

OFFICIAL NOTICE OF SALE AND BIDDING INSTRUCTIONS
BID FORM
AND
PRELIMINARY OFFICIAL STATEMENT

\$6,500,000*

**FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
(Pecos County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS,
SERIE 2018**

Bids Due
Monday, April 23, 2018
at 10:00 A.M., Central Time

* Preliminary, subject to change. See "THE BONDS - ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS" herein.

This Official Notice of Sale does not alone constitute an invitation for bids but is merely notice of sale of the Bonds described herein. The invitation for bids on such Bonds is being made by means of this Official Notice of Sale, the Official Bid Form and the Preliminary Official Statement.

**OFFICIAL NOTICE OF SALE
AND
BIDDING INSTRUCTIONS**

\$6,500,000*
FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Pecos County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018

Sealed Bids Due on Monday, April 23, 2018 at 10:00 A.M. Central Time

THE SALE

BONDS OFFERED FOR SALE AT COMPETITIVE BIDDING. The Fort Stockton Independent School District (the "District") is offering for sale at competitive bid its \$6,500,000* Unlimited Tax School Building Bonds, Series 2018 (the "Bonds").

PLACE AND TIME OF SALE. Bids for the purchase of the Bonds will be received until 10:00 A.M., Central Time, on Monday, April 23, 2018 at the District's Administration Office, 101 West Division Street, Fort Stockton, Texas 79735-7107. All bids received will be publicly opened and read at such time and place, and the results will be reported to the Board of Trustees of the District (the "Board") at a regular meeting on the same day scheduled to convene at 7:00 P.M., and during such meeting the Board will make an award of the Bonds or take such other action as may be deemed appropriate.

BIDDING PROCEDURES. No later than 10:00 A.M., Central Time, on Monday, April 23, 2018, bidders who wish to submit their bids electronically or by facsimile must provide two signed copies of the "Official Bid Form," and two signed copies of the "Issue Price Certificate," together with an envelope addressed to the President, Board of Trustees, Fort Stockton Independent School District, 101 West Division Street, Fort Stockton, Texas 79735-7107, and plainly marked "Bid for Bonds," to Duane Westerman, SAMCO Capital Markets, Inc., 1020 N.E. Loop 410, Suite 640, San Antonio, Texas 78209.

Bidders must submit bids for the Bonds by one of the following methods:

- (1) Deliver bids directly to the District as described below in "Bids Delivered Directly to the District,"
- (2) Submit bids electronically as described below in "Electronic Bidding Procedure;" or
- (3) Submit bids by facsimile as described below in "Facsimile Bidding Procedure."

Bids Delivered Directly to the District . . . Bids delivered directly to the District, which must be submitted in duplicate on the Official Bid Form and plainly marked "Bid for Bonds," are to be addressed to "President, Board of Trustees", Fort Stockton Independent School District, 101 West Division Street, Fort Stockton, Texas 79735-7107. All such bids must be delivered at the above address no later than 10:00 A.M., Central Time, on Monday, April 23, 2018.

Electronic Bidding Procedure . . . Interested bidders may, at their option, submit their bid by electronic media, as described below, by 10:00 A.M., Central Time, on Monday, April 23, 2018.

Any prospective bidder that intends to submit an electronic bid must submit its electronic bid through the facilities of the Bidcomp/PARITY System ("PARITY"). Subscription to the Ipreo's BIDCOMP Competitive Bidding System is required in order to submit an electronic bid. The District will neither confirm any subscription nor be responsible for the failure of any prospective bidder to subscribe. An electronic bid made through the facilities of PARITY shall be deemed an irrevocable offer to purchase the Bonds on the terms provided in the Official Notice of Sale, and shall be binding upon the bidder as if made by a signed, sealed bid delivered to the District. The District shall not be responsible for any malfunction or mistake made by, or as a result of the use of the facilities of, PARITY, the use of such facilities being the sole risk of the prospective bidder. In the event of a malfunction in the electronic bidding process, bidders may submit their bids by facsimile as described below. Any bid received after the scheduled time for their receipt will not be accepted. If any provisions of the Official Notice of Sale shall conflict with information provided by PARITY as the approved provider of electronic bidding services, this Official Notice of Sale shall control. Further information about PARITY, including any fee charged, may be obtained by calling (212) 849-5021.

* Preliminary, subject to change (see "THE BONDS - Adjustment of Principal Amount and Maturity Schedule for the Bonds" and "CONDITIONS OF THE SALE - Basis of Award").

For purposes of both the written sealed bid process and the electronic bidding process, the time as maintained by PARITY shall constitute the official time for the receipt of bids. For information purposes only, bidders are requested to state in their electronic bids the net interest cost to the District, as described under "CONDITIONS OF THE SALE - Basis of Award" below. All electronic bids shall be deemed to incorporate the provisions of this Official Notice of Sale, the Official Bid Form, and the Preliminary Official Statement.

Facsimile Bidding Procedure . . . Interested bidders may, at their option, submit their bid by facsimile as described below.

Mr. Westerman will accept bids by facsimile until 10:00 A.M., Central Time, on Monday, April 23, 2018 at (210) 832-9794. Each bid received by facsimile will be attached to the corresponding signed Official Bid Form as mentioned above, after which Mr. Westerman will, on behalf of the bidders, submit such bids on the bid forms to the District in the manner provided above. Mr. Westerman will not be responsible for submitting bids received after the Monday, April 23, 2018 10:00 A.M., Central Time deadline.

Neither the District nor SAMCO Capital Markets, Inc. is responsible for any failure of their or the sender's facsimile machine, any failed delivery of a facsimile, any incomplete or ambiguous transmittals, or the disclosure of the bid to any persons prior to bid opening. If any portion of a facsimile bid is illegible, the District and SAMCO Capital Markets, Inc. may, at their option, either call any provided reference number for clarification or reject the bid. **Bidders who fax bids do so at their own risk. All such bids shall be binding on the bidder.**

AWARD OF BONDS. The District intends to award the Bonds on the basis of the lowest net interest cost bid. The interest cost of each bid will be computed by determining, at the rate or rates specified, the total dollar value of all interest on the Bonds to their respective stated maturities.

THE BONDS

DESCRIPTION. The Bonds will be dated May 1, 2018 (the "Dated Date") with interest to accrue from the Dated Date and to be payable initially on August 1, 2018 and semiannually on February 1 and August 1 thereafter until stated maturity or prior redemption. The definitive Bonds will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Bonds will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of Bonds representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by ZB, National Association, dba Amegy Bank, Houston, Texas, as Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" in the Preliminary Official Statement.) The Bonds will be stated to mature on February 1 in each of the following years in the following amounts:

Stated Maturity February 1	Principal* Amount (\$)
2019	175,000
2020	200,000
2021	250,000
2022	415,000
2023	500,000
2024	500,000
2025	500,000
2026	500,000
2027	475,000
2028	475,000
2029	575,000
2030	935,000
2031	1,000,000

* Preliminary, subject to change (see "THE BONDS - Adjustment of Principal Amount and Maturity Schedule for the Bonds" and "CONDITIONS OF THE SALE - Basis of Award").

ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS. After final computation of the bids, the District reserves the right in its sole discretion either to decrease or increase the principal amount of any stated maturity of the Bonds. The aggregate principal amount of the Bonds may be adjusted by no more than 10% of the proposed par amount by the Board of Trustees. Such adjustment(s), if any,

shall be made within four (4) hours of the initial award of the Bonds. The price at which such adjusted principal amount of Bonds will be sold will be the same price per \$1,000 of Bonds as the price per \$1,000 for the original par amount of Bonds bid. In order to calculate the yield on the Bonds for federal tax law purposes and as a condition precedent to the award of the Bonds, bidders must disclose to the District in connection with their respective bids the price (or yield to stated maturity) at which each stated maturity of the Bonds will be reoffered and sold for (or expected to be sold) to the public.

In the event of any adjustment of the maturity schedule for the Bonds as described herein, no rebidding or recalculation of the proposals submitted will be required or permitted. Any such adjustment of the aggregate principal amount of the Bonds and/or the maturity schedule for the Bonds made by the District or its Financial Advisor shall be subsequent to the award of the Bonds to the winning bidder as determined pursuant to "CONDITIONS OF THE SALE - Basis of Award" herein and shall not affect such determination. The successful bidder may not withdraw its bid as a result of any changes made within the aforementioned limits.

There is no guarantee that adjustments and/or revisions will not be necessary in order to properly size the Bonds. Accordingly, the District reserves the right in its sole discretion to make adjustments as previously described above, even if the issue size of the Bonds does not change from the original par amount of Bonds. In the event of any such adjustment and or revision, no rebidding will be permitted, and the purchase price as may have been bid on the Bonds shall be adjusted accordingly.

PURPOSE. Proceeds from the sale of the Bonds will be used for the purposes of (i) construction, renovation, acquisition and equipment of school buildings in the District, the purchase of necessary sites for school buildings and the purchase of new school buses and (ii) paying the costs of issuance of the Bonds. See "SOURCES AND USES OF FUNDS" in the Preliminary Official Statement.

OPTIONAL REDEMPTION. The District reserves the right, at its option, to redeem Bonds having a stated maturity on February 1, 2027, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2026, or on any date thereafter, at a price of par, plus accrued interest to the date fixed for redemption.

SERIAL BONDS AND/OR TERM BONDS. Bidders may provide that all the Bonds be issued as serial bonds maturing in accordance with the Maturity Schedule shown above or may provide that any two or more consecutive annual principal amounts be combined into one or more term bonds (the "Term Bonds") provided that such Term Bonds shall be subject to mandatory sinking fund redemption in the amounts and in the years described in the Maturity Schedule above as if such Term Bonds remained serial bonds. The final Official Statement will incorporate the mandatory redemption provisions for the Bonds in the event the successful bidder elects to convert serial maturities into one or more Term Bonds.

BOOK-ENTRY-ONLY SYSTEM. The District intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York ("DTC") with respect to the issuance of the Bonds. (See "BOOK-ENTRY-ONLY SYTEM" in the Official Statement.)

PAYING AGENT/REGISTRAR. The initial Paying Agent/Registrar shall be ZB, National Association, dba Amegy Bank, Houston, Texas (see "REGISTRATION, TRANSFER AND EXCHANGE" in the Preliminary Official Statement). If the Paying Agent/Registrar becomes unable for any reason to act as Paying Agent/Registrar, the District has covenanted to appoint a successor Paying Agent/Registrar.

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 legal limit as to rate or amount.

PERMANENT SCHOOL FUND GUARANTEE. The District has applied for and 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" in the Preliminary Official Statement.

OFFICIAL STATEMENT AND OTHER TERMS AND COVENANTS IN THE ORDER. Further details regarding the Bonds and certain covenants of the District contained in the Order are set forth in the Preliminary Official Statement to which reference is made for all purposes.

CONDITIONS OF THE SALE

THE INITIAL BONDS AND DENOMINATIONS OF BONDS. The Bonds will be issued only as fully registered obligations in the denomination of \$5,000 or any integral multiple thereof within a maturity.

TYPES OF BIDS AND INTEREST RATES. The Bonds will be sold in one block on an "All or None" basis, and at a price of not less than 102.00% of their principal amount plus accrued interest from the Dated Date to the date of initial delivery of the Bonds to the Initial Purchaser (defined herein); provided, however, that any bid is subject to

adjustment as described under the caption "THE BONDS - Adjustment of Principal Amount and Maturity Schedule for the Bonds," which adjustment could result in the price of the Bonds of the bidders premium to exceed the parameters provided above. Bidders are invited to name the rate or rates of interest the Bonds shall bear, provided that each rate bid must be stated in multiples of 1/8th of 1% or 1/20th of 1%, and the maximum rate bid must not exceed 5.00%. The highest rate bid may not exceed the lowest rate bid by more than 3.00% in rate. No limitation is imposed upon bidders as to the number of rates or changes that may be used, provided that all Bonds of one maturity must bear one and the same rate.

No bids with supplemental interest rates will be considered. Each bidder shall state in its bid the total interest cost in dollars and the net effective interest rate determined thereby, which shall be considered informative only and not a part of the bid.

BASIS OF AWARD. For the purpose of awarding sale of the Bonds, the interest cost of each bid will be computed by determining the total cost of all interest on the Bonds from the Dated Date to their respective stated maturities, using the table of Bond Years herein. Subject to the District's right to reject any or all bids and to waive irregularities, except time of filing, the Bonds will be awarded to the bidder (the "Initial Purchaser" or "Purchaser") whose bid, based on the above computation, produces the lowest net interest cost to the District. In case of a tie, the District reserves the right to determine which bidder will be awarded the Bonds in accordance with applicable Texas law.

After selecting the winning bid, the principal authorization schedule may be adjusted as determined by the District's Board and its Financial Advisor in cooperation with the Purchaser in \$5,000 increments to reflect the actual interest rates and to create level debt service to the District. Such adjustments will not change the principal amounts due on the Bonds in any year by more than 10%. The District will, in good faith, attempt to communicate such adjustment to the Initial Purchaser within four (4) hours after the opening of the bids.

GOOD FAITH DEPOSIT. A Good Faith Deposit, in the form of a Cashier's Check payable to "Fort Stockton Independent School District," in the amount of \$130,000.00* is required. The Good Faith Deposit of the Purchaser will be retained uncashed by the District until the Bonds are delivered. At that time, it will be returned to the Purchaser uncashed; however, should the Purchaser fail or refuse to take up and pay for the Bonds, said check is to be cashed by the District and the proceeds accepted as full and complete liquidated damages. The above-mentioned Good Faith Deposit may accompany the bid or it may be submitted separately. However, if submitted separately, it shall be made available to the District prior to the opening of the bids. It shall be accompanied by instructions from the bank on which it is drawn which will authorize its use as a Good Faith Deposit by the Purchaser who shall be named in such instructions. No interest will be paid or allowed on any Good Faith Deposit. Checks accompanying the bids of unsuccessful bidders will be returned immediately after the bids are opened and the award of the sale of the Bonds has been made.

ADDITIONAL CONDITION OF AWARD - DISCLOSURE OF INTERESTED PARTY FORM:

New Obligation of the District to Receive Information from Winning Bidder. Effective January 1, 2016, pursuant to Texas Government Code Section 2252.908 (the "Interested Party Disclosure Act"), the District may not award the Bonds to a bidder unless (i) the winning bidder submits a Certificate of Interested Parties Form 1295 (the "Disclosure Form") to the District as prescribed by the Texas Ethics Commission ("TEC") or (ii) certifies in the Official Bid Form that it is exempt from filing the Disclosure Form by virtue of being a publicly traded business entity or a wholly owned subsidiary of a publicly traded business entity. In the event that the bidder's bid for the Bonds is the best bid received, the District, acting through its financial advisor, will promptly notify the winning bidder. That notification will serve as the District's conditional verbal acceptance of the bid, and will obligate the winning bidder to establish (unless the winning bidder has previously so established) an account with the TEC, and promptly file a completed Disclosure Form, as described below, in order to allow the District to complete the award unless the bidder is exempt from filing the Disclosure Form. The District reserves the right to reject any bid that does not comply with the requirements prescribed herein.

Process for Completing the Disclosure Form. For purposes of illustration, the Disclosure Form is attached hereto, and reference should be made to such form for the following information needed to complete it: (a) item 2 - name of the governmental entity (*Fort Stockton Independent School District*) and (b) item 3 - the identification number assigned to this contract by the District (FSISD Ser2018Bonds) and description of the goods or services (*Purchase of the Fort Stockton Independent School District Unlimited Tax School Building Bonds, Series 2018*).

* Preliminary, subject to change (see "THE BONDS - Adjustment of Principal Amount and Maturity Schedule for the Bonds" and "CONDITIONS OF THE SALE - Basis of Award").

The Interested Party Disclosure Act and the rules adopted by the TEC with respect thereto (the "Disclosure Rules") require a business entity contracting with the District to complete the Disclosure Form electronically at <https://www.ethics.state.tx.us/main/file.htm>, print, sign, and deliver, in physical form, the certified Disclosure Form that is generated by the TEC's "electronic portal" to the District. The signed Disclosure Form must be sent by email, to the District's financial advisor at dwesterman@samcocapital.com as soon as possible following the notification of conditional verbal acceptance and prior to the final written award. Upon receipt of the final written award, the winning bidder must submit the Disclosure Form with original signatures by mail to Leroy Grawunder, c/o McCall, Parkhurst & Horton L.L.P., 717 N. Harwood, 9th Floor, Dallas, Texas 775201-6587, along with a PDF executed version sent to leroy.grawunder@mphlegal.com.

Preparations for Completion and the Significance of the Reported Information. The Interested Party Disclosure Act and the Disclosure Form provide that such disclosure is made "under oath and under penalty of perjury." Consequently, a bidder should take appropriate steps prior to completion of the Disclosure Form to familiarize itself with the Interested Party Disclosure Act, the Disclosure Rules and the Disclosure Form.

Time will be of the essence in submitting the form to the District, and no final award will be made by the District regarding the sale of the Bonds until a completed Disclosure Form is received or the bidder certifies that it is exempt from filing the Disclosure Form. **The District reserves the right to reject any bid that does not satisfy the requirement of a completed Disclosure Form, as described herein.** Neither the District nor its consultants have the ability to verify the information included in a Disclosure Form, and neither party has an obligation nor undertakes responsibility for advising any bidder with respect to the proper completion of the Disclosure Form. Consequently, an entity intending to bid on the Bonds should consult its own advisors to the extent it deems necessary and be prepared to submit the completed form promptly upon notification from the District that its bid is the conditional winning bid. Instructional videos on logging in and creating a certificate are provided on the TEC's website at https://www.ethics.state.tx.us/whatsnew/efl_info_form1295.htm.

IMPACT OF BIDDING SYNDICATE ON AWARD: For purposes of contracting for the sale of the Bonds, the entity signing the Official Bid Form as Purchaser shall be solely responsible for the payment of the purchase price of the Bonds. The Purchaser may serve as a syndicate manager and contract under a separate agreement with other syndicate members. However, the District is not a party to that agreement and any information provided regarding syndicate managers would be for informational purposes only.

DELIVERY OF THE BONDS AND ACCOMPANYING DOCUMENTS

INITIAL DELIVERY OF INITIAL BOND. Initial delivery of the Bonds to the Purchaser (the "Initial Delivery") will be accomplished by the issuance of one Initial Bond (also called the "Bonds"), either in typed or printed form, in the aggregate principal amount of \$6,500,000.00,* payable in stated installments to the Purchaser, signed by manual or facsimile signature by the President and Secretary of the Board of the Fort Stockton Independent School District, approved by the Texas Attorney General, and registered and manually signed by the Comptroller of Public Accounts. Initial Delivery of the Bonds will be at the designated office of the Paying Agent/Registrar. Upon delivery of the Initial Bonds, they shall be immediately canceled and one definitive Bond for each maturity payable to Cede & Co. will be exchanged therefore and delivered to DTC in connection with DTC's Book-Entry-Only System. Payment for the Bonds must be made in immediately available funds for unconditional credit to the District, or as otherwise directed by the District. The Purchaser will be given seven (7) business days' notice of the time fixed for delivery of the Bonds. It is anticipated that delivery of the Initial Bond can be made on or about May 16, 2018. If for any reason the District is unable to make delivery by May 16, 2018, then the District shall immediately contact the Purchaser and offer to allow the Purchaser to extend for an additional up to thirty (30) days its obligation to take up and pay for the Bonds. If the Purchaser does not so elect within six (6) days thereafter, then its Good Faith Deposit will be returned and both the District and the Purchaser shall be relieved of further obligation. In no event shall the District be liable for any damages by reason of its failure to deliver the Bonds, provided such failure is due to circumstances beyond the District's reasonable control.

DTC DEFINITIVE BONDS. After delivery of the Initial Bond, the Bonds will be issued in Book-Entry-Only form. Cede & Co. is the nominee for DTC. All references herein to the registered owner of the Bonds shall mean Cede & Co. and not the Beneficial Owners of the Bonds. Purchasers of beneficial interests in the Bonds will be made in Book-Entry-Only form (without registered Bonds) in the denomination of \$5,000 principal amount or any integral multiple thereof. Under certain limited circumstances described herein, the District may determine to forego immobilization of the Bonds at DTC, or another securities depository, in which case such beneficial interests would become exchangeable for one or more fully registered obligations of like principal amount for the Bonds.

* Preliminary, subject to change (see "THE BONDS - Adjustment of Principal Amount and Maturity Schedule for the Bonds" and "CONDITIONS OF THE SALE - Basis of Award").

CUSIP NUMBERS. It is anticipated that CUSIP identification numbers will appear on the Bonds, but neither the failure to print or type such number on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the Purchaser to accept delivery of and pay for the Bonds in accordance with the terms of the Official Bid Form and this Official Notice of Sale. All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid by the District; however, the CUSIP Service Bureau charge for the assignment of the numbers shall be paid by the Purchaser.

CONDITIONS OF DELIVERY. The Purchaser's obligation to take up and pay for the Bonds is subject to the issuance of an approving opinion of the Texas Attorney General, the Purchaser's acknowledgment of the receipt of the Initial Bond, the opinion and the Purchaser's receipt of the legal opinion of Bond Counsel (hereafter defined), the no-litigation certificate, and a certificate as to Official Statement, all as described in the Preliminary Official Statement.

In order to provide the District with information required to enable it to comply with the conditions of the Internal Revenue Code of 1986 on the exclusion of interest on the Bonds from the gross income of their owners, the Purchaser will be required to complete, execute, and deliver to the District on or before the date of delivery of the Bonds a certificate as to the "issue price" substantially in the form of Exhibit I attached hereto. In the event the Purchaser will not reoffer the Bonds for sale, such certificate must be modified in a manner approved by the District. Each bidder, by submitting its bid, agrees to complete, execute and deliver such a certificate by the date of delivery of the Bonds if its bid is accepted by the District. Delivery of the Bonds is conditioned upon receipt by the District from the Purchaser of such certificate. It will be the responsibility of the Purchaser to institute such syndicate reporting requirements, to make such investigation, or otherwise to ascertain the facts necessary to enable it to make such certification with reasonable certainty. Any questions concerning such certification should be directed to Bond Counsel.

ESTABLISHING THE ISSUE PRICE FOR THE BONDS

The District intends to rely on Treasury Regulation section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of municipal bonds), which require, among other things, that the District receives bids from **at least three underwriters** of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds (**the "Competitive Sale Requirement"**).

In the event that the bidding process does not satisfy the Competitive Sale Requirement as communicated by the Municipal Advisor to the winning bidder by 7:00 p.m., Bids **will not be subject to cancellation** and the winning bidder (i) agrees to promptly report to the District the first prices at which at least 10% of each maturity of the Bonds (**the "First Price Maturity"**) have been sold to the Public on the Sale Date (**the "10% Test"**) (if different interest rates apply within a maturity, each separate CUSIP number within that maturity will be subject to the 10% Test) and (ii) agrees to hold-the-offering-price of each maturity of the Bonds that does not satisfy the 10% Test (**"Hold-the-Price Maturity"**), as described below.

In order to provide the District with information that enables it to comply with the establishment of the issue price of the Bonds under the Internal Revenue Code of 1986, as amended, the winning bidder agrees to complete, execute, and timely deliver to the District or to the District's municipal advisor, SAMCO Capital Markets, Inc. (the "District's Municipal Advisor"), a certification as to the Bonds' "issue price" (the "Issue Price Certificate") substantially in the form and to the effect attached hereto or accompanying this Notice of Sale, within 5 business days prior to the Closing Date if the Competitive Sale Requirement is satisfied or within 5 business days of the date on which the 10% Test is satisfied with respect to all of the First Price Maturities. In the event the winning bidder will not reoffer any maturity of the Bonds for sale to the Public (as defined herein) by the Closing Date, the Issue Price Certificate may be modified in a manner approved by the District. It will be the responsibility of the winning bidder to institute such syndicate reporting requirements, to make such investigation, or otherwise to ascertain such facts necessary to enable it to make such certification with reasonable certainty. Any questions concerning such certification should be directed to Bond Counsel (identified in the Preliminary Official Statement).

For purposes of this section of this Notice of Sale:

- (i) "Public" means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a Related Party to the Underwriter,
- (ii) "Underwriter" means (A) any person that agrees pursuant to a written contract with the District (or with the lead Underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public),
- (iii) "Related Party" means any two or more persons (including an individual, trust, estate, partnership, association, company, or corporation) that are subject, directly or indirectly, to (i) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or

profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and

(iv) "Sale Date" means the date that the Bonds are awarded by the District to the winning bidder.

All actions to be taken by the District under this Notice of Sale to establish the issue price of the Bonds may be taken on behalf of the District by the District's Municipal Advisor, and any notice or report to be provided to the District may be provided to the District's Municipal Advisor.

The District will consider any bid submitted pursuant to this Notice of Sale to be a firm offer for the purchase of the Bonds, as specified in the bid and, if so stated, in the Official Bid Form.

By submitting a bid, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each retail distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the Public, together with the related pricing wires, contains or will contain language obligating each Underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such retail distribution agreement, as applicable, to report the prices at which it sells to the Public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder that either the 10% Test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the Public, if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and (ii) any agreement among underwriters relating to the initial sale of the Bonds to the Public, together with the related pricing wires, contains or will contain language obligating each Underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Bonds to the Public to require each broker-dealer that is a party to such retail distribution agreement to report the prices at which it sells to the Public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder or such Underwriter that either the 10% Test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the Public, if and for so long as directed by the winning bidder or such Underwriter and as set forth in the related pricing wire.

By submitting a bid, the winning bidder agrees, on behalf of each Underwriter participating in the purchase of the Bonds, that each Underwriter will neither offer nor sell any Hold-the-Price Maturity to any person at a price that is higher than the initial offering price to the Public during the period starting on the Sale Date and ending on the earlier of (1) the close of the fifth (5th) business day after the Sale Date; or (2) the date on which the Underwriters have sold at least 10% of that Hold-the-Price Maturity to the Public at a price that is no higher than the initial offering price to the Public. The winning bidder shall promptly advise the District when the Underwriters have sold 10% of a Hold-the-Price Maturity to the Public at a price that is no higher than the initial offering price to the Public, if that occurs prior to the close of the fifth (5th) business day after the Sale Date.

LEGAL OPINIONS. The District will furnish to the representative of the Purchaser a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the approving legal opinion of the Attorney General of the State of Texas, that the Bonds are valid and legally binding obligations of the District and, based upon examination of such transcript of proceedings, the legal opinion of McCall, Parkhurst & Horton L.L.P. Dallas, Texas ("Bond Counsel"). In addition, the District will receive an opinion from Bond Counsel to the effect that the interest on the Bonds, assuming continued compliance with the provisions of the Order, (1) is excludable from the gross income of the owners thereof for federal income tax purposes under the law existing on 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 under "TAX MATTERS" in the Preliminary Official Statement, corporations. The opinion of Bond Counsel will be attached to the Bonds delivered to DTC. (See "TAX MATTERS" in the Preliminary Official Statement.)

NO-LITIGATION CERTIFICATE. The District will furnish an executed certificate to the Purchaser to the effect that no litigation of any nature has been filed or is then pending to restrain or enjoin the issuance or delivery of the Bonds, or which would affect the provisions for their payment or security, or in any manner questioning the validity of said Bonds.

CERTIFICATION OF OFFICIAL STATEMENT. At the time of payment for, and initial delivery of, the Initial Bond, the District will execute and deliver to the Purchaser a certificate in the form set forth in the Preliminary Official Statement. (See "OTHER PERTINENT INFORMATION - Authorization of the Official Statement" in the Preliminary Official Statement.)

CHANGES IN TAX-EXEMPT STATUS. At any time before the Bonds are tendered for delivery, the Purchaser may withdraw his bid if the interest received by private holders from obligations of the same type and character shall be declared to be taxable income under present federal income tax laws, either by ruling of the Internal Revenue Service or by a decision of any federal court, or shall be declared taxable or be required to be taken into account in computing any federal income taxes, by the terms of any federal income tax law (other than as described in the Preliminary Official Statement under "TAX MATTERS").

Verification Pursuant to Chapter 2270 of the Texas Government Code: Pursuant to Chapter 2270 (as enacted by Acts 2017, 85th Leg., ch. 1, House Bill 89) of the Texas Government Code, as amended, the winning bidder will be required to verify in the Official Bid Form, for purposes of such chapter, that at the time of execution and delivery of its bid and, except to the extent otherwise required by applicable federal law, to the date of delivery of the Bond, neither the winning bidder, nor any wholly owned subsidiary, majority-owned subsidiary, parent company or affiliate of the winning bidder, boycotts or will boycott Israel. The terms "boycotts Israel" and "boycott Israel" as used in this paragraph have the meanings assigned to the term "boycott Israel" in Section 808.001 of the Texas Government Code, as amended.

Verification Pursuant to Chapters 2252 and 2270 of the Texas Government Code: Pursuant to Chapter 2252 and Chapter 2270 (as enacted by Acts 2017, 85th Leg., ch. 96, Senate Bill 253) of the Texas Government Code, as amended, the winning bidder by submission of its bid represents that at the time of the execution and delivery of its bid through the date of delivery of the Bonds, the winning bidder, including any wholly owned subsidiary, majority-owned subsidiary, parent company, or affiliate of the winning bidder, is not: (i) listed as a scrutinized company with business operations in Sudan or Iran, (ii) engaged in scrutinized business operations with a designated foreign terrorist organization and (iii) a company known to have contracted with or provided services to a foreign terrorist organization or designated foreign terrorist organization on the lists prepared and maintained pursuant to Sections 807.051, 2252.152 and 2270.0201 of the Texas Government Code, as amended.

GENERAL CONSIDERATIONS

FINANCIAL ADVISOR. SAMCO Capital Markets, Inc. is employed as Financial Advisor to the District in connection with the issuance of the Bonds and will not submit a bid. SAMCO Capital Markets, Inc., has also been designated as the District's independent registered municipal advisor. 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, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

NOT AN OFFER TO SELL. The Official Notice of Sale does not alone constitute an offer to sell but is merely a Notice of Sale of Bonds as directed by the Board of Trustees of the District. The offer by the Board of Trustees of the District to sell the Bonds to the successful bidder is being made by means of the Official Notice of Sale, the Preliminary Official Statement and the Official Bid Form. Prospective bidders are urged to examine the Preliminary Official Statement carefully to determine the investment quality of the Bonds.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE. The sale of the Bonds has not been registered under the federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for 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 provisions.

It is the obligation of the Purchaser to register or qualify the sale of the Bonds under the securities laws of any jurisdiction that so requires. The District agrees to cooperate, at the Purchaser's written request and 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 consent to a general consent to service of process in any jurisdiction.

MUNICIPAL BOND RATING. The District has made application to S&P Global Ratings ("S&P") for a contract rating on the Bonds. S&P generally rates all bonds guaranteed by the Texas Permanent School Fund "AAA." The results will be made available as soon as possible. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "OTHER PERTINENT INFORMATION - Municipal Bond Rating" in the Preliminary Official Statement.

OFFICIAL STATEMENT

By accepting the winning bid, the District agrees to the following representations and covenants to assist the Purchaser in complying with Rule 15c2-12, as amended (the "Rule"), of the United States Securities and Exchange Commission ("SEC").

THE PRELIMINARY OFFICIAL STATEMENT AND COMPLIANCE WITH THE RULE. The District will approve and authorize the accompanying Preliminary Official Statement and, for the limited purpose of complying with the Rule, will deem such Preliminary Official Statement to be "final" as of its date within the meaning of the Rule for the purpose of review prior to bidding. To the best knowledge and belief of the District, the Preliminary Official Statement contains information, including financial information and operating data, concerning every entity, enterprise, fund, account, or person that is material to an evaluation of the offering of the Bonds. Representations made and to be made by the District concerning the absence of material misstatements and omissions in the

Preliminary Official Statement are addressed elsewhere in this Official Notice of Sale and Bidding Instructions and in the Preliminary Official Statement.

The District will furnish to the Purchaser, acting through a designated senior representative, in accordance with instructions received from the Purchaser, within seven (7) business days after the sale date, an aggregate maximum of fifty (50) copies of the final Official Statement, together with information regarding interest rates and other terms relating to the reoffering of the Bonds. The District agrees to provide, or cause to be provided, to the Purchaser the Preliminary Official Statement and the Official Statement and any amendments or supplements thereto in a designated electronic format (or printed format with respect to the final Official Statement) as may be required for the Purchaser to comply with the Rule or the rules of the Municipal Securities Rulemaking Board ("MSRB"). The District consents to the distribution of such documents in a designated electronic format. Upon receipt, the Purchaser shall promptly file the Official Statement with the MSRB in accordance with the MSRB Rule G-32. The Purchaser will be responsible for providing information concerning the District and the Bonds to subsequent purchasers of the Bonds, and the District will undertake no responsibility for providing such information other than to make the Official Statement available to the Purchaser as provided herein. The District's obligation to supplement the Official Statement to correct key representations determined to be omitted or materially misleading, after the date of the Official Statement, shall terminate 25 days after the sale date.

The Board of Trustees will, in the Order authorizing the issuance of the Bonds, confirm its approval of the form and content of the Official Statement, and any addenda, supplement or amendment thereto, and authorize its use in the reoffering of the Bonds by the Purchaser.

CONTINUING DISCLOSURE AGREEMENT. The District will agree in the Order to provide certain periodic information and notices of specified events in accordance with the Rule, as described in the Preliminary Official Statement under "CONTINUING DISCLOSURE." The Purchaser's obligation to accept and pay for the Bonds is conditioned upon delivery to the Purchaser or its agent of a certified copy of the Order containing the agreement described under such heading.

COMPLIANCE WITH PRIOR UNDERTAKINGS. During the past five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

AUTHENTICITY OF FINANCIAL INFORMATION. The financial data and other information contained in the Preliminary Official Statement have been obtained from the District's records, audit reports and other sources which are believed to be reliable. Both the Official Notice of Sale and the Preliminary Official Statement, including the distribution thereof, will be approved by the Board of Trustees of the District pursuant to the Order.

The Board of Trustees will approve the form and content of the Official Notice of Sale, the Official Bid Form, and the Preliminary Official Statement and will authorize the use thereof in its initial offering of the Bonds. On the date of the sale, the Board of Trustees will, in the Order authorizing the issuance of the Bonds, reconfirm its approval of the form and content of the Preliminary Official Statement, and any addenda, supplements, and amendments thereto, and authorize its further use in the reoffering of the Bonds by the Initial Purchaser.

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT

/s/ _____
President, Board of Trustees

ATTEST:

/s/ _____
Secretary, Board of Trustees

April 23, 2018

OFFICIAL BID FORM

April 23, 2018

The Honorable President and
 Members of the Board of Trustees
 Fort Stockton Independent School District
 101 West Division Street
 Fort Stockton, Texas 79735-7107

Members of the Board of Trustees:

Reference is made to your "Official Notice of Sale" and "Preliminary Official Statement" dated April __, 2018, concerning \$6,500,000* FORT STOCKTON INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018 (the "Bonds"), which are made a part hereof (the terms of which are hereto agreed as evidenced by our submission of this bid).

For your legally issued Bonds, as described in said "Official Notice of Sale" and "Preliminary Official Statement," we will pay a price of \$_____ (not less than 102.00% of the par value thereof), plus accrued interest, for Bonds maturing on February 1 in the year and in the amount and interest rate shown below:

<u>Principal Amount(\$)</u>	<u>Stated Maturity</u>	<u>Interest Rate(%)</u>	<u>Yield(%)</u>
175,000	2019	_____	_____
200,000	2020	_____	_____
250,000	2021	_____	_____
415,000	2022	_____	_____
500,000	2023	_____	_____
500,000	2024	_____	_____
500,000	2025	_____	_____
500,000	2026	_____	_____
475,000	2027	_____	_____
475,000	2028	_____	_____
575,000	2029	_____	_____
935,000	2030	_____	_____
1,000,000	2031	_____	_____

As indicated below, Bidder has elected to bid one or more term bonds with each term bond consisting of two or more consecutive annual principal amounts accumulated from the maturity schedule above (subject to the District's ability to adjust the size of individual maturities) (the "Term Bonds"). For those years of the Bonds which have been combined into Term Bonds, the principal amounts shown in the maturity schedule above shall be redeemed in each such year except for the principal amounts shown in the year of the Term Bonds maturity date which shall be payable at maturity. The Term Bonds created are as follows:

<u>Term Bonds Maturity Date</u>	<u>Year of First Mandatory Redemption</u>	<u>Principal Amount of Term Bonds(\$)*</u>	<u>Interest Rate(%)</u>	<u>Initial Yield(%)</u>
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

Our calculation of the interest cost in accordance with the above bid is:

GROSS INTEREST COST	\$ _____
LESS: DOLLAR AMOUNT OF PREMIUM	
NET INTEREST COST	
EFFECTIVE INTEREST RATE	_____ %

* Preliminary, subject to change (see "THE BONDS - Adjustment of Principal Amount and Maturity Schedule for the Bonds" and "CONDITIONS OF THE SALE - Basis of Award").

A Cashier's Check of Frost Bank, in the amount \$130,000.00, which represents our Good Faith Deposit (is attached hereto/has been made available to you prior to the opening of this bid) and is submitted in accordance with the terms as set forth in the Official Notice of Sale. Upon delivery of the Bonds, said check is to be applied to the purchase price of the Bonds, or is to be returned as directed by us.

We agree to accept delivery of and make payment for the Bonds utilizing the book-entry-only system through DTC and make payment for the Initial Bonds in immediately available funds in the Corporate Trust Division, ZB, National Association dba Amegy Bank, Houston, Texas, not later than 10:00 A.M., Central Time, on May 16, 2018, or thereafter on the date the Bonds are tendered for delivery, pursuant to the terms set forth in the Official Notice of Sale.

The "Initial Bond" shall be registered in the name of _____, which will, upon payment for the Bonds, be cancelled by the Paying Agent/Registrar. The Bonds will then be registered in the name of Cede & Co. (DTC's partnership nominee), under the book-entry-only system.

The undersigned agrees to the provisions of the Official Notice of Sale under the heading "DELIVERY OF THE BONDS AND ACCOMPANYING DOCUMENTS" and, as evidence thereof, agrees to complete, execute and deliver to the District by the date of Initial Delivery of the Bonds, a certificate relating to the "issue price" of the Bonds in the form and to the effect attached to or accompanying the Official Notice of Sale, with such changes thereto as may be acceptable to the District (as provided under "DELIVERY OF THE BONDS AND ACCOMPANYING DOCUMENTS - ESTABLISHMENT OF ISSUE PRICE").

It will be the obligation of the Purchaser of the Bonds to complete and file the DTC Eligibility Questionnaire.

For purposes of contracting for the sale of the Bonds, the entity signing the bid form as Purchaser shall be solely responsible for the payment of the purchase price of the Bonds. The Purchaser may serve as a syndicate manager and contract under a separate agreement with other syndicate members. However, the District is not a party to that agreement and any information provided regarding syndicate managers would be for informational purposes only.

The undersigned verifies, for purposes of Chapter 2270 (as provided by Acts 2017, 85th Leg., ch. 1, House Bill 89) of the Texas Government Code, as amended, that at the time of execution and delivery of this bid and, except to the extent otherwise required by applicable federal law, to the date of delivery of the Bonds, neither the undersigned, nor any wholly owned subsidiary, majority-owned subsidiary, parent company or affiliate of the undersigned, boycotts or will boycott Israel. The terms "boycotts Israel" and "boycott Israel" as used in this paragraph have the meanings assigned to the term "boycott Israel" in Section 808.001 of the Texas Government Code, as amended.

In accordance with Texas Government Code Section 2252.908 (the "Interested Party Disclosure Act"), the District may not award the Certificates to a bidder unless the winning bidder either: (i) submits a Certificate of Interested Parties Form 1295 (the "Disclosure Form") to the District as prescribed by the Texas Ethics Commission ("TEC"), or (ii) certifies below that it is exempt from filing the Disclosure Form by virtue of being a publicly traded business entity or a wholly owned subsidiary of a publicly traded business entity.

Unless the bidder certifies that it is exempt from filing a Disclosure Form with the District, upon notification of conditional verbal acceptance, the undersigned will complete an electronic form of the Certificate of Interested Parties Form 1295 (the "Disclosure Form") through the Texas Ethics Commission's (the "TEC") electronic portal and the resulting certified Disclosure Form that is generated by the TEC's electronic portal will be printed, signed and sent by email to the District's financial advisor at dwesterman@samcocapital.com. The undersigned understands that the failure to provide the certified Disclosure Form will prohibit the District from providing final written award of the enclosed bid.

The Purchaser (mark one):

(i) Agrees to timely make a filing of a completed Disclosure Form with the District

or

(ii) Hereby certifies that it is exempt from filing the Disclosure Form by virtue of being a publicly traded business entity or a wholly owned subsidiary of a publicly traded business entity .

Respectfully submitted,

(Purchaser)

(Signature - Title)

(Telephone)

ACCEPTANCE CLAUSE

ACCEPTED this ____ day of April 2018 by an Authorized Official of the Fort Stockton Independent School District subject to and in accordance with the Official Notice of Sale and the Official Statement.

Title: _____

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ISSUE PRICE CERTIFICATE
(Sales where **at least 3 bids are received from underwriters**)

The undersigned, as the underwriter or the manager of the syndicate of underwriters ("Purchaser"), with respect to the purchase at competitive sale of the Unlimited Tax School Building Bonds, Series 2018, issued by the Fort Stockton Independent School District ("District") in the principal amount of \$_____ ("Bonds"), hereby certifies and represents, based on its records and information, as follows:

(a) On the first day on which there was a binding contract in writing for the purchase of the Bonds by the Purchaser, the Purchaser's reasonably expected initial offering prices of each maturity of the Bonds with the same credit and payment terms (the "Expected Offering Prices") to a person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter are as set forth in the pricing wire or equivalent communication for the Bonds, as attached to this Certificate as [Schedule A](#). The Expected Offering Prices are the prices for the Bonds used by the Purchaser in formulating its bid to purchase the Bonds.

(b) The Purchaser had an equal opportunity to bid to purchase the Bonds and it was not given the opportunity to review other bids that was not equally given to all other bidders (i.e., no last look).

(c) The bid submitted by the Purchaser constituted a firm bid to purchase the Bonds.

(d) The Purchaser has /has not purchased bond insurance for the Bonds. The bond insurance has been purchased from _____ (the "Insurer") for a fee of \$_____ (net any nonguarantee cost, e.g., rating agency fees). The amount of such fee is set forth in the Insurer's commitment and does not include any payment for any direct or indirect services other than the transfer of credit risk, unless the compensation for those other services is separately stated, reasonable, and excluded from such fee. Such fee does not exceed a reasonable, arm's-length charge for the transfer of credit risk and it has been paid to a person who is not exempt from federal income taxation and who is not a user or related to the user of any proceeds of the Bonds. The present value of the debt service savings expected to be realized as a result of such insurance exceeds the amount of the fee set forth above. For this purpose, present value is computed using the yield on the Bonds, determined by taking into account the amount of the fee set forth above, as the discount rate. No portion of the fee payable to the Insurer is refundable upon redemption of any of the Bonds in an amount which would exceed the portion of such fee that has not been earned.

For purposes of this Issue Price Certificate, the term "Underwriter" means (1) (i) a person that agrees pursuant to a written contract with the District (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, or (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (1)(i) of this paragraph (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public) to participate in the initial sale of the Bonds to the Public, and (2) any person who has more than 50% common ownership, directly or indirectly, with a person described in clause (1) of this paragraph.

[Signature Page Follows]

The undersigned understands that the foregoing information will be relied upon by the District with respect to certain of the representations set forth in the Federal Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by McCall, Parkhurst & Horton L.L.P. in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the District from time to time relating to the Bonds. Notwithstanding anything set forth herein, the Purchaser is not engaged in the practice of law and makes no representation as to the legal sufficiency of the factual matters set forth herein.

EXECUTED and DELIVERED as of this _____.

_____, as Purchaser

By: _____

Name: _____

SCHEDULE A
PRICING WIRE OR EQUIVALENT COMMUNICATION
(Attached)

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ISSUE PRICE CERTIFICATE
(Sales where **less than 3 bids are received from underwriters**)

The undersigned, as the underwriter or the manager of the syndicate of underwriters ("Purchaser"), with respect to the purchase at competitive sale of the Unlimited Tax School Building Bonds, Series 2018, issued by the Fort Stockton Independent School District ("District") in the principal amount of \$_____ ("Bonds"), hereby certifies and represents, based on its records and information, as follows:

(a) Other than the Bonds maturing in _____ ("Hold-the-Price Maturities"), if any, the first prices at which at least ten percent ("Substantial Amount") of the principal amount of each maturity of the Bonds having the same credit and payment terms ("Maturity") was sold on the Sale Date to a person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter ("Public") are their respective initial offering prices (the "Initial Offering Prices"), as listed in the pricing wire or equivalent communication for the Bonds that is attached to this Certificate as Schedule A.

(b) On or before the first day on which there is a binding contract in writing for the sale of the Bonds ("Sale Date"), the Purchaser offered to the Public each Hold-the-Price Maturity at their respective Initial Offering Prices, as set forth in Schedule A hereto.

(c) As set forth in the Notice of Sale, the Purchaser agreed in writing to neither offer nor sell any of the Hold-the-Price Maturities to any person at any higher price than the Initial Offering Price for such Maturity until the earlier of the close of the fifth business day after the Sale Date or the date on which the Purchaser sells a Substantial Amount of a Maturity of the Bonds to the Public at no higher price than the Initial Offering Price for such Maturity.

(d) The Purchaser has [___]/has not [___] purchased bond insurance for the Bonds. The bond insurance has been purchased from _____ (the "Insurer") for a fee of \$_____ (net any nonguarantee cost, e.g., rating agency fees). The amount of such fee is set forth in the Insurer's commitment and does not include any payment for any direct or indirect services other than the transfer of credit risk, unless the compensation for those other services is separately stated, reasonable, and excluded from such fee. Such fee does not exceed a reasonable, arm's-length charge for the transfer of credit risk and it has been paid to a person who is not exempt from federal income taxation and who is not a user or related to the user of any proceeds of the Bonds. The present value of the debt service savings expected to be realized as a result of such insurance exceeds the amount of the fee set forth above. For this purpose, present value is computed using the yield on the Bonds, determined by taking into account the amount of the fee set forth above, as the discount rate. No portion of the fee payable to the Insurer is refundable upon redemption of any of the Bonds in an amount which would exceed the portion of such fee that has not been earned.

For purposes of this Issue Price Certificate, the term "Underwriter" means (1) (i) a person that agrees pursuant to a written contract with the District (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, or (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (1)(i) of this paragraph (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public) to participate in the initial sale of the Bonds to the Public, and (2) any person who has more than 50% common ownership, directly or indirectly, with a person described in clause (1) of this paragraph.

[Signature Page Follows]

The undersigned understands that the foregoing information will be relied upon by the District with respect to certain of the representations set forth in the Federal Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by McCall, Parkhurst & Horton L.L.P. in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the District from time to time relating to the Bonds. Notwithstanding anything set forth herein, the Purchaser is not engaged in the practice of law and makes no representation as to the legal sufficiency of the factual matters set forth herein.

EXECUTED and DELIVERED as of this _____.

_____, as Purchaser

By: _____

Name: _____

SCHEDULE A
PRICING WIRE OR EQUIVALENT COMMUNICATION
(Attached)

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PRELIMINARY OFFICIAL STATEMENT

Dated April 11, 2018

NEW ISSUE - BOOK-ENTRY-ONLY

ENHANCED/UNENHANCED RATING: S&P - Applied For
PSF Guarantee - Applied For
(See "PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and
"OTHER PERTINENT INFORMATION - Municipal Bond Rating" herein)

In the opinion of Bond Counsel, 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.

The District will designate the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions

\$6,500,000*

**FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Pecos County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018**

Dated Date: May 1, 2018

Due: February 1st as shown on page -ii- herein

The "Fort Stockton Independent School District Unlimited Tax School Building Bonds, Series 2018" (the "Bonds"), as shown on page -ii- of this Official Statement, are direct obligations of the Fort Stockton 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, an election held in the District on November 5, 2013, and an order authorizing the issuance of the Bonds (the "Order") to be adopted by the Board of Trustees (the "Board") of the District on April 23, 2018. See "THE BONDS - Authority for Issuance" herein.

The District has applied for and 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.

Interest on the Bonds will accrue from the Dated Date as shown above, will be payable until stated maturity or prior redemption on February 1 and August 1 of each year, commencing August 1, 2018, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued as fully registered obligations in the principal denomination of \$5,000 for any one stated maturity. The definitive Bonds will be issued as fully registered obligations in book-entry form only. When issued, the Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Bonds will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by ZB, National Association, dba Amegy Bank, Plano, Texas, as Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Proceeds from the sale of the Bonds will be used for the purposes of (i) construction, renovation, acquisition and equipment of school buildings in the District, the purchase of necessary sites for school buildings and the purchase of new school buses and (ii) paying the costs of issuance of the Bonds. See "SOURCES AND USES OF FUNDS" herein.

**For Maturity Schedule, Principal Amounts, Interest Rates, Initial Yields,
CUSIP Numbers, and Redemption Provisions for the Bonds, see page -ii- herein**

The Bonds are offered for delivery when, as and if issued and received by the initial purchaser of the Bonds (the "Purchaser") and are subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas. See "LEGAL MATTERS" herein for a description of Bond Counsel's opinion. It is expected that the Bonds will be available for delivery through the services of DTC, New York, New York, on or about May 16, 2018.

BIDS DUE MONDAY, APRIL 23, 2018 AT 10:00 A.M. CENTRAL TIME

* Preliminary, subject to change.

**STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES,
INITIAL YIELDS, CUSIP NUMBERS, AND REDEMPTION PROVISIONS**

\$6,500,000*

**FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Pecos County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018**

CUSIP No. Prefix 348856⁽¹⁾

Maturity (February 1)	Principal Amount (\$)	Interest Rate (%)	Initial Yield (%)	CUSIP No. Suffix⁽¹⁾
2019	175,000			
2020	200,000			
2021	250,000			
2022	415,000			
2023	500,000			
2024	500,000			
2025	500,000			
2026	500,000			
2027	475,000			
2028	475,000			
2029	575,000			
2030	935,000			
2031	1,000,000			

(Interest to accrue from the Dated Date)

Optional Redemption

The District reserves the right to redeem the Bonds maturing on and after February 1, 2027, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof (and if less than all Bonds within a stated maturity are redeemed, selected by lot by the Paying Agent/Registrar), on February 1, 2026 or any date thereafter, at the redemption price of par plus accrued interest to the date fixed for redemption. If two or more serial bonds of consecutive maturity are combined into one or more "term" Bonds (the "Term Bonds") by the Purchaser, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order. See "THE BONDS - Redemption Provisions of the Bonds" herein.

* Preliminary, subject to change.

⁽²⁾ CUSIP numbers are included solely for the convenience of the owners of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. 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 Purchaser, the District, or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
101 West Division Street
Fort Stockton, Texas 79735-7107

BOARD OF TRUSTEES

<u>Name</u>	<u>Position</u>	<u>Years Served</u>	<u>Term Expires May</u>	<u>Occupation</u>
Billy Espino	President	4	2020	Office Manager
Florentino Garcia III	Vice President	3	2018	U.S. Border Patrol Agent
Alfredo Martinez	Secretary	8	2019	City of Fort Stockton, Public Works
Anastacio "Nacho" Dominguez	Assistant Secretary	2	2019	Oxy Production Manager-Tech III
Tom Ezell	Member	12	2018	Operations Manager
Sandra Marquez	Member	11	2019	Caseworker
Andy Rivera	Member	1	2020	Owner Triple R Welding

ADMINISTRATION - FINANCE CONNECTED

<u>Name</u>	<u>Title</u>	<u>Total Years Experience</u>	<u>Total Years With District</u>
Ralph Traynham	Superintendent of Schools	37	10
Maria Gomez	Business Manager - Finance	26	26

CONSULTANTS AND ADVISORS

Eckert & Company, LLP
San Angelo, Texas

Certified Public Accountants

McCall, Parkhurst & Horton L.L.P.
Dallas, Texas

Bond Counsel

SAMCO Capital Markets, Inc.
San Antonio, Texas

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USE OF INFORMATION IN OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended (the "Rule") and in effect on the date of this Preliminary Official Statement, this document constitutes an "official statement" of the District with respect to the Bonds that has been "deemed final" by the District as of its date except for the omission of no more than the information permitted by the Rule.

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 Official Statement, 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 Official Statement 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 Purchaser.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement 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 Official Statement. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement 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 Official Statement. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM - PSF Continuing Disclosure Undertakings" and "CONTINUING DISCLOSURE OF INFORMATION" for a description of the undertakings of the Texas Education Agency (the "TEA") and of the District, respectively, to provide certain information on a continuing basis.

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.

None of the District, the Financial Advisor, nor the Purchaser makes any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company ("DTC") or its Book-Entry-Only System described under the caption "BOOK-ENTRY-ONLY SYSTEM" or the affairs of the TEA described under the caption "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM," as such information has been provided by the DTC and the TEA, respectively.

The agreements of the District and others related to the Bonds are contained solely in the contracts described herein. Neither this Official Statement, 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 THIS ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION WITH RESPECT TO THE BONDS.

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

OFFICIAL STATEMENT SUMMARY INFORMATION

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

THE DISTRICT	The Fort Stockton Independent School District (the "District") is located in Pecos County. The District is approximately 2,990 square miles in area and serves a population of approximately 15,586. 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.
THE BONDS	The Bonds mature on February 1 in each of the years 2019 through 2031, inclusive. Interest on the Bonds shall accrue from the Dated Date and is payable initially on August 1, 2018 and semiannually on each February 1 and August 1 thereafter until the stated maturity or prior redemption
DATED DATE	May1, 2018.
REDEMPTION	The District reserves the right to redeem the Bonds maturing on and after February 1, 2027 in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 1, 2026 or any date thereafter, at the redemption price of par plus accrued interest. If two or more serial bonds of consecutive maturity are combined into one or more "term" Bonds (the "Term Bonds") by the Purchaser, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order. See "THE BONDS - Redemption Provisions of the Bonds herein."
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 limit as to rate or amount. Additionally, the payment of the principal of and interest on the Bonds is expected to be guaranteed by the Permanent School Fund of the State of Texas. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.
TAX MATTERS	In the opinion of Bond Counsel, 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. See "TAX MATTERS" and APPENDIX D - "Form of Opinion of Bond Counsel."
QUALIFIED TAX-EXEMPT OBLIGATIONS	The District will designate the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions. See "TAX MATTERS - Qualified Tax-Exempt Obligations" herein.
PAYING AGENT/REGISTRAR	The initial Paying Agent/Registrar is ZB, National Association, dba Amegy Bank, Plano, Texas.
BOOK-ENTRY-ONLY SYSTEM	The District intends to use the Book-Entry-Only System of The Depository Trust Company. See "BOOK-ENTRY-ONLY SYSTEM" herein.
GUARANTY PROGRAM FOR SCHOOL DISTRICT BONDS	The District has applied for and received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.
MUNICIPAL BOND RATING	The District has made application to S&P Global Ratings ("S&P") for a contract rating on the Bonds based on the guarantee thereof by the Texas Permanent School Fund. S&P generally rates all bonds guaranteed by the Texas Permanent School Fund "AAA." The results will be made available as soon as possible. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "OTHER PERTINENT INFORMATION - Municipal Bond Rating" herein..
FUTURE BOND ISSUES	The District does not anticipate the issuance of additional ad valorem tax-supported debt in the next twelve months.
PAYMENT RECORD	The District has never defaulted on the payment of its bonded indebtedness.
DELIVERY	When issued, anticipated on or about May 16, 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 McCall, Parkurst & Horton L.L.P., Dallas, Texas, Bond Counsel. See "APPENDIX D - Form of Opinion of Bond Counsel" herein.

PRELIMINARY OFFICIAL STATEMENT

relating to

\$6,500,000*

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Pecos County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018

INTRODUCTION

This Official Statement of Fort Stockton Independent School District (the "District") is provided to furnish certain information in connection with the sale of the District's \$6,500,000* Unlimited Tax School Building Bonds, Series 2018* (the "Bonds").

This Official Statement, 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, upon request by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Official Statement pertaining to the Bonds will be filed with the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Markets Access ("EMMA") system. See "CONTINUING DISCLOSURE OF INFORMATION" 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).

THE BONDS

General Description

The Bonds will be dated May 1, 2018 (the "Dated Date"). The Bonds will accrue interest from the Dated Date, and such interest is payable on February 1 and August 1 in each year, commencing August 1, 2018, until stated maturity or prior redemption. The Bonds will mature on the dates, in the principal amounts, and will bear interest at the rates set forth on page -ii- of this Official Statement, and such interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Interest on the Bonds is payable to the registered owners appearing on the bond registration books kept by the Paying Agent/Registrar relating to the Bonds (the "Bond Register") on the Record Date (identified below) and such interest shall be paid by the Paying Agent/Registrar (i) by check sent United States mail, first-class, postage prepaid, to the address of the registered owner recorded in the Bond Register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The principal of the Bonds is payable at stated maturity or prior redemption upon their presentation and surrender to the Paying Agent/Registrar. The Bonds will be issued only in fully registered form in any integral multiple of \$5,000 principal amount for any one maturity.

Initially the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Notwithstanding the foregoing, as long as the Bonds are held in the Book-Entry-Only System, 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 participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

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) of the Texas Education Code, as amended, an election held in the District on November 5, 2013 (the "Election"), and an order authorizing the issuance of the Bonds (the "Order") to be adopted by the Board of Trustees (the "Board") of the District on April 23, 2018.

Use of Bond Proceeds

The Bonds constitute the fourth installment of a total amount of \$35,000,000 authorized at an election held on November 5, 2013. After the issuance of the Bonds, the District will have no remaining voted authorized and unsold unlimited ad valorem tax-supported bonds. See "VALUATION AND DEBT DATA - Authorized but Unissued General Obligation Bonds" attached hereto as APPENDIX A.

* Preliminary, subject to change.

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

Purpose	Amount Authorized	Amount Previously Issued	Amount This Issue	Amount Remaining
Construction, renovation, acquisition and equipment of school buildings in the District, the purchase of necessary sites for school buildings and the purchase of new school buses	\$35,000,000	\$28,500,000	\$6,500,000*	\$ -0-

* Includes the Bonds and certain net premium allocations.

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 legal limit as to rate or amount.

Permanent School Fund Guarantee

The District has applied for and received conditional approval from the Texas Education Agency ("TEA") for the Texas Permanent School Fund to guarantee the payment of principal of and interest on the Bonds which guarantee will become effective upon approval of the Bonds by the Attorney General of Texas. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.

Payment Record

The District has never defaulted on the payment of its bonded indebtedness.

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 McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas. The legal opinion of Bond Counsel will accompany the certificates deposited with DTC or be printed on the Bonds. A form of the legal opinion of Bond Counsel appears in APPENDIX D attached hereto.

Delivery

When issued; anticipated on or about May 16, 2018.

Future Issues

The District does not anticipate the issuance of additional tax-supported debt in the next twelve months.

Redemption Provisions of the Bonds

The Bonds stated to mature on and after February 1, 2027 are subject to optional redemption, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof (and if less than all within a stated maturity by lot, selected by the Paying Agent/Registrar), on February 1, 2026 or on any date thereafter, at a price of par plus accrued interest to the date fixed for redemption. If two or more serial bonds of consecutive maturity are combined into one or more "term" Bonds (the "Term Bonds") by the Purchaser, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order.

Notice of Redemption

Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first-class, postage prepaid, to each registered owner of a Bond to be redeemed, in whole or in part, at the address of the holder appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER ONE OR MORE BONDHOLDERS FAILED TO RECEIVE SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND ANY OTHER CONDITION TO REDEMPTION SATISFIED, 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.

With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Order have been met and money sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice will state that said redemption may, at the option of the District, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the District will not redeem such Bonds, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that such Bonds have not been redeemed.

The Paying Agent/Registrar and the District, so long as the Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Order or other notices with respect to the Bonds only to DTC. 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), shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on such notice or 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 the 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.)

Defeasance

The Order provides for the defeasance of the Bonds when payment of the principal of and accrued interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent or other authorized entity, in trust (1) money sufficient to make such payment or (2) Defeasance Securities that will mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, and thereafter the District will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased Bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance. The Order provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Bonds. Current State law permits defeasance with the following types of securities: (1) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (2) 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 adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (3) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

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 or redemption 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, that the right to call the Bonds for redemption is not extinguished 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; and (iii) directs that notice of the reservation be included in any redemption notices that it authorize.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Order does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or those for any other Defeasance Security will be maintained at any particular rating category.

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

Amendments

In the Order, the District has reserved the right to amend the Order without the consent of any holder for the purpose of amending or supplementing the Order to (i) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the registered owners of the Bonds, (ii) grant additional rights or security for the benefit of the registered owners of the Bonds, (iii) add events of default as shall not be inconsistent with the provisions of the Order that do not materially adversely affect the interests of the registered owners of the Bonds, (iv) qualify the Order under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect or (v) make such other provisions in regard to matters or questions arising under the Order that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the District, do not materially adversely affect the interests of the registered owners of the Bonds.

The Order further provides that the registered owners of the Bonds aggregating in principal amount 51% of the outstanding Bonds shall have the right from time to time to approve any amendment not described above to the Order if it is deemed necessary or desirable by the District; provided, however, that without the consent of 100% of the registered owners of the Bonds in original principal amount of the then outstanding Bonds, no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Bonds; (ii) reducing the rate of interest borne by any of the outstanding Bonds; (iii) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Bonds; (iv) modifying the terms of payment of principal or of interest or redemption premium on outstanding Bonds, or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment. Reference is made to the Order for further provisions relating to the amendment thereof.

Default and Remedies

The Order establishes specific events of default with respect to the Bonds. If the District defaults in the payment of the principal of or interest on the Bonds when due, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Order, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the District, the Order provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions, as well as enforce rights of payment under the Permanent School Fund Guarantee. The issuance of a writ of mandamus may be sought 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 remedy of mandamus is controlled by equitable principles, so 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 Bondholders 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. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, 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 U.S. 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 by 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	\$ _____
[Net] Original Issue Reoffering Premium on the Bonds	
Accrued Interest	
Total Sources	\$ _____

Uses of Funds:

Deposit to Construction Fund	\$ _____
Purchaser's Discount and Costs of Issuance	
Deposit to Interest and Sinking Fund	
Rounding Amount	
Total Uses	\$ _____

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is ZB, National Association, dba Amegy Bank, Plano, 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 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.

Special Record Date for Interest Payment

If the date for the payment of the principal or interest on the Bonds is a Saturday, a Sunday, a legal holiday or a day on which banking institutions in the city where the corporate trust office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment is the next succeeding day which is not such a day and payment on such date will have the same force and effect as if made on the original date payment was due.

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 Bond or 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. Neither the District or the Paying Agent/Registrar shall be required to transfer or exchange any Bond (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date, provided, however, such limitation of transfer shall not be 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 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 Official Statement. The District, the Financial Advisor and the Purchaser 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 Direct Participants, (2) Direct 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 Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission ("SEC"), and the current procedures of DTC to be followed in dealing with Direct Participants are on file with DTC.

DTC 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 a Standard & Poor's 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 an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue 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).

Redemption proceeds, principal, and interest 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. Payment of redemption proceeds, principal, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is 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, Bond certificates are required to be printed and delivered.

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

Use of Certain Terms in Other Sections of This Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Direct 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 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; 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. Based upon the unaudited cost basis of the Fund at August 31, 2017, the State Law Capacity increased from \$97,933,360,905 on August 31, 2016 to \$111,850,392,654 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 CDBG 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 27, 2017 (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 5.10%. As of December 14, 2017, there were 182 active open-enrollment charter schools in the State and there were 717 charter school campuses operating under such charters (though as of such date, seven 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 is on the agenda of the SBOE for its Winter 2018 meeting, which if approved will rollback that increase). 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 CDBGP 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 CDBGP 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 CDBGP 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 CDBGP 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 CDBGP 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 CDBGP 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 CDBGP Capacity, as that percentage has grown from 3.53% in September 2012 to 5.10% in March 2017, representing a growth of 45%. 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 CDBGP 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 CDBGP 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 CDBGP 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 CDBGP 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 CDBGP 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 CDBGP Capacity effected thereby, at its November 2017 meeting the SBOE approved on the first of two required readings amendments to the SDBGP Rules to rollback the multiplier from 3.75 times market value to 3.50 times. The SBOE is expected to finally approve that reduction at its Winter 2018 meeting. Moreover, it should be noted that given the market value of the Fund at August 31, 2017, a 3.75 times multiplier would result in the State Capacity Limit exceeding the IRS Limit for the Guarantee Program.

In addition to modifying the manner of determining the CDBGP 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 CDBGP 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.

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 November 30, 2017, the Charter District Reserve Fund contained \$4,441,512.

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.

As of mid-December, 2017, the TEA, members of the Legislature and the Governor, among others, were 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 had 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 in the affected areas 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 is expected to be well in excess of previous storm damage.

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 be affected by the storm will occur in February 2018. As of mid-December, 2017, the TEA was unaware of any issuer of guaranteed bonds that has indicated an inability to make their bond payments on a timely basis, although TEA is continuing to collect financial impact information from affected districts. In addition, the Act requires that an issuer of guaranteed bonds notify the PSF five days prior to a scheduled payment date if it will not be able to make timely payment on guaranteed bonds. As a consequence, as of mid-December 2017, the TEA cannot predict whether there will need to be a draw on the Guarantee Program for payments on guaranteed bonds due in the fiscal year 2018 or thereafter. It should be noted that 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 November 30, 2017, the PSF had a book value of \$32,001,966,103 and a market value of \$42,311,176,980. November 30, 2017 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 November 30, 2017 (based on unaudited data, which is subject to adjustment), there were \$75,619,800,600 of bonds guaranteed under the Guarantee Program, representing 3,313 school district issues, aggregating \$74,207,390,600 in principal amount and 43 charter district issues, aggregating \$1,412,410,000 in principal amount. At November 30, 2017, the capacity allocation of the Charter District Bond Guarantee Program was \$2,013,789,828 (based on unaudited data, which is subject to adjustment).

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2016

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_Permanent_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 Official Statement 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 Official Statement.

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 "Texas 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 Comal Appraisal District and the Guadalupe Appraisal District (together, the "Appraisal District") are responsible for appraising property within the applicable county that comprises the District as of January 1 of each year. The appraisal values set by each Appraisal District are subject to review and change by their respective Appraisal Review Boards (together, the "Appraisal Review Board") which are appointed by each respective Appraisal District's Board of Directors. Such appraisal rolls, as approved by the respective Appraisal Review Board, are used by the District in establishing its tax roll and tax rate.

Tax Adequacy

Pursuant to the provisions of Section 45.001 and 45.003(b)(1) of the Texas Education Code, the District under current law is authorized to levy an ad valorem tax sufficient, without legal limit as to rate or amount, to pay the debt service on the Bonds.

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 Texas 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 Texas 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. Oil and gas reserves are assessed on the basis of pricing information contained in the most recently published Early Release Overview of the Annual Energy Outlook published by the United States Energy Information Administration, as well as appraisal formulas developed by the State Comptroller of Public Accounts. Effective January 1, 2016, the valuation of assessment of oil and gas reserves will depend 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. Following the approval by the voters at a November 5, 2013 statewide election, 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 at no cost to the veteran by a charitable organization.

Also approved by the November 5, 2013 election, was a constitutional amendment providing that 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.

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 prior to January 1 of the first tax years 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 (see CURRENT PUBLIC SCHOOL FINANCE SYSTEM - 2015 Legislation); 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. On November 3, 2015, Texas voters approved an amendment to this law to provide for the exemption from ad valorem taxation for those surviving spouses of veterans who died before 2011, of which such amendment applies for the tax year beginning on or after January 1, 2016.

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. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - 2015 Legislation" herein for a description of legislative changes made during the 84th Texas Legislature that resulted in an increase in the minimum amount of residential homestead exemption.

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 Texas 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.

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%) 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 Texas 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 applicable, Subsection (i), 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 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 Property Tax Code as Applied to the District

The District grants an exemption to the market value of residence homesteads of \$25,000, and the District has 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 to persons 65 years of age or older of \$10,000, plus an optional \$5,000 granted by the District; and disabled persons are granted an exemption of \$10,000 until age 65, after which time only the over-65 exemption applies.

Disabled veterans are granted an exemption according to their percent (%) of disability.

Ad valorem taxes are not levied by the District against the exempt value of residence homesteads for the payment of debt. The District does not tax non-business personal property.

The Pecos County Tax Assessor-Collector collects the District's taxes. The District does permit split payments but does not permit discounts.

The District does tax freeport property; also the District adopted a resolution on March 26, 2012 to continue to tax "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 (the "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 allegedly denied school districts meaningful discretion in setting their tax rates. In response to the Court's previous decisions, the Legislature enacted multiple laws that made substantive changes in the way the Finance System is funded in efforts to address the prior decisions declaring the Finance System unconstitutional.

On May 13, 2016, the Court issued its opinion in the most recent school finance litigation, *Morath v. The Texas Taxpayer & Student Fairness Coal.*, 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 Court, violated article VII, section 1 and article VIII, section 1-e of the Texas Constitution. In its opinion, the 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 Changes in Law on District Bonds

The Court's decision in *Morath* upheld the constitutionality of the Finance System but noted that the Financing 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 any litigation that may be associated with such legislation, on the District's financial condition, revenues or operations. While the enactment of future legislation to address school funding in Texas could adversely affect the financial condition, revenues or operations of the District, 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 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 Texas Education Code, Chapters 41 through 46, 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") 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 \$1,211,000,000 for the 2018-19 State fiscal biennium for the Basic Allotment, EDA, 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 2018-29 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 the following guaranteed yields per weighted student in average daily attendance (“WADA”):

Fiscal Year	Amount per cent per WADA
2017-2018	\$99.41
2018-2019	\$106.28

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).

A district with a compressed tax rate below \$1.00 per \$100 of taxable value (known as a “fractionally funded district”) receives a Basic Allotment that is reduced proportionately to the degree that the district’s compressed tax rate falls 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 \$31.95 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. 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 estimated to be less than \$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 did appropriate 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. This phase-out of ASATR began with actions adopted by the 83rd Texas Legislature, 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. The District has not made a comprehensive review of such legislation to determine what, if any, impact such changes would have on the District’s finances.

The Governor may call additional special sessions pertaining to the 85th Texas Legislature. During this time, the Texas Legislature may enact laws that materially change school district finance, appropriations, or statutory authority related thereto. The District can make no representation regarding the actions the Texas Legislature may take.

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 wealth equalization measures 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 2017-2018 school year is more than the equalized wealth value. Accordingly, the District has been required to exercise one of the permitted wealth equalization options. For the 2016-2017 school year, the District entered into an agreement with the Commissioner for the purchase of attendance credits pursuant to which the District will make payments to reduce its wealth per student.

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

General

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters. 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 next succeeding paragraph. 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 November 12, 1956 pursuant to Article 2784e-1, Texas Revised Civil Statutes Annotated, 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 District's bonded indebtedness is outstanding and payable from local ad valorem taxes). The bonded indebtedness of the District after the issuance of the Bonds will be approximately 7.71% of the District's current taxable assessed valuation of property. See "APPENDIX A - 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, or such lower rate as described in the preceding paragraph, 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 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 a proposition 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 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 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 - General" 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 ("TRS"), a cost-sharing multiple-employer defined benefit pension plan. The Plan is administered by the TRS. Aside from the District's contribution to the TRS, the District has no pension fund expenditures or liabilities. See "Notes to Financial Statements, Note IV.A. - Defined Benefit Pension Plan" 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 Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. See "Notes to Financial Statements, Note IV.B. - Retiree Health Plan" 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) (a) certificates of deposit and share certificates issued by a depository institution that has its main office or branch office in the State of Texas, that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, or are secured as to principal by obligations described in clauses (1) through (5) and clause (13) or in any other manner and amount provided by law for District deposits, and in addition (b) the District is authorized, subject to certain conditions, to invest in certificates of deposit with a depository institution that has its main office or branch office in the State of Texas and that participates in the Certificate of Deposit Account Registry Service® network (CDARS®) and as further provided

by Texas law, (7) 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, (8) bankers' acceptances with the remaining term of 270 days or less from the date of issuance, 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, (9) 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 at least (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, (10) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, (11) no-load mutual fund registered with the Securities and Exchange Commission that: have an average weighted maturity of less than two years; invest exclusively in obligations described in the preceding clauses and clause (13), and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent, (12) public funds investment pools that have an advisory board which includes participants in the pool and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent or no lower than investment grade with a weighted average maturity no greater than 90 days, and (13) bonds issued, assumed or guaranteed by the State of Israel. 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.

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 portfolio or requires an interpretation of subjective investment standards), 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 mutual funds in the aggregate to more than 80% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and 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 March 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>
Investment Pool - LOGIC	\$ 7,609,335	17.20%	Daily liquidity
Certificate of Deposit	5,152,478	11.65%	882 days (average)
U.S. Government Securities	10,355,628	23.41%	870 days (average)
Commercial Paper	11,857,969	26.80%	264 days (average)
Obligations of/Guaranteed by Gov't Entities	<u>9,268,659</u>	<u>20.95%</u>	763 days (average)
Total	\$44,244,069	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 Purchaser 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 approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "Tax Matters" herein. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of said Bonds will also be furnished. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement to verify that such description conforms to the provisions of 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.

Though it may represent the Financial Advisor and the purchaser of the Bonds 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. Bond Counsel also advises the TEA in connection with its disclosure obligations under the Federal securities laws, but Bond Counsel has not passed upon any TEA disclosures contained in this Official Statement. The legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions 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 Official Statement, 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.

TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel to the District, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel to the District will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See Appendix D - "Form of Opinion of Bond Counsel."

In rendering its opinion, Bond Counsel to the District will rely upon (a) the District's federal tax certificate related to the Bonds and (b) covenants of the District with respect to arbitrage and the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matters. Failure by the District to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel to the District is conditioned on compliance by the District with the covenants and requirements described in the preceding paragraph, and Bond Counsel to the District has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel's opinions regarding the Bonds represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants and are not a guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the IRS by the District with respect to the Bonds or the facilities financed with the proceeds of the Bonds. No assurances can be given as to whether or not the IRS will commence an audit of the Bonds, or as to whether the IRS would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the IRS is likely to treat the District as the taxpayer and the holders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

The initial public offering price to be paid for one or more maturities of the Bonds may be less than the maturity amount thereof or one or more periods for the payment of interest on the bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue 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 Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual

period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM RECENTLY ENACTED LEGISLATION OR THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such Bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

State, Local and Foreign Taxes

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

Information Reporting and Backup Withholding

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

Future and Proposed Legislation

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

Qualified Tax-Exempt Obligations for Financial Institutions

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The District will designate the Bonds as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the District has covenanted to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as "qualified tax-exempt obligations." **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the \$10,000,000 limitation and the Bonds would not be "qualified tax-exempt obligations."**

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. 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

In the Order, the District 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 certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for a description of the TEA's continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State of Texas, as the case may be, and to provide timely notice of certain specified events related to the guarantee to the MSRB.

Annual Reports

The District will file 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 District of the general type included in this Official Statement 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" and "Pro Forma Interest & Sinking Fund Management Index," respectively, within six months after the end of each fiscal year ending in and after 2018. The District will additionally provide audited financial statements when and if available, and in any event, within 12 months after the end of each fiscal year ending in or after 2018. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District will file unaudited financial statements within such 12 month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes 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 financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

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, and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) as described in the preceding paragraph. If the District changes its fiscal year, it will notify the MSRB.

Notice of Certain Events

The District also will file timely notices of certain events with the MSRB. The District will file notice of any of the following events with respect to the Bonds with the MSRB in a timely manner (but not in excess of ten (10) business days after the 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 or 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; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such 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 paying agent/registrars or change of name of the paying agent/registrars, if material. Neither the Bonds nor the Order make any provision for debt service reserves, credit enhancement (except for the 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.

Limitations and Amendments

The District has agreed to update information and to provide notices of material 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 SEC Rule 15c2-12, including timely notices of rating changes with respect to its outstanding indebtedness.

OTHER PERTINENT INFORMATION

Authenticity of Financial Data and Other Information

The financial data and other information contained herein have been obtained from the District's records, audited financial statements and other sources that are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. 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

The sale of the Bonds has not been registered under the federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities act of any other jurisdiction. The District assumes no responsibility for 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 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 provisions.

Municipal Bond Rating

The District has made application to S&P Global Ratings ("S&P") for a contract rating on the Bonds based on the guarantee thereof by the Texas Permanent School Fund. S&P generally rates all bonds guaranteed by the Texas Permanent School Fund "AAA. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.

The rating reflects only the views of such organization at the time such rating was given, 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 the rating company, if, in the judgment of such rating company, circumstances so warrant. Any such downward revision or withdrawal of the 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 opinion 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 Official Statement. The Financial Advisor has reviewed the information in this Official Statement 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.

Initial Purchaser

After requesting bids for the Bonds, the District accepted the bid of _____ (the "Purchaser") to purchase the Bonds at the interest rates shown on page ii of this Official Statement at a price of \$_____, which is inclusive of an underwriter's discount of \$_____, plus accrued interest on the Bonds from their dated date through their date of initial delivery. The District can give no assurance that any trading market will be developed for the Bonds after their sale by the District to the Purchaser. The District has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

Forward-Looking Statements

The statements contained in this Official Statement, 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 Official Statement 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 Official Statement would prove to be accurate.

Certification of the Official Statement

At the time of payment for and delivery of the Bonds, the Purchaser will be furnished a certificate, executed by proper District officers, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the description and statements of or pertaining to the District contained in its Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of the Bonds and the acceptance of the best bid therefor, 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 Official Statement 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 circumstances under which they are made, not misleading; (c) insofar as the description 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 that 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, 2013, the date of the last audited financial statements of the District.

Authorization of the Official Statement

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

This Official Statement will be approved by the Board for distribution in accordance with provisions of the United States Securities and Exchange Commission's Rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT

President, Board of Trustees

ATTEST:

Secretary, Board of Trustees

APPENDIX A
Selected Financial Information
of the District

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VALUATION AND DEBT DATA

Valuation Information

Total 2017 Appraised Valuation of District	\$1,815,844,689
Less: Exemptions and Exclusions ⁽¹⁾	<u>97,439,777</u>
Total Taxable Assessed Valuation ⁽²⁾ for Interest and Sinking Fund Purposes	\$1,718,404,912

Source: Texas Comptroller of Public Accounts School and Appraisal District Property Value Study 2017 Report.

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

⁽²⁾ Includes valuations in the amount of \$402,949,380 which is the difference between market and limited value for Chapter 313 value limitation agreements.

Direct Debt Information

Total Indebtedness Payable from Ad Valorem Taxes: (at 5-01-2018)

Maintenance and Operations Tax Debt	\$ -0-
Unlimited Tax Bond Debt	<u>40,750,000*</u>
Total All Bonded Indebtedness Payable from Taxes	\$40,750,000*
Less Estimated Interest & Sinking Fund Consolidated Balance (at 2-1-2018)	<u>178,313</u>
NET BONDED INDEBTEDNESS PAYABLE FROM AD VALOREM TAXES	\$40,571,687*

* Preliminary, subject to change.

Direct Debt Ratios

Ratio of Total Bonded Debt (\$40,750,000*) to Taxable Assessed Valuation (\$1,718,404,912)	2.38%
Ratio of Total Bonded Debt (\$40,750,000*) to Total Appraised Valuation (\$1,815,844,689)	2.24%
Ratio of Net Bonded Debt (\$40,571,687*) to Taxable Assessed Valuation (\$1,718,404,912)	2.36%
Ratio of Net Bonded Debt (\$40,571,687*) to Total Appraised Valuation (\$1,815,844,689)	2.23%

* Preliminary, subject to change.

Non-Funded Debt

As of August 1, 2017, the District has no outstanding non-funded debt.

Authorized But Unissued General Obligation Bonds

After the issuance of the Bonds, the District will have no authorized but unissued unlimited ad valorem tax-supported bonds. The District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

Anticipated Issuance of Additional Bonds

The District does not anticipate the issuance of additional tax-supported debt in 2018.

Population and Per Capita Indebtedness

2017/18 District Population Estimate	15,586
2017/18 Per Capita Taxable Assessed Valuation (\$1,718,404,912)	\$110,253.11
Per Capita Direct Bonded Debt (\$40,750,000*)	\$2,614.53

* Preliminary, subject to change.

Enrollment and Average Daily Attendance Data

2017/18 Enrollment (at 3-1-2018)	2,436
2017/18 Estimated Average Daily Attendance (at 3-1-2018)	2,236.16
2017/18 Taxable Assessed Valuation (\$1,718,404,912) Per Enrollment	\$705,220.74

Valuation and Bonded Debt Data

Area of District in Square Miles	2,990.47
Area of District in Acres	1,913,901
Total Direct Bonded Debt (\$40,750,000*) Per Acre	\$21.29
2017 Taxable Assessed Valuation (\$1,718,404,912) Per Acre	\$897.86
2017 Total Appraised Value (\$1,815,844,689) Per Acre	\$948.77

Outstanding Debt By Issues

<u>Issues</u>	<u>Total Issue</u>	<u>Amount Outstanding at 5-01-2017</u>
Unlimited Tax:		
School Building Bonds, Series 2009A	\$6,000,000	\$ 3,895,000
School Building Bonds, Series 2010	2,535,000	975,000
School Building Bonds, Series 2011	1,600,000	1,140,000
School Building Bonds, Series 2012	1,310,000	900,000
School Building Bonds, Series 2014	9,410,000	9,010,000
School Building Bonds, Series 2016	9,500,000	9,300,000
School Building Bonds, Series 2017	9,180,000	9,030,000
School Building Bonds, Series 2018 (the "Bonds")	6,500,000	<u>6,500,000</u>
Total		<u>\$40,750,000*</u>

* Preliminary, subject to change.

**Consolidated Schedule of Bonded Issue Principal Requirements
(Year Ending August 31 In Each Of The Years 2018 - 2031 Inclusive) ***

2018	\$ 2,560,000	
2019	2,765,000	
2020	2,880,000	
2021	2,965,000	
2022	3,055,000	32.84%
2023	3,140,000	
2024	3,200,000	
2025	3,240,000	
2026	3,305,000	
2027	3,270,000	70.15%
	-	
2028	3,265,000	
2029	3,250,000	
2030	3,175,000	
2031	<u>3,240,000</u>	100.00%
	\$43,310,000	

* Preliminary, subject to change.

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:

<u>Political Subdivision</u>	<u>Gross Debt</u>		<u>Percent Overlapping</u>	<u>Amount Overlapping</u>
	<u>Amount</u>	<u>As Of</u>		
Pecos County	\$ -0-	05-01-2017	55.17%	\$ -0-
City of Fort Stockton	14,517,000	05-01-2017	100.00%	<u>14,517,000</u>
Estimated Overlapping Funded Debt				14,517,000
Fort Stockton ISD	40,750,000 *	05-01-2018	100.00%	<u>40,750,000</u> *
Total Direct and Estimated Overlapping Funded Debt				\$55,267,000 *
Ratio to 2017 Total Appraised Valuation (\$1,815,844,689)				3.04%
Ratio to 2017 Taxable Assessed Valuation (\$1,718,404,912)				3.22%
Per Capita (15,586) Direct and Estimated Overlapping Debt				\$ 3,545.94

* Preliminary, subject to change.

TAXATION DATA

Historical Valuations, Tax Rates, and Collection Data

<u>Tax Year</u>	<u>Assessed Valuation</u> *	<u>Tax Rate</u>	<u>% Collections</u>		<u>Fiscal Year Ending</u>
			<u>Current</u>	<u>Total</u>	
2007	\$1,696,993,924	\$1.1191	99.02%	101.43%	8-31-2008
2008	2,159,349,135	1.1560	99.12%	99.63%	8-31-2009
2009	2,166,454,022	1.1647	98.56%	99.09%	8-31-2010
2010	1,988,624,650	1.1681	98.87%	100.15%	8-31-1011
2011	1,633,458,594	1.1679	98.17%	99.27%	8-31-2012
2012	1,363,864,660	1.1905	96.94%	98.50%	8-31-2013
2013	1,182,197,012	1.2060	97.40%	99.22%	8-31-2014
2014	1,175,289,874	1.2392	97.48%	99.53%	8-31-2015
2015	1,088,916,950	1.2590	97.19%	98.69%	8-31-2016
2016	1,079,504,234	1.2600	97.11%	98.55%	8-31-2017
2017	1,315,455,532	1.2535	(In process of collection)		8-31-2018

* 2007-2015 assessed valuation figures taken from 2017 audit report; 2016 and 2017 taken from Texas Comptroller of Public Accounts School and Appraisal District Property Value Study 2016 and 2017 Report and does not include the valuations representing the difference between market and limited value for chapter 313 value limitation agreement. In other sections of this report the 2017 valuation shown includes the Chapter 313 values as they are used in the calculation and levying of the District's Interest and Sinking Fund tax rate.

Tax Rate Distribution

<u>Tax Year</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Local Maintenance	\$1.0400	\$1.040	\$1.040	\$1.040	\$1.040
Interest & Sinking Fund	<u>.2135</u>	<u>.220</u>	<u>.219</u>	<u>.199</u>	<u>.166</u>
Total	\$1.2535	\$1.260	\$1.259	\$1.239	\$1.206

2017 Tax 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	\$63,787,900
Homestead - State-mandated Over-65 or Disabled \$10,000	7,581,110
Homestead - 100% Disabled or Unemployable Veterans	450,710
Homestead - Disabled or Deceased Veterans	434,760
Homestead - Over-65 or Disabled Freeze Loss	23,110,172
Homestead - 10% Appraisal Cap Loss	997,200
Deferred Taxes	37,335
Pollution Control	<u>1,040,590</u>
Total Deductions Allowed	\$97,439,777

Source: Texas Comptroller of Public Accounts School and Appraisal District Property Value Study 2017 Report.

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

<u>Last Ten Years</u>	<u>Ending Balance</u>
2008 and prior years	\$ 220,568
2009	28,267
2010	60,370
2011	28,866
2012	25,535
2013	242,908
2014	194,228
2015	217,688
2016	252,378
2017	<u>410,906</u>
Total	\$1,681,714

Source: The District's 2017 audited financial statement

Largest Taxpayers

<u>Name</u>	<u>Type of Property</u>	<u>2017 Net Taxable Assessed Valuation</u>	<u>% of Total 2017 Assessed Valuation</u>
OXY USA Inc.	Oil and Gas	\$263,478,170	15.33%
RE Roserock LLC	Solar Farm	179,550,000	10.45%
Trans Pecos Pipeline LLC	Pipeline	107,128,450	6.23%
Diamondback E&P LLC	Oil and Gas	61,388,580	3.57%
Regency Field Services LLC	Oil and Gas	49,111,950	2.86%
XTO Energy Incorporated	Oil and Gas	46,643,410	2.71%
Chevron USA Incorporated	Oil and Gas	46,036,280	2.68%
Halcon Operating Co Inc	Oil and Gas	40,112,320	2.33%
Barillo Solar LLC	Solar Farm	38,322,650	2.23%
Occidental West Tx Overthrust	Oil and Gas	<u>31,706,150</u>	<u>1.85%</u>
Total		\$863,477,960	50.25%

Source: Pecos County 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	\$ 246,700,870	13.59%	\$ 233,247,640	15.92%	\$ 231,081,970	15.69%
Multifamily Residential	5,600,690	0.31%	5,434,530	0.37%	5,442,290	0.37%
Vacant/Platted Lots	9,873,000	0.54%	10,418,850	0.71%	10,504,170	0.71%
RealTaxable/Acreage	44,519,200	2.45%	42,543,110	2.90%	42,193,580	2.87%
Commercial Real	86,455,030	4.76%	87,891,840	6.00%	83,410,440	5.66%
Industrial Real	108,331,810	5.97%	99,324,610	6.78%	35,769,210	2.43%
Oil, Gas, Minerals	396,860,410	21.86%	276,094,220	18.85%	362,894,440	24.64%
Utilities	205,078,790	11.29%	154,548,128	10.55%	140,887,190	9.57%
Commercial Personal	34,281,300	1.89%	35,531,210	2.43%	36,300,720	2.46%
Industrial Personal	665,733,629	36.66%	508,564,678	34.72%	514,365,902	34.92%
Other Personal	9,926,780	0.55%	8,821,080	0.60%	7,371,010	0.50%
Residential Inventory	801,540	0.04%	801,500	0.05%	801,500	0.05%
Special Inventory	<u>1,681,220</u>	<u>0.09%</u>	<u>1,630,840</u>	<u>0.11%</u>	<u>1,859,260</u>	<u>0.13%</u>
Total Valuation	\$1,815,844,689	100.00%	\$1,464,852,236	100.00%	\$1,472,881,682	100.00%
Less Exemptions & Exclusions	<u>97,439,777</u>		<u>95,479,482</u>		<u>137,482,365</u>	
Net Taxable Assessed Valuation ⁽¹⁾	<u>\$1,718,404,912</u>		<u>\$1,369,372,754</u>		<u>\$1,340,399,317</u>	

Source: Texas Comptroller of Public Accounts School and Appraisal District Property Value Study 2017 Report.

⁽¹⁾ Includes valuations in the amount of \$402,949,780 for 2017, \$289,868,520 for 2016, and \$291,162,720 which represents the difference between market and limited value for Chapter 313 value limitation agreements.

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ESTIMATED INTEREST & SINKING FUND MANAGEMENT INDEX 2017/18

Interest & Sinking Fund Balance at 8-31-2017.....	\$ 197,802
Estimated Income from \$0.2135 I&S Tax Rate @ 95% Collected Using 2017 Taxable Assessed Valuation of \$1,718,404,912 (for tax purposes).....	3,485,355
Estimated Other Income	<u>110,000</u>
Estimated Total Funds Available	3,793,157
2017/18 Debt Service Requirement	<u>3,642,055</u>
Estimated Interest & Sinking Fund Balance at 8-31-2018	\$ 151,102

**CONSOLIDATED DEBT SERVICE REQUIREMENTS
INCLUDING THE BONDS AT ASSUMED RATES**

FISCAL YEAR 31-Aug	CURRENTLY OUTSTANDING DEBT SERVICE	PLUS: THE BONDS AT ASSUMED RATES				GRAND TOTAL ALL ALL DEBT SERVICE
		PRINCIPAL DUE 2/1	INTEREST DUE 2/1	INTEREST DUE 8/1	TOTAL	
2018	\$ 3,585,179.50			\$ 86,666.67	\$ 86,666.67	\$ 3,671,846.17
2019	3,522,195.00	\$ 175,000	\$ 130,000.00	126,500.00	431,500.00	3,953,695.00
2020	3,505,432.50	200,000	126,500.00	122,500.00	449,000.00	3,954,432.50
2021	3,447,317.50	250,000	122,500.00	117,500.00	490,000.00	3,937,317.50
2022	3,296,262.50	415,000	117,500.00	109,200.00	641,700.00	3,937,962.50
2023	3,224,162.50	500,000	109,200.00	99,200.00	708,400.00	3,932,562.50
2024	3,214,850.00	500,000	99,200.00	89,200.00	688,400.00	3,903,250.00
2025	3,184,350.00	500,000	89,200.00	79,200.00	668,400.00	3,852,750.00
2026	3,176,343.75	500,000	79,200.00	69,200.00	648,400.00	3,824,743.75
2027	3,094,375.00	475,000	69,200.00	59,700.00	603,900.00	3,698,275.00
2028	3,018,968.75	475,000	59,700.00	50,200.00	584,900.00	3,603,868.75
2029	2,838,681.25	575,000	50,200.00	38,700.00	663,900.00	3,502,581.25
2030	2,340,800.00	935,000	38,700.00	20,000.00	993,700.00	3,334,500.00
2031	2,273,600.00	1,000,000	20,000.00	-	1,020,000.00	3,293,600.00
	<u>\$43,722,518.25</u>	<u>\$6,500,000</u>	<u>\$1,111,100.00</u>	<u>\$1,067,766.67</u>	<u>\$8,678,866.67</u>	<u>\$52,401,384.92</u>

2018/2019 PRO FORMA INTEREST & SINKING FUND MANAGEMENT INDEX

Estimated Interest & Sinking Fund Balance at 8-31-2018.....	\$ 151,102
Estimated Income from \$0.2403 I&S Tax Rate @ 95% Collected Using 2018 Estimated Taxable Assessed Valuation of \$1,718,404,912	3,922,861
Estimated Other Income	<u>20,000</u>
Total Estimated Funds Available	4,093,963
2018/19 Debt Service Requirement	<u>3,921,633</u>
Estimated Interest & Sinking Fund Balance at 8-31-2019	\$ 172,330

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" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement.

	Year Ended 8/31				
	2017	2016	2015	2014	2013
REVENUES					
Local Sources	\$16,405,775	\$15,830,777	\$16,921,490	\$17,086,807	\$18,663,760
State Sources	10,861,546	11,335,118	10,760,825	9,746,228	7,295,254
Federal Sources	<u>2,537,657</u>	<u>2,385,881</u>	<u>2,464,537</u>	<u>2,343,568</u>	<u>2,460,231</u>
Total all Revenue	<u>29,804,978</u>	<u>29,551,776</u>	<u>30,146,852</u>	<u>29,176,603</u>	<u>28,419,245</u>
EXPENDITURES					
Instruction/Instruction Related	13,142,992	12,384,874	12,479,439	12,511,721	12,080,170
Instructional and School Leadership	1,881,571	1,632,319	1,522,431	1,519,972	1,409,622
Pupil Services	4,639,308	4,312,505	4,041,736	4,137,481	4,030,868
General Administration	1,256,301	1,139,746	1,188,690	1,648,867	978,801
Support Services - Nonstudent Based	4,645,376	4,101,101	4,211,503	4,263,447	4,018,410
Community Services	210,861	190,521	184,596	156,487	134,330
Debt Service	3,446,816	3,057,382	2,879,392	2,766,273	2,545,953
Capital Outlay	17,471,698	8,418,443	1,554,930	4,557,029	534,206
Intergovernmental Charges	<u>179,987</u>	<u>293,964</u>	<u>258,075</u>	<u>263,008</u>	<u>271,281</u>
Total all Expenditures	<u>46,874,910</u>	<u>35,530,855</u>	<u>28,320,792</u>	<u>31,824,285</u>	<u>26,003,641</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(17,069,932)	(5,979,079)	1,826,060	(2,647,682)	2,415,604
Total Other Resources and (Uses)	<u>9,836,660</u>	<u>9,807,881</u>	<u>3,459,301</u>	<u>9,739,494</u>	<u>1,350,950</u>
Excess (Deficiency) of Revenues and Other Resources Over Expenditures and Other Uses	(7,233,272)	3,828,802	5,285,361	7,091,812	3,766,554
Fund Balance Beginning of Year	44,321,517	40,756,162	35,471,414	28,391,668	24,523,499
Increase (Decrease) in Fund Balance		<u>(263,447)</u>	<u>(613)</u>	<u>(12,066)</u>	<u>101,615</u>
Fund Balance End of Year	<u>\$37,086,743</u>	<u>\$44,321,517</u>	<u>\$40,756,162</u>	<u>\$35,471,414</u>	<u>\$28,391,668</u>
Fund Balance - General Fund	\$35,391,723	\$36,322,188	\$36,057,592	\$28,641,259	\$26,591,995
Year Ended 8/31					
	2017	2016	2015	2014	2013
Assessed Valuation	1,369,372,754	\$1,088,916,950	\$1,175,289,874	\$1,182,197,012	\$1,363,864,660
Total Tax Rate	\$1.260	\$1.259	\$1.2392	\$1.2060	\$1.1905
Percent of Debt Service to Total Expenditures	7.35%	8.60%	9.83%	8.69%	9.79%

Source: *The District and the District's audited financial statements.*

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APPENDIX B

**General Information Regarding the District
And Its Economy**

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THE DISTRICT

This Appendix contains a brief discussion of certain economic and demographic characteristics of the area in which the District is located. It does not constitute a part of this Official Statement. 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

Fort Stockton Independent School District (the "District") is located in Pecos County in the West Texas Permian Basin. The District includes the City of Fort Stockton, the county seat, located 245 miles east of El Paso on U. S. Interstate Highway 10. District's 2000 population estimate - 14,250; 2015 population estimate - 15,186.

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 M6y. The Board delegates administrative responsibilities to the Superintendent of Schools.

Present Facilities

<u>School Facility</u>	<u>Grade Span</u>	<u>Capacity</u>	<u>2017-2018 Enrollment (At 3/01/2018)</u>
Fort Stockton High School	9-12	1,125	652
Fort Stockton Middle School	6-8	810	561
Fort Stockton Intermediate School	4-5	500	427
Alamo Elementary School	PK-3	680	493
Apache Elementary School	K-3	<u>450</u>	<u>303</u>
Total		3,565	2,436

Source: The District

Accreditation

Accreditation is by the Texas Education Agency and the Southern Association of Secondary Schools and Colleges.

2016-2017 Ratings: High School - Met Standard
Middle School - Met Standard
Intermediate School - Met Standard
Apache Elementary School - Met Standard
Alamo Elementary School - Met Standard

Curriculum

Fort Stockton ISD provides a comprehensive educational program designed to meet the needs of all students in grades Pre K - 12 utilizing the TEKS Resource System curriculum management system. The TEKS Resource System was developed by the Texas Education Service Center Curriculum Collaborative, which is comprised of Texas' 20 Education Service Centers. The system includes a curriculum framework for Grades K-12 in all foundational academic subject areas (English Language Arts and Reading, Mathematics, Science and Social Studies) aligned to both the Texas Essential Knowledge and Skills (TEKS) statements and the Texas Assessment of Academic Readiness (STAAR) objectives.

For the Pre-Kindergarten program, both the TEEM (Texas Early Education Model) and the TSR (Texas School Ready) projects are utilized. Instruction is thematic, with embedded spiraling.

A credit recovery program is available at Fort Stockton High School, using A+ Course ware. In addition, because of alliances forged between Fort Stockton High School and Midland College campus staff, high school students are able to attend college classes and accrue college credit.

Teacher-pupil ratio is no more than 18-1 at all levels with smaller group arrangements for teaching reading and math in the elementary grades.

Food Service

The District cafeteria provides well-balanced and nutritional meals for staff and students each school day and has a very high participation rate because of the quality of food prepared.

Budget and Personnel

The budget for the 2017-2018 year is \$28,567,575. The District employs approximately 365 people, including professionals and others, and will have a payroll of \$16,892,321.

Employee Retirement, Teacher Retirement System of Texas

The District has no financial responsibility for the Teacher Retirement System of Texas, with employees contributing 7.2% of their annual compensation and the State of Texas contributing 6.8%.

Average Daily Attendance and Percentage Change

<u>School Year</u>	<u>Average Daily Attendance</u>	<u>% ADA Change</u>
2006-07	2034	-0.64%
2007-08	2083	2.41%
2008-09	2170	4.18%
2009-10	2180	0.46%
2010-11	2206	1.19%
2011-12	2171	-1.59%
2012-13	2223	2.40%
2013-14	2230	0.31%
2014-15	2301	3.18%
2015-16	2261	-1.74%
2016-17	2237	-1.06%
2017-18*	2236	-0.04%

* As of 3-1-2018.

THE AREA

County Characteristics

Pecos County (the "County") was legally created by the Texas Legislature in 1871 from a much-larger Presidio County. At that time, the still huge new County included all of present-day Reeves, Pecos and Terrell Counties, as well as that portion of Val Verde County west of the Pecos River. The County was organized in 1875, with the town of St. Gall (now Fort Stockton) as the county seat.

Located in the semi-arid Trans-Pecos region of West Texas, the County is today the second-largest county in the state, with an area of 4,770 square miles. Its size is best illustrated by the fact that it is larger than the combined areas of Delaware and Rhode Island. It is sparsely settled compared to other areas of the state. An extensive network of state and federal highways ties the County together and helps to overcome a feeling of isolation. A key geographic location and continued mineral extraction are two factors that will continue to influence the growth of the County.

In addition to Fort Stockton, other communities located in the County include Iraan, Imperial, Coyanosa, Bakersfield, Sheffield and Girvin.

Source: Fort Stockton Chamber of Commerce

Population

<u>Year</u>	<u>Pecos County</u>	<u>Fort Stockton</u>	<u>Iraan</u>	<u>Sheffield</u>
1960	11,957	6,373	n/a	n/a
1970	13,748	8,283	844	300
1980	14,618	8,688	1,358	300
1990	14,675	8,524	1,338	315
2000	16,809	7,846	1,238	313
2010	15,507	7,347	1,171	303
2017 Est.	16,203	8,482	1,218	298

Source: The Texas Almanac

Economy

Total 2014 Retail sales for the County totaled \$172.8 million.* The total 2014 Effective Buying Income was \$243.7 million with a median income of \$38,225 per household compared with the state median of \$50,464.* A total of 62.0% of the households had Effective Buying Incomes in excess of \$25,000, while 15.1% had incomes below \$25,000.*

* *The Neilson Company.*

Minerals produced in the County include oil, natural gas, gravel and caliche. The County contains 16,283 producing oil and gas wells. There were 12.2 million barrels of oil and 177.7 billion cubic feet of natural gas recovered in 2008, making the County the 9th largest natural gas producer in the state. Pipeline service is offered in both these areas. Approximately 70% of the total mineral value is in the Yates Oil Field. This field has produced more than one billion barrels of oil, making it one of the largest in the United States. The anticipated life of the Yates Field is in excess of thirty years.

Agribusiness is a vital part of the County's economy. People employed in agribusiness account for 16 percent of the total work force with a payroll over \$5 million. Crops include cotton, grains, fruits and vegetables, feed, seed, forages and horticulture products. The total value of all crops sold within the County was over \$10 million.

Pecans lead the way with sales of \$3 million, hay accounts for \$2.5 million, and cotton and vegetables contribute \$1.6 million and \$2.2 million, respectively.

Livestock and livestock products include animals, fowl, fish and animal specialties (such as wool). Sales of beef cattle exceed all other categories in this group with \$17.5 million. Following this is breeder cattle with a total of \$8.2 million. Sheep round out the top three with sales of \$2.9 million. The total sales for livestock and livestock products exceed \$30 million. The County is the largest producer of Mohair in Texas, producing over 190,000 pounds, and the fifth largest producer of wool. The County has one of the largest mule deer habitats available. Other popular game includes quail, dove, turkey and javalina. This makes leasing ranch property for hunting a very profitable business in the area.

Ste. Genevieve Vineyards, a 1,000 acre vineyard located 26 miles east of Fort Stockton on I-10, is the largest Winery in Texas and one of the most high tech in the entire U.S. Employment ranges from 100 employees during peak season to 20 at other times of the year.

Source: Texas Almanac and Fort Stockton Chamber of Commerce

Major Employers

<u>Name</u>	<u>Nature of Property</u>	<u>Number Employed</u>
SandRidge	Oil Field Service	1,800
Texas Department of Criminal Justice	Prisons (2)	480
Fort Stockton I.S.D.	Education	450
Pecos County Memorial Hospital	Health Care	250
Pecos County	County Services	200
Stockton's Entertainment Complex	Dining, Bowling, Movies, Miniature Golf	180
Wal-Mart	Retail Store	125
Fort Stockton Nursing Center	Nursing Home	100
Dawson Geophysical	Oil Field Services (Seismic)	100
Halliburton	Oil Field Services	80
City of Fort Stockton	City Services	78

Source: Fort Stockton Chamber of Commerce

Labor Force Statistics for Pecos County

	Average					
	2017	2016	2015	2014	2013	2012
Civilian Labor Force	6,515	6,484	6,890	6,864	6,723	6,999
Total Employed	<u>6,221</u>	<u>6,103</u>	<u>6,534</u>	<u>6,579</u>	<u>6,363</u>	<u>6,641</u>
Total Unemployed	294	381	356	285	360	358
% Unemployed	4.5%	5.9%	5.2%	4.2%	5.4%	5.1%
% Unemployed (Texas)	4.3%	4.6%	4.5%	5.1%	6.2%	6.7%
% Unemployed (United States)	4.4%	4.9%	5.3%	6.2%	7.4%	8.1%

Source: Texas Workforce Commission, Research Analysis Department.

Employment and Wages by Industry for Pecos County

	Number of Employees				
	2nd Quarter	4th Quarter			
	2017	2016	2015	2014	2013
Natural Resources and Mining	737	630	749	960	951
Construction	227	276	304	297	215
Manufacturing	84	174	155	34	32
Trade, Transportation and Utilities	1,120	1,252	1,368	1,476	1,224
Information	29	29	11	19	27
Financial Activities	231	227	245	264	268
Professional and Business Services	243	231	221	217	250
Education and Health Services	181	184	258	222	244
Leisure and Hospitality	699	698	683	630	625
Other Services	87	94	83	90	65
Unclassified	0	1	0	0	14
State Government	558	557	560	564	547
Local Government	1,270	1,261	1,293	1,303	1,277
Federal Government	<u>51</u>	<u>50</u>	<u>54</u>	<u>52</u>	<u>49</u>
Total Employment	5,517	5,665	5,984	6,128	5,789
Total Wages	\$60,079,812	\$62,006,908	\$67,655,670	\$73,792,834	\$62,546,674

Source: Texas Workforce Commission - Texas Labor Market Information.

Higher Education

<u>Sul Ross State University</u>	<u>Odessa College</u>	<u>University of Texas Permian Basin</u>	<u>Midland College</u>
67 miles	84 miles	86 miles	104 miles
85 faculty	282 faculty	67 faculty	181 faculty
2,730 students	4,848 students	2,286 students	4,103 students
Liberal Arts and Science	Liberal Arts and Science	Science, Engineering, Arts and Education	Liberal Arts and Science

Midland Community College offers classes in Fort Stockton. Midland College has one off-campus site in Ft. Stockton, the new Regional Technical Training Center.

A \$336,142 grant from the U.S. Department of Agriculture has established a new telecommunications system using interactive video that now links Midland College and Ft. Stockton. Students in Ft. Stockton can now take college-level course in an RTTC classroom that originate from Midland College. This spring students can take courses in Criminal Justice, Economics, Math and Sociology. The new system also will provide Internet access, concurrent enrollment, professional teacher education and staff development, non-college level courses such as GED, ESL and college preparation or remediation courses for students in Ft. Stockton.

The 10,000-square-foot Regional Technical Training Center in Fort Stockton provides a one-stop approach to education by focusing on technical courses that involve one-year certificates and two-year associate's degrees. The technical courses offered at the RTTC are designed to give students immediate employable skills after receiving a certificate or associate's degree. Instruction includes credit courses, continuing education offering and customized training. Midland College has

provided the center with the latest technology--including a primary computer lab that has 28, 586-CD Rom computers. The \$679,000 raised to build and equip the facility was the result of a partnership between Midland College, the city of Ft. Stockton, Pecos County and the Fort Stockton Independent School District. Grants from the Abell-Hanger and Meadows Foundations also have helped equip the school.

Health Care

Pecos County Memorial Hospital (Fort Stockton) is a 27-bed acute care general hospital. Pecos County General Hospital (Iran) is a non-profit, governmental organization licensed to operate a 14-bed acute and ambulatory healthcare facility. The hospitals are owned by Pecos County and are each governed by a seven member Board of Managers appointed by the County Commissioners. A full range of basic medical, surgical, pediatric, and obstetrical services are provided. The hospitals are accredited by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) and are certified by Medicare and Medicaid.

Services provided include respiratory and physical therapy, laboratory, diagnostic imaging (including computerized tomography scanning and ultrasound), fetal heart and cardiac monitoring, obstetrical rooming-in, patient education programs and outpatient (day) surgery.

Other Health-Related Services

Pecos County Mental Health and Mental Retardation Center offers screening, referral, counseling and emergency services. The Texas Department of Health provides well-baby clinics, food supplement programs, immunization and other services. The Texas Rehabilitation Commission provides counseling, training and assistance to prepare handicapped persons for employment. The Pecos County Health Department provides nursing and health-related services for eligible citizens. The Midland College LVN Program operates an approved Vocational Nurse Training program in Fort Stockton. The one-year program accepts ten applicants each year in July.

Source: Fort Stockton Chamber of Commerce

Transportation

In addition to Interstate Highway 10, one of the state's main traffic arteries, the County is traversed by Interstate Highway 10, U. S. Highways 67, 190, 285, and 385, State Highways 18 and 349 and eleven farm-to-market roads.

The Pecos County Airport has two lighted runways, one 7,500 feet long. Both are paved and have ample hanger space available. Both jet fuel and general aviation gasoline are available around the clock, and a class "A" shop is located at the field for repairs, including major engine and airframe repairs. Commercial airlines such as Southwest Airlines and American Airlines are 80 miles away at Midland International Airport.

Bus lines service is available at Fort Stockton with passenger and light package transportation in every direction. Greyhound and Kerrville Bus Lines provide service at frequent intervals to virtually all points in West Texas. Connections can be made in El Paso and San Antonio for all points in the nation.

Other freight service is offered by Central Motor Freight, Tex-Pack Express, United Parcel Service, Purolater, and Federal Express.

The South Orient Railroad provides rail service in the Fort Stockton area and has facilities for both piggy-back and locally switched rail delivery and pickup.

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APPENDIX C

Audited Financial Statements

The information contained in this appendix consists of the Fort Stockton 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.

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CERTIFICATE OF THE BOARD

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
Name of School District

PECOS
County

186-902
County -
District
Number

We, the undersigned, certify that the attached annual financial report of the above-named School District was reviewed and

X approved ___ disapproved for the year ended August 31, 2017, at a meeting of the Board of Trustees of such School District
(Check One)

on the _____ day of _____, 20__.

Alfredo R. Martinez
Signature of Board Secretary

Billy Espino
Signature of Board President

If the Board of Trustees disapproved the annual financial report, the reason(s) for disapproving it is (are) (attach list as necessary):

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FINANCIAL SECTION



A Limited Liability Partnership

Michael E. Oliphant, CPA
Wayne Barr, CPA
Cathryn A. Pitcock, CPA

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FAX: (325) 942-1093
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Members of
American Institute of CPAs
Texas Society of CPAs

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Fort Stockton Independent School District
101 West Division
Fort Stockton, TX 79735

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fort Stockton Independent School District as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Fort Stockton Independent School District as of August 31, 2017, and the respective changes in financial position 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 the management’s discussion and analysis, budgetary comparison information, and net pension liability and contributions information for the Teacher Retirement System of Texas on pages 4 through 8, 42, and 43 through 44, respectively, 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 the Fort Stockton Independent School District’s basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 information and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2017, on our consideration of the Fort Stockton 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 the Fort Stockton Independent School District’s internal control over financial reporting and compliance.

Eckert & Company, LLP

December 18, 2017



MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Fort Stockton Independent School District's financial performance provides an overview of the District's financial activities for the year ended August 31, 2017. It should be read in conjunction with the District's basic financial statements and independent auditor's report.

Financial Highlights

The District's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the end of the current year by \$51,596,122 (net position). Of this amount, \$33,159,440 (unrestricted) may be used to meet the District's ongoing obligations.

The District's total net position increased by \$1,014,069 or 2%. This amount consists of a \$1,015,571 increase attributable to current year operations, and a \$1,502 decrease attributable to a prior period adjustment described in Note IV., H. to the financial statements. The District's statement of activities shows total revenues of \$30,063,759 and total expenses of \$29,048,188.

The total fund balance of the General Fund is \$35,391,723 which is a decrease of \$930,465 or 3% compared to the prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements - The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets/deferred outflows of resources and liabilities/deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the current year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future years.



MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Overview of the Financial Statements - Continued

The governmental activities of the District include all activities related to public elementary and secondary education within the jurisdiction of the District.

The District has no component units.

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the current year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Debt Service Fund, and the Capital Projects Fund, all of which are considered to be major funds. Data from other governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its General Fund, Food Service Special Revenue Fund, and Debt Service Fund. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with the budget for each fund.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Government-Wide Financial Analysis

Net Position - A summary of the District's net position is presented below:

NET POSITION

	Governmental Activities	
	August 31,	
	2017	2016
Current and Other Assets	\$ 35,104,704	\$ 39,978,562
Capital Assets	54,676,789	38,828,414
Long-Term Investments	7,222,582	6,713,163
Total Assets	\$ 97,004,075	\$ 85,520,139
Deferred Outflows of Resources	\$ 2,189,987	\$ 2,631,230
Long-Term Liabilities Outstanding	\$ 42,939,733	\$ 35,771,225
Other Liabilities	4,158,926	1,416,455
Total Liabilities	\$ 47,098,659	\$ 37,187,680
Deferred Inflows of Resources	\$ 499,281	\$ 381,636
Net Position		
Net Investment in Capital Assets	\$ 18,144,212	\$ 15,896,781
Restricted	292,470	428,729
Unrestricted	33,159,440	34,256,543
Total Net Position	\$ 51,596,122	\$ 50,582,053

A large portion of the District's net position (\$18,144,212) reflects the District's investment in capital assets, less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide public elementary and secondary education within the jurisdiction of the District; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the District's net position (\$292,470) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$33,159,440) may be used to meet the District's ongoing obligations.

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Government-Wide Financial Analysis - Continued

Governmental Activities - Governmental activities increased the District's net position by \$1,015,571 and \$2,439,046 for the fiscal years ended August 31, 2017 and 2016, respectively. Key elements of these increases are as follows:

CHANGES IN NET POSITION

	Governmental Activities	
	Year Ended August 31,	
	2017	2016
Revenues		
Program Revenues		
Charges for Services	\$ 324,894	\$ 328,679
Operating Grants and Contributions	4,001,344	4,017,661
General Revenues		
Maintenance and Operations Taxes	11,202,445	10,723,449
Debt Service Taxes	2,939,548	2,912,922
State Aid - Formula Grants	9,501,378	10,139,471
Chapter 313 Payment	1,189,725	1,270,267
Investment Earnings	511,985	344,842
Other	392,440	404,818
Total Revenues	\$ 30,063,759	\$ 30,142,109
Expenses		
Instruction and Instructional-Related Services	\$ 15,065,761	\$ 14,284,682
Instructional and School Leadership	2,099,122	1,904,991
Support Services - Student (Pupil)	4,737,919	4,575,639
Administrative Support Services	1,353,267	1,267,716
Support Services - Nonstudent Based	4,401,105	4,308,288
Ancillary Services	232,559	214,225
Debt Service	978,468	853,558
Intergovernmental Charges	179,987	293,964
Total Expenses	\$ 29,048,188	\$ 27,703,063
Change in Net Position	\$ 1,015,571	\$ 2,439,046
Net Position - Beginning	50,582,053	48,406,454
Prior Period Adjustments	(1,502)	(263,447)
Net Position - Ending	\$ 51,596,122	\$ 50,582,053

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Financial Analysis of the District's Funds

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. The unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of the current year.

The District's governmental funds reported combined ending fund balances of \$37,086,743, a decrease of \$7,234,774 or 16% in comparison with the prior year. These fund balances are reported in various governmental funds as follows:

General Fund \$35,391,723. Of this balance \$14,755,831 is committed for future construction, equipment purchases, and instruction, and \$39,680 is assigned for campus discretionary expenditures.

Debt Service Fund \$197,802. This balance is restricted for payment of long-term debt principal and interest.

Capital Projects Fund \$1,497,218. This balance is restricted for construction costs.

General Fund Budget

The original budget for the General Fund was \$30,323,968, and the final amended budget was \$30,622,825 which represents a \$298,857 increase in appropriations. Variances between the original budget and the final amended budget are reflected in Exhibit E-1 in the required supplementary information section of the audit report.

The District has adopted a budget for the General Fund in the amount of \$28,567,575 for the fiscal year 2018, which is a decrease of \$2,055,250 from the fiscal year 2017.

Capital Assets and Debt

Capital Assets - Financial statement footnote III., D. discloses the District's capital asset activity for the year ended August 31, 2017.

Long-Term Debt - Financial statement footnote III., G. discloses the District's debt activity for the year ended August 31, 2017.

Requests for Information

The financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Maria Gomez, Business Manager, Fort Stockton Independent School District, 101 West Division, Fort Stockton, TX 79735.

Basic Financial Statements

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2017

EXHIBIT A-1

Data Control Codes	Primary Government
	Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 17,280,840
1120 Current Investments	15,752,320
1220 Property Taxes - Delinquent	1,681,714
1230 Allowance for Uncollectible Taxes	(510,772)
1240 Due from Other Governments	751,752
1250 Accrued Interest	121,975
1267 Due from Fiduciary Funds	2,281
1290 Other Receivables, Net	1,224
1300 Inventories	23,370
Capital Assets:	
1510 Land	667,294
1520 Buildings, Net	29,743,769
1530 Furniture and Equipment, Net	1,952,326
1550 Leased Property Under Capital Leases, Net	128,841
1580 Construction in Progress	22,184,559
1910 Long-Term Investments	7,222,582
1000 Total Assets	97,004,075
DEFERRED OUTFLOWS OF RESOURCES	
1705 Deferred Outflow Related to TRS	2,189,987
1700 Total Deferred Outflows of Resources	2,189,987
LIABILITIES	
2110 Accounts Payable	2,708,223
2140 Interest Payable	89,325
2150 Payroll Deductions and Withholdings	666
2160 Accrued Wages Payable	825,955
2180 Due to Other Governments	380,356
2200 Accrued Expenses	24,510
2300 Unearned Revenue	129,891
Noncurrent Liabilities	
2501 Due Within One Year	2,598,571
2502 Due in More Than One Year	35,431,223
2540 Net Pension Liability (District's Share)	4,909,939
2000 Total Liabilities	47,098,659
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS	499,281
2600 Total Deferred Inflows of Resources	499,281
NET POSITION	
3200 Net Investment in Capital Assets	18,144,212
3850 Restricted for Debt Service	292,470
3900 Unrestricted	33,159,440
3000 Total Net Position	\$ 51,596,122

The notes to the financial statements are an integral part of this statement.

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2017

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
		3	4	Primary Gov.
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 14,559,416	\$ 415	\$ 2,374,170	\$ (12,184,831)
12 Instructional Resources and Media Services	126,888	29,272	3,766	(93,850)
13 Curriculum and Instructional Staff Development	379,457	-	99,459	(279,998)
21 Instructional Leadership	498,979	-	39,363	(459,616)
23 School Leadership	1,600,143	-	82,339	(1,517,804)
31 Guidance, Counseling, and Evaluation Services	810,539	-	69,489	(741,050)
32 Social Work Services	85,705	-	75,802	(9,903)
33 Health Services	292,387	-	14,903	(277,484)
34 Student (Pupil) Transportation	716,109	-	43,434	(672,675)
35 Food Services	1,597,210	225,885	967,221	(404,104)
36 Extracurricular Activities	1,235,969	57,527	40,998	(1,137,444)
41 General Administration	1,353,267	-	48,685	(1,304,582)
51 Facilities Maintenance and Operations	3,677,521	11,795	110,414	(3,555,312)
52 Security and Monitoring Services	101,510	-	-	(101,510)
53 Data Processing Services	622,074	-	21,117	(600,957)
61 Community Services	232,559	-	10,184	(222,375)
72 Debt Service - Interest on Long-Term Debt	821,291	-	-	(821,291)
73 Debt Service - Bond Issuance Cost and Fees	157,177	-	-	(157,177)
99 Other Intergovernmental Charges	179,987	-	-	(179,987)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 29,048,188	\$ 324,894	\$ 4,001,344	(24,721,950)

Data Control Codes		
General Revenues:		
Taxes:		
MT	Property Taxes, Levied for General Purposes	11,202,445
DT	Property Taxes, Levied for Debt Service	2,939,548
SF	State Aid - Formula Grants	9,501,378
GC	Grants and Contributions not Restricted	46,570
IE	Investment Earnings	511,985
MI	Miscellaneous Local and Intermediate Revenue	1,535,595
TR	Total General Revenues	25,737,521
CN	Change in Net Position	1,015,571
NB	Net Position - Beginning	50,582,053
PA	Prior Period Adjustment	(1,502)
NE	Net Position--Ending	\$ 51,596,122

The notes to the financial statements are an integral part of this statement.

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2017

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
ASSETS			
1110 Cash and Cash Equivalents	\$ 13,428,771	\$ 195,951	\$ 3,628,304
1120 Current Investments	15,752,320	-	-
1220 Property Taxes - Delinquent	1,442,857	238,857	-
1230 Allowance for Uncollectible Taxes	(455,907)	(54,865)	-
1240 Due from Other Governments	473,948	-	-
1250 Accrued Interest	121,975	-	-
1260 Due from Other Funds	112,122	1,851	-
1290 Other Receivables	-	-	-
1300 Inventories	-	-	-
1910 Long-Term Investments	7,222,582	-	-
1000 Total Assets	<u>\$ 38,098,668</u>	<u>\$ 381,794</u>	<u>\$ 3,628,304</u>
LIABILITIES			
2110 Accounts Payable	\$ 472,037	\$ -	\$ 2,128,268
2150 Payroll Deductions and Withholdings Payable	666	-	-
2160 Accrued Wages Payable	722,825	-	-
2170 Due to Other Funds	1,999	-	2,818
2180 Due to Other Governments	380,006	-	-
2200 Accrued Expenditures	15,901	-	-
2300 Unearned Revenue	126,561	-	-
2000 Total Liabilities	<u>1,719,995</u>	<u>-</u>	<u>2,131,086</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	986,950	183,992	-
2600 Total Deferred Inflows of Resources	<u>986,950</u>	<u>183,992</u>	<u>-</u>
FUND BALANCES			
Restricted Fund Balance:			
3480 Retirement of Long-Term Debt	-	197,802	-
3490 Other Restricted Fund Balance	-	-	1,497,218
Committed Fund Balance:			
3510 Construction	8,845,994	-	-
3530 Capital Expenditures for Equipment	3,569,837	-	-
3545 Other Committed Fund Balance	2,340,000	-	-
Assigned Fund Balance:			
3590 Other Assigned Fund Balance	39,680	-	-
3600 Unassigned Fund Balance	20,596,212	-	-
3000 Total Fund Balances	<u>35,391,723</u>	<u>197,802</u>	<u>1,497,218</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 38,098,668</u>	<u>\$ 381,794</u>	<u>\$ 3,628,304</u>

The notes to the financial statements are an integral part of this statement.

Other Funds	Total Governmental Funds
\$ 27,814	\$ 17,280,840
-	15,752,320
-	1,681,714
-	(510,772)
277,804	751,752
-	121,975
148	114,121
1,224	1,224
23,370	23,370
-	7,222,582
<u>\$ 330,360</u>	<u>\$ 42,439,126</u>
\$ 107,918	\$ 2,708,223
-	666
103,130	825,955
107,023	111,840
350	380,356
8,609	24,510
3,330	129,891
<u>330,360</u>	<u>4,181,441</u>
-	1,170,942
<u>-</u>	<u>1,170,942</u>
-	197,802
-	1,497,218
-	8,845,994
-	3,569,837
-	2,340,000
-	39,680
-	20,596,212
<u>-</u>	<u>37,086,743</u>
<u>\$ 330,360</u>	<u>\$ 42,439,126</u>

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

Total Fund Balances - Governmental Funds	\$	37,086,743
1 Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. The net effect of including the beginning balances of capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		8,077,607
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including capital outlays and debt principal payments is to increase net position.		20,639,245
3 Depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(2,411,735)
4 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68, a Deferred Resource Inflow related to TRS, and a Deferred Resource Outflow related to TRS. The net effect of these adjustments is to decrease net position.		(3,219,233)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, eliminating interfund transactions, reclassifying debt proceeds as an increase in debt payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.		(8,576,505)
19 Net Position of Governmental Activities	\$	51,596,122

The notes to the financial statements are an integral part of this statement.

FORT STOCKTON 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
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 13,185,399	\$ 2,940,017	\$ 54,415
5800 State Program Revenues	10,453,300	45,876	-
5900 Federal Program Revenues	29,881	-	-
5020 Total Revenues	<u>23,668,580</u>	<u>2,985,893</u>	<u>54,415</u>
EXPENDITURES:			
Current:			
0011 Instruction	10,825,005	-	126,302
0012 Instructional Resources and Media Services	117,434	-	-
0013 Curriculum and Instructional Staff Development	272,774	-	-
0021 Instructional Leadership	433,804	-	-
0023 School Leadership	1,324,213	-	109,327
0031 Guidance, Counseling, and Evaluation Services	695,202	-	-
0032 Social Work Services	-	-	-
0033 Health Services	260,174	-	-
0034 Student (Pupil) Transportation	636,368	-	187,734
0035 Food Services	5,803	-	233,276
0036 Extracurricular Activities	1,225,251	-	-
0041 General Administration	1,256,301	-	-
0051 Facilities Maintenance and Operations	3,205,487	-	659,465
0052 Security and Monitoring Services	84,010	-	17,500
0053 Data Processing Services	606,155	-	71,639
0061 Community Services	210,861	-	-
Debt Service:			
0071 Principal on Long-Term Debt	39,135	2,340,000	-
0072 Interest on Long-Term Debt	2,902	907,602	-
0073 Bond Issuance Cost and Fees	-	3,269	153,908
Capital Outlay:			
0081 Facilities Acquisition and Construction	3,198,728	-	14,272,970
Intergovernmental:			
0099 Other Intergovernmental Charges	179,987	-	-
6030 Total Expenditures	<u>24,579,594</u>	<u>3,250,871</u>	<u>15,832,121</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(911,014)</u>	<u>(264,978)</u>	<u>(15,777,706)</u>
OTHER FINANCING SOURCES (USES):			
7911 Capital Related Debt Issued (Regular Bonds)	-	-	9,180,000
7913 Capital Leases	98,285	-	-
7915 Transfers In	-	-	-
7916 Premium or Discount on Issuance of Bonds	-	84,467	473,908
8911 Transfers Out (Use)	(116,234)	-	-
7080 Total Other Financing Sources (Uses)	<u>(17,949)</u>	<u>84,467</u>	<u>9,653,908</u>
1200 Net Change in Fund Balances	(928,963)	(180,511)	(6,123,798)
0100 Fund Balance - September 1 (Beginning)	36,322,188	378,313	7,621,016
1300 Increase (Decrease) in Fund Balance	(1,502)	-	-
3000 Fund Balance - August 31 (Ending)	<u>\$ 35,391,723</u>	<u>\$ 197,802</u>	<u>\$ 1,497,218</u>

The notes to the financial statements are an integral part of this statement.

	Other Funds	Total Governmental Funds
\$	225,944	\$ 16,405,775
	362,370	10,861,546
	2,507,776	2,537,657
	3,096,090	29,804,978
	1,710,222	12,661,529
	-	117,434
	91,255	364,029
	14,227	448,031
	-	1,433,540
	27,318	722,520
	75,802	75,802
	1,012	261,186
	17,532	841,634
	1,273,836	1,512,915
	-	1,225,251
	-	1,256,301
	1,120	3,866,072
	-	101,510
	-	677,794
	-	210,861
	-	2,379,135
	-	910,504
	-	157,177
	-	17,471,698
	-	179,987
	3,212,324	46,874,910
	(116,234)	(17,069,932)
	-	9,180,000
	-	98,285
	116,234	116,234
	-	558,375
	-	(116,234)
	116,234	9,836,660
	-	(7,233,272)
	-	44,321,517
	-	(1,502)
\$	-	\$ 37,086,743

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

Total Net Change in Fund Balances - Governmental Funds	\$	(7,233,272)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing capital outlays and debt principal payments is to increase net position.		20,639,245
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.		(2,411,735)
Current year changes due to GASB 68 include amortization of deferred resource inflows and outflows, accounting for the District's proportionate share of the current measurement period pension expense affecting the ending net pension liability, accounting for items in pension expense affecting the ending pension liability, accounting for contributions made before the measurement date but during the fiscal year, and accounting for the difference between on-behalf revenues and expenditures between the fund financial statements and the government-wide financial statements. The impact of all of these is to decrease net position.		(339,912)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying debt proceeds as an increase in debt payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.		(9,638,755)
Change in Net Position of Governmental Activities	\$	1,015,571

The notes to the financial statements are an integral part of this statement.

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2017

EXHIBIT D-1

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and Cash Equivalents	\$ -	\$ 41,408
Restricted Assets	100,534	-
Total Assets	100,534	\$ 41,408
LIABILITIES		
Due to Other Funds	700	\$ 1,581
Due to Student Groups	-	39,827
Total Liabilities	700	\$ 41,408
NET POSITION		
Restricted for Scholarships	99,834	
Total Net Position	\$ 99,834	

The notes to the financial statements are an integral part of this statement.

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

	Private Purpose Trust Fund
ADDITIONS:	
Local and Intermediate Sources	\$ 12,654
Total Additions	<u>12,654</u>
DEDUCTIONS:	
Other Operating Costs	14,800
Total Deductions	<u>14,800</u>
Change in Net Position	(2,146)
Total Net Position - September 1 (Beginning)	<u>101,980</u>
Total Net Position - August 31 (Ending)	<u><u>\$ 99,834</u></u>

The notes to the financial statements are an integral part of this statement.

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
August 31, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Fort Stockton Independent School District is a public educational agency operating under the applicable laws and regulations of the State of Texas. The District prepares its basic financial statements in conformity with accounting principles generally accepted in the United States of America applicable to state and local governments. Additionally, the District complies with the requirements of the Texas Education Agency's *Financial Accountability System Resource Guide* (the *Resource Guide*) and the requirements of contracts and grants of agencies from which it receives funds.

A. Reporting Entity

The District is governed by the Board of Trustees, a seven-member group, which is elected by the public and has governance responsibilities, including fiscal accountability, over all activities related to public elementary and secondary education within the jurisdiction of the Fort Stockton Independent School District (the primary government). There are no component units included within the reporting entity.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities include programs supported primarily by taxes, State foundation funds, grants, and other intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges for services - payments from parties that purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment of the District and (2) grants and contributions - payments from organizations outside the District that are restricted to meeting the operational or capital requirements of a particular function or segment of the District. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

All interfund transactions between governmental funds are eliminated in the government-wide financial statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide statement of net position.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other funds.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recognized when they are earned and become measurable, and expenses are recognized when they become measurable and a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities, and fund balances are included in the balance sheet. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued

of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, revenues received from the state, and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received they are recorded as unearned revenue until related and authorized expenditures have been made.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The Capital Projects Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

Additionally, the government reports the following fund types:

The Private Purpose Trust Fund accounts for resources used to provide scholarships for former students. These scholarships are provided from earnings on investment of the corpus.

Agency Funds account for the activities of funds which are the property of student groups.

D. Interfund Receivables and Payables

Activity between individual funds may result in amounts owed between funds which are classified as Due To and From Other Funds. Other than amounts due to or from fiduciary funds these balances are eliminated in the statement of net position.

E. Receivables and Payables

Receivables are stated at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

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.

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

F. Capital Assets

Capital assets are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	10-40
Vehicles	5-10
Furniture and Equipment	5-15

G. Restricted Assets

Restricted assets consist of cash and investments held to provide scholarships for former students.

H. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, the face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

I. Pensions

In accordance with accounting guidance prescribed by GASB Statement No. 68, the fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities, and additions to/deductions from TRS's fiduciary net position. 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.

J. Compensated Absences

On voluntary separation from employment employees, who have been employed by the District for 20 years including the last 15 consecutive years, are eligible for payment of local leave provided the required notice of intent to separate from employment is provided. The District pays for a maximum of 90 days at a rate of \$140 per day for a professional employee and \$65 per day for any other employee.

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

J. Compensated Absences - Continued

A liability for these amounts is reported in governmental funds only if they are payable as a result of employee retirements.

K. Net Position on the Statement of Net Position

Net position on the statement of net position includes the following:

Net Investment in Capital Assets - This component of net position represents the difference between capital assets net of accumulated depreciation and the outstanding balance of debt, excluding any unspent debt proceeds, which is directly attributable to the acquisition, construction, or improvement of those assets.

Restricted for Debt Service - This component of net position represents the difference between assets and liabilities of the Debt Service Fund that consists of assets with constraints placed on their use by creditors.

Unrestricted - This is the difference between assets/deferred outflows of resources and liabilities/deferred inflows of resources that is not reported as Net Investment in Capital Assets or Restricted for Debt Service.

L. Fund Balances

In the fund financial statements, governmental funds report the following classifications of fund balance:

Restricted - Amounts that can be spent only for specific purposes because usage restraints have been imposed by external sources such as creditors (through a debt covenant), grantors, contributors, or laws or regulations of other governments.

Committed - Amounts that can be used only for specific purposes determined by a formal action of the Board of Trustees, the District's highest level of decision-making authority. Commitments may be modified or rescinded only through formal action by the Board of Trustees.

Assigned - Amounts that are intended for a specific purpose but do not meet the definition of restricted or committed. The intent can be expressed by the Board of Trustees or by a Board designee.

Unassigned - Amounts that have not been assigned to other funds or restricted, committed, or assigned to a specific purpose within the General Fund.

The details of the fund balances are included in the governmental funds balance sheet.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are 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, as needed, unless the Board of Trustees has provided otherwise in its commitment or assignment actions.

In the General Fund, the District strives to maintain a yearly fund balance in the general operating fund in which the total fund balance is five months of operating expenditures.

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

M. Property Tax Revenues

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all property located in the District 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.

The District recognizes as tax revenues those taxes that are measurable and available. Measurable means the amount can be determined, and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers property taxes as available if they are collected within the current period.

Taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectibles are based upon historical experience. 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.

N. Interfund Transfers

Permanent relocations of resources between funds of the reporting entity are classified as interfund transfers. For purposes of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budget

Formal budgetary accounting is employed for all required governmental fund types and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles.

The official school budget is prepared for adoption for required governmental fund types prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, the Debt Service Fund, and the Food Service Special Revenue Fund. The remaining Special Revenue Funds and the Capital Projects Fund adopt project-length budgets which do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting which is consistent with generally accepted accounting principles. The budget was amended throughout the year by the Board of Trustees. Such amendments are before the fact and are reflected in the official minutes of the Board.

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2017

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits and Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires the District 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. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers' acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy.

Custodial Credit Risk - Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits and investments in certificates of deposit may not be returned to it. The District's policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments, other than the following: The State of Texas requires that a financial institution secure deposits and investments made by state and local governments by pledging securities in excess of the highest cash balance of the government. The District is not exposed to custodial credit risk for its deposits since they are covered by depository insurance and pledged securities held by a third party in the District's name.

Concentration of Credit Risk: The investment policy of the District contains no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent five percent or more of the total entity investments represent a concentration risk.

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 August 31, 2017, the District was not significantly exposed to credit risk.

Interest Rate Risk: The District's investment policy limits its investment portfolio to maturities of one year or less as a means of limiting its exposure to fair value losses arising from fluctuating interest rates. However, the Board may specifically authorize a longer maturity for a given investment.

Foreign Currency Risk: Not applicable

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2017

IV. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

A. Deposits and Investments - Continued

At August 31, 2017, the District's investments with respective maturities and credit ratings consisted of the following:

	<u>Fair Value</u>	<u>Percent</u>	<u>Weighted Average Maturity</u>	<u>Credit Rating</u>
<u>Public Funds Investment Pools</u>				
LOGIC	\$ 16,972,053	49%	34 Days	AAAm
<u>Investments</u>				
Commercial Paper	7,452,675	22%	179 Days	A1
Municipal Bonds	8,784,871	25%	211 Days	A - AA
Federal Home Loan Bank	<u>1,340,360</u>	<u>4%</u>	441 Days	
Total	<u>\$ 34,549,959</u>	<u>100%</u>		

At August 31, 2017, the District had the following investments subject to the fair value measurement:

<u>Investment by Fair Value Level</u>	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Debt Securities				
Commercial Paper	\$ 7,452,675	\$ 7,452,675	\$ -	\$ -
Municipal Bonds	8,784,871	8,784,871	-	-
Federal Home Loan Bank	<u>1,340,360</u>	<u>1,340,360</u>	-	-
Total Investments	<u>\$ 17,577,906</u>	<u>\$ 17,577,906</u>	<u>\$ -</u>	<u>\$ -</u>

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment 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 AAAM 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.

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2017

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS – Continued

A. Deposits and Investments - Continued

The District’s investment in Pools is 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. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC’s Rule 2a-7 of the Investment Company Act of 1940.

B. Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from other governments are summarized as follows:

	State Entitlements	Federal Grants	Other	Total
General Fund	\$ 408,821	\$ 0	\$ 65,127	\$ 473,948
Special Revenue Funds	100,858	176,946	0	277,804
Totals	\$ 509,679	\$ 176,946	\$ 65,127	\$ 751,752

C. Interfund Balances and Transfers

1. The following is a summary of amounts due from and due to other funds:

	Due From	Due To	Purpose
General Fund			
Debt Service Fund	\$ 0	\$ 1,851	Operating Advance
Capital Projects Fund	2,818	0	Operating Advance
Nonmajor Governmental Funds	107,023	148	Operating Advance
Fiduciary Funds	2,281	0	Operating Advance
	\$ 112,122	\$ 1,999	
Debt Service Fund			
General Fund	1,851	0	Operating Advance
Capital Projects Fund			
General Fund	0	2,818	Operating Advance
Nonmajor Governmental Funds			
General Fund	148	107,023	Operating Advance
Fiduciary Funds			
General Fund	0	2,281	Operating Advance
Totals	\$ 114,121	\$ 114,121	

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2017

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS – Continued

C. Interfund Balances and Transfers

1. Continued:

All amounts due are expected to be repaid within one year.

2. Interfund transfers consist of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Food Service Fund	<u>\$ 116,234</u>	Subsidize Food Services

D. Capital Assets

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

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets				
Land	\$ 667,294	\$ 0	\$ 0	\$ 667,294
Buildings and Improvements	79,818,978	865,889	0	80,684,867
Furniture and Equipment	7,809,980	662,927	0	8,472,907
Property Under Capital Leases	58,119	98,285	0	156,404
Construction in Progress	<u>5,551,550</u>	<u>16,633,009</u>	<u>0</u>	<u>22,184,559</u>
Total Capital Assets	<u>\$ 93,905,921</u>	<u>\$ 18,260,110</u>	<u>\$ 0</u>	<u>\$ 112,166,031</u>
Less Accumulated Depreciation				
Buildings and Improvements	\$ (49,028,438)	\$ (1,912,660)	\$ 0	\$ (50,941,098)
Furniture and Equipment	(6,041,320)	(479,261)	0	(6,520,581)
Property Under Capital Leases	<u>(7,749)</u>	<u>(19,814)</u>	<u>0</u>	<u>(27,563)</u>
Total Accumulated Depreciation	<u>\$ (55,077,507)</u>	<u>\$ (2,411,735)</u>	<u>\$ 0</u>	<u>\$ (57,489,242)</u>
Governmental Activities Capital Assets, Net	<u>\$ 38,828,414</u>	<u>\$ 15,848,375</u>	<u>\$ 0</u>	<u>\$ 54,676,789</u>

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2017

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

D. Capital Assets - Continued

Depreciation expense was charged to governmental activities functions as follows:

Instruction	\$ 1,428,315
Instructional Resources and Media Services	9,454
Curriculum and Instructional Staff Development	15,428
Instructional Leadership	50,948
School Leadership	166,603
Guidance, Counseling, and Evaluation Services	88,019
Social Work Services	9,903
Health Services	31,201
Student (Pupil) Transportation	62,209
Food Services	84,295
Extracurricular Activities	80,103
General Administration	96,966
Facilities Maintenance and Operations	224,028
Data Processing Services	42,565
Community Services	21,698
Total	\$ 2,411,735

E. Deferred Outflows and Inflows of Resources

The financial statements report separate sections for deferred outflows and inflows of resources. Deferred outflows represent an acquisition of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. Deferred inflows represent an acquisition of fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The District has the following items that qualify for reporting in these categories:

Deferred Outflows (Statement of Net Position)

District's proportionate share of Teacher Retirement System of Texas (TRS) deferred outflows as detailed in financial statement footnote IV., A.

Deferred Inflows (Statement of Net Position)

District's proportionate share of Teacher Retirement System of Texas (TRS) deferred inflows as detailed in financial statement footnote IV., A.

Deferred Inflows (Balance Sheet - Governmental Funds)

Unavailable revenue - property taxes.

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2017

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

F. Due to Other Governments

Amounts due to other governments are summarized as follows:

	General Fund	Special Revenue Fund	Total
Due to State - Foundation	\$ 380,006	\$ 0	\$ 380,006
Grant Refund	<u>0</u>	<u>350</u>	<u>350</u>
Totals	<u>\$ 380,006</u>	<u>\$ 350</u>	<u>\$ 380,356</u>

G. Unearned Revenue

Unearned revenue at year end consisted of the following:

	General Fund	Special Revenue Funds	Total
Other Grants	\$ 126,561	\$ 0	\$ 126,561
State Grants	<u>0</u>	<u>3,330</u>	<u>3,330</u>
Totals	<u>\$ 126,561</u>	<u>\$ 3,330</u>	<u>\$ 129,891</u>

H. Long-Term Debt

The following is a summary of changes in long-term debt for the year ended August 31, 2017:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 29,970,000	\$ 9,180,000	\$ 2,340,000	\$ 36,810,000	\$ 2,560,000
Unamortized Bond Premium	626,841	558,375	70,041	1,115,175	-
Capital Leases	<u>45,469</u>	<u>98,285</u>	<u>39,135</u>	<u>104,619</u>	<u>38,571</u>
Totals	<u>\$ 30,642,310</u>	<u>\$ 9,836,660</u>	<u>\$ 2,449,176</u>	<u>\$ 38,029,794</u>	<u>\$ 2,598,571</u>

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2017

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

H. Long-Term Debt

The District's outstanding bond issues are as follows:

Fort Stockton Independent School District Unlimited Tax School Building Bonds, Series 2008. Issued for school building construction and improvements in the original amount of \$7,500,000. Due in variable installments through February 1, 2018, with an interest rate of 3.32%.	\$ 1,720,000
Fort Stockton Independent School District Unlimited Tax School Building Bonds, Series 2009A. Issued for school building construction and improvements in the original amount of \$6,000,000. Due in variable installments through February 1, 2020, with interest rates of 2.5% to 4.5%.	4,165,000
Fort Stockton Independent School District Unlimited Tax School Building Bonds, Series 2010. Issued for school building construction and improvements in the original amount of \$2,535,000. Due in variable installments through February 1, 2021, with interest rates of 3% to 4%.	1,075,000
Fort Stockton Independent School District Unlimited Tax School Building Bonds, Series 2011. Issued for school building construction and improvements in the original amount of \$1,600,000. Due in variable installments through February 1, 2021, with interest rates of .39% to 2.9%.	1,190,000
Fort Stockton Independent School District Unlimited Tax School Building Bonds, Series 2012. Issued for the construction, renovation, acquisition, and equipment of school buildings and the purchase of new school buses in the original amount of \$1,310,000. Due in variable installments through February 1, 2021, with interest rates of .5% to 2%.	970,000
Fort Stockton Independent School District Unlimited Tax School Building Bonds, Series 2014. Issued for the construction, renovation, acquisition, and equipment of school buildings, the purchase of sites for school buildings, and the purchase of new school buses in the original amount of \$9,410,000. Due in variable installments through February 1, 2028, with interest rates of 2.5% to 3%.	9,110,000
Fort Stockton Independent School District Unlimited Tax School Building Bonds, Series 2016. Issued for the construction, renovation, acquisition, and equipment of school buildings, the purchase of sites for school buildings, and the purchase of new school buses in the original amount of \$9,500,000. Due in variable installments through February 1, 2029, with an interest rate of 2%.	9,400,000
Fort Stockton Independent School District Unlimited Tax School Building Bonds, Series 2017. Issued for the construction, renovation, acquisition, and equipment of school buildings, the purchase of sites for school buildings, and the purchase of new school buses in the original amount of \$9,180,000. Due in variable installments through February 1, 2031, with interest rates of 2.75% to 4%.	9,180,000
Total Bonds Payable	<u>\$ 36,810,000</u>

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2017

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

H. Long-Term Debt - Continued

The District's outstanding capital leases payable are as follows:

Capital lease to finance the acquisition of computer equipment as authorized by Section 271 of the Local Government Code. This lease agreement qualifies as a capital lease for accounting purposes and is payable from the General Fund with an interest rate of 7.216%.	\$ 26,912
Capital lease to finance the acquisition of computer equipment as authorized by Section 271 of the Local Government Code. This lease agreement qualifies as a capital lease for accounting purposes and is payable from the General Fund with an interest rate of 2.699%.	<u>77,707</u>
Total Capital Leases Payable	<u><u>\$ 104,619</u></u>

The combined annual debt service requirements are as follows:

Year Ending August 31,	General Obligation Bonds		Capital Leases		Total
	Principal	Interest	Principal	Interest	
2018	\$ 2,560,000	\$ 1,025,180	\$ 38,571	\$ 3,465	\$ 3,627,216
2019	2,590,000	932,195	26,123	1,758	3,550,076
2020	2,680,000	825,433	19,687	1,117	3,526,237
2021	2,715,000	732,318	20,238	566	3,468,122
2022	2,640,000	656,262	0	0	3,296,262
2023-2027	13,680,000	2,214,081	0	0	15,894,081
2028-2031	<u>9,945,000</u>	<u>650,431</u>	<u>0</u>	<u>0</u>	<u>10,595,431</u>
Totals	<u><u>\$ 36,810,000</u></u>	<u><u>\$ 7,035,900</u></u>	<u><u>\$ 104,619</u></u>	<u><u>\$ 6,906</u></u>	<u><u>\$ 43,957,425</u></u>

I. Outstanding Encumbrances

There were no outstanding encumbrances that were provided for in the subsequent year's budget.

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2017

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

J. Revenues from Local and Intermediate Sources

Local and intermediate source revenues consists of the following:

	General Fund	Debt Service Fund	Capital Projects Fund	Special Revenue Funds	Total
Property Taxes	\$ 11,235,496	\$ 2,935,032	\$ 0	\$ 0	\$ 14,170,528
Chapter 313 Agreements	1,189,725	0	0	0	1,189,725
Tuition and Fees	415	0	0	0	415
Other Local Sources	672,964	4,985	54,415	59	732,423
Cocurricular, Enterprising Services, or Activities	86,799	0	0	225,885	312,684
Totals	<u>\$ 13,185,399</u>	<u>\$ 2,940,017</u>	<u>\$ 54,415</u>	<u>\$ 225,944</u>	<u>\$ 16,405,775</u>

K. General Fund Federal Source Revenues

<u>Program or Source</u>	<u>CFDA Number</u>	<u>Amount</u>
Indirect Costs		
ESEA, Title I, Part A - Improving Basic Programs	84.010	\$ 13,163
ESEA, Title I, Part C - Migratory Children	84.011	3,098
IDEA - Part B, Formula	84.027	8,795
Title III, Part A - English Language Acquisition	84.365	541
ESEA, Title II, Part A - Teacher and Principal Training	84.367	4,284
Total		<u>\$ 29,881</u>

IV. OTHER INFORMATION

A. Defined Benefit Pension Plan

Plan Description - The Fort Stockton Independent School District participates in 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.

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2017

IV. OTHER INFORMATION

A. Defined Benefit Pension Plan

Pension Plan Fiduciary Net Position - Detailed 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 http://www.trs.texas.gov/TRS%20Documents/cafr_2016.pdf; by writing to TRS at 1000 Red River Street, Austin, Texas 78701-2698; or by calling (512)542-6592.

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% (multiplier) times the average of the 5 highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered; for those the 3 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. 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 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.

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 through 2017. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015, and the 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017:

Contribution Rates		
	<u>2016</u>	<u>2017</u>
Member	7.2%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
District's 2017 Employer Contributions	\$	442,365
District's 2017 Member Contributions		1,161,907
District's 2017 NECE On-Behalf Contributions		938,169

Contributors to the plan include members, employers, and the State of Texas as the only non-employer contributing entity. The State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2017

IV. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

As the non-employer contributing entity for public education, 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 including public 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 or a privately sponsored source.

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 does not contribute to the Federal Old-Age, Survivors, and Disability Insurance (OASDI) program for certain employees, it 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.

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	8.0%
Long-Term Expected Investment Rate of Return	8.0%
Inflation	2.5%
Salary Increases Including Inflation	3.5% to 9.5%
Payroll Growth Rate	2.5%
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 ended August 31, 2014, and adopted on September 24, 2015.

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2017

IV. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

Discount Rate - The discount rate used to measure the total pension liability was 8%. 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 non-employer 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 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. Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of August 31, 2016, are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Return Geometric Basis</u>	<u>Long-Term Expected Portfolio Real Rate of Return*</u>
Global Equity			
U.S.	18.0%	4.6%	1.0%
Non-U.S. Developed	13.0%	5.1%	0.8%
Emerging Markets	9.0%	5.9%	0.7%
Directional Hedge Funds	4.0%	3.2%	0.1%
Private Equity	13.0%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11.0%	0.7%	0.1%
Absolute Return	0.0%	1.8%	0.0%
Hedge Funds (Stable Value)	4.0%	3.0%	0.1%
Cash	1.0%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3.0%	0.9%	0.0%
Real Assets	16.0%	5.1%	1.1%
Energy and Natural Resources	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
Risk Parity			
Risk Parity	5.0%	6.7%	0.3%
Inflation Expectations			2.2%
Alpha			<u>1.0%</u>
Totals	<u>100.0%</u>		<u>8.7%</u>

* The Expected Contribution to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2017

IV. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

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 in Discount Rate (7%)	Discount Rate (8%)	1% Increase in Discount Rate (9%)
District's Proportionate Share of the Net Pension Liability	\$ 7,598,931	\$ 4,909,939	\$ 2,629,130

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At August 31, 2017, the Fort Stockton Independent School District reported a net pension liability of \$4,909,939 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 Collective Net Pension Liability	\$ 4,909,939
State's Proportionate Share that is Associated with the District	9,040,309
Total	\$ 13,950,248

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 through August 31, 2016.

At August 31, 2016, the employer's proportion of the collective net pension liability was 0.000129932044% which was a decrease of 0.000015163% from its proportion measured as of August 31, 2015.

Changes Since the Prior Actuarial Valuation - 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 Fort Stockton Independent School District recognized pension expense of \$938,169 and revenue of \$938,169 for support provided by the State in the government-wide statement of activities.

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2017

IV. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

At August 31, 2017, the Fort Stockton Independent School 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ 76,987	\$ 146,608
Changes in Actuarial Assumptions	149,646	136,097
Difference Between Projected and Actual Investment Earnings	415,764	-
Changes in Proportion and Difference Between the Employer's Contributions and the Proportionate Share of Contributions	1,105,225	216,576
Contributions Paid to TRS Subsequent to the Measurement Date	<u>442,365</u>	<u>-</u>
Totals	<u>\$ 2,189,987</u>	<u>\$ 499,281</u>

The net amounts of the employer'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 Amount</u>
2018	\$ 226,429
2019	226,429
2020	491,623
2021	206,051
2022	121,194
Thereafter	(23,385)

B. Retiree Health Plan

Plan Description - The Fort Stockton Independent School 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 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. TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701.

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2017

IV. OTHER INFORMATION

B. Retiree Health Plan - Continued

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. Funding for free basic coverage is provided by the program based upon public school district payroll. 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. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and contribution amounts for fiscal years 2017-2015 are shown in the table below:

Fiscal Year	Active Member		State On-Behalf		District	
	Rate	Amount	Rate	Amount	Rate	Amount
2017	0.65%	\$ 98,083	1.0%	\$ 137,124	0.55%	\$ 96,767
2016	0.65%	92,308	1.0%	129,286	0.55%	90,832
2015	0.65%	91,326	1.0%	126,134	0.55%	91,646

The Medicare 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 Texas Public School Retired Employee Group Insurance Program (TRS-Care), administered by TRS, to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. Medicare Part D payments made on behalf of the District for fiscal years 2017-2015 are shown in the table below:

Fiscal Year	Medicare Part D
2017	\$ 46,604
2016	56,450
2015	59,555

C. Health Care Coverage

During the year ended August 31, 2017, employees of the District were covered by a health insurance plan (the Plan) through the TRS - Active Care Program administered by the Teacher Retirement System. The District contributed \$300 of the employee-only premium per month, and employees, at their option, authorized payroll withholdings to pay contributions for dependents. Under the Plan, the District is not liable for costs incurred beyond the premiums paid.

D. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters, for which the District participated in a public entity risk pool. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding coverage for each of the past three fiscal years.

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2017

IV. OTHER INFORMATION - Continued

E. Unemployment Compensation Coverage

During the year ended August 31, 2017, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Premiums are paid annually and are expensed monthly. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop-loss coverage for the Unemployment Compensation pool. For the year ended August 31, 2017, the Fund anticipates that the District has no additional liability beyond the contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2016, are available on the TASB Risk Management Fund website.

F. Contingencies

The District participates in numerous state and federal 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 collectibility of any related receivable may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

G. Tax Abatements

The Fort Stockton Independent School District's Board of Trustees approved Agreements with Century Plant, Pikes Peak Grey Ranch, Barilla Solar, LLC, RE Monument, RE Roserock, and RE Fort Stockton for a Limitation on Appraised Value of Property for School District Maintenance and Operations Taxes pursuant to the Chapter 313 of the Texas Tax Code, i.e., the Texas Economic Development Act, as set forth in Chapter 313 of the Texas Tax Code, as amended. Century Plant and Pikes Peak Grey Ranch qualified for tax limitation agreements under the Texas Tax Code §313.024(b)(5), as manufacturing projects. Barilla Solar, LLC, RE Monument, RE Roserock, and RE Fort Stockton qualified for tax limitation agreements under the Texas Tax Code §313.024(b)(5), as renewable energy electric generation projects.

Value limitation agreements are a part of a state program originally created in 2001 which allows school districts to limit the taxable value of an approved project for Maintenance and Operations (M&O) for a period of years specified in statute. The project(s) under the Chapter 313 agreement must be consistent with the state's goal to "encourage large scale capital investments in this state." Chapter 313 of the Texas Tax Code grants eligibility to companies engaged in manufacturing, research and development, renewable electric energy production, clean coal projects, nuclear power generation, and data centers.

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2017

IV. OTHER INFORMATION - Continued

G. Tax Abatements - Continued

In order to qualify for a value limitation agreement, each applicant has been required to meet a series of capital investment, job creation, and wage requirements specified by state law. At the time of the applications' approvals, the Agreements were found to have done so by both the District's Board of Trustees and the Texas Comptroller's Office, which recommended approval of the projects. The applications, the Agreements, and state reporting requirement documentation can be viewed at the Texas Comptroller's website: <https://www.comptroller.texas.gov/economy/local/ch313/agreement-docs.php>. The Agreements and all supporting documentation were assigned Texas Comptroller Application No. 134, No. 135, No. 326, No. 1013, No. 1012, and No. 389, respectively.

After approval, the applicant company must maintain a viable presence in the District for the entire period of the value limitation plus a period of years thereafter. In addition, there are specific reporting requirements, which are monitored on an annual and biennial basis in order to ensure relevant job, wage, and operational requirements are being met.

In the event that any company terminates its Agreement without the consent of the District, or in the event that any company or its successor-in-interest fails to comply in any material respect with the terms of the Agreement or to meet any material obligations under the Agreement, then the District shall be entitled to the recapture of all ad valorem tax revenue lost as a result of the Agreement, together with the payment of penalty and interest, on that recaptured ad valorem tax revenue. Penalties on said amounts shall be calculated in accordance with the methodology set forth in Texas Tax Code §33.01(a), or its successor statute. Interest on said amounts shall be calculated in accordance with the methodology set forth in Texas Tax Code §33.01(c), or its successor statute. Each Agreement provides an administrative procedure to determine any company liability. Ultimately, enforcement of any payment obligation is through the local state district court.

Project Name	A Project Value 2016	B Project's Value Limitation Amount 2016	C Amount of Applicant's M&O Taxes Paid 2016	D Amount of Applicant's M&O Taxes Reduced 2016	E Company Revenue Loss Payment to School District 2016	F Company Supplemental Payment to School District 2016	G Net Benefit (Loss) to the School District 2016 (C+E+F)
Century Plant	\$ 291,123,820	\$ 20,000,000	\$ 208,000	\$ 2,819,688	\$ 0	\$ 1,173,496	\$ 1,381,496
Pikes Peak Grey Ranch	13,867,750	20,000,000	144,225	0	0	4,378	148,603
Barilla Solar, LLC	32,494,970	30,000,000	312,000	25,948	2,453	9,398	323,851
RE Monument	0	N/A	0	0	0	0	0
RE Roserock	0	N/A	0	0	0	0	0
RE Fort Stockton	0	N/A	0	0	0	0	0

H. Adjustments to Net Position/Fund Balances

The financial statements reflect the following prior period adjustments:

	Net Position <u>Exhibit B-1</u>	Fund Balances <u>Exhibit C-3</u>
General Fund		
Foundation Adjustment	<u>\$ (1,502)</u>	<u>\$ (1,502)</u>

FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2017

IV. OTHER INFORMATION - Continued

I. Commitments

The District issued bonds during the 2017 fiscal year for the purpose of acquiring, constructing, and equipping school facilities in the original amount of \$9,180,000. As of August 31, 2017, the District has \$1,497,218 remaining to be expended on these projects.

J. Subsequent Events

The District's management has evaluated subsequent events through December 18, 2017, the date which the financial statements were available for issue.

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APPENDIX D

Form of Opinion of Bond Counsel

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Proposed Form of Opinion of Bond Counsel

An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law.

\$6,500,000

**FORT STOCKTON INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS**

SERIES 2018

DATED MAY 1, 2018

AS BOND COUNSEL for FORT STOCKTON INDEPENDENT SCHOOL DISTRICT, the Issuer (the "Issuer") of the Bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, until maturity or prior redemption, at the rates and payable on the dates as stated in the text of the Bonds, and maturing and subject to redemption on the dates specified in the text of the Bonds, all in accordance with the terms and conditions stated in the text of the Bonds.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, and a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance of the Bonds, including one of the executed Bonds (Bond Number T-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that said Bonds have been authorized, issued and duly delivered in accordance with law, and that said Bonds, except as may be limited by laws applicable to the Issuer relating to bankruptcy, reorganization and other similar matters affecting creditors' rights or by general principles of equity and sovereign immunity of political subdivisions which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the Issuer, and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Bonds have been levied and pledged for such purpose, without limit as to rate or amount, on all taxable property within the Issuer.

IN EXPRESSING SUCH OPINION, we have considered the effect of the November 22, 2005 decision by the Texas Supreme Court in *West Orange-Cove Consolidated Independent School District, et al. v. Neeley, et al.*, upholding, in part, a lower court judgment concluding that the local ad valorem maintenance and operation tax authorized under the school finance system then in effect had become a State property tax in violation of article VIII, section 1-e of the Texas Constitution, in that school districts did not have meaningful discretion in levying the tax. The Court's opinion further noted that the court "...remain convinced...that defects in the structure of the public school finance system expose the system to constitutional challenge. . . . [Such challenges] will repeat until the system is overhauled." Subsequent to such decision, legislation was enacted by the Texas Legislature to address the constitutional issues raised in the court's ruling. Reference is made to the Official Statement for the Bonds for a further description of the rulings and the legislation enacted by the Texas Legislature.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds.

IN EXPRESSING THE AFOREMENTIONED OPINIONS, we have relied on and assume continuing compliance with, certain representations contained in the federal tax certificate of the Issuer and covenants set forth in the order adopted by the Issuer to authorize the issuance of the Bonds, relating to, among other matters, the use of the project being financed and the investment and expenditure of the proceeds and certain other amounts used to pay or to secure the payment of debt service on the Bonds and the certificate with respect to arbitrage by the Commissioner of Education regarding the allocation and investment of certain investments in the Permanent School Fund, the accuracy of which we have not independently verified. We call your attention to the fact that if such representations are determined to be inaccurate or if the Issuer fails to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds, including the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

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 (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering our opinions with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. 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, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of, and assessed valuation of taxable property within the Issuer. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

Respectfully,

Financial Advisory Services
Provided By:

SAMCO CAPITAL MARKETS, INC.