Plan

1. Plan Description

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

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2017

H. Retiree Health Care Plan (Continued)

2. Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% for 2017, 2016, and 2015. School districts contributing a percentage of payroll set at 0.55% for fiscal years 2017, 2016, and 2015. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended August 31, 2017, 2016 and 2015, the State's contributions to TRS-Care were \$318,358, \$306,434, and \$301,652, respectively, the active member contributions were \$206,950, \$199,181, and \$196,072, respectively, and the District's contributions were \$175,112, \$168,540, and \$165,907, respectively, which equaled the required contributions each year.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2017, 2016 and 2015, the subsidy payments received by TRS-Care on behalf of the District were \$100,307, \$92,086, and \$92,658 respectively.

I. Employee Health Care Coverage

During the year ended August 31, 2017, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$316-366 per month per employee to the Plan depending on plan options and dependents covered. Employees, at their option, authorized payroll withholdings to pay the remaining premiums for themselves and dependents. All premiums were paid to a third party administrator, acting on behalf of the licensed insurer. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement. The contract between the District and the third party administrator is renewable September 1, and terms of coverage and premium costs are included in the contractual provisions. Latest financial statements for the Plan are available for the year ended August 31, 2016, have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2017

J. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District purchased commercial insurance to insure property and liability. In previous years, District participated in the Texas Association of Public Schools Property and Liability Fund (TAPS). TAPS was a self-insurance pool established under the Texas Interlocal Cooperation Act. Membership is limited to public school districts, community colleges and education service centers. The District pays estimated annual contributions which may be adjusted for any shortfall in the pool. TAPS has since filed for bankruptcy. The District may be liable for additional contributions or unpaid claims. Management does not believe this will have a material impact on the District's financial statements.

The District met its statutory workers' compensation obligations through a modified self-funded program. The District (through a third-party administrator) pays all workers' compensation claims up to a maximum stop-loss amount. The stop loss amount for the year ending August 31, 2017 was \$121,345. Actual paid claims for the fiscal years ending August 31, 2017, 2016, and 2015 were \$171,012, \$91,582, and \$43,930, respectively.

K. Commitments and Contingencies

1. Contingencies

The District participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired.

2. Litigation

The District is subject to various claims through its normal course of business and employment practices. Management and legal counsel are not aware of any pending or threatened litigation against the District that would have a material financial impact on the District.

3. Insurance Proceeds

In the spring of 2016, the District incurred hail damage to the roofs of most buildings. Additional insurance proceeds were received in the 2017 fiscal year and more may be negotiated in 2018. The District is negotiating with contractors to repair the roofs in fiscal year 2018.

4. Commitments

The District has entered into engineering contracts for the design of the 2017 bond projects for an estimated total amount of \$7.2 million. As of August 31, 2017, \$404 thousand has been incurred, leaving an estimated amount remaining of \$6.8 million.

APPENDIX D

Form of Opinion of Bond Counsel

(this page intentionally left blank)



Norton Rose Fulbright US LLP
300 Convent Street, Suite 2100
San Antonio, Texas 78205-3792
United States

Tel +1 210 224 5575
Fax +1 210 270 7205
nortonrosefulbright.com

FINAL

IN REGARD to the authorization and issuance of the “Alamo Heights Independent School District Variable Rate Unlimited Tax School Building Bonds, Series 2018B” (the *Bonds*), dated May 15, 2018, in the aggregate original principal amount of \$12,000,000, we have reviewed the legality and validity of the issuance thereof by the Alamo Heights Independent School District (the *Issuer*). The Bonds are issuable in fully registered form only and have a Stated Maturity of February 1, 2028, unless optionally or mandatorily redeemed prior to Stated Maturity in accordance with the applicable redemption provisions. The Bonds bear interest on the unpaid principal amount from the date of their delivery to the initial purchaser through the end of the Initial Rate Period (as defined in the order authorizing the issuance of the Bonds (the *Order*)), at the rate per annum stated in the Order, and such interest is payable on the dates described in the Order to the registered owners shown on the registration books of the Paying Agent/Registrar on the Record Date (stated on the face of the Bonds).

WE HAVE SERVED AS BOND COUNSEL for the Issuer solely to pass upon the legality and validity of the issuance of the Bonds under the laws of the State of Texas and with respect to the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes and for no other purpose. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Bonds. Our role in connection with the Issuer's Offering Memorandum prepared for use in connection with the sale of the Bonds has been limited as described therein.

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the Issuer in connection with the issuance of the Bonds, including the Order; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Bonds and certain other funds of the Issuer, and to certain other facts solely within the knowledge and control of the Issuer; and (4) such other documentation, including an examination of the Bonds executed and delivered initially by the Issuer, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

Norton Rose Fulbright US LLP is a limited liability partnership registered under the laws of Texas.

Norton Rose Fulbright US LLP, Norton Rose Fulbright LLP, Norton Rose Fulbright Australia, Norton Rose Fulbright Canada LLP and Norton Rose Fulbright South Africa Inc are separate legal entities and all of them are members of Norton Rose Fulbright Verein, a Swiss verein. Norton Rose Fulbright Verein helps coordinate the activities of the members but does not itself provide legal services to clients. Details of each entity, with certain regulatory information, are available at nortonrosefulbright.com.

Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of “ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT VARIABLE RATE UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018B”

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Bonds are valid and legally binding obligations of the Issuer enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Bonds are payable from the proceeds of an ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the Issuer.

IT IS FURTHER OUR OPINION THAT, assuming continuing compliance after the date hereof by the Issuer with the provisions of the Order and in reliance upon the representations and certifications of the Issuer made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Bonds will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations.

FOR TAXABLE YEARS THAT BEGAN BEFORE JANUARY 1, 2018, interest on the Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of computing the alternative minimum tax on such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust. The alternative minimum tax on corporations has been repealed for taxable years beginning on or after January 1, 2018.

WE EXPRESS NO OPINION herein on the excludability from gross income for federal income tax purposes of any action taken under the Order which requires that the Issuer shall have received an opinion of counsel nationally recognized in the field of municipal finance to the effect that such action will not adversely affect the excludability of the interest on the Bonds from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes. The Order provides that prior to taking certain actions, including converting the interest rate on the Bonds from one rate mode to another rate mode, the Issuer must have received such an opinion.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be

Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of “ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT VARIABLE RATE UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018B”

deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Norton Rose Fulbright US LLP

(this page intentionally left blank)

Financial Advisory Services

Provided By:

SAMCO CAPITAL MARKETS, INC.