Ratings: Moody's: "Aaa"
Fitch: "AAA"
(See "RATINGS" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein)

OFFERING MEMORANDUM
Dated: June 26, 2018

NEW ISSUE: BOOK-ENTRY-ONLY

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

$59,015,000
NEW CANEY INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Montgomery and Harris Counties, Texas)
VARIABLE RATE UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018
INITIAL TERM RATE PERIOD OF 3 YEARS AT A PER ANNUM INITIAL RATE OF 3.00%
(PRICED TO YIELD 2.17% TO MANDATORY TENDER DATE)

Dated Date: July 1, 2018 (interest will accrue from the Closing Date) **Mandatory Tender Date: August 15, 2021**
CUSIP No: 643154EE3[(1)] **Stated Maturity: February 15, 2050**

The New Caney Independent School District Variable Rate Unlimited Tax School Building Bonds, Series 2018 (the "Bonds") are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1), as amended, Texas Education Code, Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), an election held in the District on May 5, 2018 and the order (the "Order") adopted by the Board of Trustees (the "Board") on June 18, 2018. As permitted by Chapter 1371, the Board has, in the Order, delegated to certain District officials and staff members the authority to establish final terms and effectuate the sale of the Bonds, which final terms are evidenced in an approval certificate (the "Approval Certificate") relating to the Bonds. The Approval Certificate was executed by the Deputy Superintendent of the District on June 26, 2018, which completed the sale of the Bonds. The Bonds are payable as to principal and interest from the proceeds of an ad valorem tax levied annually, without legal limit as to rate or amount, against all taxable property located within the New Caney Independent School District (the "District"). The District has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds; provided, however, the Permanent School Fund Guarantee is not effective with respect to the payment of the Purchaser Price for mandatorily tendered Bonds. (See "THE BONDS – Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

During the Initial Rate Period (defined below), interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months and will be payable on each February 15 and August 15, commencing February 15, 2019. No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Bonds (see "BOOK-ENTRY-ONLY SYSTEM" herein). The initial Tender Agent and Paying Agent/Registrar, respectively, for the Bonds is BOKF, NA, Dallas, Texas (see "THE BONDS – General Description").

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

The Bonds will bear interest initially at the Initial Rate from the date of the initial delivery to the Underwriters (defined below), anticipated to occur on or about July 24, 2018 (the "Closing Date"), through August 14, 2021 (the "Initial Rate Period"), at the rate of 3.00% (being the rate so determined by the Underwriters identified below). Thereafter, the Bonds will convert to a Term Mode of like duration and bear interest at a Term Rate determined by the Remarketing Agent (defined below); provided, however, that the interest rate mode applicable to the Bonds may be (a) changed from time to time to a Term Mode during which the Bonds bear interest at a Term Rate for a period of different duration, or (b) converted to a Fixed Rate until stated maturity or (as and if applicable) prior redemption (as such terms are defined and described herein). This Offering Memorandum describes the Bonds only in the Initial Rate Period during which the Bonds bear interest at the Initial Rate (and, after conclusion of such Initial Rate Period and if at all, the period during which the Bonds bear interest at the Stepped Rate) and not the Bonds remarketed and sold into another interest rate period during which the Bonds bear interest in another interest rate mode.

The Bonds will be subject to mandatory tender without the right of retention on the Conversion Date immediately following the end of the Initial Rate Period, which occurs on August 15, 2021 (but such mandatory tender for purchase shall actually occur on August 16, 2021, which is the first business day to occur after August 15, 2021; this shall not result in an accrual of interest beyond the stated expiration date of the Initial Rate Period). During the Initial Rate Period, the Bonds are not subject to the benefit of a liquidity facility provided by a third party. Accordingly, a failure by the Remarketing Agent to remarket Bonds subject to mandatory tender on the Conversion Date at the end of the Initial Rate Period will result in the rescission of the notice of mandatory tender with respect thereto and the District not having any obligation to purchase such Bonds at that time. The occurrence of the foregoing will not result in an event of default under the Order or the Bonds. Until such time as the District redeems or remarkets Bonds that have been unsuccessfully remarketed as described above, such Bonds shall bear interest at the "Stepped Rate", which is defined herein to mean 7.00% per annum, calculated on the basis of twelve 30-day months and the number of days actually elapsed (see "THE BONDS – Tender Provisions" herein).

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

Proceeds from the sale of the Bonds will be used for (i) designing, constructing, renovating, improving, acquiring and equipping school facilities and the purchase of the necessary sites for school facilities, and (ii) paying the costs of issuing the Bonds. (See "THE BONDS - Authorization and Purpose").

The Bonds are offered for delivery when, as and if issued, and received by the initial purchaser named below (the "Underwriters") subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Hunton Andrews Kurth LLP, Houston, Texas. The Bonds are expected to be available for initial delivery through the services of DTC on or about July 24, 2018.

OPPENHEIMER & CO. **WELLS FARGO SECURITIES**

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

NEW CANEY INDEPENDENT SCHOOL DISTRICT

APPOINTED OFFICIALS

Name	Position	Length of Education Service	Length of Service with District
Kenn Franklin	Superintendent	30 Years	9 Years
Matt Calvert	Deputy Superintendent	14 Years	3 Years
Brandy Fain	Executive Director of Finance	18 Years	14 Years
Mike Milling	Executive Director of Operations	27 Years	5 Years
Steve Freeman	Executive Director of Human Resources	38 Years	15 Years
Kristi Shofner	Executive Director of Instruction	24 Years	4 Years
Scott Castleberry	Executive Director of Student and Staff Services	30 Years	30 Years
Brent Sipe	Executive Director of Sports Activities and Facilities	26 Years	5 Years
Scott Powers	Executive Director of Public Relations	20 Years	3 Years
Merredith Hunt	Director of Accounting and Budget	11 Years	5 Years

CONSULTANTS AND ADVISORS

Norton Rose Fulbright US LLP, San Antonio, Texas	Bond Counsel
SAMCO Capital Markets, Inc., Plano, Texas	Financial Advisor
Weaver and Tidwell, L.L.P., Conroe, Texas	Certified Public Accountants

For additional information, contact:

Kenn Franklin
Superintendent
New Caney ISD
21580 Loop 494
New Caney, Texas 77357
(281) 577-8611

Doug Whitt / Brian Grubbs / Robert White
SAMCO Capital Markets, Inc.
5800 Granite Parkway, Suite 210
Plano, Texas 75024
(214) 765-1469
(214) 279-8683 (Fax)

USE OF INFORMATION IN OFFERING MEMORANDUM

This Offering Memorandum, which includes the cover page, and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Offering Memorandum, and, if given or made, such other information or representations must not be relied upon.

The Underwriters have provided the following sentence for inclusion in this Offering Memorandum. The Underwriters have reviewed the information in the Offering Memorandum pursuant to its responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

The information set forth herein has been obtained from the District and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor or the Underwriters. This Offering Memorandum contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE OF INFORMATION" for a description of the Texas Education Agency's ("TEA") and the District's undertakings 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 THE BONDS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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

NONE OF THE DISTRICT, ITS FINANCIAL ADVISOR, OR THE UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM DESCRIBED UNDER "BOOK-ENTRY-ONLY SYSTEM" OR THE AFFAIRS OF THE TEA DESCRIBED UNDER "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", AS SUCH INFORMATION WAS PROVIDED BY THE DEPOSITORY TRUST COMPANY AND THE TEA, RESPECTIVELY.

THIS OFFERING MEMORANDUM CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.

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

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SELECTED DATA FROM THE OFFERING MEMORANDUM

The selected data is subject in all respects to the more complete information and definitions contained or incorporated in this Offering Memorandum. The offering of the Bonds to potential investors is made only by means of this entire Offering Memorandum. No person is authorized to detach this page from this Offering Memorandum or to otherwise use it without the entire Offering Memorandum.

The District	The New Caney Independent School District (the "District") is a political subdivision of the State of Texas located in Montgomery and Harris Counties, Texas. The District is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.
Rate Periods	The Bonds will initially bear interest at an Initial Rate during the Initial Rate Period, being the rate determined by the Underwriters, which will be in effect from the Closing Date (as defined in the Order, but anticipated to occur on or about July 24, 2018) through August 14, 2021, with interest being payable on each February 15 and August 15, beginning February 15, 2019. The Initial Rate is 3.00%, calculated on the basis of a 360-day year of twelve 30-day months. Thereafter, the Bonds will convert to a Term Mode of like duration and bear interest at a Term Rate determined by the Remarketing Agent; provided, however, that the interest rate mode for the Bonds may be (a) changed from time to time to a Term Mode during which the Bonds bear interest at a Term Rate for a period of different duration or (b) converted to a Fixed Rate until stated maturity (as such terms are defined and described herein). (See "THE BONDS - Interest Rate Modes" herein.) The Stepped Rate for the Bonds is 7.00%. (See "THE BONDS – Tender Provisions" herein)
Paying Agent/Registrar and Tender Agent	The initial Paying Agent/Registrar and Tender Agent for the Bonds is BOKF, NA, Dallas, Texas. The District intends to use the Book-Entry-Only System of DTC. (See "BOOK-ENTRY-ONLY SYSTEM.")
Security	The Bonds will constitute direct obligations of the District, payable as to principal and interest from ad valorem taxes levied annually against all taxable property located within the District, without legal limitation as to rate or amount.
Redemption	After the Initial Rate Period and prior to conversion to a Fixed Rate, the Bonds are subject to optional and mandatory redemption at par, on the dates and in the manner, as described herein. In addition, and at all times that the Bonds bear interest at the Initial Rate or at a Term Rate (including during the Initial Rate Period), the Bonds are subject to redemption, on any date and in whole (but not in part), at the District's option upon the occurrence of a hereinafter-defined Extraordinary Event, at the redemption price of par plus accrued interest to such date of redemption. (See "THE BONDS - Redemption".) **During the Initial Rate Period the Bonds are not subject to optional redemption except, as described above, upon the occurrence of an Extraordinary Event.**
Permanent School Fund Guarantee	The District has received conditional approval from the Texas Education Agency for the payment of the scheduled debt service on (but not the Purchase Price of) 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.")
Ratings	The Bonds are rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by Fitch Ratings, Inc. ("Fitch") based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program of the TEA. The District's unenhanced, underlying ratings, including the Bonds, are "Aa3" by Moody's and "AA-" by Fitch. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "RATINGS" herein.)
Tax Matters	In the opinion of Bond Counsel for the District, interest on the Bonds is excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein including the alternative minimum tax on corporations. (See "TAX MATTERS" and "Appendix C - Form of Legal Opinion of Bond Counsel.")
Payment Record	The District has never defaulted on the payment of its bonded indebtedness.
Legal Opinion	Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. (See "Appendix C – Form of Legal Opinion of Bond Counsel").
Delivery	When issued, anticipated to occur on or about July 24, 2018.

INTRODUCTORY STATEMENT

This Offering Memorandum, including Appendices A, B and D, has been prepared by the New Caney Independent School District (the "District"), a political subdivision of the State of Texas (the "State") located in Montgomery and Harris Counties, Texas, in connection with the offering by the District of its Variable Rate Unlimited Tax School Building Bonds, Series 2018 (the "Bonds").

All financial and other information presented in this Offering Memorandum has been provided by the District from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information, and is not intended to indicate future or continuing trends in the financial position or other affairs of the District. No representation is made that past experience, as is shown by such financial and other information, will necessarily continue or be repeated in the future.

There follows in this Offering Memorandum descriptions of the Bonds and the order adopted on June 18, 2018 by the Board of Trustees of the District (the "Board") authorizing the issuance of the Bonds (the "Order") and certain other 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 by writing the New Caney Independent School District, 21580 Loop 494, New Caney, Texas 77357 and, during the offering period, from the Financial Advisor, SAMCO Capital Markets, Inc., 5800 Granite Parkway, Suite 210, Plano, Texas 75024, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

This Offering Memorandum speaks only as of its date, and the information contained herein is subject to change. A copy of this Final Offering Memorandum pertaining to the Bonds will be deposited with the Municipal Securities Rulemaking Board through its Electronic Municipal Market 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.

Impact of Hurricane Harvey

On August 26, 2017, Hurricane Harvey, characterized as a Category 4 hurricane at its peak, made landfall on the Texas coast and continued a slow path toward the greater Houston, Texas area. Over the course of the next several days, the storm's high winds and rainfall produced massive flooding, extensive property damage, and claimed the lives of individuals in and around Houston. The District is situated approximately thirty to forty miles north of downtown Houston and received extensive rainfall as a result of the storm.

The District did not experience the catastrophic damage received in downtown Houston and other parts of the Greater Houston Metropolitan Statistical Area, nor did the District facilities experience catastrophic damage from the flood.

THE BONDS

Authorization and Purpose

The Bonds are being issued in the principal amount of $59,015,000 pursuant to the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), an election held in the District on May 5, 2018 (the "Election") and the Order. As permitted by Chapter 1371, the Board has, in the Order, delegated certain District officials and staff members (each, a "Designated Financial Officer") the authority to establish final terms and effectuate the sale of the Bonds, which final sale terms are evidenced in an approval certificate (the "Approval Certificate"). The Approval Certificate was executed by the Deputy Superintendent of the District on June 26, 2018, which completed the sale of the Bonds. Proceeds from the sale of the Bonds will be used for (i) designing, constructing, renovating, improving, acquiring and equipping school facilities and the purchase of the necessary sites for school facilities, and (ii) paying the costs of issuing the Bonds.

Security for Payment

The Bonds are direct obligations of the District and are payable as to both principal and interest from ad valorem taxes levied annually on all taxable property within the District, without legal limitation as to rate or amount. The District has received conditional approval from the Texas Education Agency for the payment of the scheduled debt service on (but not the Purchase Price of) the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Permanent School Fund Guarantee

In connection with the sale of the Bonds, the District has received conditional approval from the Commissioner of Education for the guarantee of the Bonds under the Permanent School Fund Guarantee Program (Chapter 45, Subchapter C, of the Texas Education Code, as amended). Subject to meeting certain conditions discussed under the heading "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein, the Bonds will be absolutely and unconditionally guaranteed by the corpus of the Permanent School Fund of the State of Texas; provided, however, the Permanent School Fund Guarantee is not effective with respect to the payment of the Purchase Price for mandatorily tendered Bonds. In the event of a payment default by the District, registered owners will receive all payments due from the corpus of the Permanent School Fund.

In the event the District defeases any of the Bonds, the payment of such defeased Bonds will cease to be guaranteed by the Permanent School Fund Guarantee. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "REGISTERED OWNERS' REMEDIES").

General Description

Initial Issuance in Initial Rate Period. The Bonds are multimodal variable rate bonds (convertible upon mandatory tender and remarketing into a Term Rate interest mode of different duration or a Fixed Rate interest mode), initially issued in an initial period of interest during which the Bonds bear interest at the Initial Rate, which interest rate period is effective upon initial delivery of the Bonds (anticipated to occur on or about July 24, 2018) and continues through August 14, 2021 (such period referred to herein and in the Order as the "Initial Rate Period"). Upon expiration of the Initial Rate Period, the Bonds will be remarketed into a successive Term Mode interest period of the like duration, unless changed as described herein.

THE BONDS ARE SUBJECT TO CONVERSION AND REMARKETING INTO A SUBSEQUENT TERM RATE OR FIXED RATE INTEREST PERIOD AT THE TIMES AND UPON THE CONDITIONS DESCRIBED IN THE ORDER FOLLOWING A MANDATORY TENDER FOR PURCHASE OF SUCH BONDS. THIS OFFERING MEMORANDUM DESCRIBES THE BONDS

ONLY IN THE INITIAL RATE PERIOD AND IS, THEREFORE, NOT INTENDED TO PROVIDE INFORMATION WITH RESPECT TO THE BONDS AFTER CONVERSION TO ANY NEW INTEREST RATE MODE OR INTEREST RATE PERIOD (INCLUDING ANY SUBSEQUENT TERM RATE PERIOD). PURCHASERS OF THE BONDS SHOULD NOT RELY ON THIS OFFERING MEMORANDUM FOR INFORMATION CONCERNING ANY INTEREST RATE MODE OR INTEREST RATE PERIOD FOR THE BONDS OTHER THAN IN THE INITIAL RATE PERIOD.

Authorized Denominations. The Bonds are issued in denominations of $5,000.

Calculation of Interest; Interest Payment Dates. Interest on the Bonds is calculated on the basis of a 360-day year of twelve 30- day months. Interest accruing on the Bonds during the Initial Rate Period will be paid on each February 15 and August 15 commencing February 15, 2019.

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

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

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

Tender Agent. BOKF, NA, Dallas, Texas, will serve as the initial tender agent (the "Tender Agent") for the Bonds. All notices and Bonds required to be delivered to the Tender Agent shall be delivered to BOKF, NA, Dallas, Texas, Attn: Ms. Erin Fitzpatrick, 5956 Sherry Lane, Suite 1201, Dallas, Texas 75225. In the event that the Book-Entry-Only System herein is discontinued and registered bonds are issued, all notices and Bonds are required to be delivered to 5956 Sherry Lane, Suite 1201, Dallas, Texas 75225.

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

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

Interest Rate Modes

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

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

Determination of Interest Rates; Rate Mode Changes

Initial Rate. The Bonds will bear interest at the Initial Rate for the Initial Rate Period, beginning on the date of initial authentication and delivery (anticipated to occur on or about July 24, 2018) and ending on August 14, 2021. The Interest Payment Dates during the Initial Rate Period will be on each February 15 and August 15, commencing on February 15, 2019. Following the Initial Rate Period, the Bonds will bear interest at the rate or rates, as determined by the Remarketing Agent, dependent upon the interest rate mode in which the Bonds are remarketed and which mode may thereafter be changed from time to time, prior to conversion to a Fixed Rate, in the manner described below.

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

Any conversion to a new interest mode and period will be conditioned on delivery of an opinion of nationally recognized bond counsel to the effect that the conversion will not adversely affect the excludability of interest on the Bonds from gross income of the owners thereof for federal income tax purposes if such conversion results in a reissuance of the remarketed Bonds under applicable federal tax law. The opinion of Bond Counsel expresses no opinion as to the effect on excludability from gross income for federal income tax purposes of any action taken which requires the receipt of an opinion of a nationally recognized bond counsel.

While in the Initial Rate Period or a subsequent Term Rate period, Bonds may be converted to a different interest rate mode only at the expiration of such interest period.

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

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

The determination by the Remarketing Agent of the rate or rates of interest to be borne by the Bonds will be conclusive and binding on the holders of the Bonds, the District, the Paying Agent/Registrar and the Tender Agent. Failure by the Paying Agent/Registrar to give notice to the Bondholders, or any defect therein, will not affect the interest rate borne by the Bonds or the rights of the owners thereof. In no event will the interest rate borne by the Bonds exceed the "Highest Rate", which (as provided in the Order) is the lesser of 8.00% and the maximum net effective interest rate permitted under Chapter 1204, Texas Government Code, as amended.

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

Tender Provisions

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

Mandatory Tender. The Bonds are required to be tendered for purchase to the Tender Agent, without the right of retention, at the end of the Initial Rate Period on August 15, 2021 (but such mandatory tender for purchase shall actually occur on August 16, 2021, which is the first business day to occur after August 15, 2021; this shall not result in an accrual of interest beyond the stated expiration date of the Initial Rate Period).

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

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

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

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

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

Conversion to Fixed Rate

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

To exercise its option, the District must deliver to the Paying Agent/ Registrar, the Remarketing Agent (if any), and the Tender Agent written notice at least 45 calendar days prior to the interest payment date on which the Fixed Rate mode is to become effective (the "Fixed Rate Conversion Date"). The Bonds converted to a Fixed Rate on a Fixed Rate Conversion Date shall mature, be subject to redemption and have the same terms and features (other than being subject to mandatory tender for purchase) as set forth in the Order with respect to Bonds bearing interest at an Initial Rate or a Term Rate. Notwithstanding the previous sentence, in connection with a conversion to a Fixed Rate, the District may elect, at its sole option, to provide for serial maturities, revised redemption provisions and other terms applicable to the pricing of the Bonds on and after the Fixed Rate Conversion Date.

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

Redemption

Optional Redemption. The Bonds are not subject to optional redemption during the Initial Rate Period (except upon the occurrence of an Extraordinary Event, as described below), but are subject to redemption, at the District's option, on the first Interest Payment Date immediately succeeding the conclusion of the Initial Rate Period (which is also the Conversion Date).

Extraordinary Optional Redemption. Upon the occurrence of an Extraordinary Event, the Bonds are subject to redemption prior to Stated Maturity, at the option of the District, on any date, in whole but not in part, in principal amounts of $5,000 or any integral multiple thereof, at the price of par plus accrued interest to such date of redemption.

The term “Extraordinary Event” shall mean the occurrence of (i) passage of legislation by either house of the United States Congress, the effect of which (if enrolled) would be to impose, directly or indirectly, federal income taxation upon interest received on obligations of the general character of the Bonds, or (ii) the execution by the President of the United States of an executive order that imposes, directly or indirectly, federal income taxation upon interest received on obligations of the general character of the Bonds.

Upon the occurrence of an Extraordinary Event, the District anticipates issuing tax-exempt refunding bonds prior to the effective date of such legislation and exercising the right to redeem and refund the Bonds with the proceeds of the refunding bonds.

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

Mandatory Redemption

Date	Amount
February 15, 2046	$ 9,045,000
February 15, 2047	9,410,000
February 15, 2048	13,065,000
February 15, 2049	13,505,000
February 15, 2050	13,990,000

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

Special Mandatory Redemption. While the Bonds are outstanding and accruing interest at the Initial Rate or a Term Rate which includes a period longer than the period for which taxes are then being assessed, the District may, at its discretion and in accordance with and as permitted by the Order, budget for such fiscal year and levy taxes for the payment of interest on the Bonds based on an interest rate on the Bonds equal to the actual rate borne thereby or up to the Highest Rate per annum. At the end of the fiscal year in which the District levies a tax based on the interest rate on the Bonds being equal to a rate of interest other than the actual rate borne by the Bonds up to the Highest Rate, the District shall determine whether the interest paid on the Bonds in such fiscal year is less than the amount of revenue collected. If in such circumstance the amount of interest paid on the Bonds is less than the amount collected, the District shall cause the difference between the amount budgeted at the assumed interest rate and the amount paid on the Bonds (“Excess Interest Funds”) to be allocated and appropriated for the payment of the mandatory redemption of Bonds on the first February 15 next following the end of such fiscal year; provided the amount of such Excess Interest Funds is equal to or greater than $100,000. In each fiscal year when the amount of Excess Interest Funds is equal to or greater than $100,000, the District shall cause Bonds in a principal amount equivalent to the Excess Interest Funds to be redeemed on the February 15 next following the end of such fiscal year at the redemption price of par plus accrued interest to the date of redemption. The mandatory redemption of Bonds in accordance with the provisions of this paragraph shall be in addition to the amount of Bonds to be mandatorily redeemed as set forth in the schedule above in the years shown.

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

Notice of Redemption. The Paying Agent/Registrar is required to cause notice of any redemption of Bonds to be mailed to each owner of Bonds to be redeemed at the respective addresses appearing in the registration books for the Bonds at least 30 days prior to the redemption date when Bonds bear interest at the Initial Rate or a Term Rate. All notices of redemption shall (i) specify the date of redemption for the Bonds, (ii) identify the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state the Bonds, or the portion of the principal amount thereof, to be redeemed, shall become due and payable on the redemption date specified, and the interest thereof, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify the payment of the redemption price for the Bonds, or the principal amount thereof to be redeemed, shall be made at the designated corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the registered owner. If a Bond is subject by its terms to redemption and has been called for redemption and notice of redemption thereof has been duly given or waived, as provided in the Order, such Bonds (or the principal amount thereof to be redeemed) so called for redemption shall become due and payable, and on the redemption date designated in such notice, interest on such Bonds (or the principal amount thereof to be redeemed) called for redemption shall cease to accrue and such Bonds shall not be deemed to be outstanding. A notice of mandatory tender delivered in connection with the remarketing of any outstanding Bonds shall also serve as notice of redemption if any such Bonds will be redeemed on a Conversion Date.

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

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

Legality

The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. (See "LEGAL MATTERS" and "Appendix C - Form of Legal Opinion of Bond Counsel").

Payment Record

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

Amendments

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

Defeasance

The Order provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus 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 the Paying Agent/Registrar or other authorized escrow agent, in trust (1) money sufficient to make such payment, (2) Government Obligations (defined below) that 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, or (3) a combination of money and Government Obligations sufficient to make such payment. The sufficiency of deposits hereinbefore described shall be certified by an independent certified accountant, the District's Financial Advisor, the Paying Agent/Registrar, or some other qualified financial institution as specified in the Order. The District has additionally reserved the right in the Order, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Obligations for the Government Obligations originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District money in excess of the amount required for such defeasance. The Order provides that "Government Obligations" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and, on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, or (d) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Bonds, or those for any other Government Obligations, will be maintained at any particular rating category. Further, there is no assurance that current Texas law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the District has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Order does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the District to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, deasance securities may not be of the same investment quality as those currently identified Texas law as permissible defeasance securities.

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

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

Sources and Uses of Funds

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

Sources		
Par Amount of Bonds	$	59,015,000.00
Original Issue Reoffering Premium		1,441,146.30
Total Sources of Funds	$	60,456,146.30
Uses		
Deposit to Construction Fund	$	60,000,000.00
Costs of Issuance		253,000.00
Underwriters' Discount		201,300.17
Deposit to Interest and Sinking Fund		1,846.13
Total Uses of Funds	$	60,456,146.30

REGISTERED OWNERS' REMEDIES

If the District defaults in the payment, when due, of principal or interest, or redemption price of the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospective ability to be repaid in accordance with the Order any registered owner may seek a writ of mandamus from a court of proper jurisdiction to compel the District to make such payment or observe and perform such covenants, obligations, or conditions. 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 as well as to enforce the rights of payment under the Permanent School Fund Guarantee. The issuance of a writ of mandamus is controlled by equitable principles, and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the owners upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court has ruled in *Tooke v. City of Mexia,* 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Chapter 1371, which pertains to the issuance of public securities by issuers such as the District, permits the District to waive sovereign immunity in the proceedings authorizing the issuance of the Bonds. Notwithstanding its reliance upon the provisions of Chapter 1371 in connection with the issuance of the Bonds (see "THE BONDS – Authorization and Purpose" herein), the District has not waived the defense of sovereign immunity with respect thereto. Because it is unclear whether the Texas Legislature has effectively waived the District's sovereign immunity from a suit for money damages, 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.

BOOK-ENTRY-ONLY SYSTEM

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

The District and the Underwriters cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption notices or other notices to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption notices or other notices to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Offering Memorandum. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond 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 securities 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 S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI 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).

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

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

The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor Securities depository). In that event, Bond certificates will be printed and delivered to bond holders.

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

Use of Certain Terms in Other Sections of this Offering Memorandum

In reading this Offering Memorandum it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Offering Memorandum to registered owners should be read to include the person for which the Direct or Indirect 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 Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under "REGISTRATION, TRANSFER AND EXCHANGE" below.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Bonds is BOKF, NA, Dallas, Texas. In the Order, the District covenants to maintain and provide a Paying Agent/Registrar until the Bonds are duly paid.

Successor Paying Agent/Registrar

Provision is made in the Order for replacing the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank, trust company, financial institution or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District has agreed to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Initial Registration

Definitive Bonds will be initially registered and delivered only to CEDE & CO., the nominee of DTC pursuant to the Book-Entry-Only System described herein.

Future Registration

In the event the Book-Entry-Only System is discontinued, the Bonds will be printed and delivered to the beneficial owners thereof and thereafter may be transferred, registered and assigned on the registration books only upon presentation and surrender of the Bonds 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 Bonds 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 corporate trust office of the Paying Agent/Registrar, or sent by United States mail, first class postage prepaid to the new registered owner. To the extent possible, 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 aggregate principal amount as the Bonds surrendered for exchange or transfer.

Record Date For Interest Payment

The record date ("Record Date") for determining the party to whom the interest payable on a Bond on any interest payment date means the close of business on the last business day of the next preceding month. 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 from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five 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 books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Limitation on Transfer of Bonds

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

Replacement Bonds

If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same principal 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 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 a certificate to the effect 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 indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

AD VALOREM TAX PROCEDURES

Property Tax Code and County Wide Appraisal District

The Texas Property Tax Code (the "Tax Code") provides for county-wide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board responsible for appraising property for all taxable units within the county. The Montgomery Central Appraisal District and Harris County Appraisal District (collectively, the "Appraisal District") are responsible for appraising property within the District as of January 1 of each year. The appraisal values set by the Appraisal District are subject to review and change by the respective Appraisal Review Board (the "Appraisal Review Board") which is appointed by the 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.

Property Subject to Taxation by the District

Except for certain exemptions provided by State law, all real and certain tangible personal property with a tax situs in the District is subject to taxation by the District. Principal categories of exempt property (including certain exemptions which are subject to local option by the District) include property owned by the State or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain improvements to real property and certain tangible personal property located in designated reinvestment zones on which the District has agreed to abate ad valorem taxes, certain household goods, family supplies and personal effects; farm products owned by the producers; certain property of a nonprofit corporation used in scientific research and educational activities benefiting a college or university; and designated historic sites. Other principal categories of exempt property include tangible personal property not held or used for production of income; solar and windpowered energy devices; most individually owned automobiles; $10,000 State mandated exemption to residential homesteads of persons ages 65 or over or disabled; a State mandated exemption up to a maximum of $12,000 for real or personal property of disabled veterans or the surviving spouse or children of an individual who died while on active duty in the armed forces; a State mandated $25,000 in market value exemption for all residential homesteads (see "Residential Homestead Exemptions" below); and certain classes of intangible property. The 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. In addition, except for increases attributable to certain improvements, the District is prohibited by State law from increasing the total ad valorem tax on the residence homestead of persons 65 years of age or older or of disabled persons above the amount of tax imposed in the year such residence qualified for an exemption based on the age or disability of the owner. The freeze on ad valorem taxes on the homesteads of persons 65 years of age or older and the disabled is also transferable to a different residence homestead. Also, a 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 deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was 55 or older when the deceased spouse died and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse. Pursuant to a constitutional amendment approved by the voters on May 12, 2007, legislation was enacted to reduce the school property tax limitation imposed by the freeze on taxes paid on residence homesteads of persons 65 years of age or over or of disabled persons to correspond to reductions in local school district tax rates from the 2005 tax year to the 2006 tax year and from the 2006 tax year to the 2007 tax year (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Overview" herein). The school property tax limitation provided by the constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years. Owners of agricultural and open space land, under certain circumstances, may request valuation of such land on the basis of productive capacity rather than market value. Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. Article VIII, Section 1-l, provides for the exemption from ad valorem taxation of certain property used to control the pollution of air, water, or land. A person is entitled to an exemption from taxation of all or part of real and personal property that the person owns and that is used wholly or partly as a facility, device or method for the control of air, water or land pollution. Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit", defined by the Tax Code 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 year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax year. A taxpayer may receive only one of the freeport or goods-in-transit exemptions for tangible 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 year in which the governing body proposes to tax good-in-transit to continue its taxation of good-in-transit in the 2012 tax year and beyond. See "THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT" and "Appendix A – FINANCIAL INFORMATION OF THE DISTRICT - ASSESSED VALUATION" for a schedule of the amount of exemptions granted by the District.

A city or county may create a tax increment financing zone ("TIF") within the city or county with defined boundaries and establish a base value of taxable property in the TIF at the time of its creation. Overlapping taxing units, including school districts, may agree with the city or county to contribute all or part of future ad valorem taxes levied and collected against the "incremental value" (taxable value in excess of the base value) of taxable real property in the TIF to pay or finance the costs of certain public improvements in the TIF, and such taxes levied and collected for and on behalf of the TIF are not available for general use by such contributing taxing units. Prior to September 1, 2001, school districts were allowed to enter into tax abatement agreements to encourage economic development. Under such agreements, a property owner agrees to construct certain improvements on its property. The school district in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. Effective September 1, 2001, school districts may not enter into tax abatement agreements under the general statute that permits cities and counties to initiate tax abatement agreements. In addition, credit will not be given by the Commissioner of Education in determining a district's property value wealth per student for (1) the appraisal value, in excess of the "frozen" value, of property that is located in a TIF created after May 31, 1999 (except in certain limited circumstances where the city creating the TIF gave notice prior to May 31, 1999 to all other taxing units that levy ad valorem taxes in the TIF of its intention to create the TIF and the TIF was created and had its final project and financing plan approved by the municipality prior to August 31, 1999) or (2) for the loss of value of abated property under any abatement agreement entered into after May 31, 1993.

Notwithstanding the foregoing, in 2001 the Legislature enacted legislation known as the Texas Economic Development Act, which provides incentives for certain school districts to grant limitations on appraised property values and provide ad valorem tax credits to certain corporations and limited liability companies to encourage economic development within the district. Generally, during the last eight years of the ten-year term of a tax limitation agreement, the school district may only levy and collect ad valorem taxes for maintenance and operation purposes on the agreed-to limited appraised property value. The taxpayer is entitled to a tax credit from the school district for the amount of taxes imposed during the first two years of the tax limitation agreement on the appraised value of the property above the agreed-to limited value. Additional State funding is provided to a school district for each year of such tax limitation in the amount of the tax credit provided to the taxpayer. During the first two years of a tax limitation agreement, the school district may not adopt a tax rate that exceeds the district's rollback tax rate (see "AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate").

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. 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 the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of 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. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Tax Code are based on one hundred percent (100%) of market value, except as described below, and no assessment ratio can be applied.

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 that would not exceed the lesser of (1) the property's market value in the most recent tax year in which the market value was determined by the appraisal district or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value the preceding tax year, plus (c) the market value of all new improvements to the property.

Article VIII of the Texas Constitution and the Tax Code permit land designated for agricultural use (Section 1-d), open space or timberland (Section 1-d-1) to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. Landowners wishing to avail themselves of the agricultural use designation must apply for the designation, and the appraiser is required by the Tax Code to act on each claimant's right to the designation individually. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes for previous years based on the new value, including three years for agricultural use and five years for agricultural open-space land and timberland prior to the loss of the designation. The same land may not be qualified under both Section 1-d and Section 1-d-1.

The Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three years. The District, at its expense, has the right to obtain from the Appraisal District current estimates of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimates of appraisal values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses to formally include such values on its appraisal rolls.

Residential Homestead Exemptions

Under Section 1-b, Article VIII of the Texas Constitution and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than $3,000 of the market value of the residence homestead of persons 65 years of age or older or the disabled from all ad valorem taxes thereafter levied by the political subdivision.

Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than $3,000 of the market value.

The surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

Section 11.131 of the Texas Tax Code states 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 the surviving spouse remarries.

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 to the disabled veteran by a charitable organization at no cost to the disabled veteran, or at some cost to the disabled veteran in the form of a cash payment, a mortgage, or both in an aggregate amount that is not more than 50% of the good faith estimate of the market value of the residence homestead made by the charitable organization as of the date the donation is made. 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.

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

The surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the first responder's death and said property was the first responder's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

In addition to any other exemptions provided by the Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of $5,000.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created. Voters in the State approved a constitutional amendment on November 3, 2015 increasing the mandatory homestead exemption for school districts from $15,000 to $25,000, and requiring that the tax limitation for taxpayers who are age 65 and older or disabled be reduced to reflect the additional exemption.

The governing body of a political subdivision is prohibited from repealing or reducing the amount of an optional homestead exemption that was in place for the 2014 tax year (fiscal year 2015) during the period ending December 31, 2019.

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a petition for review in district court within 45 days after notice is received that a final order has been entered. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party, or through binding arbitration, if requested by the taxpayer. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Tax Code.

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 entity. By the later of September 30th or 60 days after the certified appraisal roll is delivered to the District, the rate of taxation must be set by the Board based upon the valuation of property within the District as of the preceding January 1 and the amount required to be raised for debt service and maintenance and operations purposes. Taxes are due October 1, or when billed, whichever comes later, and 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 accrues interest 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 under certain circumstances be imposed by the District. The Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

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 – Local Funding for School Districts" for a description of the "State Compression Percentage"). If for the preceding tax year a district adopted an M&O (defined herein) tax rate that was less than its effective M&O tax 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 for the school year beginning in the current tax year, in the same amount as would have been available to the district in the preceding year if the funding elements of wealth equalization and State funding for the current year had been in effect for the preceding year.

Section 26.05 of the Tax Code 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. 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.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property. The District has no lien for unpaid taxes on personal property but does have a lien for unpaid taxes upon real property, which lien is discharged upon payment. On January 1 of each year, such tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The District's tax lien is on a parity with the tax liens of other such taxing units. A tax lien on real property taxes takes priority over the claims 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. The automatic stay in bankruptcy will prevent the automatic attachment of tax liens with respect to post-petition tax years unless relief is sought and granted by the bankruptcy judge. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

Except with respect to taxpayers who are 65 years of age or older, 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. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights, or by bankruptcy proceedings which restrict the collection of taxpayer debts. 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 attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained 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 Appraisal District has the responsibility for appraising property in the District as well as other taxing units in the respective County. Each Appraisal District is governed by a board of directors appointed by members of the governing bodies of various political subdivisions within the respective County.

Property within the District is assessed as of January 1 of each year, taxes become due October 1 of the same year and become delinquent on February 1 of the following year.

The District does not tax personal property not used in the production of income, such as personal automobiles.

The District collects an additional 20% penalty to defray attorney costs in the collection of delinquent taxes over and above the penalty automatically assessed under the Tax Code.

The District's taxes are collected by the Montgomery County Tax Assessor.

The District does not allow split payments of taxes on homesteads and does not give discounts for early payment of taxes.

The District does not participate in a tax increment financing zone. The District does not grant tax abatements.

Other than the State-mandated exemptions of $25,000 for general homestead and an additional $10,000 for persons who are 65 years of age or older and who are disabled, the District does not grant a local option exemption to the market value of the residence homestead of persons 65 years of age or older or the disabled.

The District does not grant any portion of the additional local option exemption of up to 20% of the market value of residence homesteads.

The District has not granted the freeport exemption. The District has not granted the goods-in-transit exemption.

Charges for penalties and interest on the unpaid balance of delinquent taxes are as follows:

Date	Penalty	Interest	Cumulative Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12	6	18

After July, penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, State law allows that, if an account is delinquent in July, an amount up to 20% attorney's collection fee may be added to the total tax penalty and interest charge.

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

Although, as a matter of law, the Bonds, upon issuance and delivery, will be entitled to the protections afforded previously existing contractual obligations under the Contract Clauses, the District can make no representations or predictions concerning the effect of future legislation, or 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 Chapters 41 through 46 of the Texas Education Code, as amended.

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

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

Local Funding for School Districts

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

State Funding for School Districts

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

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

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

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

Tier Two supplements the basic funding of Tier One and provides two levels of enrichment with different guaranteed yields (i.e., guaranteed levels of funding by the State) depending on the district's local tax effort. The first six cents of tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates ranging from $1.00 to $1.06 per $100 of taxable value) will, for most districts, generate the a guaranteed yield of $99.41 and $106.28 per cent per weighted student in average daily attendance ("WADA") in the 2017-18 and 2018-19 State fiscal years, respectively. The second level of Tier Two is generated by tax effort that exceeds the district's compressed tax rate plus six cents (for most districts eligible for this level of funding, M&O tax rates ranging from $1.06 to $1.17 per $100 of taxable value) and has a guaranteed yield per cent per WADA of $31.95 for the 2018-19 State fiscal biennium. Property-wealthy school districts that have an M&O tax rate that exceeds the district's compressed tax rate plus six cents are subject to recapture above this tax rate level at the equivalent wealth per student of $319,500 (see "Wealth Transfer Provisions" below).

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

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

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

2006 Legislation

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

2017 Legislation

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

Wealth Transfer Provisions

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

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

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

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE NEW CANEY INDEPENDENT SCHOOL DISTRICT

The District's wealth per student for the 2017-18 school year is less than the equalized wealth value. Accordingly, the District has not been required to exercise one of the permitted wealth equalization options. As a district with wealth per student less than the equalized wealth value, the District may benefit in the future by agreeing to accept taxable property or funding assistance from or agreeing to consolidate with a property-rich district to enable such district to reduce its wealth per student to the permitted level.

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.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

The information below concerning the State Permanent School Fund and the Guarantee Program for school district bonds has been provided by the Texas Education Agency (and is not guaranteed as to accuracy or completeness by, and is not construed as a representation by the District, the Financial Advisor, or the Underwriters).

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 each even-numbered year, most recently in 2018. 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, which was reviewed and reaffirmed in June 2018, is as follows: (i) an equity allocation of 35% (consisting of U.S. large cap equities targeted at 13%, international equities at 14% and emerging international equities at 3%) and U.S. small/mid cap equities at 5%), (ii) a fixed income allocation of 19% (consisting of a 12% allocation for core bonds and a 7% allocation for emerging market debt in local currency) and (iii) an alternative asset allocation of 46% (consisting of a private equity allocation of 13%, a real estate allocation of 10%, an absolute return allocation of 10%, a risk parity allocation of 7% and a real return allocation of 6%). The 2016 asset allocation decreased U.S. large cap equities and international equities by 3% and 2%, respectively, and increased the allocations for private equity and real estate by 3% and 2%, respectively.

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

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

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

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

Management and Administration of the Fund

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

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

Texas law assigns control of the Fund's land and mineral rights to the three-member SLB, which consists of the elected Commissioner of the GLO, an appointee of the Governor, and an appointee of the Attorney General. Administrative duties related to the land and mineral rights reside with the GLO, which is under the guidance of the Commissioner of the GLO. In 2007, the Legislature established the real estate special fund account of the PSF (the "Real Estate Account") consisting of proceeds and revenue from land, mineral or royalty interest, real estate investment, or other interest, including revenue received from those sources, that is set apart to the PSF under the Texas Constitution and laws, together with the mineral estate in riverbeds, channels, and the tidelands, including islands. The investment of the Real Estate Account is subject to the sole and exclusive management and control of the SLB and the Land Commissioner, who is also the head of the GLO. The 2007 legislation presented constitutional questions regarding the respective roles of the SBOE and the SLB relating to the disposition of proceeds of real estate transactions to the ASF, among other questions. Amounts in the investment portfolio of the PSF are taken into account by the SBOE for purposes of determining the Distribution Rate. An amendment to the Texas Constitution was approved by State voters on November 8, 2011, which permits the SLB to make transfers directly to the ASF, see "2011 Constitutional Amendment" below.

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

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

Capacity Limits for the Guarantee Program

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

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

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

On July 18, 2016, the IRS issued final regulations enacting the IRS Notice (the "Final IRS Regulations"). The Final IRS Regulations are effective for bonds sold on or after October 17, 2016. The IRS Notice, the Proposed IRS Regulations and the Final IRS Regulations establish a static capacity for the Guarantee Program based upon the cost value of Fund assets on December 16, 2009 multiplied by five. On December 16, 2009, the cost value of the Guarantee Program was $23,463,730,608 (estimated and unaudited), thereby producing an IRS Limit of approximately $117.3 billion. The State Capacity Limit is determined on the basis of the cost value of the Fund from time to time multiplied by the capacity multiplier determined annually by the SBOE, but not to exceed a multiplier of five. The capacity of the Guarantee Program will be limited to the lower of the State Capacity Limit or the IRS Limit. On May 21, 2010, the SBOE modified the regulations that govern the School District Bond Guarantee Program (the "SDBGP Rules"), and increased the State Law Capacity to an amount equal to three times the cost value of the PSF. Such modified regulations, including the revised capacity rule, became effective on July 1, 2010. The SDBGP Rules provide that the Commissioner may reduce the multiplier to maintain the AAA credit rating of the Guarantee Program, but provide that any changes to the multiplier made by the Commissioner are to be ratified or rejected by the SBOE at the next meeting following the change. See "Valuation of the PSF and Guaranteed Bonds," below.

At its September 2015 meeting, the SBOE voted to modify the SDBGP Rules and the CDBGP Rules to increase the State Law Capacity from 3 times the cost value multiplier to 3.25 times. At that meeting, the SBOE also approved a new 5% capacity reserve for the Charter District Bond Guarantee Program. The change to the State Law Capacity became effective on February 1, 2016. At its November 2016 meeting, the SBOE again voted to increase the State Law Capacity and, in accordance with applicable requirements for the modification of SDBGP and CDBGP Rules, a second and final vote to approve the increase in the State Law Capacity occurred on February 3, 2017. As a result, the State Law Capacity increased from 3.25 times the cost value multiplier to 3.50 times effective March 1, 2017 and increased again to 3.75 times effective September 1, 2017; however, as described under "2017 Legislative Changes to the Charter District Bond Guarantee Program," the SBOE took action at its Winter 2018 meeting to rollback of a portion of the multiplier increase, which became effective in late March 2018. Based upon the cost basis of the Fund at August 31, 2017, the State Law Capacity increased from $97,933,360,905 on August 31, 2016 to $111,568,711,072 on August 31, 2017.

Since July 1991, when the SBOE amended the Guarantee Program Rules to broaden the range of bonds that are eligible for guarantee under the Guarantee Program to encompass most Texas school district bonds, the principal amount of bonds guaranteed under the Guarantee Program has increased sharply. In addition, in recent years a number of factors have caused an increase in the amount of bonds issued by school districts in the State. See the table "Permanent School Fund Guaranteed Bonds" below. Effective September 1, 2009, the Act provides that the SBOE may annually establish a percentage of the cost value of the Fund to be reserved from use in guaranteeing bonds. The capacity of the Guarantee Program in excess of any reserved portion is referred to herein as the "Capacity Reserve." The SDBGP Rules provide for a minimum Capacity Reserve for the overall Guarantee Program of no less than 5%, and provide that the amount of the Capacity Reserve may be increased by a majority vote of the SBOE. The CDBGP Rules provide for an additional 5% reserve of CDBGP capacity. The Commissioner is authorized to change the Capacity Reserve, which decision must be ratified or rejected by the SBOE at its next meeting following any change made by the Commissioner. The current Capacity Reserve is noted in the monthly updates with respect to the capacity of the Guarantee Program on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/, which are also filed with the MSRB.

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

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

The School District Bond Guarantee Program

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

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

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

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

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

The Charter District Bond Guarantee Program

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

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

As of February 21, 2018 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 5.5%. As of late June, 2018, there were 185 active open-enrollment charter schools in the State and there were 747 charter school campuses operating under such charters (though as of such date, 38 of such campuses have not begun serving students for various reasons). Section 12.101, Texas Education Code, as amended by the Legislature in 2013, limits the number of charters that the Commissioner may grant to 215 charters as of the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

The Charter District Bond Guarantee Program does not apply to the payment of principal and interest upon redemption of bonds, except upon mandatory sinking fund redemption, and does not apply to the obligation, if any, of a charter district to pay a redemption premium on its guaranteed bonds. The guarantee applies to all matured interest on guaranteed charter district bonds, whether the bonds were issued with a fixed or variable interest rate and whether the interest rate changes as a result of an interest reset provision or other bond resolution provision requiring an interest rate change. The guarantee does not extend to any obligation of a charter district under any agreement with a third party relating to guaranteed bonds that is defined or described in State law as a "bond enhancement agreement" or a "credit agreement," unless the right to payment of such third party is directly as a result of such third party being a bondholder.

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

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

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

Beginning in July 2015, TEA began limiting new guarantees under the Charter District Bond Guarantee Program to conform to the Act and, subsequently, with CDBGP Rules that require the maintenance of a capacity reserve for the Charter District Bond

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

2017 Legislative Changes to the Charter District Bond Guarantee Program

The 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 5.5% in February 2018, representing a cumulative growth during that period of 56%. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

SB 1480 provides that the implementation of the new method of calculating the 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 and June 2018, the SBOE authorized the full 20% increase in the amount of charter district bonds that may be guaranteed for fiscal years 2018 and 2019, respectively, which increases the relative capacity of the Charter District Bond Guarantee Program to the School District Bond Guarantee Program for those fiscal years.

Taking into account the enactment of SB 1480 and the increase in the CDBGP Capacity effected thereby, at Winter 2018 meeting the SBOE approved the second of two required readings amending the SDBGP Rules to rollback the multiplier from 3.75 times market value to 3.50 times, and the rollback became effective in late March 2018.

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 effective April 1 2018, the management of the Reserve Fund was transferred to the PSF division of TEA, where it will 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 May 31, 2018, the Charter District Reserve Fund contained $5,104,222.

Potential Impact of Hurricane Harvey on the PSF

Hurricane Harvey struck coastal Texas on August 26, 2017, resulting in historic levels of rainfall. The Governor designated the impacted area for disaster relief, and 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 in the designated area. Many of the impacted school districts and two charter districts have bonds guaranteed by the PSF. It is possible that the affected districts will need to borrow to repair or replace damaged facilities, which could require increased bond issuance and applications to the TEA for PSF bond guarantees. In addition, the storm damage and any lingering economic damage in the area could adversely affect the tax base (for school districts) and credit quality of school districts and charter districts with bonds that are or will be guaranteed by the PSF.

The TEA, members of the Legislature and the Governor, among others, have stated that they are developing programs to provide financial assistance to affected school districts and charter districts, particularly with regard to funding assistance for facility repairs and construction and to offset tax base and/or revenue loss to affected districts. The composition of any final programs that may be implemented cannot be predicted, and are likely to be subject to future State legislative and administrative actions, available amounts of federal and private disaster relief for affected schools, and other factors. TEA has 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 fiscal year 2018. In the past, storm damage has caused multiple year impacts to affected schools with respect to both attendance figures and tax base (for school districts). In June 2018 TEA received results of a survey of tax appraisal districts in the area affected by the hurricane with respect to the impact of the hurricane on the tax rolls of affected school districts. In aggregate, the tax rolls of affected districts appear to have increased slightly for fiscal 2018 over 2017, but the increases were at a lower rate than had been anticipated in the State's general appropriation act for the biennium. TEA notes that as of June 2018 the negative effect of the hurricane on the average daily attendance of districts in the affected area appears to have been less than TEA had initially anticipated.

Many of the school districts and two charter districts in the designated disaster area have bonds guaranteed by the PSF. TEA notes that no district has applied for financial exigency or failed to timely pay bond payments as a result of the hurricane or otherwise. The PSF is managed to maintain liquidity for any draws on the program. Moreover, as described under "The School District Bond Guarantee Program" and "The Charter District Bond Guarantee Program," both parts of the Bond Guarantee Program operate in accordance with the Act as "intercept" programs, providing liquidity for guaranteed bonds, and draws on the PSF are required to be restored from the first State money payable to a school district or a charter district that fails to make a guaranteed payment on its bonds.

Ratings of Bonds Guaranteed Under the Guarantee Program

Moody's Investors Service, Inc., S&P Global Ratings and Fitch Ratings, Inc. rate bonds guaranteed by the PSF "Aaa," "AAA" and "AAA," respectively. Not all districts apply for multiple ratings on their bonds, however. See "RATINGS" 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 May 31, 2018, the PSF had a book value of $33,178,779,673 and a market value of $43,191,172,031. May 31, 2018 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds

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

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

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

	School District Bonds		Charter District Bonds		Totals	
Fiscal Year Ended 8/31	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 May 31, 2018 (based on unaudited data, which is subject to adjustment), there were $76,899,424,513 of bonds guaranteed under the Guarantee Program, representing 3,272 school district issues, aggregating $75,492,649,513 in principal amount and 43 charter district issues, aggregating $1,406,775,000 in principal amount. At May 31, 2018, the capacity allocation of the Charter District Bond Guarantee Program was $2,090,485,947 (based on the then effective capacity multiplier of 3.50 times and on unaudited data, which is subject to adjustment).

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

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

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

The market value of the Fund's assets is directly impacted by the performance of the various financial markets in which the assets are invested. The most important factors affecting investment performance are the asset allocation decisions made by the SBOE and SLB. The current SBOE long term asset allocation policy allows for diversification of the PSF(SBOE) portfolio into alternative asset classes whose returns are not as positively correlated as traditional asset classes. The implementation of the long term asset allocation will occur over several fiscal years and is expected to provide incremental total return at reduced risk. As of August 31, 2017, the PSF(SBOE) portion of the Fund had diversified into emerging market and large cap international equities, absolute return funds, real estate, private equity, risk parity, real return Treasury Inflation-Protected Securities, real return commodities, and emerging market debt.

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

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

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

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

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

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

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

2011 Constitutional Amendment

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

The amendments approved at the referendum included an increase to the base used to calculate the Distribution Rate by adding to the calculation base certain discretionary real assets and cash in the Fund that is managed by entities other than the SBOE (at present, by the SLB). The value of those assets were already included in the value of the Fund for purposes of the Guarantee Program, but prior to the amendment had not been included in the calculation base for purposes of making transfers from the Fund to the ASF. While the amendment provided for an increase in the base for the calculation of approximately $2 billion, no new resources were provided for deposit to the Fund. As described under “The Total Return Constitutional Amendment” the SBOE is prevented from approving a Distribution Rate or making a pay out from the Fund if the amount distributed would exceed 6% of the average of the market value of the Fund, excluding real property in the Fund, but including discretionary real asset investments on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium or if such pay out would exceed the Ten Year Total Return.

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

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

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

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

Other Events and Disclosures

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

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

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

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

PSF Continuing Disclosure Undertaking

The SBOE has adopted an investment policy rule (the “TEA Rule”) pertaining to the PSF and the Guarantee Program. The TEA Rule is codified in Section I of the TEA Investment Procedure Manual, which relates to the Guarantee Program and is posted to the TEA web site at http://tea.texas.gov/Finance_and_Grants/Texas_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 https://emma.msrb.org/IssueView/Details/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 proision 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.

TAX RATE LIMITATIONS

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters. Under Section 45.003(d) of the Texas Education Code, as amended. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the succeeding paragraphs. The maximum voted M&O tax rate for the District is $1.50 per $100 of assessed valuation as approved by the voters at an election held on March 9, 1974 under Chapter 20, Texas Education Code (now codified at Section 45.003, Texas Education Code).

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 fiscal biennium. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For a more detailed description of the state compression percentage, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Funding for School Districts". Furthermore, a school district cannot annually increase its tax rate in excess of the district's "rollback tax rate" without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate. See "AD VALOREM TAX PROCEDURES - Public Hearing and Rollback Tax Rate."

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

Section 45.0031, Texas Education Code, as amended ("Section 45.0031"), requires a district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by district voters at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, "exempt bonds"), from a tax levied at a rate of $0.50 per $100 of assessed valuation before bonds may be issued. In demonstrating the ability to pay debt service at a rate of $0.50, a district may take into account EDA and IFA allotments to the district, which effectively reduces the district's local share of debt service, and may also take into account Tier One funds allotted to the district. The District has covenanted in the Order 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, Section 45.0031 provides that, prior to levying an interest and sinking fund tax rate that exceeds $0.50 per $100 of assessed valuation, it will 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 as "new money" bonds and are subject to the $0.50 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" effectively impose a limit on the incurrence of debt. Such tax rate limits require school districts to demonstrate the ability to pay new debt secured by the district's debt service tax from a tax rate of $0.50, and to pay all debt and operating expenses which must be paid from receipts of the district's maintenance tax from a tax not to exceed the maintenance tax limit described under the caption "TAX RATE LIMITATIONS". The Bonds are issued as "new money" bonds and are subject to the $0.50 threshold tax rate test. See also "TAX RATE LIMITATIONS".

EMPLOYEES' RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS

The District's employees participate in a retirement plan (the "Plan") with the State. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the Plan up to certain statutory limits. The District is obligated for a portion of the Plan costs relating to employee salaries that exceed the statutory limit. Aside from the District's contribution to TRS, the District has no pension fund expenditures or liabilities. For fiscal year ended August 31, 2017, the District made a contribution to TRS on a portion of their employee's salaries that exceeded the statutory minimum. The District does not offer any post-employment retirement benefits and has no liabilities for "Other Post Employment Retirement Benefits" as defined in GASB Statement No. 45. For a discussion of the TRS retirement plan, see "IV. OTHER INFORMATION – C. Defined Benefit Pension Plan" to the audited financial statements of the District that are attached hereto as Appendix D (the "Financial Statements").

During the year ended August 31, 2017, employees of the District were covered by a fully-insured health insurance plan (the "Health Care Plan"). The District contributed $250 per month to the Health Care Plan. Employees, at their option, authorize payroll withholdings to pay premiums for dependents. See "IV. OTHER INFORMATION – A. Risk Management - Health Care Coverage" of the Financial Statements.

The District contributes to the Texas Public School Retired Employees Group Insurance Program ("TRS-Care"), a cost-sharing, multiple-employer defined benefit postemployment health care plan administered by the TRS. Contribution requirements to TRS-Care are legally established each biennium by the State legislature. See "IV. OTHER INFORMATION – D. School District Retiree Health Plan" in the Financial Statements.

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.

In June 2012, Government Accounting Standards Board (GASB) Statement No. 68 (Accounting and Financial Reporting for Pensions) was issued to improve accounting and financial reporting by state and local governments regarding pensions. GASB Statement No. 68 requires reporting entities, such as the District, to recognize their proportionate share of the net pension liability and operating statement activity related to changes in collective pension liability. This means that reporting entities, such as the District, that contribute to the TRS pension plan will report a liability on the face of their government-wide financial statements. Such reporting began with the District's fiscal year ending August 31, 2015. See "APPENDIX A – Change in Net Assets". GASB Statement No. 68 applies only to pension benefits and does not apply to Other Post-Employment Benefits (OPEB) or TRS-Care related liabilities.

RATINGS

The Bonds are rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by Fitch Ratings, Inc. ("Fitch") based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program of the TEA. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"). The District's unenhanced, underlying ratings, including the Bonds, are "Aa3" by Moody's and "AA-" by Fitch.

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

The above ratings are not a recommendation to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

LEGAL MATTERS

The delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the District, and the approving legal opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel to the District ("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 Internal Revenue Code, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations. The form of Bond Counsel's opinion is attached hereto as Appendix C. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, Hunton Andrews Kurth LLP, Houston, Texas. The legal fee to be paid to counsel to the Underwriters for services rendered in connection with the issuance of the Bonds is contingent upon the sale of the delivery of the Bonds.

Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in connection with the issuance of the Bonds. Except as noted below, Bond Counsel was not requested to participate, and did not take part in the preparation of this Offering Memorandum, 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 appearing under the captions or subcaptions "THE BONDS" (except for the information included under the subcaption "Redemption – DTC Redemption Provision" and under the subcaptions "Permanent School Fund Guarantee" and "Payment Record," as to which no opinion is expressed), "CONTINUING DISCLOSURE OF INFORMATION" (except for the information under the sub-caption "Compliance with Prior Undertakings," as to which no opinion is expressed), and Bond Counsel is of the opinion that the statements and information contained therein fairly and accurately reflect the provisions of the Order; further, Bond Counsel has reviewed the statements and information contained in this Offering Memorandum under the captions and sub-captions "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", "TAX RATE

LIMITATIONS" (first paragraph only), "LEGAL MATTERS" (except the last two sentences of the first paragraph thereof), "TAX MATTERS," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS" and "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," and Bond Counsel is of the opinion that the statements and information contained therein are correct as to matters of law.

The various 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 explicitly 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 out of the transaction.

TAX MATTERS

Tax Exemption

The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereafter described, corporations. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Bond Counsel's legal opinion appears in Appendix C hereto. Additionally, see "THE BONDS – Determination of Interest Rate; Rate Mode Changes" identifying circumstances when an opinion of nationally recognized bond counsel is required as a condition for an interest mode conversion. Bond Counsel expresses no opinion as to the effect on the excludability from gross income for federal income tax purposes of any action requiring such an opinion.

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

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

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

Tax Changes

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

Ancillary Tax Consequences

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

Tax Accounting Treatment of Discount Bonds

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

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

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

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

Tax Accounting Treatment of Premium Bonds

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

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

INVESTMENT POLICIES

Investments

The District invests its investable funds in investments authorized by Texas law, including Chapter 2256, as amended, Texas Government Code (the "Texas Public Funds Investment Act"), and in accordance with investment policies approved by the Board. Both State law and the District's investment policies are subject to change.

Legal Investments

Under State law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, or otherwise meeting the requirements of the Texas Public Funds Investment Act; (8) certificates of deposit and share certificates that (i) are issued by or through an institution that has its main office or a branch in Texas and (a) are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, (b) are secured as to principal by obligations described in clauses (1) through (7) above, or (c) secured in any other manner and amount provided by law for District deposits, or (ii) certificates of deposit where (a) the funds are invested by the District through a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law, or a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the United States Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 as custodian for the District with respect to the certificates of deposit issued for the account of the District; (9) fully collateralized repurchase agreements that (i) have a defined termination date, (ii) are fully secured by a combination of cash and obligations described in clause (1), (iii) require the securities being purchased by the District or cash held 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 (iv) are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time, and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (7) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (7) above and clauses (12) through (15) below, (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District, (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas, and (iv) the agreement to lend securities has a term of one year or less; (11) certain bankers' acceptances if the bankers' acceptance (i) has a stated maturity of 270 days or fewer from the date of issuance, (ii) will be, in accordance with its terms, liquidated in full at maturity, (iii) is eligible for collateral for borrowing from a Federal Reserve Bank, and (iv) is accepted by a State or Federal bank, if the short-term obligations of the accepting bank or its holding company (if the accepting bank is the largest subsidiary) are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with (i) a stated maturity of 270 days or less from the date of issuance, and (ii) a rating of at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market mutual funds that are (i) registered with and regulated by the United States Securities and Exchange Commission, (ii) provide the District with a prospectus and other information required by the Securities and Exchange Act of 1934; and (iii) comply with Federal Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are (i) registered with the United States Securities and Exchange Commission, (ii) have an average weighted maturity of less than two years, and (iii) either (a) have a duration of one year or more and are invested exclusively in obligations described in this paragraph, or (b) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset- backed securities; (15) investment pools if the District has authorized investment in the particular pool and the pool invests solely in investments permitted by the Texas Public Funds Investment Act, and is continuously rated no lower than "AAA" or "AAA-m" or at an equivalent rating by at least one nationally recognized rating service; and (16) guaranteed investment contracts that (i) have a defined termination date, (ii) are secured by obligations which meet the requirements of the Texas Public Funds Investment Act in an amount at least equal to the amount of bond proceeds invested under such contract, and (iii) are pledged to the District and deposited with the District or with a third party selected and approved by the District.

The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution. 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 final stated maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

As a school district that qualifies as an "issuer" under Chapter 1371, the District is also authorized to purchase, sell, and invest its funds in corporate bonds. State law defines "corporate bonds" as senior secured debt obligations issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm. The term does not include a bond that is convertible into stocks or shares in the entity issuing the bond (or an affiliate or subsidy thereof) or any unsecured debt. Corporate bonds must finally mature not later than 3 years from their date of purchase by the school district. A school district may not (i) invest more than 15% of its monthly average fund balance (excluding bond proceeds, reserves, and other funds held for the payment of debt service) in corporate bonds, or (ii) invest more than 25% of the funds invested in corporate bonds in any one domestic business entity (including subsidiaries and affiliates thereof). Corporate bonds held by a school district must be sold if they are at any time downgraded below "AA-" (or the equivalent thereof) or, with respect to a corporate bond rated "AA-" (or the equivalent thereof), such corporate bond is placed on negative credit watch. Corporate bonds are not an eligible investment for a public funds investment pool. To invest in corporate bonds, an eligible school district must first (i) amend its investment policy to authorize corporate bonds as an eligible investment, (ii) adopt procedures for monitoring rating changes in corporate bonds and liquidating an investment in corporate bonds, and (iii) identify funds eligible to be invested in corporate bonds. As of the date of this Offering Memorandum, the District has taken no such steps with respect to investment in corporate bonds, nor does it currently intend to do so.

Investment Policies

Under State 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 include a list of authorized investments for District funds, the 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 State law, the District's 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 must submit an investment report to the Board of Trustees detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and 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) the investment strategy expressed in the District's investment policy, and (b) the Public Funds Investment Act. No person may invest District funds without express written authority from the Board of Trustees.

Additional Provisions

Under State 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 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 District; (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, or other 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 repurchase agreement; (8) restrict the investment in mutual funds in the aggregate to no 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 District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in no-load money market mutual funds of any portion of bond proceeds reserves and funds held for debt service 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 confirm 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 February 28, 2018, the District had $69,268,069 (unaudited) invested in TexPool and $48,270,316 (unaudited) invested in Lone Star Investment Pool which are government investment pools that generally have the characteristics of a money-market mutual fund) and $7,425,649 invested in a local bank. The market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) is approximately 100% of the 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.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency. See "RATINGS" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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.

FINANCIAL ADVISOR

SAMCO Capital Markets, Inc. is employed as Financial Advisor to the District to assist in the issuance of the Bonds. In this capacity, the Financial Advisor has compiled certain data relating to the Bonds that is contained in this Offering Memorandum. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the District to determine the accuracy or completeness of this Offering Memorandum. Because of its limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fee of the Financial Advisor for services with respect to the Bonds is contingent upon the issuance and sale of the Bonds. In the normal course of business, the Financial Advisor may from time to time sell investment securities to the District for the investment of bond proceeds or other funds of the District upon the request of the District.

The Financial Advisor has provided the following sentence for inclusion in this Offering Memorandum. The Financial Advisor has reviewed the information in this Offering Memorandum in accordance with, and as part of, 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.

CONTINUING DISCLOSURE OF INFORMATION

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 specified events, to the Municipal Securities Rulemaking Board ("MSRB"). For a description of the continuing disclosure Bonds of the TEA, see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM." The information provided to the MSRB will be available to the public free of charge via the MSRB's Electronic Municipal Market Access System at www.emma.msrb.org.

Annual Reports

The District will provide certain updated financial information and operating data annually to the MSRB. The information to be updated includes financial information and operating data with respect to the District of the general type included in this Offering Memorandum in Appendix A (such information being the "Annual Operating Report"). The District will additionally provide financial statements of the District (the "Financial Statements"), that will be (i) prepared in accordance with the accounting principles described in Appendix D or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation and shall be in substantially the form included in Appendix D and (ii) audited, if the District commissions an audit of such Financial Statements and the audit is completed within the period during which they must be provided. The District will update and provide the Annual Operating Report within six months after the end of each fiscal year and the Financial Statements within 6 months of the end of each fiscal year, in each case beginning with the fiscal year ending in and after 2018. The District may provide the Financial Statements earlier, including at the time it provides its Annual Operating Report, but if the audit of such Financial Statements is not complete within 6 months after any such fiscal year end, then the District shall file unaudited Financial Statements within such 6-month period and audited Financial Statements for the applicable fiscal year, when and if the audit report on such Financial Statements becomes available.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule").

The District's current fiscal year end is August 31. Accordingly, the Annual Operating Report must be provided by the last day of February in each year, and the Financial Statements must be provided by August 31 of each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Notice of Certain Events

The District will also provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten 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, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into 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) appointment of a successor or additional trustee or the change of name of a trustee, if material. In addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under "Annual Reports". 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. The District will provide each notice described in this paragraph to the MSRB.

For these purposes, any event described in clause (12) of 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 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 has been 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 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, but only if, (1) the agreement, as so amended, would have permitted Underwriter to purchase or sell Bonds in the initial primary offering 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 to the amendment or (b) any qualified person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. If the District amends its agreement, it has agreed to include with the financial information and operating data next 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 operating data so provided.

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.

LITIGATION

In the opinion of District officials, the District is not a party to any litigation or other proceeding pending or to their knowledge threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to the District, would have a material adverse effect on the financial condition of the District.

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

FORWARD LOOKING STATEMENTS

The statements contained in this Offering Memorandum, and in any other information provided by the District, that are not purely historical, are forward-looking statements, including statements regarding the District's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward looking statements included in this Offering Memorandum are based on information available to the District on the date hereof, and the

District assumes no obligation to update any such forward-looking statements. It is important to note that the District's actual results could differ materially from those in such forward-looking statements.

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

UNDERWRITING

The Underwriters have agreed, subject to certain customary conditions, to purchase the Bonds at a price equal to the initial offering prices to the public, as shown on the inside cover page hereof, less an Underwriters' discount of $201,300.17, and no accrued interest. The Underwriters' obligations are subject to certain conditions precedent, and the Underwriters will be obligated to purchase all of the Bonds, if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

The Underwriters have provided the following sentence for inclusion in this Offering Memorandum. The Underwriters have reviewed the information in this Offering Memorandum pursuant to their responsibilities to investors under the federal securities laws but the Underwriters do not guarantee the accuracy or completeness of such information.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

Wells Fargo Bank, National Association, acting through its Municipal Products Group ("WFBNA"), one of the underwriters of the Bonds, has entered into an agreement (the "WFA Distribution Agreement") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "Wells Fargo Advisors") ("WFA"), for the distribution of certain municipal securities offerings, including the Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Bonds with WFA. WFBNA has also entered into an agreement (the "WFSLLC Distribution Agreement") with its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

CONCLUDING STATEMENT

No person has been authorized to give any information or to make any representations other than those contained in this Offering Memorandum, and if given or made, such other information or representations must not be relied upon as having been authorized by the District. This Offering Memorandum does not constitute an offer to sell or solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer of solicitation.

The information set forth herein has been obtained from the District's records, audited financial statements and other sources which the District considers to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and the Order contained in this Offering Memorandum are made subject to all of the provisions of such statutes, documents, and the Order. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

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

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

/s/ Alan Moreau, Jr.
President, Board of Trustees

ATTEST:
/s/ Elizabeth Rhoden Harrell
Secretary, Board of Trustees

APPENDIX A

FINANCIAL INFORMATION OF THE DISTRICT

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NEW CANEY INDEPENDENT SCHOOL DISTRICT

Financial Information

ASSESSED VALUATION [1]

2017/18 Total Valuation……		$ 4,516,516,955
Less Exemptions & Deductions [2]:		
State Homestead Exemption	$ 293,340,123	
State Over-65 Exemption	34,446,010	
Disabled Veterans Exemption	24,276,299	
Veterans Exemption	3,349,724	
Productivity Loss	70,351,534	
Prorations & Other Partial Exemptions	222,836	
Homestead Cap Loss	114,370,669	
	$ 540,357,195	
2017/18 Net Taxable Valuation ……		$ 3,976,159,760
2018/19 Preliminary Net Taxable Valuation [3]……		$ 4,693,066,751

(1) Source: Comptroller of Public Accounts - Property Tax Division. The passage of a Texas Constitutional Amendment on November 3, 2015 increased the homestead exemption from $15,000 to $25,000. See "AD VALOREM TAX PROCEDURES -- Residential homestead Exemptions" in the Official Statement.
(2) Excludes the values on which property taxes are frozen for persons 65 years of age or older and disabled taxpayers, which totaled $127,380,060 in 2017/18.
(3) Preliminary Certified Values from the Montgomery Central & Harris County Appraisal Districts as of April 2018.

VOTED GENERAL OBLIGATION DEBT

Unlimited Tax Bonds Outstanding [1]		$ 402,025,353
Plus: The Bonds		59,015,000
Total Unlimited Tax Bonds [1]		461,040,353
Less: Interest & Sinking Fund Balance (As of August 31, 2017) [2]		(5,035,292)
Net General Obligation Debt		$ 456,005,061
Ratio of Net G.O. Debt to Net Taxable Valuation [3]	9.72%	
2018 Population Estimate [4]	83,209	
Per Capita Net Taxable Valuation	$56,401	
Per Capita Net G.O. Debt	$5,480	

(1) Excludes interest accreted on outstanding capital appreciation bonds.
(2) Source: New Caney ISD Audited Financial Statement.
(3) The ratio of Net G.O. Debt to Net Taxable Valuation above does not include the portion of the District's outstanding debt service that is payable from any debt subsidies that may be provided by the State of Texas. The District expects to receive state funding assistance for voted bond debt service equal to approximately 25% of its debt service requirements, subject to tax effort rules and state funding program limits, for its unlimited tax debt service for the 2017/18 fiscal year. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement and "DEBT SERVICE REQUIREMENTS" in this appendix and see the "Audited Financial Report Fiscal Year Ended August 31, 2017" in Appendix D for more information relative to the District's outstanding obligations.
(4) Source: Municipal Advisory Council of Texas.

PROPERTY TAX RATES AND COLLECTIONS

Fiscal Year	Net Taxable Valuation	Tax Rate	% Collections [4] Current [5]	Total [5]
2006/07	$ 1,403,755,006 [1]	$ 1.6400 [6]	96.83%	101.44%
2007/08	1,628,307,021 [1]	1.4150 [6]	97.20%	100.64%
2008/09	1,902,216,996 [1]	1.4400	97.12%	100.02%
2009/10	2,032,733,864 [1]	1.4800	96.75%	99.11%
2010/11	2,076,233,536 [1]	1.5400	96.99%	99.53%
2011/12	2,220,942,251 [1]	1.5400	97.14%	99.82%
2012/13	2,363,898,110 [1]	1.5400	97.79%	100.67%
2013/14	2,556,225,775 [1]	1.6700	98.24%	100.48%
2014/15	2,803,969,485 [1]	1.6700	98.39%	100.22%
2015/16	3,215,791,497 [1][2]	1.6700	98.23%	99.62%
2016/17	3,645,605,882 [1][2]	1.6700	98.23%	99.75%
2017/18	3,976,159,760 [1][2]	1.6700	98.00% [7]	100.00% [7]
2018/19	4,693,066,751 [2][3]			

(1) Source: Comptroller of Public Accounts - Property Tax Division.
(2) The passage of a Texas constitutional amendment on November 3, 2015 increased the homestead exemption from $15,000 to $25,000.
(3) Preliminary Values from the Montgomery Central & Harris County Appraisal Districts as of April 2018.
(4) Source: New Caney ISD Audited Financial Statements.
(5) Excludes penalties and interest.
(6) The declines in the District's Maintenance & Operation Tax for the 2006/07 and 2007/08 fiscal years are a function of House Bill 1 adopted by the Texas Legislature in May 2006. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement.
(7) Estimate as of May 2018.

TAX RATE DISTRIBUTION

	2013/14 (1)	2014/15	2015/16	2016/17	2017/18
Maintenance & Operations	$1.1700	$1.1700	$1.1700	$1.1700	$1.1700
Debt Service	$0.5000	$0.5000	$0.5000	$0.5000	$0.5000
Total Tax Rate	$1.6700	$1.6700	$1.6700	$1.6700	$1.6700

(1) On August 30, 2013, the District successfully held a tax ratification election. The voters of the District approved a maintenance and operations tax not to exceed $1.17.

VALUATION AND FUNDED DEBT HISTORY

Fiscal Year	Net Taxable Valuation	Bond Debt Outstanding (1)	Ratio Debt to A.V. (2)
2006/07	$ 1,403,755,006	$ 153,984,458	10.97%
2007/08	1,628,307,021	172,730,458	10.61%
2008/09	1,902,216,996	196,665,453	10.34%
2009/10	2,032,733,864	205,705,492	10.12%
2010/11	2,076,233,536	202,104,257	9.73%
2011/12	2,220,942,251	250,515,776	11.28%
2012/13	2,363,898,110	276,909,358	11.71%
2013/14	2,556,225,775	279,004,409	10.91%
2014/15	2,803,969,485	353,859,957	12.62%
2015/16	3,215,791,497	345,046,645	10.73%
2016/17	3,645,605,882	411,228,762	11.28%
2017/18	3,976,159,760	461,040,353 (4)	11.60%
2018/19	4,693,066,751 (3)	453,655,359 (4)	9.67%

(1) At Fiscal Year End. Excludes interest accreted on outstanding capital appreciation bonds.
(2) See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement, "DEBT SERVICE REQUIREMENTS" in this Appendix and see the "Audited Financial Report Fiscal Year Ended August 31, 2017" in Appendix D for more information.
(3) Preliminary Values from the Montgomery Central & Harris County Appraisal Districts as of April 2018.
(4) Includes the Bonds.

ESTIMATED OVERLAPPING DEBT STATEMENT

Taxing Body	Amount	Percent Overlapping	Amount Overlapping
E. Montgomery Co MUD #3	$ 12,860,000	100.00%	$ 12,860,000
Harris County	1,737,929,361	0.01%	173,793
Harris County Department of Education	6,555,000	0.01%	656
Harris County Flood Control	83,075,000	0.01%	8,308
Harris County Hospital District	59,490,000	0.01%	5,949
Harris County Toll Road	-	0.01%	-
Houston, City of	3,568,351,043	0.22%	7,850,372
Kings Manor MUD	12,985,000	100.00%	12,985,000
Lone Star College System	638,425,000	1.88%	12,002,390
Montgomery County	457,975,000	6.99%	32,012,453
Montgomery County MUD #56	2,802,892	100.00%	2,802,892
Montgomery County MUD #83	14,975,000	100.00%	14,975,000
Montgomery County MUD #84	29,955,000	100.00%	29,955,000
Montgomery County MUD #98	16,750,000	100.00%	16,750,000
New Caney MUD	24,298,524	100.00%	24,298,524
Port of Houston Authority	638,829,397	0.01%	63,883
Porter MUD	25,880,000	100.00%	25,880,000
Porter MUD - Auburn Trails #1	5,680,000	100.00%	5,680,000
Porter MUD - Auburn Trails #2	4,090,000	100.00%	4,090,000
Porter MUD - Hendricks Defined Area	5,080,000	100.00%	5,080,000
Roman Forest Consolidated MUD	395,000	100.00%	395,000
Roman Forest PUD #4	-	100.00%	-
Roman Forest, City of	3,510,000	100.00%	3,510,000
Valley Ranch MUD #1	17,905,000	100.00%	17,905,000
Woodbranch Village, City of	1,500,000	100.00%	1,500,000
Woodridge MUD	8,195,000	100.00%	8,195,000
Total Overlapping Debt (1)			$ 238,979,219
New Caney Independent School District (2) (3)			456,005,061
Total Direct & Overlapping Debt (2) (3)			$ 694,984,279

Ratio of Net Direct & Overlapping Debt to Net Taxable Valuation	19.06%
Per Capita Direct & Overlapping Debt	$8,352

(1) Equals gross-debt less self-supporting debt.
(2) Includes the Bonds.
(3) Excludes interest accreted on outstanding capital appreciation bonds.

Source: Municipal Advisory Council of Texas. The District has not independently verified the accuracy or completeness of such information (except for the amounts relating to the District), and no person should rely upon such information as being accurate or complete.

PRINCIPAL TAXPAYERS [1]

2017/18 Top Ten Taxpayers

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Kingwood Medical Plaza Ltd	Medical Complex	$ 128,851,670	3.24%
Wal-Mart Stores Inc.	Retail Store & Distribution Center	126,813,939	3.19%
Entergy Texas Inc.	Electric Utility	41,951,810	1.06%
Administaff Services, Inc.	Employment Leasing Company	41,890,362	1.05%
KPG Kingwood LLC	Land / Improvements	27,549,710	0.69%
Sir Kingwood Villas LLC	Real Estate Development	26,200,000	0.66%
Valley Ranch Town Center One Ltd	Shopping Center	24,119,630	0.61%
Kingwood Apartments LLC	Apartment Complex	22,871,480	0.58%
200 Kellington No 3A Partnership	Real Estate Development	22,000,000	0.55%
Lawford No 21 LLC	Real Estate Development	21,726,320	0.55%
		$ 483,974,921	12.17% [2]

2016/17 Top Ten Taxpayers

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Kingwood Medical Plaza Ltd	Medical Complex	$ 137,298,086	3.77%
Wal-Mart Stores Inc.	Retail Store & Distribution Center	121,250,713	3.33%
Administaff Services, Inc.	Employment Leasing Company	41,400,636	1.14%
Entergy Texas Inc.	Electric Utility	39,469,890	1.08%
Sir Kingwood Villas LLC	Real Estate Development	26,604,340	0.73%
Kingwood Apartments LLC	Apartment Complex	26,109,530	0.72%
200 Kellington No 3A Partnership	Real Estate Development	24,000,000	0.66%
KPG Kingwood LLC	Land / Improvements	23,325,190	0.64%
Lawford No 21 LLC	Real Estate Development	21,934,570	0.60%
Stanmore/ADEF Kingwood LP	Real Estate Development	21,919,340	0.60%
		$ 483,312,295	13.26%

2015/16 Top Ten Taxpayers

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Kingwood Medical Plaza Ltd	Medical Complex	$ 124,029,593	3.86%
Wal-Mart Stores Inc.	Retail Store & Distribution Center	119,477,808	3.72%
Administaff Services, Inc.	Employment Leasing Company	38,598,163	1.20%
Entergy Texas Inc.	Electric Utility	38,330,960	1.19%
Sir Kingwood Villas LLC	Real Estate Development	28,268,740	0.88%
Kingwood Apartments LLC	Apartment Complex	26,109,530	0.81%
200 Kellington No 3A Partnership	Real Estate Development	25,001,780	0.78%
E Productions Solutions	Land / Improvements	23,429,480	0.73%
KPG Kingwood LLC	Real Estate Development	23,250,670	0.72%
Lawford No 21 LLC	Real Estate Development	21,934,570	0.68%
		$ 468,431,294	14.57%

(1) Source: Comptroller of Public Accounts - Property Tax Division.
(2) As shown in the table above, the top ten taxpayers in the District account for in excess of 12% of the District's tax base. Adverse developments in economic conditions, especially in a particular industry in which any one of these large taxpayers participates, could adversely impact these businesses and, consequently, the tax values in the District, resulting in less local tax revenue. If any major taxpayer, or a combination of top taxpayers, were to default in the payment of taxes, the ability of the District to make timely payment of debt service on the Bonds may be dependent on its ability to enforce and liquidate its tax lien, which is a time consuming process that may only occur annually. See "REGISTERED OWNERS' REMEDIES" and "AD VALOREM TAX PROCEDURES – District's Rights in the Event of Tax Delinquencies" in this Official Statement

CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY [(1)]

Category	2017/18	% of Total	2016/17	% of Total	2015/16	% of Total
Real, Residential, Single-Family	$ 2,672,667,474	59.18%	$ 2,403,638,448	58.01%	$ 2,086,679,758	57.04%
Real, Residential, Multi-Family	252,030,736	5.58%	258,888,223	6.25%	246,609,482	6.74%
Real, Vacant Lots/Tracts	140,516,041	3.11%	111,311,012	2.69%	99,591,960	2.72%
Real, Acreage	82,792,380	1.83%	80,011,190	1.93%	68,089,170	1.86%
Real, Farm & Ranch Improvements	71,771,001	1.59%	68,505,841	1.65%	59,995,243	1.64%
Real, Commercial & Industrial	798,501,784	17.68%	712,965,025	17.21%	643,668,323	17.60%
Oil & Gas	15,570	0.00%	19,160	0.00%	30,880	0.00%
Utilities	73,986,016	1.64%	72,290,190	1.74%	67,523,860	1.85%
Tangible Personal, Commercial	296,148,024	6.56%	305,824,742	7.38%	293,268,219	8.02%
Tangible Personal, Industrial	30,489,939	0.68%	35,130,277	0.85%	43,529,430	1.19%
Tangible Personal, Mobile Homes & Other	58,018,007	1.28%	49,477,400	1.19%	35,773,952	0.98%
Tangible Personal, Residential Inventory	29,132,240	0.65%	36,695,869	0.89%	4,998,979	0.14%
Tangible Personal, Special Inventory	10,447,743	0.23%	8,827,904	0.21%	8,250,070	0.23%
Total Appraised Value	$ 4,516,516,955	100.00%	$ 4,143,585,281	100.00%	$ 3,658,009,326	100.00%
Less:						
Homestead Cap Adjustment	$ 114,370,669		$ 96,503,222		$ 79,143,901	
Productivity Loss	70,351,534		67,131,967		53,443,860	
Exemptions	355,634,992 [(2)]		334,344,210 [(2)]		309,630,068 [(2)]	
Total Exemptions/Deductions [(3)]	$ 540,357,195		$ 497,979,399		$ 442,217,829	
Net Taxable Assessed Valuation	$ 3,976,159,760		$ 3,645,605,882		$ 3,215,791,497	

Category	2014/15	% of Total	2013/14	% of Total	2012/13	% of Total
Real, Residential, Single-Family	$ 1,756,845,511	56.22%	$ 1,527,266,070	53.82%	$ 1,409,467,870	53.46%
Real, Residential, Multi-Family	212,291,484	6.79%	208,936,348	7.36%	178,821,028	6.78%
Real, Vacant Lots/Tracts	100,288,570	3.21%	103,719,900	3.65%	109,760,002	4.16%
Real, Acreage	71,426,640	2.29%	74,431,360	2.62%	114,576,670	4.35%
Real, Farm & Ranch Improvements	53,164,190	1.70%	52,599,324	1.85%	12,935,540	0.49%
Real, Commercial & Industrial	510,378,523	16.33%	476,758,867	16.80%	447,644,030	16.98%
Oil & Gas	86,962	0.00%	394,790	0.01%	239,760	0.01%
Utilities	64,374,060	2.06%	57,163,410	2.01%	57,791,340	2.19%
Tangible Personal, Commercial	270,328,241	8.65%	248,863,047	8.77%	225,985,533	8.57%
Tangible Personal, Industrial	43,238,753	1.38%	40,185,219	1.42%	35,473,156	1.35%
Tangible Personal, Mobile Homes & Other	26,359,368	0.84%	33,033,048	1.16%	32,507,416	1.23%
Tangible Personal, Residential Inventory	8,134,029	0.26%	7,314,292	0.26%	4,994,522	0.19%
Tangible Personal, Special Inventory	7,991,932	0.26%	7,309,317	0.26%	6,304,551	0.24%
Total Appraised Value	$ 3,124,908,263	100.00%	$ 2,837,974,992	100.00%	$ 2,636,501,418	100.00%
Less:						
Homestead Cap Adjustment	$ 63,572,432		$ 28,735,102		$ 23,872,668	
Productivity Loss	56,028,648		58,037,565		60,885,627	
Exemptions	201,337,698		194,976,550		187,845,013	
Total Exemptions/Deductions [(3)]	$ 320,938,778		$ 281,749,217		$ 272,603,308	
Net Taxable Assessed Valuation	$ 2,803,969,485		$ 2,556,225,775		$ 2,363,898,110	

(1) Source: Comptroller of Public Accounts - Property Tax Division.
(2) The passage of a Texas constitutional amendment on November 3, 2015 increased the homestead exemption from $15,000 to $25,000.
(3) Excludes values on which property taxes are frozen for persons 65 years of age or older and disabled taxpayers.

PRINCIPAL REPAYMENT SCHEDULE

Fiscal Year Ending 8/31	Outstanding Bonds [1]	Plus: The Bonds [2]	Total [1]	Bonds Unpaid At Year End	Percent of Principal Retired
2018	$ 7,678,409.60	$ -	$ 7,678,409.60	$ 461,040,352.50	1.64%
2019	7,384,993.75	-	7,384,993.75	453,655,358.75	3.21%
2020	7,410,358.75	-	7,410,358.75	446,245,000.00	4.79%
2021	8,685,000.00	-	8,685,000.00	437,560,000.00	6.65%
2022	9,080,000.00	-	9,080,000.00	428,480,000.00	8.58%
2023	9,500,000.00	-	9,500,000.00	418,980,000.00	10.61%
2024	9,935,000.00	-	9,935,000.00	409,045,000.00	12.73%
2025	10,380,000.00	-	10,380,000.00	398,665,000.00	14.95%
2026	10,845,000.00	-	10,845,000.00	387,820,000.00	17.26%
2027	11,325,000.00	-	11,325,000.00	376,495,000.00	19.68%
2028	11,805,000.00	-	11,805,000.00	364,690,000.00	22.19%
2029	12,270,000.00	-	12,270,000.00	352,420,000.00	24.81%
2030	12,760,000.00	-	12,760,000.00	339,660,000.00	27.53%
2031	13,330,000.00	-	13,330,000.00	326,330,000.00	30.38%
2032	13,875,000.00	-	13,875,000.00	312,455,000.00	33.34%
2033	14,490,000.00	-	14,490,000.00	297,965,000.00	36.43%
2034	15,030,000.00	-	15,030,000.00	282,935,000.00	39.64%
2035	15,705,000.00	-	15,705,000.00	267,230,000.00	42.99%
2036	16,230,000.00	-	16,230,000.00	251,000,000.00	46.45%
2037	16,965,000.00	-	16,965,000.00	234,035,000.00	50.07%
2038	17,590,000.00	-	17,590,000.00	216,445,000.00	53.82%
2039	18,115,000.00	-	18,115,000.00	198,330,000.00	57.69%
2040	17,330,000.00	-	17,330,000.00	181,000,000.00	61.38%
2041	18,135,000.00	-	18,135,000.00	162,865,000.00	65.25%
2042	18,975,000.00	-	18,975,000.00	143,890,000.00	69.30%
2043	19,840,000.00	-	19,840,000.00	124,050,000.00	73.53%
2044	20,725,000.00	-	20,725,000.00	103,325,000.00	77.96%
2045	21,655,000.00	-	21,655,000.00	81,670,000.00	82.58%
2046	11,045,000.00	9,045,000.00	20,090,000.00	61,580,000.00	86.86%
2047	11,610,000.00	9,410,000.00	21,020,000.00	40,560,000.00	91.35%
2048		13,065,000.00	13,065,000.00	27,495,000.00	94.13%
2049		13,505,000.00	13,505,000.00	13,990,000.00	97.02%
2050		13,990,000.00	13,990,000.00	-	100.00%
Total	$ 409,703,762.10	$ 59,015,000.00	$ 468,718,762.10		

(1) Excludes the accreted value of outstanding capital appreciation bonds.

(2) Principal payments in years 2046 through 2050 represents mandatory sinking fund payments for a term bond maturing on February 15, 2050.

DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 8/31	Outstanding Debt Service (1)	Plus: The Bonds Principal (2)	Interest (3)	Total	Combined Total (4)
2018	$ 26,378,568.76	$ -	$ -	$ -	$ 26,378,568.76
2019	25,722,667.51	-	1,873,726.65	1,873,726.65	27,596,394.16
2020	25,477,717.51	-	1,770,450.00	1,770,450.00	27,248,167.51
2021	25,476,167.51	-	1,770,450.00	1,770,450.00	27,246,617.51
2022	25,477,986.26	-	4,721,200.00	4,721,200.00	30,199,186.26
2023	25,478,692.50	-	4,721,200.00	4,721,200.00	30,199,892.50
2024	25,475,221.24	-	4,721,200.00	4,721,200.00	30,196,421.24
2025	25,474,281.24	-	4,721,200.00	4,721,200.00	30,195,481.24
2026	25,472,493.74	-	4,721,200.00	4,721,200.00	30,193,693.74
2027	25,470,931.25	-	4,721,200.00	4,721,200.00	30,192,131.25
2028	25,475,862.51	-	4,721,200.00	4,721,200.00	30,197,062.51
2029	25,469,321.88	-	4,721,200.00	4,721,200.00	30,190,521.88
2030	25,470,609.38	-	4,721,200.00	4,721,200.00	30,191,809.38
2031	25,534,609.38	-	4,721,200.00	4,721,200.00	30,255,809.38
2032	25,532,687.50	-	4,721,200.00	4,721,200.00	30,253,887.50
2033	25,539,268.75	-	4,721,200.00	4,721,200.00	30,260,468.75
2034	25,418,340.63	-	4,721,200.00	4,721,200.00	30,139,540.63
2035	25,422,753.13	-	4,721,200.00	4,721,200.00	30,143,953.13
2036	25,263,681.25	-	4,721,200.00	4,721,200.00	29,984,881.25
2037	25,265,118.75	-	4,721,200.00	4,721,200.00	29,986,318.75
2038	25,119,706.25	-	4,721,200.00	4,721,200.00	29,840,906.25
2039	24,844,243.75	-	4,721,200.00	4,721,200.00	29,565,443.75
2040	23,259,050.00	-	4,721,200.00	4,721,200.00	27,980,250.00
2041	23,262,025.00	-	4,721,200.00	4,721,200.00	27,983,225.00
2042	23,262,350.00	-	4,721,200.00	4,721,200.00	27,983,550.00
2043	23,263,650.00	-	4,721,200.00	4,721,200.00	27,984,850.00
2044	23,260,550.00	-	4,721,200.00	4,721,200.00	27,981,750.00
2045	23,262,225.00	-	4,721,200.00	4,721,200.00	27,983,425.00
2046	11,901,625.00	9,045,000.00	4,359,400.00	13,404,400.00	25,306,025.00
2047	11,900,250.00	9,410,000.00	3,621,200.00	13,031,200.00	24,931,450.00
2048		13,065,000.00	2,722,200.00	15,787,200.00	15,787,200.00
2049		13,505,000.00	1,659,400.00	15,164,400.00	15,164,400.00
2050		13,990,000.00	559,600.00	14,549,600.00	14,549,600.00
	$ 723,632,655.68	$ 59,015,000.00	$ 131,645,226.65	$ 190,660,226.65	$ 914,292,882.33

(1) Includes the accreted value of outstanding capital appreciation bonds.
(2) Principal payments in years 2046 throught 2050 represents mandatory sinking fund payments for a term bond maturing on February 15, 2050.
(3) Interest calculated at the Initial Rate through August 14, 2021, and for purposes of illustration, at the Highest Rate thereafter through stated maturity.
(4) Based on its wealth per student, the District expects to receive approximately $5,750,000 of state financial assistance for the payment of debt service for the fiscal year 2017/18. The amount of state financial assistance for debt service, if any, may differ substantially each year depending on a variety of factors, including the amount, if any, appropriated for that purpose by the state legislature and a school district's wealth per student. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement.

TAX ADEQUACY WITH RESPECT TO THE DISTRICT'S BONDS

Projected Maximum Debt Service Requirement (1)	$ 30,260,468.75
Projected State Financial Assistance for Debt Service in 2017/18 (2)	5,750,000.00
Projected Net Debt Service Requirement	$ 24,510,468.75
$0.52227 Tax Rate @ 100% Collections Produces (3)	$ 24,510,470.33
2018/19 Preliminary Certified Net Taxable Assessed Valuation	$ 4,693,066,751

(1) Includes the Bonds. Excludes the accreted value of outstanding capital appreciation bonds.
(2) The amount of state financial assistance for debt service, if any, may differ substantially each year depending on a variety of factors, including the amount, if any, appropriated for that purpose by the state legislature and a school district's wealth per student. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement.
(3) Certain of the District's bonds are "old debt" that are not subject to the 50-cent test. Consequently and despite the fact that the table above indicates a tax rate in excess of $0.50, the District may be required to utilize State tier one funds to pass the Attorney General's 50-cent test. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - State Funding for Local School Districts, "DEBT LIMITATIONS" and "TAX RATE LIMITATIONS."

AUTHORIZED BUT UNISSUED BONDS

Following the issuance of the Bonds, the District will have $140,000,000 of authorized but unissued unlimited ad valorem tax bonds from the May 5, 2018 election. The District may also 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.

COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES [1]

	Fiscal Year Ended August 31				
	2013	2014	2015	2016	2017
Beginning Fund Balance	**$ 17,931,626**	**$ 16,845,452**	**$ 18,118,081**	**$ 21,472,262**	**$ 24,226,599**
Revenues:					
Local and Intermediate Sources	$ 24,691,530	$ 30,077,175	$ 33,234,724	$ 37,484,863	$ 42,977,335
State Sources	56,631,126	70,656,191	79,063,327	83,770,896	82,434,407
Federal Sources & Other	711,597	984,730	1,053,229	1,160,166	1,195,137
Total Revenues	**$ 82,034,253**	**$ 101,718,096**	**$ 113,351,280**	**$ 122,415,925**	**$ 126,606,879**
Expenditures:					
Instruction	$ 46,543,911	$ 56,494,975	$ 62,784,460	$ 67,239,980	$ 72,282,641
Instructional Resources & Media Services	906,754	980,454	1,188,650	1,215,230	1,165,144
Curriculum & Instructional Staff Development	1,981,869	2,467,821	2,472,385	2,459,379	2,799,283
Instructional Leadership	1,003,976	1,128,505	1,250,973	1,212,628	1,318,951
School Leadership	5,397,760	6,243,981	7,239,077	7,749,853	8,382,006
Guidance, Counseling & Evaluation Services	3,118,787	3,657,034	3,924,727	4,081,816	4,327,325
Social Work Services	57,262	60,783	1,437	716	1,588
Health Services	793,107	933,617	1,126,192	1,129,283	1,231,645
Student (Pupil) Transportation	4,916,309	5,862,198	5,295,473	7,190,317	7,115,152
Cocurricular/Extracurricular Activities	2,546,789	3,722,339	4,442,303	5,061,238	5,207,250
General Administration	3,373,848	3,950,757	3,983,004	4,640,254	5,295,034
Plant Maintenance and Operations	9,352,185	11,006,321	11,775,139	12,230,804	13,044,762
Security and Monitoring Services	594,799	967,811	1,016,980	1,102,987	1,380,984
Data Processing Services	1,800,308	2,219,468	3,085,033	3,877,883	3,299,887
Community Services	15,960	9,875	12,173	345	89
Principal on Long-term Debt	422,008	433,234	-	-	-
Interest on Long-term Debt	22,749	11,524	-	-	-
Facilities Acquisition and Construction	-	-	-	21,212	-
Payments to Juvenile Justice Alternative Ed Programs	5,355	425	1,530	1,870	-
Other Intergovernmental Charges	269,002	334,317	397,563	445,793	525,225
Total Expenditures	**$ 83,122,738**	**$ 100,485,439**	**$ 109,997,099**	**$ 119,661,588**	**$ 127,376,966**
Excess (Deficiency) of Revenues					
over Expenditures	$ (1,088,485)	$ 1,232,657	$ 3,354,181	$ 2,754,337	$ (770,087)
Other Resources and (Uses):					
Sale of Real of Personal Property	$ -	$ 8,020	$ -	$ -	$ -
Other Resources	2,311	31,952	-	-	-
Total Other Resources (Uses)	**$ 2,311**	**$ 39,972**	**$ -**	**$ -**	**$ -**
Excess (Deficiency) of					
Revenues and Other Sources					
over Expenditures and Other Uses	$ (1,086,174)	$ 1,272,629	$ 3,354,181	$ 2,754,337	$ (770,087)
Ending Fund Balance	**$ 16,845,452**	**$ 18,118,081**	**$ 21,472,262**	**$ 24,226,599**	**$ 23,456,512**

(1) See "MANAGEMENT'S DISCUSSION AND ANALYSIS - Economic Factors and Next Year's Budgets and Rates" in Appendix D hereto for a discussion of the 2017/18 budget.

CHANGE IN NET ASSETS [1]

	Fiscal Year Ended August 31				
	2013	2014	2015	2016	2017
Revenues:					
Program Revenues:					
Charges for Services	$ 2,734,674	$ 2,915,704	$ 3,758,485	$ 3,747,000	$ 4,009,811
Operating Grants and Contributions	20,148,748	22,990,744	22,194,683	29,082,154	26,732,661
General Revenues:					
Property Taxes Levied for General Purposes	24,124,890	29,454,249	32,104,490	36,594,423	41,507,554
Property Taxes Levied for Debt Service	11,630,904	12,554,736	13,760,961	15,650,583	17,796,195
Grants and Contributions Not Restricted	53,864,011	67,265,720	75,298,589	79,572,709	78,232,506
Investment Earnings	269,039	82,772	543,287	299,123	920,017
Miscellaneous	51,925	72,172	316,449	233,306	338,504
	$ 112,824,191	$ 135,336,097	$ 147,976,944	$ 165,179,298	$ 169,537,248
Expenses:					
Instruction	$ 55,229,242	$ 66,611,077	$ 71,826,346	$ 82,407,840	$ 86,466,944
Instruction Resources & Media Services	1,065,098	1,132,316	1,416,216	1,441,818	1,308,095
Curriculum & Staff Development	3,838,782	4,036,886	4,236,454	4,667,858	4,767,661
Instructional Leadership	1,010,257	1,133,563	1,216,946	1,258,696	1,374,059
School Leadership	5,626,354	6,463,320	7,301,955	8,379,203	8,783,603
Guidance, Counseling & Evaluation Services	3,617,980	4,024,125	4,268,483	4,708,441	4,943,520
Social Work Services	57,878	61,095	3,531	3,700	16,562
Health Services	823,781	961,611	1,127,832	1,201,490	1,252,532
Student Transportation	5,048,652	5,591,431	5,894,015	6,312,794	6,818,771
Food Service	6,244,763	6,894,279	7,594,791	7,927,832	8,419,371
Cocurricular/Extracurricular Activities	3,448,275	4,927,307	6,546,972	6,841,328	6,861,543
General Administration	3,427,049	4,003,970	3,965,008	4,872,492	5,380,347
Plant Maintenance & Operations	9,344,096	11,049,368	11,642,036	12,483,923	13,101,947
Security and Monitoring Services	613,942	812,258	1,055,302	1,182,565	1,382,334
Data Processing Services	1,881,274	2,210,924	3,208,065	3,997,500	3,467,260
Community Services	36,349	23,030	33,916	26,826	128,597
Debt Service - Interest on Long-term Debt	11,254,443	11,795,617	12,062,337	14,307,223	16,020,751
Debt Service - Bond Issuance Cost and Fees	730,965	303,974	1,408,269	1,232,330	738,379
Other Intergovernmental Charges	269,002	334,317	397,563	445,793	525,225
Payments Related to Shared Services Arrangements	-	154,000	176,000	165,000	154,000
Faculties Repair and Maintenance	438,320	1,094,938	1,272,495	2,194,050	833,671
Payments to Juvenile Justice Alternative Ed. Program	5,355	425	1,530	1,870	-
Total Expenditures	$ 114,011,857	$ 133,619,831	$ 146,656,062	$ 166,060,572	$ 172,745,172
Change in Net Assets	$ (1,187,666)	$ 1,716,266	$ 1,320,882	$ (881,274)	$ (3,207,924)
Beginning Net Assets	$ 24,365,867	$ 19,157,361	$ 20,873,627	$ 5,026,347	$ 4,145,073
Prior Period Adjustment	$ (4,020,840) [2]	$ -	$ (17,168,162) [3]	$ -	$ -
Ending Net Assets	$ 19,157,361	$ 20,873,627	$ 5,026,347	$ 4,145,073	$ 937,149

(1) The foregoing information represents government-wide financial information provided in accordance with GASB 34, which the District adopted for the 2002 fiscal year.
(2) The prior period adjustment resulted from the District's implementation of GASB Statement No. 65, pursuant to which the District discontinued its practice of deferring and amortizing bond issuance costs, thereby causing the decrease in the District's Net Assets.
(3) The prior period adjustment resulted from the adoption of GASB Statement Number 68 (see "EMPLOYEES' RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS" herein) and 71 (Accounting and Reporting for Pensions).

APPENDIX B

GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY

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NEW CANEY INDEPENDENT SCHOOL DISTRICT

General and Economic Information

New Caney Independent School District (the "District") is located mostly in the southeastern corner of Montgomery County, Texas and includes some parts of Harris County, Texas, approximately 25 miles northeast of the City of Houston's central business district. The District is a petroleum producing and lumbering area that includes the unincorporated communities of New Caney and Porter, both located on U.S. Highway 59.

Montgomery County, Texas (the "County") was created in 1837 from Washington County, Texas. The County is located on the southern edge of the Big Thicket, a heavily forested wilderness area in southeast Texas. The economy is heavily influenced by timber and oil related businesses. The County seat is the City of Conroe.

Source: Texas Municipal Report for New Caney ISD and Montgomery County.

Enrollment Statistics

Year Ending 8/31	Enrollment
2007	8,260
2008	8,524
2009	9,130
2010	9,646
2011	10,080
2012	10,880
2013	11,551
2014	12,458
2015	13,068
2016	13,906
2017	14,681
2018	15,067

District Staff

Teachers	1,062
Auxiliary Personnel	547
Teachers' Aides & Secretaries	345
Other	155
Administrators	87
	2,196

Facilities[1]

Campus	Grade Alignment	Enrollment	Capacity	Year Built	Year of Addition/ Renovation
The Learning Center	1-12	72	100	1939	1999
NCHS Annex, IECHS & CRC[2]	1-12	312	750	2007	2009
Tavola Elementary	K-5	519	1,000	2015	NA
Crippen Elementary	K-5	846	1,000	1997	2013
Kings Manor Elementary	K-5	731	900	2002	2017
New Caney Elementary	K-5	629	900	1968	2003
Oakley Elementary	K-5	845	1,000	2011	NA
Porter Elementary	K-5	665	800	1965	2003
Bens Branch Elementary	K-5	957	1,000	2004	2013
Valley Ranch Elementary	K-5	758	1,000	2006	2013
Sorters Mill Elementary	K-5	847	1,000	2007	2013
Dogwood Elementary	K-5	701	1,000	2017	NA
New Caney Middle School	6-8	803	1,100	1972	2005, 2017
Keefer Crossing Middle School	6-8	794	1,100	1959	2013
White Oak Middle School	6-8	910	1,100	2004	NA
Woodridge Forrest Middle School	6-8	851	1,100	2014	NA
Porter High School	9-12	1,937	2,500	2010	2017
New Caney High School	9-12	1,890	1,900	1986	2014, 2017

(1) The District is currently constructing an Early College campus, a major addition to Porter High School and two new elementary campuses.
(2) This campus has been used as a ninth grade center in the past. It is currently being used by the New Caney High School for classes and IECHS. The building serves as "flex space" and will be utilized in the near future as part of facilities planning to deal with enrollment growth.

Principal Employers within the District

Name of Company	Type of Business	Number of Employees
New Caney ISD	School District	2,196
Administaff	Leasing Employee Co.	830
Columbia Kingwood Medical Center	Hospital	675
Super Wal-Mart	Retail Merchant	650
Wal-Mart Distribution Center	Distribution Center	600
Kingwood College	Education	250
Randall's	Retail Food Chain	170
Home Depot	Retail Hardware	150
Gerlands Food Fair	Retail Food Chain	110
Kroger Company	Retail Food Chain	105
Brookshire Bros.	Retail Food Chain	80

Unemployment Rates

	April 2016	April 2017	April 2018
Montgomery County	4.6%	4.3%	3.7%
State of Texas	4.2%	4.1%	3.8%

Source: Texas Workforce Commission.

APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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NORTON ROSE FULBRIGHT

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

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nortonrosefulbright.com

FINAL

IN REGARD to the authorization and issuance of the "New Caney Independent School District Variable Rate Unlimited Tax School Building Bonds, Series 2018" (the *Bonds*), dated July 1, 2018, in the aggregate original principal amount of $59,015,000, we have reviewed the legality and validity of the issuance thereof by the New Caney Independent School District (the *Issuer*). The Bonds are issuable in fully registered form only and have a Stated Maturity of February 15, 2050, unless optionally or mandatorily redeemed prior to Stated Maturity in accordance with the applicable redemption provisions. The Bonds bear interest on the unpaid principal amount from the date of their delivery to the initial purchaser through the end of the Initial Rate Period (as defined in the order authorizing the issuance of the Bonds (the *Order*)), at the rate per annum stated in the Order, and such interest is payable on the dates described in the Order to the registered owners shown on the registration books of the Paying Agent/Registrar on the Record Date (stated on the face of the Bonds).

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

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

Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of "NEW CANEY INDEPENDENT SCHOOL DISTRICT VARIABLE RATE UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018"

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

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

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

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

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

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

Norton Rose Fulbright US LLP

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APPENDIX D

AUDITED FINANCIAL REPORT
FISCAL YEAR ENDED AUGUST 31, 2017

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New Caney Independent School District

Annual Financial Report

For the Fiscal Year Ended August 31, 2017

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New Caney Independent School District
Annual Financial Report
For the Fiscal Year Ended August 31, 2017
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New Caney Independent School District
Annual Financial Report
For the Fiscal Year Ended August 31, 2017
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Certificate of the Board

New Caney Independent School District	**Montgomery**	**170-908**
Name of School District	County	Co.-Dist Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and ✓ approved ______ disapproved for the fiscal year ended August 31, 2017 at a meeting of the Board of Trustees of such school district on the 18 day of December, 2017.

Elizabeth R. Harrell
Signature of Board Secretary

Signature of Board President

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

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Financial Section

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Independent Auditor's Report

The Board of Trustees of
New Caney Independent School District
21580 Loop 494
New Caney, Texas 77357

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 New Caney Independent School District (the 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 risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise New Caney Independent School District's basic financial statements. The Supplementary Information and Schedule of Required Responses to Selected School FIRST Indicators as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The 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 Supplementary 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.

The Schedule of Required Responses to Selected School FIRST Indicators has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

The Board of Trustees of
New Caney Independent School District

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2017 on our consideration of New Caney 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 solely 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 the effectiveness of New Caney Independent School District's 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 New Caney Independent School District's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
December 14, 2017

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Management's Discussion and Analysis

As management of the New Caney Independent School District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2017.

Financial Highlights

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $937,149 *(net position).* Of this amount, $5,330,235 *(unrestricted net position)* may be used to meet the District's ongoing obligations to students and creditors.
- The District's total net position decreased by $3,207,924 from current operations.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of $111,361,625, an increase of $13,760,836 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was $23,042,562, or 18 percent of total general fund expenditures.
- The District's total bonded debt increased by $74,083,692 (20 percent) during the current fiscal year. The key factor in this increase was the issuance of capital-related bonds.

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 comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information and supplementary and other information in addition to the basic financial statements themselves.

***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, liabilities, and deferred inflows/outflows of resources, with the difference 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 most recent fiscal 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 fiscal periods (e.g., uncollected taxes).

The government-wide financial statements of the District are principally supported by taxes and intergovernmental revenues *(governmental activities)*. The governmental activities of the District include *Instruction, Instructional Resources and Media Services, Curriculum and Instructional Staff Development, Instructional Leadership, School Leadership, Guidance, Counseling, and Evaluation Services, Social Work Services, Health Services, Student Transportation, Food Services, Extracurricular Activities, General Administration, Plant Maintenance and Operations, Security and Monitoring Services, Data Processing Services, Community Services, Interest on Long-term Debt, Issuance Costs and Fees, Facilities Repair and Maintenance, Payments Related to Shared Services Arrangements, Payments to Juvenile Justice Alternative Education Programs,* and *Other Intergovernmental Charges, as applicable*.

The government-wide financial statements can be found as noted in the table of contents of this report.

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 fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

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*.

The District maintains 38 individual governmental funds. 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, debt service fund, and the capital projects fund, all of which are considered to be major funds. Data from the other 35 governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found as noted in the table of contents of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of students. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the District's own programs. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The basic fiduciary fund financial statements can be found as noted in the table of contents of this report.

Notes to the Basic 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. The notes to the financial statements can be found as noted in the table of contents of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information and supplementary and other information, including schedules required by the Texas Education Agency. Such information can be found as noted in the table of contents of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $937,149 at the close of the most recent fiscal year.

New Caney Independent School District's Net Position

	Governmental Activities					
	2017		2016		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Current and other assets	$ 128,806,017	27	$ 109,107,813	28	$ 19,698,204	18
Capital assets	345,129,124	73	285,423,306	72	59,705,818	21
Total assets	473,935,141	100	394,531,119	100	79,404,022	
Total deferred outflows of resources	19,722,295	100	24,060,372	100	(4,338,077)	(18)
Other liabilities	15,526,299	3	9,609,597	2	5,916,702	62
Long-term liabilities outstanding	475,305,372	97	399,084,789	98	76,220,583	19
Total liabilities	490,831,671	100	408,694,386	100	82,137,285	
Total deferred inflows of resources	1,888,616	100	5,752,032	100	(3,863,416)	(67)
Net position:						
Net investment in capital assets	(8,079,032)	(862)	(106,423)	(3)	(7,972,609)	7,491
Restricted	3,685,946	393	2,600,558	63	1,085,388	42
Unrestricted	5,330,235	569	1,650,938	40	3,679,297	223
Total net position	$ 937,149	100	$ 4,145,073	100	$ (3,207,924)	

Net investment in capital assets includes land and improvements, buildings and improvements, furniture and equipment, and construction in progress, less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; 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. At the end of the current fiscal year, the District reports a negative balance in Net Investment in Capital Assets which is attributed to expenditure of bond proceeds not meeting the criteria for capitalization.

Net position that is restricted for debt service and grants total $3,685,946, or 393 percent of total net position.

Unrestricted net position of $5,330,235 may be used to meet the District's ongoing obligations to students and creditors.

Governmental Activities. Governmental activities decreased the District's net position by $3,207,924 from current operations. The elements giving rise to this change may be determined from the table below.

New Caney Independent School District's Changes in Net Position

	Governmental Activities					
	2017		2016		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Revenue:						
Program revenues:						
Charges for services	$ 4,009,811	2	$ 3,747,000	2	$ 262,811	7
Operating grants and contributions	26,732,661	16	29,082,154	18	(2,349,493)	(8)
General revenues:						
Property taxes, levied for general purpose	41,507,554	24	36,594,423	22	4,913,131	13
Property taxes, levied for debt service	17,796,195	10	15,650,583	9	2,145,612	14
Grants and contributions not restricted to specific programs	78,232,506	47	79,572,709	49	(1,340,203)	(2)
Investment earnings	920,017	1	299,123	-	620,894	208
Miscellaneous	338,504	-	233,306	-	105,198	45
Total revenues	169,537,248	100	165,179,298	100	4,357,950	
Expenses:						
Instruction	86,466,944	50	82,407,840	48	4,059,104	5
Instructional resources and media services	1,308,095	1	1,441,818	1	(133,723)	(9)
Curriculum and instructinonal staff development	4,767,661	3	4,667,858	3	99,803	2
Instructional leadership	1,374,059	1	1,258,696	1	115,363	9
School leadership	8,783,603	5	8,379,203	5	404,400	5
Guidance, counseling, and evaluation services	4,943,520	3	4,708,441	3	235,079	5
Social work services	16,562	-	3,700	-	12,862	348
Health services	1,252,532	1	1,201,490	1	51,042	4
Student transportation	6,818,771	4	6,312,794	4	505,977	8
Food services	8,419,371	5	7,927,832	5	491,539	6
Extracurricular activities	6,861,543	4	6,841,328	4	20,215	-
General administration	5,380,347	3	4,872,492	3	507,855	10
Plant maintenance and operations	13,101,947	8	12,483,923	8	618,024	5
Security and monitoring services	1,382,334	1	1,182,565	1	199,769	17
Data processing services	3,467,260	2	3,997,500	2	(530,240)	(13)
Community services	128,597	-	26,826	-	101,771	379
Interest on long-term debt	16,020,751	9	14,307,223	9	1,713,528	12
Issuance costs and fees	738,379	-	1,232,330	1	(493,951)	(40)
Facilities repair and maintenance	833,671	-	2,194,050	1	(1,360,379)	(62)
Payments related to shared services arrangements	154,000	-	165,000	-	(11,000)	(7)
Payments to juvenile justice alternative education programs	-	-	1,870	-	(1,870)	(100)
Other intergovernmental charges	525,225	-	445,793	-	79,432	18
Total expenses	172,745,172	100	166,060,572	100	6,684,600	
Change in net position	(3,207,924)		(881,274)		(2,326,650)	
Net position - beginning	4,145,073		5,026,347		(881,274)	
Net position - ending	$ 937,149		$ 4,145,073		$ (3,207,924)	

The decrease in net position was primarily due to the increase in expenditures across most functions, most notably Instruction, which results from an overall growth due to increases in students and staff.

Revenues are generated primarily from two sources. Grants and contributions (program and general revenues totaling $104,965,167) represent 63 percent of total revenues, and property taxes ($59,303,749) represent 34 percent of total revenues. The remaining 3 percent is generated from investment earnings, charges for services, and miscellaneous revenues.

The primary functional expense of the District is instruction ($86,466,944) which represents 50 percent of total expenses. The remaining functional categories of expenses are individually 10 percent or less of total expenses.

Financial Analysis of the Government's Funds

As noted earlier, 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. In particular, *unassigned fund balance* may serve as a useful measure of a District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of $111,361,625, an increase of $13,760,836 in comparison with the prior year.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was $23,042,562 and total fund balance was $23,456,512. As a measure of the general fund's liquidity, it may be useful to compare unassigned and total fund balance to total fund expenditures. Unassigned and total fund balance represents 18 percent of total general fund expenditures. The fund balance of the District's general fund decreased by $770,087 during the current fiscal year. The fund balance of the general fund decreased primarily due to the District did not accrue August state revenue resulting from school closure due to Hurricane Harvey.

The debt service fund has a total fund balance of $5,035,292, all of which is restricted for retirement of long-term debt. The net increase in fund balance during the current year in the debt service fund was $85,315. The increase in fund balance was due primarily to the premium from the sale of bonds and the increase in property tax revenue exceeded the increase in debt service requirements.

The capital projects fund has a total fund balance of $81,156,726, all of which is restricted for capital acquisition programs and contractual obligations. The net increase in fund balance during the current year in the capital projects fund was $14,193,951. The increase was due to proceeds from the issuance of school building bonds.

General Fund Budgetary Highlights

The District amended the budget several times throughout the year. There were no significant variations between the original and final budget.

There were no significant variations between the final budget and actual results.

Capital Assets and Long-Term Liabilities

Capital Assets. The District's investment in capital assets for its governmental-type activities as of August 31, 2017, amounts to $345,129,124 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and improvements, furniture and equipment, and construction in progress.

New Caney Independent School District's Capital Assets
(net of depreciation)

	Governmental Activities					
	2017		2016		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Land and improvements	$ 28,232,772	8	$ 22,022,591	8	$ 6,210,181	28
Buildings and improvements	277,203,767	80	249,303,529	87	27,900,238	11
Furniture and equipment	6,073,239	2	6,344,434	2	(271,195)	(4)
Construction in progress	33,619,346	10	7,752,752	3	25,866,594	334
Totals	$ 345,129,124	100	$ 285,423,306	100	$ 59,705,818	

Major capital asset purchases during the current fiscal year included the following:

- $62,216,058 construction and renovations for various campuses and facilities.
- $6,210,181 land for facilities.
- $1,284,625 vehicles and buses.

Additional information on the District's capital assets can be found in Note 3.D. in the notes to the financial statements as noted in the table of contents of this report.

Construction Commitments. At the end of the current fiscal year, the Districts commitments with construction contractors totaled $39,016,379.

Long-term Liabilities. At year-end, the District had the following long-term liabilities:

New Caney Independent School District's Long-Term Liabilities Outstanding

	Governmental Activities					
	2017		2016		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
General obligation bonds (net)	$ 442,550,171	93	$ 368,466,479	92	$ 74,083,692	20
Net pension liability	32,755,201	7	30,618,310	8	2,136,891	7
Totals	$ 475,305,372	100	$ 399,084,789	100	$ 76,220,583	

The District's bonded debt increased by $74,083,692 (20 percent) during the current fiscal year. The key factor in this increase was the issuance of refunding bonds.

The District's general obligation debt is backed by the full faith and credit of the District and is further guaranteed by the Texas Permanent School Fund Guarantee Program.

State statutes do not limit the tax rate or amount for the support of school districts' bonded indebtedness. However, approval by the Attorney General of the State of Texas is required prior to the sale of bonds.

Additional information on the District's long-term debt can be found in Note 3.E. in the notes to the financial statements as indicated in the table of contents of this report.

Additional information on the District's net pension liability can be found in Note 4.C. in the notes to the financial statements as indicated in the table of contents of this report.

Economic Factors and Next Year's Budgets and Rates

- Current enrollment totals 15,086 students, which is an increase from the prior year.
- District staff totals 2,471 employees, which includes of 1,036 teachers and 251 teachers' aides and secretaries, and 276 substitute employees.
- The District maintains 17 campuses for instruction and The Learning Center.
- The unemployment rate for the County is currently 4.5 percent, which is a decrease from a rate of 5.5 percent a year ago. This compares to the state's average unemployment rate of 4.5 percent, which is a decrease from a rate of 5.0 percent a year ago.
- Property values of the District are projected to increase for the 2017-2018 fiscal year.
- A maintenance and operations tax rate of $1.17 and a debt service tax rate of $.50, a total rate of $1.67, were adopted for 2017-2018, which was the same as the previous year.

All of these factors were considered in preparing the District's budget for the 2018 fiscal year.

During the current fiscal year, fund balance in the general fund decreased to $23,456,512, which still exceed two months of annual operating expenditures.

Requests for Information

This 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 the Executive Director of Finance, New Caney Independent School District, 21580 Loop 494, New Caney, Texas, 77357.

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Basic Financial Statements

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New Caney Independent School District **Exhibit A-1**

Statement of Net Position

August 31, 2017

Data Control Codes		1 Primary Government Governmental Activities
	ASSETS	
1110	Cash and cash equivalents	$ 6,289,824
1120	Current investments	118,193,392
1220	Property taxes receivables	2,770,193
1230	Allowance for uncollectible taxes	(55,000)
1240	Due from other governments	1,365,518
1290	Other receivables	5,083
1300	Inventories	132,299
1410	Prepaid items	104,708
	Capital assets:	
1510	Land and improvements	28,232,772
1520	Buildings and improvements (net)	277,203,767
1530	Furniture and equipment (net)	6,073,239
1580	Construction in progress	33,619,346
1000	Total assets	473,935,141
	DEFERRED OUTFLOWS OF RESOURCES	
1705	Deferred outflows - pension	14,135,069
1710	Deferred charge of refunding	5,587,226
1700	Total deferred outflows of resources	19,722,295
	LIABILITIES	
2110	Accounts payable	7,828,729
2140	Interest payable	797,100
2150	Payroll deductions and withholdings	18,613
2160	Accrued wages payable	6,737,742
2180	Due to other governments	100,195
2190	Due to student groups	14,102
2300	Unearned revenue	29,818
	Noncurrent liabilities:	
2501	Due within one year	7,573,410
2502	Due in more than one year	434,976,761
2540	Net pension liabilities	32,755,201
2000	Total liabilities	490,831,671
	DEFERRED INFLOWS OF RESOURCES	
2605	Deferred inflows - pension	1,888,616
2600	Total deferred inflows of resources	1,888,616
	NET POSITION	
3200	Net investment in capital assets	(8,079,032)
3820	Restricted for grants	1,239,647
3850	Restricted for debt service	2,446,299
3900	Unrestricted	5,330,235
3000	**TOTAL NET POSITION**	$ 937,149

The Notes to the Financial Statements are an integral part of this statement.

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New Caney Independent School District **Exhibit B-1**

Statements of Activities

For the Fiscal Year Ended August 31, 2017

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues Charges for Services	4 Program Revenues Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Governmental Activities
	PRIMARY GOVERNMENT:				
	Governmental activities:				
0011	Instruction	$ 86,466,944	$ 351,086	$ 8,386,040	$ (77,729,818)
0012	Instructional resources and media services	1,308,095	112,286	38,227	(1,157,582)
0013	Curriculum and instructional staff development	4,767,661	6,415	1,958,650	(2,802,596)
0021	Instructional leadership	1,374,059	735	97,088	(1,276,236)
0023	School leadership	8,783,603	218,168	466,120	(8,099,315)
0031	Guidance, counseling, and evaluation services	4,943,520	1,852	740,246	(4,201,422)
0032	Social work services	16,562	-	14,369	(2,193)
0033	Health services	1,252,532	-	58,264	(1,194,268)
0034	Student transportation	6,818,771	33,507	207,213	(6,578,051)
0035	Food services	8,419,371	2,347,340	6,160,536	88,505
0036	Extracurricular activities	6,861,543	924,558	185,534	(5,751,451)
0041	General administration	5,380,347	-	371,985	(5,008,362)
0051	Plant maintenance and operations	13,101,947	2,148	244,917	(12,854,882)
0052	Security and monitoring services	1,382,334	11,716	40,267	(1,330,351)
0053	Data processing services	3,467,260	-	83,235	(3,384,025)
0061	Community services	128,597	-	125,529	(3,068)
0072	Interest on long-term debt	16,020,751	-	7,374,471	(8,646,280)
0073	Issuance costs and fees	738,379	-	-	(738,379)
0081	Facilities repair and maintenance	833,671	-	25,970	(807,701)
0093	Payments related to shared services arrangements	154,000	-	154,000	-
0099	Other intergovernmental charges	525,225	-	-	(525,225)
TG	Total governmental activities	172,745,172	4,009,811	26,732,661	(142,002,700)
TP	**TOTAL PRIMARY GOVERNMENT**	$ 172,745,172	$ 4,009,811	$ 26,732,661	(142,002,700)
	General revenues:				
MT	Property taxes, levied for general purposes				41,507,554
DT	Property taxes, levied for debt services				17,796,195
GC	Grants and contributions not restricted to specific programs				78,232,506
IE	Investment earnings				920,017
MI	Miscellaneous				338,504
TR	Total general revenues				138,794,776
CN	Change in net position				(3,207,924)
NB	Net position - beginning				4,145,073
NE	**NET POSITION - ENDING**				$ 937,149

The Notes to the Financial Statements are an integral part of this statement.

New Caney Independent School District
Balance Sheet – Governmental Funds
August 31, 2017

Data Control Codes		199 General Fund	599 Debt Service Fund
	ASSETS		
1110	Cash and cash equivalents	$ 2,263,416	$ 1,045,291
1120	Current investments	25,597,123	3,925,976
1220	Property taxes receivable	1,948,023	822,170
1230	Allowance for uncollectible taxes	(39,000)	(16,000)
1240	Due from other governments	828,773	-
1260	Due from other funds	1,462,481	152,670
1290	Other receivables	5,083	-
1300	Inventories	9,242	-
1410	Prepaid items	104,708	-
1000	Total assets	32,179,849	5,930,107
1000a	**TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**	$ 32,179,849	$ 5,930,107
	LIABILITIES		
2110	Accounts payable	$ 271,828	$ -
2150	Payroll deductions and withholdings	18,613	-
2160	Accrued wages payable	6,419,714	-
2170	Due to other funds	88,560	-
2180	Due to other governments	-	88,645
2190	Due to student groups	14,102	-
2300	Unearned revenue	1,497	-
2000	Total liabilities	6,814,314	88,645
	DEFERRED INFLOWS OF RESOURCES		
2600	Unavailable revenue - property taxes	1,909,023	806,170
	Total deferred inflows of resources	1,909,023	806,170
	FUND BALANCES		
3410	Nonspendable - inventories	9,242	-
3430	Nonspendable - prepaid items	104,708	-
3450	Restricted - grant funds	-	-
3470	Restricted - capital acquisitions and contractual obligations	-	-
3480	Restricted - debt service	-	5,035,292
3545	Committed - other	-	-
3570	Assigned - capital expenditures	300,000	-
3600	Unassigned	23,042,562	-
3000	Total fund balances	23,456,512	5,035,292
4000	**TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES**	$ 32,179,849	$ 5,930,107

The Notes to the Financial Statements are an integral part of this statement.

Exhibit C-1

699 Capital Projects Funds	Total Nonmajor Funds	98 Total Governmental Funds
$ 1,966,917	$ 1,014,200	$ 6,289,824
86,834,370	1,835,923	118,193,392
-	-	2,770,193
-	-	(55,000)
-	536,745	1,365,518
-	1,329	1,616,480
-	-	5,083
-	123,057	132,299
-	-	104,708
88,801,287	3,511,254	130,422,497
$ 88,801,287	$ 3,511,254	$ 130,422,497
$ 7,548,981	$ 7,920	$ 7,828,729
-	-	18,613
17,983	300,045	6,737,742
77,597	1,450,323	1,616,480
-	11,550	100,195
-	-	14,102
-	28,321	29,818
7,644,561	1,798,159	16,345,679
-	-	2,715,193
-	-	2,715,193
-	-	9,242
-	-	104,708
-	1,239,647	1,239,647
81,156,726	-	81,156,726
-	-	5,035,292
-	473,448	473,448
-	-	300,000
-	-	23,042,562
81,156,726	1,713,095	111,361,625
$ 88,801,287	$ 3,511,254	$ 130,422,497

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New Caney Independent School District

Exhibit C1-R

Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
August 31, 2017

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS (EXHIBIT C-1)		$ 111,361,625
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:		
Governmental capital assets costs	$ 454,449,818	
Accumulated depreciation of governmental capital assets	(109,320,694)	345,129,124
Property taxes receivable, which will be collected subsequent to year-end, but are not available soon enough to pay expenditures and, therefore, are deferred in the funds.		2,715,193
Long-term liabilities, including bonds payable and net pension liability, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Liabilities at year end related to such items, consist of:		
Bonds payable, at original par	$ (411,228,762)	
Premium on bonds payable	(28,987,120)	
Discount on bonds payable	263,774	
Accreted interest	(2,598,063)	
Accrued interest on the bonds	(797,100)	
Net pension liability	(32,755,201)	(476,102,472)
Deferred charge on refunding is reported as deferred outflow in the statement of net position and is not reported in the funds due to it is not a current financial resource available to pay for current expenditures.		5,587,226
Deferred outflows for pension represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenses/expenditures) until then.		14,135,069
Deferred inflows for pension represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.		(1,888,616)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES (EXHIBIT A-1)		$ 937,149

The Notes to the Financial Statements are an integral part of this statement.

New Caney Independent School District
Statement of Revenues, Expenditures, and Changes
in Fund Balances – Governmental Funds
For the Fiscal Year Ended August 31, 2017

Data Control Codes		199 General Fund	599 Debt Service Fund
	REVENUES		
5700	Local and intermediate sources	$ 42,977,335	$ 17,904,331
5800	State program revenues	82,434,407	7,374,471
5900	Federal program revenues	1,195,137	-
5020	Total revenues	126,606,879	25,278,802
	EXPENDITURES		
	Current:		
0011	Instruction	72,282,641	-
0012	Instructional resources and media services	1,165,144	-
0013	Curriculum and instructional staff development	2,799,283	-
0021	Instructional leadership	1,318,951	-
0023	School leadership	8,382,006	-
0031	Guidance, counseling, and evaluation services	4,327,325	-
0032	Social work services	1,588	-
0033	Health services	1,231,645	-
0034	Student transportation	7,115,152	-
0035	Food services	-	-
0036	Extracurricular activities	5,207,250	-
0041	General administration	5,295,034	-
0051	Plant maintenance and operations	13,044,762	-
0052	Security and monitoring services	1,380,984	-
0053	Data processing services	3,299,887	-
0061	Community services	89	-
	Debt service:		
0071	Principal on long-term debt	-	7,712,883
0072	Interest on long-term debt	-	17,473,539
0073	Issuance costs and fees	-	738,379
	Capital outlay:		
0081	Facilities acquisition and construction	-	-
	Intergovernmental:		
0093	Payments related to shared services arrangements	-	-
0099	Other intergovernmental charges	525,225	-
6030	Total expenditures	127,376,966	25,924,801
1100	Excess (deficiency) of revenues over (under) expenditures	(770,087)	(645,999)
	OTHER FINANCING SOURCES (USES)		
7911	Issuance of capital-related bonds	-	-
7916	Premium or discount on issuance of bonds	-	731,314
7080	Total other financing sources (uses)	-	731,314
1200	Net change in fund balances	(770,087)	85,315
0100	Fund balances - beginning	24,226,599	4,949,977
3000	**FUND BALANCES - ENDING**	$ 23,456,512	$ 5,035,292

The Notes to the Financial Statements are an integral part of this statement.

699 Capital Projects Funds	Total Nonmajor Funds	98 Total Governmental Funds
$ 492,125	$ 3,468,661	$ 64,842,452
22,015	1,460,473	91,291,366
-	11,226,166	12,421,303
514,140	16,155,300	168,555,121
-	4,550,981	76,833,622
-	110,195	1,275,339
-	1,708,200	4,507,483
-	20,530	1,339,481
-	256,274	8,638,280
-	484,448	4,811,773
-	12,924	14,512
-	247	1,231,892
-	10,008	7,125,160
-	8,087,906	8,087,906
-	365,104	5,572,354
-	12,742	5,307,776
-	2,764	13,047,526
-	8,910	1,389,894
-	-	3,299,887
-	118,410	118,499
-	-	7,712,883
-	-	17,473,539
-	-	738,379
69,320,189	-	69,320,189
-	154,000	154,000
-	-	525,225
69,320,189	15,903,643	238,525,599
(68,806,049)	251,657	(69,970,478)
73,895,000	-	73,895,000
9,105,000	-	9,836,314
83,000,000	-	83,731,314
14,193,951	251,657	13,760,836
66,962,775	1,461,438	97,600,789
$ 81,156,726	$ 1,713,095	$ 111,361,625

New Caney Independent School District **Exhibit C-3**

Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Fiscal Year Ended August 31, 2017

TOTAL NET CHANGES IN FUND BALANCES - GOVERNMENTAL (EXHIBIT C-2)		$ 13,760,836
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital assets increased	$ 70,034,812	
Depreciation expense	(10,328,994)	59,705,818
Because some property taxes will not be collected for several months after the District's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased (decreased) by this amount this year.		169,453
Issuance of bonds provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.		
Par value	$ (73,895,000)	
(Premium) discount	(9,836,314)	(83,731,314)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		7,712,883
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due, and includes amortization of related long-term debt accounts. The increase (decrease) in interest expense reported in the statement of activities consist of the following:		
Accrued interest on current interest bonds payable (increased) decreased	$ (148,787)	
Interest accreted on the capital appreciation bonds	(196,599)	
Accreted interest paid	972,118	
Amortization of bond premium and discount	1,159,220	
Amortization of deferred charge on refunding	(333,164)	1,452,788
The net change in net pension liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. The net change consists of the following:		
Deferred outflows increased (decreased)	$ (4,004,913)	
Deferred inflows (increased) decreased	3,863,416	
Net pension liability (increased) decreased	(2,136,891)	(2,278,388)
CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES (EXHIBIT B-1)		$ (3,207,924)

The Notes to the Financial Statements are an integral part of this statement.

New Caney Independent School District

Exhibit E-1

Statement of Assets and Liabilities
Fiduciary Fund
August 31, 2017

Data Control Codes		Agency Fund Student Activity
	ASSETS	
1110	Cash and cash equivalents	$ 415,755
1000	**TOTAL ASSETS**	$ 415,755
	LIABILITIES	
2110	Accounts payable	$ 2,699
2190	Due to student groups	413,056
2000	**TOTAL LIABILITIES**	$ 415,755

The Notes to the Financial Statements are an integral part of this statement.

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Note 1. Summary of Significant Accounting Policies

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government (the District). All fiduciary activities are reported only in the fund financial statements. *Governmental activities* normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions.

B. Reporting Entity

The New Caney Independent School District (the District) is governed by a seven-member board of trustees (the Board), which has governance responsibilities over all activities related to public elementary and secondary, education within the District. Members of the Board are elected by the public; have authority to make decisions; appoint management and significantly influence operations; and have primary accountability for fiscal matters; the District is not included in any other governmental reporting entity. The accompanying financial statements present the District.

C. Basis of Presentation – Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category—governmental and fiduciary—are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those accounted for in another fund.

The *debt service fund* is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.

The *capital projects fund* accounts for the acquisition and construction of the District's major capital facilities, other than those financed by proprietary funds.

Additionally, the District reports the following fund types:

The *agency fund* accounts for assets held by the District for student organizations. The fund is custodial in nature (assets equal liabilities) and does not involve measurement or results of operations.

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds are eliminated in governmental activities.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources or economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when 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 revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. 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 District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as required under accrual accounting. However, debt service expenditures and claims and judgments are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Interest associated with the current fiscal period is considered to be susceptible to accrual and has been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items, including property taxes, are considered to be measurable and available only when cash is received by the District.

The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents
The District's cash and cash equivalents are considered to be cash on hand and cash on deposit with bank depository.

2. Deposits and Investments
Investments for the District, except for certain investment pools, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost or fair value.

3. Inventories and Prepaid Items
Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital Assets
Capital assets, which include land and improvements, construction in progress, buildings and improvements, and furniture and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. The District's infrastructure includes parking lots and sidewalks associated with various buildings. The cost of the infrastructure was initially capitalized with the building cost and is being depreciated over the same useful life as the building. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000, and an estimated useful life in excess of two years.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the District chose to include all such items regardless of their acquisition date or amount. The District was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the District constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

Land and improvements and construction in progress are not depreciated. The buildings and improvements and furniture and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

Capital Asset Classes	Lives
Buildings and Improvements	5-47
Furniture and Equipment	5-30

5. Deferred Outflows/Inflows of Resources
Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then. Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

The components of the deferred outflows of resources and deferred inflows of resources in the government-wide and fund level financial statements are as follows:

	Statement of Net Position	Balance Sheet - Governmental Funds	
	Governmental Activities	General Fund	Debt Service Fund
Deferred outflows of resources:			
Deferred outflows from pension activities	$ 11,095,093	$ -	$ -
Deferred contributions after the measurement date	3,039,976	-	-
Deferred charge on refunding	5,587,226	-	-
Total deferred outflows of resources	$ 19,722,295	$ -	$ -
Deferred inflows of resources:			
Deferred inflows from pension activities	$ 1,888,616	$ -	$ -
Unavailable property taxes	-	1,909,023	806,170
Total deferred inflows of resources	$ 1,888,616	$ 1,909,023	$ 806,170

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension activities are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan, except for projected and actual earnings differences on investments which are amortized on a closed basis over a 5-year period.
- District contributions after the measurement date are recognized in the subsequent year.
- Deferred charge/gain on refunding is amortized over the shorter of the life of the refunded or refunding debt.
- Property taxes are recognized in the period the amount becomes available.

6. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

7. Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

8. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The board of trustees (the Board) is the highest level of decision-making authority for the District that can, by board action or adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by board action or the resolution remains in place until a similar action is taken (the board action or adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board has, by policy, authorized the superintendent or his designee to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

9. Pension

In government-wide financial statements, pensions are required to be recognized and disclosed using the accrual basis of accounting (see Note 4.C. and the Required Supplementary Information section immediately following the Notes to the Financial Statements), regardless of the amount recognized as pension expenditures on the modified accrual basis of accounting. The District recognizes a net pension liability for the qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, or the District's proportionate share thereof in the case of a cost-sharing multiple-employer plan, measured as of the respective pensions' fiscal year-end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

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.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

Property values are determined by the County Central Appraisal District as of January 1 of each year. Prior to September 1 of each year, District must adopt its annual budget and as soon thereafter as practicable, shall adopt a tax rate thus creating the tax levy. Property taxes for the current calendar year are levied on approximately October 1 of each year and are payable by January 31 of the following year. Property tax receivables are recorded as of the date levied. Unpaid taxes become delinquent on February 1 and a tax lien on real property is created as of July 1 of each year.

3. Compensated Absences

Vacation

The District does not have a liability for unpaid vacation at year end due to the District's policy does not allow a carryover of vacation not taken at August 31.

Sick Leave

Prior to September 1, 1992, the District's policy permitted employees to accumulate earned but unused sick leave benefits. Payment for unused sick leave days accumulated locally will be made upon retirement (in accordance with guidelines established by the Teacher Retirement System of Texas) for all employees hired prior to September 1, 1992. No liabilities were recorded due to the amounts were not significant. All sick pay is accrued when incurred in the government-wide financial statements. If significant, a liability for these amounts is reported in governmental funds only if they have met the District's retirement and State's retirement eligibility requirements.

4. Use of Estimates

The presentation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

5. Data Control Codes

The Data Control Codes refer to the account code structure prescribed by Texas Education Agency (TEA) in the Financial Accountability System Resource Guide. TEA requires school districts to display these codes in the financial statements filed with TEA in order to ensure accuracy in building a statewide data base for policy development and funding plans.

Note 2. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, *National School Breakfast and Lunch Program* special revenue fund, and debt service fund. All annual appropriations lapse at fiscal year end. The following procedures are followed in establishing the budgetary data reflected in the financial statements.

1. Prior to August 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.

2. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.

3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board.

The appropriated budget is prepared by fund, function, and campus/department. The District's campus/department heads may make transfers of appropriations within a department. Transfers of appropriations between campus/departments require the approval of the District's management. Transfers of appropriations between functions require the approval of the Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the function level within a fund

The District amended general fund budget throughout the year between functions and total appropriations. There were no significant differences between the original and final budget of the general fund.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as restricted, committed, or assigned fund balances as appropriate. The encumbrances do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. The District's outstanding encumbrances at August 31, 2017 total $39,016,379 which are included in restricted capital projects fund balance.

Note 3. Detailed Notes on All Funds

A. Deposits and Investments

<u>Cash Deposits</u>
The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas School Depository Act. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the District's and the depository banks' agent bank. The pledged securities shall be in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Investments
The District's investment policy is in accordance with the Public Funds Investment Act, the Public Funds Collateral Act, and federal and state laws. State law and District policy limits credit risk by allowing investing in 1) Obligations of the United States or its agencies which are backed by the full faith and credit of the United States, obligations of the State of Texas or its agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized statistical rating organization (NRSRO) not less than A or its equivalent; 2) Certificates of deposit issued by a depository located in Texas which is insured by the FDIC or purchased through a broker who has an office located in Texas; 3) Repurchase agreements secured by obligations of the United States or its agencies not to exceed 90 days to maturity from the date of purchase; 4) Bankers acceptances with a stated maturity of 270 days or fewer which are eligible for collateral for borrowing from a Federal Reserve Bank; 5) No-load money market mutual funds which shall be registered with the Securities and Exchange Commission which have an average weighted maturity of less than two years, investments comply with the Public Funds Investment Act and are continuously rated not less than AAA by at least one NRSRO; 6) A guaranteed investment contract (for bond proceeds only) which meets the criteria and eligibility requirements established by the Public Funds Investment Act; 7) Public funds investment pools which meets the requirements of the Public Funds Investment Act; 8) Commercial paper is an authorized investment if it has stated maturity of 271 days or fewer from the date of its issuance; and is rated not less than A-1 or P-1 or an equivalent rating by at least: two nationally recognized credit rating agencies; or one nationally recognized agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state; 9) Securities lending program permitted by Government Code 2256.0015.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application* provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs—other than quoted prices included within Level 1—that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

The District's measurements of investments are presented in the table below. The District's investment balances and weighted average maturity, and credit risk of such investments are as follows:

		Fair Value Measurement Using					
	August 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Percent of Total Investments	Weighted Average Maturity (Days)	Moody's / S&P Rating
Investments measured at amortized cost:							
Investment pools							
Texpool - LGIP	$ 101,954,509	$ -	$ -	$ -	86%	30	AAAm
Lone Star Overnight	11,332,781	-	-	-	10%	22	AAA
Investments measured at fair value:							
Wells Fargo money market mutual funds	3,159,056	3,159,056	-	-	3%	31	AAAm/Aaa-mf
Certificates of deposit	1,747,046	-	1,747,046	-	1%	329	Not Rated*
Total	$ 118,193,392	$ 3,159,056	$ 1,747,046	$ -	100%		
Portfolio weighted average maturity						34	

*Certificates are insured or collateralized

Investment Pools are measured at amortized cost. Such investments are not required to be reported by levels in the table above.

Wells Fargo Money Market Mutual Funds are reported at fair value. Such investments are not required to be reported by levels in the table above.

Certificates of deposit that are non-negotiable are reported at costs; whereas, certificates of deposit that are brokered are reported at fair value. Certificates of deposit classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

The Texpool and Lone Star Overnight investment pools are external investment pools measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, investment pools must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity and diversification requirements within the investment pool. The investment pools transact at a net asset value of $1.00 per share, have weighted average maturity of 60 days or less and weighted average life of 120 days or less, investments held are highly rated by nationally recognized statistical rating organization, have no more than 5% of portfolio with one issuer (excluding U.S. government securities), and can meet reasonably foreseeable redemptions. Texpool and Lone Star Overnight have a redemption notice period of one day and no maximum transaction amounts. The investment pools' authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pools' liquidity.

Credit Risk
For fiscal year 2017, the District invested in certificates of deposit, Wells Fargo Money Market Mutual Funds, Texpool and Lone Star Investment Pool. Texpool is duly chartered and administered by the State Comptroller's Office. Lone Star Investment Pool is duly chartered by the State of Texas Interlocal Cooperation Act and is administered by First Public, LLC. formerly the Texas Association of School Boards Financial Services. The District also invests in certificates of deposit which are insured or collateralized. The credit rating for investments are noted in the table above.

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The District monitors interest rate risk utilizing weighted average maturity analysis. In accordance with its investment policy, the District reduces its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio as a whole to no more than 180 days, diversification, and by holding securities to maturity not to exceed one year unless specifically authorized by the Board of Trustees.

Concentration of Credit Risk
The District's investment policy does not limit an investment in any one issuer.

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 may not be returned to it. As of August 31, 2017, the District's bank balance of $7,713,507 at the local bank was not exposed to custodial credit risk because it was insured and collateralized with securities held by the District's agent and in the District's name.

Custodial Credit Risk – Investments
For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District is not exposed to custodial credit risk due to the investments are insured or registered in the District's name, or the investments are held by the District or its agent.

B. Receivables

Tax revenues of the general and debt service fund are reported net of uncollectible amounts. Total change in uncollectible amounts related to revenues of the current period increased (decreased) revenues as follows:

Change in uncollectibles related to General Fund property taxes	$	18,000
Change in uncollectibles related to Debt Service property taxes		6,000
Total change in uncollectibles of the current fiscal year	$	24,000

Approximately 66% of the outstanding balance of property taxes receivable is not anticipated to be collected within the next year.

C. Interfund Receivables and Payables

1. Receivables/Payables

The composition of interfund balances as of August 31, 2017, was as follows:

Fund	Interfund Receivables	Interfund Payables
General Fund	$ 1,462,481	$ 88,560
Debt Service Fund	152,670	-
Capital Projects Funds	-	77,597
Other governmental funds - nonmajor	1,329	1,450,323
Totals	$ 1,616,480	$ 1,616,480

Interfund balances consist of short-term lending/borrowing arrangements that result primarily from payroll and other regularly occurring charges that are primarily paid by the one fund and then charged back to the appropriate other fund. Additionally, some lending/borrowing may occur between two or more nonmajor governmental funds.

2. Transfers

There were no interfund transfers between the various funds at August 31, 2017.

D. Capital Assets

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

	Beginning Balance	Additions	Reductions and Adjustments	Transfers	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land and improvements	$ 22,022,591	$ 6,210,181	$ -	$ -	$ 28,232,772
Construction in progress	7,752,752	59,445,576	-	(33,578,982)	33,619,346
Total capital assets, not being depreciated	29,775,343	65,655,757	-	(33,578,982)	61,852,118
Capital assets, being depreciated:					
Buildings and improvements	338,624,540	2,770,482	-	33,578,982	374,974,004
Furniture and equipment	16,201,320	1,608,573	(186,197)	-	17,623,696
Total capital assets, being depreciated	354,825,860	4,379,055	(186,197)	33,578,982	392,597,700
Less accumulated depreciation for:					
Buildings and improvements	(89,321,011)	(8,449,226)	-	-	(97,770,237)
Furniture and equipment	(9,856,886)	(1,879,768)	186,197	-	(11,550,457)
Total accumulated depreciation	(99,177,897)	(10,328,994)	186,197	-	(109,320,694)
Total capital assets, being depreciated, net	255,647,963	(5,949,939)	-	33,578,982	283,277,006
Governmental activities capital assets, net	$285,423,306	$ 59,705,818	$ -	$ -	$345,129,124

Depreciation expense was charged to functions/programs of the District as follows:

Governmental Activities:	
11 Instruction	$ 7,493,948
12 Instructional resources and media services	40,742
13 Curriculum and instructional staff development	32,273
21 Instructional leadership	506
23 School leadership	15,721
31 Guidance, counseling, and evaluation services	8,348
33 Health services	6,980
34 Student (pupil) transportation	885,642
35 Food services	90,458
36 Extracurricular activities	1,219,298
41 General administration	53,397
51 Plant maintenance and operations	244,540
52 Security and monitoring services	60,841
53 Data processing	176,300
Total depreciation expense-governmental activities	$10,328,994

Construction Commitments

The District had active construction projects as of August 31, 2017. The projects include the construction and equipment of school facilities. At year end, the District's commitments with contractors are as follows:

Project	Remaining Commitment
Aiken Elementary School	$ 1,000
Brookwood Elementary School	12,529,609
District Aquatic Center	1,365,318
Early College High School	3,499,110
Kings Manor Elementary School	110,720
New Caney High School	11,659,593
New Caney Middle School	8,708,200
White Oak Middle School	1,142,829
Totals	$39,016,379

The commitment for construction and equipment of school facilities is being financed by general obligation bonds secured by tax revenues and local funds.

E. Long-term Liabilities

The District's long-term liabilities consist of bond indebtedness and net pension liability. The current requirements for general obligation bonds principal and interest expenditures are accounted for in the debt service fund. Other long-term liabilities are generally liquidated with resources of the general fund.

Changes in Long-term Liabilities

Long-term liability activity for the fiscal year ended August 31, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	$ 345,046,645	$ 73,895,000	$ (7,712,883)	$ 411,228,762	$ 7,573,410
Deferred amounts:					
For issuance premiums	20,322,146	9,836,314	(1,171,340)	28,987,120	-
For issuance discounts	(275,894)	-	12,120	(263,774)	-
For accreted interest (CAB's)	3,373,582	196,599	(972,118)	2,598,063	-
Total bonds payable, net	368,466,479	83,927,913	(9,844,221)	442,550,171	7,573,410
Net pension liability	30,618,310	4,896,422	(2,759,531)	32,755,201	-
Governmental activities long-term liabilities	$ 399,084,789	$ 88,824,335	$ (12,603,752)	$ 475,305,372	$ 7,573,410

General Obligation Bonds

The District issues general obligation bonds to provide funds for the construction and equipment of school facilities buildings (BLDG) and to refund general obligation bonds (REF). General obligation bonds are direct obligations and pledge the full faith and credit of the District. These bonds are issued as 14-30 year current interest and capital appreciation bonds (CAB) with various amounts of principal maturing each year. The following is a summary of changes in the general obligation bonds for the fiscal year:

Series	Interest Rate	Original Issue	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
2006 (CAB) REF	-	$ 4,385,000	2/15/2020	$ 691,645	$ -	$ (207,883)	$ 483,762
2007A BLDG	4.25-5.25%	30,000,000	2/15/2037	745,000	-	(745,000)	-
2008 BLDG	3.50-5.00%	19,625,000	2/15/2038	8,140,000	-	(490,000)	7,650,000
2009 BLDG	4.0-5.0%	26,470,000	2/15/2039	24,665,000	-	(560,000)	24,105,000
2010 REF	2-4.125%	8,135,000	2/15/2030	5,560,000	-	-	5,560,000
2010 (CAB) REF	-	2,540,000	2/15/2020	1,835,000	-	(670,000)	1,165,000
2010 BLDG	3.75-4.50%	12,650,000	2/15/2039	12,650,000	-	-	12,650,000
2010A REF	2.0-4.0%	4,080,000	2/15/2030	3,160,000	-	(175,000)	2,985,000
2011 REF	2.0-4.0%	9,255,000	2/15/2033	8,280,000	-	(280,000)	8,000,000
2012 BLDG	3.50-5.00%	55,000,000	2/15/2042	50,235,000	-	-	50,235,000
2012 REF	2.00-5.00%	17,150,000	2/15/2033	15,970,000	-	(480,000)	15,490,000
2013 REF	3.25-6.25%	13,985,000	2/15/2035	13,270,000	-	(395,000)	12,875,000
2013 BLDG	3.00-5.00%	31,850,000	2/15/2042	30,805,000	-	(975,000)	29,830,000
2014 REF	2.00-4.00%	7,680,000	2/15/2033	6,910,000	-	(320,000)	6,590,000
2014 BLDG	2-4.25%	9,240,000	2/15/2042	6,165,000	-	(175,000)	5,990,000
2015 REF	2.00-5.00%	51,500,000	2/15/2037	51,500,000	-	(630,000)	50,870,000
2015 BLDG	2.00-5.00%	86,315,000	2/15/2045	85,425,000	-	(365,000)	85,060,000
2015A REF	2.00-5.00%	10,610,000	2/15/2030	10,435,000	-	-	10,435,000
2016 REF	2.00-4.00%	8,605,000	8/15/2038	8,605,000	-	(140,000)	8,465,000
2017 BLDG	2.00-5.00%	73,895,000	2/15/2047	-	73,895,000	(1,105,000)	72,790,000
Totals				$345,046,645	$ 73,895,000	$ (7,712,883)	$411,228,762

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending August 31	Principal Value	Interest	Total Requirements
2018	$ 7,573,410	$ 17,913,680	$ 25,487,090
2019	7,429,993	17,648,048	25,078,041
2020	7,450,359	17,346,573	24,796,932
2021	8,715,000	16,997,867	25,712,867
2022	9,105,000	16,611,956	25,716,956
2023	9,515,000	16,199,931	25,714,931
2024	9,945,000	15,767,891	25,712,891
2025	10,385,000	15,328,163	25,713,163
2026	10,845,000	14,867,675	25,712,675
2027	11,320,000	14,391,553	25,711,553
2028	11,800,000	13,913,106	25,713,106
2029	12,280,000	13,429,446	25,709,446
2030	12,785,000	12,926,197	25,711,197
2031	13,380,000	12,394,959	25,774,959
2032	13,960,000	11,812,562	25,772,562
2033	14,610,000	11,165,968	25,775,968
2034	15,180,000	10,475,466	25,655,466
2035	15,875,000	9,784,478	25,659,478
2036	16,425,000	9,078,381	25,503,381
2037	17,175,000	8,328,119	25,503,119
2038	17,810,000	7,546,957	25,356,957
2039	18,350,000	6,735,119	25,085,119
2040	17,330,000	5,929,050	23,259,050
2041	18,135,000	5,127,025	23,262,025
2042	18,975,000	4,287,350	23,262,350
2043	19,840,000	3,423,650	23,263,650
2044	20,725,000	2,535,550	23,260,550
2045	21,655,000	1,607,225	23,262,225
2046	11,045,000	856,625	11,901,625
2047	11,610,000	290,250	11,900,250
Totals	$ 411,228,762	$ 314,720,820	$ 725,949,582

As of August 31, 2017, the District did not have any authorized but unissued bonds.

The District defeased certain bonds through the issuance of new bonds and placed the proceeds in an irrevocable trust to provide for all future debt service payments of the old bonds. Securities being utilized to repay the refinanced debt as it becomes due consist solely of U.S. government obligations. Accordingly, the trust account securities and the liability for the defeased bonds are not included in the Districts basic financial statements. At August 31, 2017, the following outstanding bonds are considered defeased:

2006 General Obligation Bonds (maturing 2020-2038, callable August 15, 2018)	$ 9,695,000
Total	$ 9,695,000

F. Fund Balance

Other committed fund balance includes the following commitments of funds:

Other governmental funds:	
Campus activity	$ 473,448
Total other committed fund balance	$ 473,448

G. Revenues from Local and Intermediate Sources

During the current year, revenues from local and intermediate sources consisted of the following:

	General	Debt Service	Capital Projects	Other Governmental Funds	Totals
Property taxes	$ 41,427,058	$ 17,707,238	$ -	$ -	$ 59,134,296
Investment income	223,610	197,093	492,125	7,189	920,017
Food sales	-	-	-	2,347,340	2,347,340
Other	1,326,667	-	-	1,114,132	2,440,799
Total	$ 42,977,335	$ 17,904,331	$ 492,125	$ 3,468,661	$ 64,842,452

Note 4. Other Information

A. Risk Management

Property/Liability
The District is exposed to various risks of loss related to property/liability losses for which the District participates in the Texas Association of Public Schools Property and Liability Fund. The Fund was created to formulate, develop and administer a program of modified self-funding for the Fund's membership, obtain competitive costs for coverages, and develop a comprehensive loss control program. The District pays an annual premium to the Fund for its liability coverage and transfers the risk of loss to the Fund. The District's agreement with the Fund provides that the Fund will be self-sustaining through member premiums and may provide, through commercial companies, reinsurance contracts. In the event that the Fund was to discontinue operations, the member districts would be responsible for any eligible claims not funded by the Fund. In addition, there were no significant reductions in coverages in the past fiscal year and there were no settlements exceeding insurance coverages for each of the past three fiscal years.

Health Care Coverage
During the year ended August 31, 2017, employees of the District were covered by TRS-Active Care (the Plan) a statewide health coverage program for Texas public education employees, implemented by the Teacher Retirement System of Texas (TRS). The District paid premiums of $250 per month, per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to the TRS. The legislature created the Plan for public school employee group health coverage in 2002-03, requiring all Districts with fewer than 500 employees to participate in the Plan.

Workers' Compensation

The District participates in the Texas Public Workers' Compensation Program ("Program"). The Program was created to formulate, develop and administer a program of modified self-funding for the Program's membership, obtain competitive costs for coverages and develop a comprehensive loss control program. The District pays an annual premium to the Program for its coverages and transfers the risk of loss to the Program. The District's agreement with the Program provides that the Program will be self-sustaining through member premiums and will provide, through commercial companies, reinsurance contracts. In regards to the workers' compensation program, the Program maintains stop loss coverage for any claim in excess of the Program's self-insured retention. In the event that the Program was to discontinue operations or leave the Program, the member districts would be responsible for any eligible claims not funded by the Program. There were no significant reductions in insurance coverage from the prior year or settlements exceeding insurance coverage for each of the past three fiscal years.

B. Litigation and Contingencies

The District is a defendant in various lawsuits arising principally in the normal course of operations. In the opinion of the District's management, the potential claims will not have a material effect on the District's financial position or results of operations.

The District participates in a number of federal and state financial assistance programs. Although the District's grant programs have been audited in accordance with the provisions of the Single Audit Act through August 31, 2017, these programs are subject to financial and compliance audits by the grantor agencies. The District is also subject to audit by the TEA of the attendance data upon which payments from the agency are based. These audits could result in questioned costs or refunds to be paid back to the granting agencies.

C. Defined Benefit Pension Plan

Plan Description

The District participates in a cost-sharing multiple-employer defined benefit pension 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.

Pension Plan Fiduciary Net Position

Detailed information about the TRS's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information. That report may be obtained on the Internet at http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR; by writing to TRS at 1000 Red River Street, Austin, TX, 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 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. 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 2015 thru 2017. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for Plan fiscal year 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017. Rates for such plan fiscal years are as follows:

	2017	2016	2015
Member	7.7%	7.2%	6.7%
Non-employer contributing entity (state)	6.8%	6.8%	6.8%
Employers/district	6.8%	6.8%	6.8%

The contribution amounts for the District's fiscal year 2017 are as follows:

District contributions	$ 3,039,976
Member contributions	7,382,214
NECE On-behalf contributions (state)	4,631,012

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

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

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

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

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

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

Valuation date	August 31, 2016
Actuarial cost method	Individual entry age normal
Asset valuation method	Market value
Single discount rate	8.00%
Long-term expected investment rate of return	8.00%
Municipal bond rate*	N/A*
Last year ending August 31 in the 2016 to 2115 projection period (100 years)	2115
Inflation	2.50%
Salary increases including inflation	3.50% to 9.50%
Benefit changes during the year	None
Ad hoc post-employment benefit changes	None

*If a municipal bond rate was to be used, the rate would be 2.84% as of August 2016 (i.e. the weekly rate closest to but not later than the Measurement Date). The source of the rate is the Federal Reserve Statistical Release H.15, citing the Bond Buyer Index of general obligation bonds with 20 years to maturity and an average AA credit rating.

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

Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the 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 Systems target asset allocation as of August 31, 2016 are summarized below:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns*
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%
Stable value hedge funds	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 expectation			2.2%
Alpha			1.0%
Totals	100.0%		8.7%

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

Discount Rate Sensitivity Analysis

The following table presents the District's proportionate share of net pension liability for TRS calculated using the discount rate of 8.0%, as well as the District's proportionate share of the respective net pension liability if it was calculated using a discount rate that is 1-percentage-point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
TRS	$ 47,226,798	$ 32,755,201	$ 17,539,456

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

At August 31, 2017, the District reported a liability of $32,755,201 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 are as follows:

District's proportionate share of the net pension liability	$ 32,755,201
State's proportionate share of the net pension liability associated with the district	52,456,045
Total	$ 85,211,246

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 District's proportion of the net pension liability was based on the District'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 net pension liability was .0866803% which was an increase of .0000623% 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 fiscal year ended August 31, 2017, the District recognized pension expense of $7,722,075 and revenue of $5,443,687 for support provided by the State.

At August 31, 2017, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 513,595	$ 978,051
Changes of assumptions	998,320	907,931
Net difference between projected and actual earnings on pension plan investments	2,773,643	-
Changes in proportion and differences between district contributions and proportionate share of contributions (cost-sharing plan)	6,809,535	2,634
District contribution after measurement date	3,039,976	-
Totals	$ 14,135,069	$ 1,888,616

$3,039,976 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2018. Other amounts reported as deferred outflows of resources (deferred inflows of resources) related to pensions will be recognized in pension expense as follows:

Year Ending August 31:	
2018	$ 1,610,403
2019	1,610,403
2020	3,379,568
2021	1,474,473
2022	942,077
Thereafter	189,553
Total	$ 9,206,477

D. School District Retiree Health Plan

Plan Description

The New Caney 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-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. The Teacher Retirement System of Texas issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS website at 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 Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701.

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 amounts are shown in the table below for fiscal years 2017-2015.

Contribution Rates

	Active Member		State		School District	
Year	Rate	Amount	Rate	Amount	Rate	Amount
2017	0.65%	$ 623,174	1.00%	$ 908,305	0.55%	$ 527,301
2016	0.65%	$ 576,865	1.00%	$ 841,102	0.55%	$ 488,117
2015	0.65%	$ 533,322	1.00%	$ 776,562	0.55%	$ 451,272

In addition, the State of Texas contributed $304,967, $357,237, and $250,726 in 2017, 2016, and 2015, respectively, for on-behalf payments for Medicare Part D and Early Retiree Reinsurance Program.

For the current fiscal year and each of the past two years, the District's actual contributions were equal to 100 percent of the required contributions. The contributions made by the State are on behalf of the District and have been recorded in the governmental funds' financial statements of the District as both state revenues and expenditures. These contributions are the legal responsibility of the State.

E. Joint Venture-Shared Service Arrangement

The District participates in the following shared service arrangements:

Humble Regional Day School Program for the Deaf
The District participates in a shared service arrangement, Humble Regional Day School Program for the Deaf, with numerous districts for the education of students with a hearing impairment. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Humble Independent School District, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent is responsible for the financial activities of the shared service arrangement.

Required Supplementary Information

New Caney Independent School District

Exhibit G-1

Schedule of Revenues, Expenditures, and Changes
In Fund Balance – Budget and Actual
General Fund
For the Fiscal Year Ended August 31, 2017

Data Control Codes		Budgeted Amounts Original	Final	Actual	Variance with Final Budget Positive (Negative)
	REVENUES:				
5700	Local and intermediate sources	$ 41,597,240	$ 42,402,558	$ 42,977,335	574,777
5800	State program revenues	84,398,956	84,523,956	82,434,407	(2,089,549)
5900	Federal program revenues	985,000	985,000	1,195,137	210,137
5020	Total revenues	126,981,196	127,911,514	126,606,879	(1,304,635)
	EXPENDITURES:				
	Current:				
0011	Instruction	72,375,256	72,321,996	72,282,641	39,355
0012	Instructional resources and media services	1,275,200	1,214,947	1,165,144	49,803
0013	Curriculum and instructional staff development	2,993,227	2,903,174	2,799,283	103,891
0021	Instructional leadership	1,227,468	1,336,928	1,318,951	17,977
0023	School leadership	7,963,144	8,400,164	8,382,006	18,158
0031	Guidance, counseling, and evaluation services	4,423,616	4,420,435	4,327,325	93,110
0032	Social work services	2,430	2,430	1,588	842
0033	Health services	1,207,918	1,254,644	1,231,645	22,999
0034	Student transportation	7,176,444	7,118,862	7,115,152	3,710
0036	Extracurricular activities	5,228,946	5,281,746	5,207,250	74,496
0041	General administration	4,898,752	5,329,461	5,295,034	34,427
0051	Plant maintenance and operations	13,199,480	13,069,011	13,044,762	24,249
0052	Security and monitoring services	1,099,173	1,398,942	1,380,984	17,958
0053	Data processing services	3,307,642	3,338,274	3,299,887	38,387
0061	Community services	7,500	8,500	89	8,411
0095	Payments to juvenile justice alternative education programs	45,000	9,000	-	9,000
0099	Other intergovernmental charges	550,000	550,000	525,225	24,775
6030	Total expenditures	126,981,196	127,958,514	127,376,966	581,548
1200	Net change in fund balance	-	(47,000)	(770,087)	(723,087)
0100	Fund balance - beginning	24,226,599	24,226,599	24,226,599	-
3000	**FUND BALANCE - ENDING**	$ 24,226,599	$ 24,179,599	$ 23,456,512	$ (723,087)

The Notes to the Required Supplementary Information are an integral part of this schedule.

New Caney Independent School District **Exhibit G-2**

Schedule of the District's Proportionate Share of the Net Pension Liability of a Cost-Sharing Multiple-Employer Pension Plan
Teacher Retirement System of Texas
For the Last Three Fiscal Years

	2017	2016	2015
District's proportion of the net pension liability	0.0866803%	0.086618%	0.0567278%
District's proportionate share of the net pension liability	$ 32,755,201	$ 30,618,310	$ 15,152,779
State's proportionate share of the net pension liability associated with the District	52,456,045	48,009,456	38,947,704
TOTALS	**$ 85,211,246**	**$ 78,627,766**	**$ 54,100,483**
District's covered payroll	$ 88,748,492	$ 82,049,484	$ 74,214,555
District's proportionate share of the net pension liability as a percentage of its covered payroll	36.91%	37.32%	20.42%
Plan fiduciary net position as a percentage of the total pension liability	78.00%	78.43%	83.25%

* The amounts presented for the fiscal years were determined as of the Plan's fiscal year end, August 31 of the prior year.
Ten years of data is not available.

The Notes to the Required Supplementary Information are an integral part of this schedule.

New Caney Independent School District **Exhibit G-3**

Schedule of the District's Contributions to the
Teacher Retirement System of Texas Pension Plan
For the Last Three Fiscal Years*

	2017	2016	2015
TRS			
Contractually required contributions	$ 3,039,976	$ 2,753,835	$ 2,564,563
Contributions in relation to the contractually required contributions	(3,039,976)	(2,753,835)	(2,564,563)
CONTRIBUTION DEFICIENCY (EXCESS)	**$ -**	**$ -**	**$ -**
District's covered payroll	$ 95,872,906	$ 88,748,492	$ 82,049,484
Contributions as a percentage of covered payroll	3.17%	3.10%	3.13%

*The amounts presented for the fiscal years were determined as of the District's fiscal year end August 31.
Ten years of data is not available.

The Notes to the Required Supplementary Information are an integral part of this schedule.

New Caney Independent School District

Notes to the Required Supplementary Information

Note 1. Budget

A. Budgetary Information

Each school district in Texas is required by law to prepare annually a budget of anticipated revenues and expenditures for the general fund, debt service fund, and the National School Breakfast and Lunch Program special revenue fund. The Texas Education Code requires the budget to be prepared not later than August 20 and adopted by August 31 of each year. The budgets are prepared on a basis of accounting that is used for reporting in accordance with generally accepted accounting principles.

The following procedures are followed in establishing the budgetary data reflected in the fund financial schedules:

1. Prior to August 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
3. Prior to September 1, the budget is formally approved and adopted by the Board.

The appropriated budget is prepared by fund and function. The District's campus/department heads may make transfers of appropriations within a campus or department. Transfers of appropriations between campuses or departments require the approval of the District's management. Increasing any one of the functional spending categories, or revenues object accounts and other resources require the approval of the Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the function level within a fund. All annual appropriations lapse at fiscal year end.

B. Variances with Final Budget

The District's general fund budget differs from the original budget due to budget revisions that were made during the fiscal period: amendments approved shortly after the beginning of the new fiscal year period for amounts restricted, committed, or assigned in the prior year; amendments in early and late spring to revise estimates for local and state revenues based on the latest information on student attendance numbers and tax collections; and amendments during the year for unexpected occurrences.

The District's final general fund budget did not vary significantly from the original budget.

The District's final general fund budget did not vary significantly from actual expenditures.

C. Excess of Expenditures Over Appropriations

There were no excess of expenditures over appropriations in the General Fund.

Note 2. Pension

TRS - Actuarial Assumptions for Contribution Rate

Actuarial Assumptions – The information presented in the following table was used in the actuarial valuation for determining the actuarially determined contribution rate. The assumptions are as follows:

Valuation date	August 31, 2016
Actuarial cost method	Ultimate entry age normal
Amortization method	Level percentage of payroll, floating
Remaining amortization period	33 Years
Asset valuation method	5 Year smoothed market
Actuarial assumptions:	
Inflation	2.50%
Salary increases	3.50% to 9.50% including inflation
Investment rate of return	8.00%
Ad hoc post-employment benefit changes	None
Benefit changes during the year	None

Supplementary Information

New Caney Independent School District
Combining Balance Sheet
Nonmajor Government Funds – Special Revenue Funds
August 31, 2017

Data Control Codes		211 ESEA Title I Improving Basic Programs	212 Title-I Part C Migrant
	ASSETS		
1110	Cash and cash equivalents	$ -	$ -
1120	Current investments	-	-
1240	Due from other governments	235,752	-
1260	Due from other funds	-	-
1300	Inventories	-	-
1000	**TOTAL ASSETS**	$ 235,752	$ -
	LIABILITIES		
2110	Accounts payable	$ -	$ -
2160	Accrued wages payable	60,914	-
2170	Due to other funds	174,838	-
2180	Due to other governments	-	-
2300	Unearned revenue	-	-
2000	Total liabilities	235,752	-
	FUND BALANCES		
3450	Restricted - grant funds	-	-
3545	Committed - other	-	-
3000	Total fund balances	-	-
4000	**TOTAL LIABILITIES AND FUND BALANCES**	$ 235,752	$ -

224	225	240	244	255	263
IDEA-B Formula	IDEA-B Preschool Grant	National School Breakfast/Lunch Program	Career and Technical - Basic Grant	ESEA Title II Training and Recruiting	Title III, English Language Acquisition and Enhancement
$ -	$ -	$ 517,689	$ -	$ -	$ -
-	-	1,830,488	-	-	-
210,239	510	-	3,291	25,969	34,286
-	-	-	-	-	-
-	-	123,057	-	-	-
$ 210,239	$ 510	$ 2,471,234	$ 3,291	$ 25,969	$ 34,286
$ -	$ -	$ -	$ -	$ -	$ -
89,794	510	136,586	-	4,717	7,524
120,445	-	1,095,001	3,291	21,252	26,762
-	-	-	-	-	-
-	-	-	-	-	-
210,239	510	1,231,587	3,291	25,969	34,286
-	-	1,239,647	-	-	-
-	-	-	-	-	-
-	-	1,239,647	-	-	-
$ 210,239	$ 510	$ 2,471,234	$ 3,291	$ 25,969	$ 34,286

New Caney Independent School District
Combining Balance Sheet
Nonmajor Government Funds – Special Revenue Funds - Continued
August 31, 2017

Data Control Codes		289 Other Federally Funded Grants
	ASSETS	
1110	Cash and cash equivalents	$ -
1120	Current investments	-
1240	Due from other governments	2,046
1260	Due from other funds	-
1300	Inventories	-
1000	**TOTAL ASSETS**	$ 2,046
	LIABILITIES	
2110	Accounts payable	$ -
2160	Accrued wages payable	-
2170	Due to other funds	2,046
2180	Due to other governments	-
2300	Unearned revenue	-
2000	Total liabilities	2,046
	FUND BALANCES	
3450	Restricted - grant funds	-
3545	Committed - other	-
3000	Total fund balances	-
4000	**TOTAL LIABILITIES AND FUND BALANCES**	$ 2,046

385	397	410	429	460	461
Supplemental Visually Impaired	Advanced Placement Incentives	State Textbook Fund	Other State Funded Grants	New Caney High School Campus Activity	White Oak M.S. Activity
$ -	$ 5,184	$ 16,723	$ -	$ 35,048	$ 23,152
-	-	-	-	5,435	-
-	-	-	24,652	-	-
-	-	-	-	1,329	-
-	-	-	-	-	-
$ -	$ 5,184	$ 16,723	$ 24,652	$ 41,812	$ 23,152
$ -	$ -	$ -	$ -	$ 664	$ 121
-	-	-	-	-	-
-	-	-	6,688	-	-
-	-	-	11,550	-	-
-	5,184	16,723	6,414	-	-
-	5,184	16,723	24,652	664	121
-	-	-	-	-	-
-	-	-	-	41,148	23,031
-	-	-	-	41,148	23,031
$ -	$ 5,184	$ 16,723	$ 24,652	$ 41,812	$ 23,152

New Caney Independent School District

Combining Balance Sheet

Nonmajor Government Funds – Special Revenue Funds- Continued

August 31, 2017

Data Control Codes		462 Keefer Crossing M.S. Campus Activity	463 Porter Elementary Campus Activity
	ASSETS		
1110	Cash and cash equivalents	$ 24,601	$ 5,010
1120	Current investments	-	-
1240	Due from other governments	-	-
1260	Due from other funds	-	-
1300	Inventories	-	-
1000	**TOTAL ASSETS**	$ 24,601	$ 5,010
	LIABILITIES		
2110	Accounts payable	$ 1,983	$ 2,268
2160	Accrued wages payable	-	-
2170	Due to other funds	-	-
2180	Due to other governments	-	-
2300	Unearned revenue	-	-
2000	Total liabilities	1,983	2,268
	FUND BALANCES		
3450	Restricted - grant funds	-	-
3545	Committed - other	22,618	2,742
3000	Total fund balances	22,618	2,742
4000	**TOTAL LIABILITIES AND FUND BALANCES**	$ 24,601	$ 5,010

464	465	466	467	468	469
New Caney Elementary Campus Activity	**Aiken Elementary Campus Activity**	**Robert Crippen Elementary Campus Activity**	**Kings Manor Elementary Campus Activity**	**The Learning Center Campus Activity**	**Special Education Campus Activity**
$ 1,450	$ 15,419	$ 7,148	$ 843	$ 13,686	$ 167
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
$ 1,450	$ 15,419	$ 7,148	$ 843	$ 13,686	$ 167
$ 24	$ -	$ 552	$ -	$ -	$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
24	-	552	-	-	-
-	-	-	-	-	-
1,426	15,419	6,596	843	13,686	167
1,426	15,419	6,596	843	13,686	167
$ 1,450	$ 15,419	$ 7,148	$ 843	$ 13,686	$ 167

New Caney Independent School District
Combining Balance Sheet
Nonmajor Government Funds – Special Revenue Funds- Continued
August 31, 2017

Data Control Codes		470 Bens Branch Elementary Campus Activity	471 Valley Ranch Elementary Campus Activity
	ASSETS		
1110	Cash and cash equivalents	$ 68,825	$ 7,479
1120	Current investments	-	-
1240	Due from other governments	-	-
1260	Due from other funds	-	-
1300	Inventories	-	-
1000	**TOTAL ASSETS**	$ 68,825	$ 7,479
	LIABILITIES		
2110	Accounts payable	$ -	$ 98
2160	Accrued wages payable	-	-
2170	Due to other funds	-	-
2180	Due to other governments	-	-
2300	Unearned revenue	-	-
2000	Total liabilities	-	98
	FUND BALANCES		
3450	Restricted - grant funds	-	-
3545	Committed - other	68,825	7,381
3000	Total fund balances	68,825	7,381
4000	**TOTAL LIABILITIES AND FUND BALANCES**	$ 68,825	$ 7,479

472	473	474	475	476	477
Sorters Mill Elementary Campus Activity	Sixth Grade Campus Activity	District Wide Activity	Physical Education Activity	Porter High School Campus Activity	Oakley Elementary Campus Activity
$ 10,393	$ 16,541	$ 11,444	$ 98,786	$ 54,768	$ 17,013
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
$ 10,393	$ 16,541	$ 11,444	$ 98,786	$ 54,768	$ 17,013
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
10,393	16,541	11,444	98,786	54,768	17,013
10,393	16,541	11,444	98,786	54,768	17,013
$ 10,393	$ 16,541	$ 11,444	$ 98,786	$ 54,768	$ 17,013

New Caney Independent School District
Combining Balance Sheet
Nonmajor Government Funds – Special Revenue Funds- Continued
August 31, 2017

Data Control Codes		478 Porter High School Athletic Activity	479 Woodridge Forest M.S. Activity
	ASSETS		
1110	Cash and cash equivalents	$ 53,335	$ 7,163
1120	Current investments	-	-
1240	Due from other governments	-	-
1260	Due from other funds	-	-
1300	Inventories	-	-
1000	**TOTAL ASSETS**	$ 53,335	$ 7,163
	LIABILITIES		
2110	Accounts payable	$ 135	$ 2,075
2160	Accrued wages payable	-	-
2170	Due to other funds	-	-
2180	Due to other governments	-	-
2300	Unearned revenue	-	-
2000	Total liabilities	135	2,075
	FUND BALANCES		
3450	Restricted - grant funds	-	-
3545	Committed - other	53,200	5,088
3000	Total fund balances	53,200	5,088
4000	**TOTAL LIABILITIES AND FUND BALANCES**	$ 53,335	$ 7,163

480	495	
Dogwood Elementary Campus Activity	**Education Foundation Grant**	**Total Nonmajor Funds (See Exhibit C-1)**
$ 913	$ 1,420	$ 1,014,200
-	-	1,835,923
-	-	536,745
-	-	1,329
-	-	123,057
$ 913	$ 1,420	$ 3,511,254
$ -	$ -	$ 7,920
-	-	300,045
-	-	1,450,323
-	-	11,550
-	-	28,321
-	-	1,798,159
-	-	1,239,647
913	1,420	473,448
913	1,420	1,713,095
$ 913	$ 1,420	$ 3,511,254

New Caney Independent School District
Combining Statements of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Government Funds – Special Revenue Funds
For the Fiscal Year Ended August 31, 2017

Data Control Codes		211 ESEA Title I Improving Basic Programs	212 Title-I Part C Migrant
	REVENUES		
5700	Local and intermediate sources	$ -	$ -
5800	State program revenues	-	-
5900	Federal program revenues	2,096,768	39,561
5020	Total revenues	2,096,768	39,561
	EXPENDITURES		
	Current:		
0011	Instruction	1,158,802	23,201
0012	Instructional resources and media services	-	-
0013	Curriculum and instructional staff development	748,650	-
0021	Instructional leadership	15,558	3,280
0023	School leadership	19,344	-
0031	Guidance, counseling, and evaluation services	26,875	-
0032	Social work services	-	12,924
0033	Health services	-	-
0034	Student transportation	10,008	-
0035	Food services	-	-
0036	Extracurricular activities	-	-
0041	General administration	12,742	-
0051	Plant maintenance and operations	-	-
0052	Security and monitoring services	-	-
0061	Community services	104,789	156
	Intergovernmental:		
0093	Payments related to shared services arrangements	-	-
6030	Total expenditures	2,096,768	39,561
1200	Net change in fund balances	-	-
0100	Fund balances - beginning	-	-
3000	**FUND BALANCES - ENDING**	$ -	$ -

224	225	240	244	255	263
IDEA-B Formula	IDEA-B Preschool Grant	National School Breakfast/Lunch Program	Career and Technical - Basic Grant	ESEA Title II Training and Recruiting	Title III, English Language Acquisition and Enhancement
$ -	$ -	$ 2,354,495	$ -	$ -	$ -
-	-	232,916	-	-	-
2,044,327	6,514	5,784,879	133,593	198,134	414,870
2,044,327	6,514	8,372,290	133,593	198,134	414,870
1,364,373	6,514	-	133,593	-	276,446
-	-	-	-	-	-
79,710	-	-	-	198,109	125,818
-	-	-	-	25	501
-	-	-	-	-	-
444,637	-	-	-	-	-
-	-	-	-	-	-
247	-	-	-	-	-
-	-	-	-	-	-
-	-	8,087,906	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,360	-	-	-	-	12,105
154,000	-	-	-	-	-
2,044,327	6,514	8,087,906	133,593	198,134	414,870
-	-	284,384	-	-	-
-	-	955,263	-	-	-
$ -	$ -	$ 1,239,647	$ -	$ -	$ -

New Caney Independent School District
Combining Statements of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Government Funds – Special Revenue Funds- Continued
For the Fiscal Year Ended August 31, 2017

Data Control Codes		289 Other Federally Funded Grants
	REVENUES	
5700	Local and intermediate sources	$ -
5800	State program revenues	-
5900	Federal program revenues	507,520
5020	Total revenues	507,520
	EXPENDITURES	
	Current:	
0011	Instruction	23,014
0012	Instructional resources and media services	-
0013	Curriculum and instructional staff development	482,247
0021	Instructional leadership	-
0023	School leadership	2,259
0031	Guidance, counseling, and evaluation services	-
0032	Social work services	-
0033	Health services	-
0034	Student transportation	-
0035	Food services	-
0036	Extracurricular activities	-
0041	General administration	-
0051	Plant maintenance and operations	-
0052	Security and monitoring services	-
0061	Community services	-
	Intergovernmental:	
0093	Payments related to shared services arrangements	-
6030	Total expenditures	507,520
1200	Net change in fund balances	-
0100	Fund balances - beginning	-
3000	**FUND BALANCES - ENDING**	$ -

385	397	410	429	460	461
Supplemental Visually Impaired	Advanced Placement Incentives	State Textbook Fund	Other State Funded Grants	New Caney High School Campus Activity	White Oak M.S. Activity
$ -	$ -	$ -	$ -	$ 71,521	$ 37,029
14,522	10,794	917,448	284,793	-	-
-	-	-	-	-	-
14,522	10,794	917,448	284,793	71,521	37,029
12,518	-	867,650	259,678	12,409	28,988
-	-	-	-	3,479	3,922
2,004	10,794	29,428	25,115	222	-
-	-	-	-	-	-
-	-	10,000	-	44,882	565
-	-	10,370	-	1,552	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	11,886	320
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
14,522	10,794	917,448	284,793	74,430	33,795
-	-	-	-	(2,909)	3,234
-	-	-	-	44,057	19,797
$ -	$ -	$ -	$ -	$ 41,148	$ 23,031

New Caney Independent School District
Combining Statements of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Government Funds – Special Revenue Funds- Continued
For the Fiscal Year Ended August 31, 2017

Data Control Codes		462 Keefer Crossing M.S. Campus Activity	463 Porter Elementary Campus Activity
	REVENUES		
5700	Local and intermediate sources	$ 45,606	$ 57,378
5800	State program revenues	-	-
5900	Federal program revenues	-	-
5020	Total revenues	45,606	57,378
	EXPENDITURES		
	Current:		
0011	Instruction	26,584	27,177
0012	Instructional resources and media services	5,049	9,658
0013	Curriculum and instructional staff development	597	-
0021	Instructional leadership	-	-
0023	School leadership	3,256	22,573
0031	Guidance, counseling, and evaluation services	-	256
0032	Social work services	-	-
0033	Health services	-	-
0034	Student transportation	-	-
0035	Food services	-	-
0036	Extracurricular activities	8,556	10,912
0041	General administration	-	-
0051	Plant maintenance and operations	-	-
0052	Security and monitoring services	-	-
0061	Community services	-	-
	Intergovernmental:		
0093	Payments related to shared services arrangements	-	-
6030	Total expenditures	44,042	70,576
1200	Net change in fund balances	1,564	(13,198)
0100	Fund balances - beginning	21,054	15,940
3000	**FUND BALANCES - ENDING**	$ 22,618	$ 2,742

464	465	466	467	468	469
New Caney Elementary Campus Activity	**Aiken Elementary Campus Activity**	**Robert Crippen Elementary Campus Activity**	**Kings Manor Elementary Campus Activity**	**The Learning Center Campus Activity**	**Special Education Campus Activity**
$ 65,292	$ 70,543	$ 65,459	$ 67,652 $	$ 7,982 $	$ 735
-	-	-	-	-	-
-	-	-	-	-	-
65,292	70,543	65,459	67,652	7,982	735
19,662	22,406	39,140	19,389	-	-
6,679	10,325	3,894	11,385	-	-
2,087	251	184	1,000	-	-
-	-	-	-	-	1,166
13,221	9,162	1,037	21,995	200	-
159	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
24,979	22,446	19,066	14,395	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,277	-	-	-	99	-
-	-	-	-	-	-
-	-	-	-	-	-
68,064	64,590	63,321	68,164	299	1,166
(2,772)	5,953	2,138	(512)	7,683	(431)
4,198	9,466	4,458	1,355	6,003	598
$ 1,426	$ 15,419	$ 6,596	$ 843	$ 13,686	$ 167

New Caney Independent School District
Combining Statements of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Government Funds – Special Revenue Funds- Continued
For the Fiscal Year Ended August 31, 2017

Data Control Codes		470 Bens Branch Elementary Campus Activity	471 Valley Ranch Elementary Campus Activity
	REVENUES		
5700	Local and intermediate sources	$ 77,002	$ 72,824
5800	State program revenues	-	-
5900	Federal program revenues	-	-
5020	Total revenues	77,002	72,824
	EXPENDITURES		
	Current:		
0011	Instruction	22,656	30,313
0012	Instructional resources and media services	13,754	10,834
0013	Curriculum and instructional staff development	349	423
0021	Instructional leadership	-	-
0023	School leadership	6,158	5,315
0031	Guidance, counseling, and evaluation services	-	-
0032	Social work services	-	-
0033	Health services	-	-
0034	Student transportation	-	-
0035	Food services	-	-
0036	Extracurricular activities	15,816	12,109
0041	General administration	-	-
0051	Plant maintenance and operations	-	-
0052	Security and monitoring services	-	-
0061	Community services	-	-
	Intergovernmental:		
0093	Payments related to shared services arrangements	-	-
6030	Total expenditures	58,733	58,994
1200	Net change in fund balances	18,269	13,830
0100	Fund balances - beginning	50,556	(6,449)
3000	**FUND BALANCES - ENDING**	$ 68,825	$ 7,381

Exhibit H-2
(Page 4 of 5)

472	473	474	475	476	477
Sorters Mill Elementary Campus Activity	Sixth Grade Campus Activity	District Wide Activity	Physical Education Activity	Porter High School Campus Activity	Oakley Elementary Campus Activity
$ 73,195	$ 31,609	$ 4,492	$ 67,041	$ 38,318	$ 64,248
-	-	-	-	-	-
-	-	-	-	-	-
73,195	31,609	4,492	67,041	38,318	64,248
29,929	18,908	-	-	4,124	20,388
11,452	1,077	-	-	-	16,098
-	361	-	-	321	300
-	-	-	-	-	-
13,495	904	-	-	23,567	29,207
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
17,683	8,936	5,000	77,520	-	13,822
-	-	-	-	-	-
-	-	-	-	-	2,566
-	-	-	-	5,753	-
-	-	-	-	-	-
-	-	-	-	-	-
72,559	30,186	5,000	77,520	33,765	82,381
636	1,423	(508)	(10,479)	4,553	(18,133)
9,757	15,118	11,952	109,265	50,215	35,146
$ 10,393	$ 16,541	$ 11,444	$ 98,786	$ 54,768	$ 17,013

New Caney Independent School District
Combining Statements of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Government Funds – Special Revenue Funds- Continued
For the Fiscal Year Ended August 31, 2017

		478	479
Data Control Codes		**Porter High School Athletic Activity**	**Woodridge Forest M.S. Activity**
	REVENUES		
5700	Local and intermediate sources	$ 58,870	$ 49,594
5800	State program revenues	-	-
5900	Federal program revenues	-	-
5020	Total revenues	58,870	49,594
	EXPENDITURES		
	Current:		
0011	Instruction	-	21,343
0012	Instructional resources and media services	-	2,589
0013	Curriculum and instructional staff development	-	230
0021	Instructional leadership	-	-
0023	School leadership	-	26,066
0031	Guidance, counseling, and evaluation services	-	-
0032	Social work services	-	-
0033	Health services	-	-
0034	Student transportation	-	-
0035	Food services	-	-
0036	Extracurricular activities	86,875	14,783
0041	General administration	-	-
0051	Plant maintenance and operations	-	198
0052	Security and monitoring services	-	1,781
0061	Community services	-	-
	Intergovernmental:		
0093	Payments related to shared services arrangements	-	-
6030	Total expenditures	86,875	66,990
1200	Net change in fund balances	(28,005)	(17,396)
0100	Fund balances - beginning	81,205	22,484
3000	**FUND BALANCES - ENDING**	$ 53,200	$ 5,088

480	495	
Dogwood Elementary Campus Activity	**Education Foundation Grant**	**Total Nonmajor Funds (See Exhibit C-2)**
$ 5,000	$ 82,776	$ 3,468,661
-	-	1,460,473
-	-	11,226,166
5,000	82,776	16,155,300
1,019	80,757	4,550,981
-	-	110,195
-	-	1,708,200
-	-	20,530
3,068	-	256,274
-	599	484,448
-	-	12,924
-	-	247
-	-	10,008
-	-	8,087,906
-	-	365,104
-	-	12,742
-	-	2,764
-	-	8,910
-	-	118,410
-	-	154,000
4,087	81,356	15,903,643
913	1,420	251,657
-	-	1,461,438
$ 913	$ 1,420	$ 1,713,095

New Caney Independent School District
Schedule of Delinquent Taxes Receivable
For the Fiscal Year Ended August 31, 2017

Year Ended August 31	1 Tax Rates Maintenance	2 Tax Rates Debt Service	3 Assessed/Appraised Value For School Tax Purposes
2008 and Prior Years	$ Various	$ Various	$ Various
2009	1.04	0.400	1,862,058,264
2010	1.04	0.440	1,992,171,081
2011	1.04	0.500	2,019,501,299
2012	1.04	0.500	2,167,000,714
2013	1.04	0.500	2,310,948,896
2014	1.17	0.500	2,488,663,413
2015	1.17	0.500	2,733,588,922
2016	1.17	0.500	3,141,603,593
2017 School year under audit	1.17	0.500	3,528,444,491
1000 TOTALS			
9000 - Portion of row 1000 for taxes paid into tax increment zone under chapter 311, tax code			

Exhibit J-1

10 Beginning Balance 9/1/16	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/17
$ 479,681	$ -	$ 24,505	$ 8,835	$ (33,953)	$ 412,388
107,043	-	4,777	1,837	(1,647)	98,782
125,769	-	5,185	2,193	(3,317)	115,074
129,184	-	6,629	3,187	(3,808)	115,560
137,023	-	29,954	14,403	25,497	118,163
174,908	-	48,537	23,337	32,350	135,384
218,390	-	71,952	30,748	58,607	174,297
334,474	-	119,525	51,079	63,156	227,026
918,268	-	399,644	170,787	(7,552)	340,285
-	58,925,023	40,275,351	17,211,590	(404,848)	1,033,234
$ 2,624,740	$ 58,925,023	$ 40,986,059	$ 17,517,996	$ (275,515)	$ 2,770,193
		$ -	$ -		

New Caney Independent School District **Exhibit J-2**

Schedule of Revenues, Expenditures, and Changes
in Fund Balance – Budget and Actual
National School Breakfast and Lunch Program
For the Fiscal Year Ended August 31, 2017

Data Control Codes		Budgeted Amounts Original	Final	Actual	Variance with Final Budget Positive (Negative)
	REVENUES				
5700	Local and intermediate sources	$ 3,321,238	$ 3,321,238	$ 2,354,495	$ (966,743)
5800	State program revenues	338,000	338,000	232,916	(105,084)
5900	Federal program revenues	5,195,500	5,195,500	5,784,879	589,379
5020	Total revenues	8,854,738	8,854,738	8,372,290	(482,448)
	EXPENDITURES				
	Current:				
0035	Food services	8,854,738	8,854,738	8,087,906	766,832
6030	Total expenditures	8,854,738	8,854,738	8,087,906	766,832
1200	Net change in fund balance	-	-	284,384	284,384
0100	Fund balance - beginning	955,263	955,263	955,263	-
3000	**FUND BALANCE - ENDING**	$ 955,263	$ 955,263	$ 1,239,647	$ 284,384

New Caney Independent School District **Exhibit J-3**

Schedule of Revenues, Expenditures, and Changes
in Fund Balance – Budget and Actual
Debt Service Fund
For the Fiscal Year Ended August 31, 2017

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with Final Budget Positive (Negative)
	REVENUES				
5700	Local and intermediate sources	$ 17,536,127	$ 17,907,670	$ 17,904,331	$ (3,339)
5800	State program revenues	6,417,553	7,344,101	7,374,471	30,370
5020	Total revenues	23,953,680	25,251,771	25,278,802	27,031
	EXPENDITURES				
	Debt Service:				
0071	Principal on long-term debt	7,712,883	7,712,883	7,712,883	-
0072	Interest on long-term debt	16,252,122	17,473,539	17,473,539	-
0073	Issuance costs and fees	-	807,987	738,379	69,608
6030	Total expenditures	23,965,005	25,994,409	25,924,801	69,608
1100	Excess (deficiency) of revenues over (under) expenditures	(11,325)	(742,638)	(645,999)	96,639
	OTHER FINANCING SOURCES (USES)				
7916	Premium or discount on issuance of bonds	-	731,313	731,314	1
7080	Total other financing sources (uses)	-	731,313	731,314	1
1200	Net change in fund balance	(11,325)	(11,325)	85,315	96,640
0100	Fund balance - beginning	4,949,977	4,949,977	4,949,977	-
3000	**FUND BALANCE - ENDING**	$ 4,938,652	$ 4,938,652	$ 5,035,292	$ 96,640

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Overall Compliance, Internal Control Section and Federal Awards

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees of
New Caney Independent School District
21580 Loop 494
New Caney, Texas 77357

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of New Caney Independent School District (the 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, and have issued our report thereon dated December 14, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

The Board of Trustees of
New Caney Independent School District

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
December 14, 2017

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

The Board of Trustees of
New Caney Independent School District
21580 Loop 494
New Caney, Texas 77357

Report on Compliance for Each Major Federal Program

We have audited New Caney Independent School District's (the District) compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2017.

AN INDEPENDENT MEMBER OF BAKER TILLY INTERNATIONAL
WEAVER AND TIDWELL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS
1406 WILSON ROAD, SUITE 100, CONROE, TX 77304
P: 936.756.8127 F: 936.756.8132

The Board of Trustees of
New Caney Independent School District

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
December 14, 2017

New Caney Independent School District
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended August 31, 2017

Section 1. Summary of Auditor's Results

Financial Statements

1. Type of auditor's report issued	Unmodified
2. Internal control over financial reporting:	
a. Material weakness(es) identified?	No
b. Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
3. Noncompliance material to the financial statements noted?	No

Federal Awards

4. Internal control over major programs:	
a. Material weakness(es) identified?	No
b. Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
5. Type of auditor's report issued on compliance with major programs?	Unmodified
6. Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	No
7. Identification of major programs	10.553 and 10.555 – Child Nutrition Cluster
8. Dollar threshold used to distinguish between Type A and Type B federal programs	$750,000
9. Auditee qualified as a low-risk auditee	Yes

Section 2. Financial Statement Findings

None reported

Section 3. Federal Award Findings and Questioned Costs

None reported

New Caney Independent School District
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended August 31, 2017

Prior Year Findings

None reported

New Caney Independent School District

Exhibit K-1

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended August 31, 2017

(1) Federal Grantor/ Pass-Through Grantor/ Program Title	(2) Federal CFDA Number	(2A) Pass-Through Entity Identifying Number	(3) Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education:			
ESEA Title I, Part A - Improving Basic Programs	84.010A	17610101170908	$ 2,175,453
Special Education Cluster (IDEA):			
IDEA - Part B, Formula	84.027A	176600011709086000	2,116,891
IDEA - Part B, Preschool	84.173A	176600011709086000	6,514
Total Special Education Cluster (IDEA)			2,123,405
Career and Technical - Basic Grant	84.048A	17420006170908	138,578
Title III, Part A - English Language Acquisition and Language Enhancement	84.365A	17671001170908	368,418
Title III, Part A-Immigrant	84.365A	17671003170908	46,452
Total 84.365A			414,870
Summer School LEP	84.369A	69551602	23,014
ESEA Title II, Part A - Teacher and Principal Training and Recruiting	84.367A	17694501170908	198,134
Passed Through Nat. Institute For Excellence in Teaching:			
Support Effective Educator Development	84.423A	N/A*	484,506
Passed Through Region VI Education Service Center:			
Title I, Part C - Migrant	84.011A	17615001236950	39,561
TOTAL U.S. DEPARTMENT OF EDUCATION			5,597,521
U.S. DEPARTMENT OF AGRICULTURE			
Child Nutrition Cluster:			
Passed Through State Department of Agriculture - Non-Cash Assistance:			
National School Lunch Program	10.555	00835	471,511
Passed Through State Department of Education - Cash Assistance:			
School Breakfast Program	10.553	71401701	1,308,368
National School Lunch Program	10.555	71301701	4,005,000
Total Child Nutrition Cluster			5,784,879
TOTAL U.S. DEPARTMENT OF AGRICULTURE			5,784,879
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 11,382,400

* N/A indicates that a pass-through entity identifying number was not available from the pass-through grantor.

The Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

New Caney Independent School District

Notes to the Schedule of Expenditures of Federal Awards

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of New Caney Independent School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Single Audit Act Amendments of 1996 and *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. National School Lunch Program non-cash commodities are recorded at their estimated market value at the time of donation. The District has elected not to use the 10% de minimis indirect cost rate as allowed under Uniform Guidance. Presented below is a reconciliation of federal revenues:

Total expenditures of federal awards per Exhibit K-1	$ 11,382,400
General Fund - federal revenue	
SHARS	956,847
ROTC	82,056
Total federal revenues per exhibit C-2	$ 12,421,303

New Caney Independent School District **Exhibit L-1**

Schedule of Required Responses to Selected
School FIRST Indicators (Unaudited)
For the Fiscal Year Ended August 31, 2017

Data Control Codes		Responses
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end?	$ 2,598,063
SF11	Net pension assets (1920) at fiscal year-end.	$ -
SF12	Net pension liabilities (2540) at fiscal year-end.	$ 32,755,201

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Financial Advisory Services
Provided By:

SAMCO CAPITAL MARKETS, INC.