

OFFICIAL STATEMENT

Dated: June 20, 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 hereafter described, corporations. See "TAX MATTERS" herein.

The District has designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions.

\$6,400,000

RICE INDEPENDENT SCHOOL DISTRICT

(A political subdivision of the State of Texas located in Navarro County, Texas)

UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018

Dated Date: July 1, 2018

Due: February 15, as shown on the inside cover page

The Rice Independent School District 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), Texas Education Code, as amended, an election held in the District on May 6, 2017 and the order (the "Bond Order" or "Order") adopted by the Board of Trustees (the "Board") on June 20, 2018. 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 Rice 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. (See "THE BONDS – Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Interest on the Bonds will accrue from the Dated Date shown above and will be payable on February 15 and August 15 of each year, commencing February 15, 2019 until stated maturity or prior redemption. The Bonds will be issued in fully registered form in principal denominations of \$5,000 or any integral multiple thereof within a stated maturity. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar, which initially is BOKF, NA, Dallas, Texas (the "Paying Agent/Registrar"), upon presentation and surrender of the Bonds for payment. Interest on the Bonds is payable by check dated as of the interest payment date and mailed by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar on the close of business as of the last business day of the month next preceding each interest payment date.

The District intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"). Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer of the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM").

Proceeds from the sale of the Bonds will be used for (i) construction, renovation, acquisition and equipment of school buildings in the District and the purchase of necessary sites for school buildings and (ii) paying the costs of issuing the Bonds. (See "THE BONDS - Authorization and Purpose").

The Bonds maturing on and after February 15, 2033 are subject to redemption at the option of the District in whole or in part in principal amounts of \$5,000 or any multiple thereof, on August 15, 2028 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. The Term Bonds (hereinafter defined) are subject to mandatory sinking fund redemption as described herein. (See "THE BONDS – Optional Redemption" and "THE BONDS – Mandatory Sinking Fund Redemption").

MATURITY SCHEDULE

(On Inside Cover Page)

The Bonds are offered for delivery when, as and if issued, and received by the initial purchaser named below (the "Underwriter") 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, Dallas, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas. The Bonds are expected to be available for initial delivery through the services of DTC on or about July 18, 2018.

PIPER JAFFRAY & CO.

\$6,400,000
RICE INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Navarro County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018

MATURITY SCHEDULE
BASE CUSIP NO: 762829⁽¹⁾

\$1,695,000 Serial Bonds

Maturity Date (2/15)	Principal Amount	Interest Rate	Initial Yield	CUSIP Suffix No.⁽¹⁾
2019	\$55,000	3.00%	1.57%	GM5
2020	105,000	3.00	1.79	GN3
2021	110,000	3.00	1.94	GP8
2022	110,000	3.00	2.07	GQ6
2023	55,000	3.00	2.19	GR4
2024	55,000	3.00	2.31	GS2
2025	65,000	3.00	2.45	GT0
2026	70,000	3.00	2.56	GU7
2027	70,000	3.00	2.64	GV5
2028	75,000	3.00	2.73	GW3
**	**	**	**	**
2039	450,000	4.00	3.24 ⁽²⁾	HB8
2040	475,000	4.00	3.29 ⁽²⁾	HC6

(Interest to accrue from the Dated Date)

\$4,705,000 Term Bonds

\$ 385,000	3.125%	Term Bond due February 15, 2033 – Price 98.785 (yield 3.23%)	CUSIP Suffix No. GX1 ⁽¹⁾
\$ 455,000	4.000%	Term Bond due February 15, 2038 – Price 106.930 (yield 3.19%)	CUSIP Suffix No. GY9 ⁽¹⁾⁽²⁾
\$ 1,530,000	4.000%	Term Bond due February 15, 2043 – Price 104.645 (yield 3.45%)	CUSIP Suffix No. GZ6 ⁽¹⁾⁽²⁾
\$ 2,335,000	3.625%	Term Bond due February 15, 2047 – Price 97.817 (yield 3.75%)	CUSIP Suffix No. HA0 ⁽¹⁾

(Interest to accrue from the Dated Date)

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

⁽²⁾ Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on August 15, 2028, the first optional call date for such Bonds, at a redemption price of par, plus accrued interest to the redemption date.

RICE INDEPENDENT SCHOOL DISTRICT

BOARD OF TRUSTEES

<u>Name</u>	<u>Date Initially Elected</u>	<u>Current Term Expires</u>	<u>Occupation</u>
Greg Barlow, President	2010	2019	VP for Maintenance America, Inc.
Alan Stewart, Vice President	2010	2020	Salesman for US Oxygen
Shanna Lopez, Secretary	2016	2019	Rent-A-Center Manager
Molly Barlow, Member	2015	2021	School Counselor
Jason Blake, Member	2014	2020	Boat Mechanic
Jason Fisher, Member	2018	2021	AutoCad Operator
Bill Ziegenhagen, Member	2007	2019	Engineer

APPOINTED OFFICIALS

<u>Name</u>	<u>Position</u>	<u>Length of Education Service</u>	<u>Length of Service with District</u>
Lynn Jantzen	Superintendent	36 Years	3 Years
Amy Harvell	Assistant Superintendent	25 Years	10 Years
Ronda Walling	Business Manager	21 Years	21 Years

CONSULTANTS AND ADVISORS

Norton Rose Fulbright US LLP, Dallas, Texas	Bond Counsel
SAMCO Capital Markets, Inc., Plano, Texas	Financial Advisor
Anderson, Marx & Bohl, P.C., Corsicana, Texas	Certified Public Accountants

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(214) 279-8683 (Fax)

USE OF INFORMATION IN OFFICIAL STATEMENT

This Official Statement, 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 Official Statement, and, if given or made, such other information or representations must not be relied upon.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in the Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does 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 Underwriter. This Official Statement 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 Official Statement 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 UNDERWRITER 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 UNDERWRITER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT 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 OFFICIAL STATEMENT 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 Official Statement nor any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the purchaser of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The District	The Rice Independent School District (the "District") is a political subdivision of the State of Texas located in Navarro County, 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.
The Bonds	The District's Unlimited Tax School Building Bonds, Series 2018 (the "Bonds") are being issued in the principal amount of \$6,400,000 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, an election held in the District on May 6, 2017 (the "Election") and the order (the "Bond Order" or "Order") adopted by the Board of Trustees (the "Board") on June 20, 2018. 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 District. Proceeds from the sale of the Bonds will be used for (i) construction, renovation, acquisition and equipment of school buildings in the District and the purchase of necessary sites for school buildings and (ii) paying the costs of issuing the Bonds. (See "THE BONDS - Authorization and Purpose.")
Paying Agent/Registrar	The initial Paying Agent/Registrar 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. Payments of principal and interest on the Bonds will be further secured by the corpus of the Permanent School Fund of Texas. (See "THE BONDS – Security", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.")
Redemption	The Bonds maturing on and after February 15, 2033 are subject to redemption at the option of the District in whole or in part in principal amounts of \$5,000 or any multiple thereof, on August 15, 2028 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. The Term Bonds (hereinafter defined) are subject to mandatory sinking fund redemption as described herein. (See "THE BONDS – Optional Redemption" and "THE BONDS – Mandatory Sinking Fund Redemption")
Permanent School Fund Guarantee	The District has received conditional approval from the Texas Education Agency for the payment 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.")
Rating	The Bonds are rated "AAA" by S&P Global Ratings ("S&P") based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program of the TEA. The District's unenhanced, underlying rating, including the Bonds, is "A+" by S&P. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "RATING" 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.")
Qualified Tax-Exempt Obligations	The District has designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions. (See "TAX MATTERS – Qualified Tax-Exempt Obligations").
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, Dallas, Texas, Bond Counsel. (See "Appendix C – Form of Legal Opinion of Bond Counsel").
Delivery	When issued, anticipated to occur on or about July 18, 2018.

INTRODUCTORY STATEMENT

This Official Statement, including Appendices A, B and D, has been prepared by the Rice Independent School District (the "District"), a political subdivision of the State of Texas located in Navarro County, Texas, in connection with the offering by the District of its Unlimited Tax School Building Bonds, Series 2018 (the "Bonds").

All financial and other information presented in this Official Statement 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 Official Statement descriptions of the Bonds and the order adopted by the Board of Trustees of the District (the "Board") authorizing the issuance of the Bonds (the "Order" or "Bond 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 Rice Independent School District, 1302 SW McKinney Street, Rice, Texas 75155 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 Official Statement speaks only as of its date, and the information contained herein is subject to change. A copy of this Final Official Statement 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.

THE BONDS

Authorization and Purpose

The Bonds are being issued in the principal amount of \$6,400,000 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, an election held in the District on May 6, 2017 (the "Election") and the order (the "Bond Order" or "Order") adopted by the Board of Trustees (the "Board") on June 20, 2018. 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 District. Proceeds from the sale of the Bonds will be used for (i) construction, renovation, acquisition and equipment of school buildings in the District and the purchase of necessary sites for school buildings, and (ii) paying the costs of issuing the Bonds.

General Description

The Bonds are dated July 1, 2018 (the "Dated Date") and will bear interest from the Dated Date. The Bonds will mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. Interest on the Bonds is payable initially on February 15, 2019, and on each August 15 and February 15 thereafter until stated maturity or prior redemption.

The Bonds will be issued only as fully registered bonds. The Bonds will be issued in the denominations of \$5,000 of principal amount or any integral multiple thereof within a stated maturity. Interest on the Bonds is payable by check mailed on or before each interest payment date by the Paying Agent/Registrar, initially, BOKF, NA, Dallas, Texas, to the registered owner at the last known address as it appears on the Paying Agent/Registrar's books on the Record Date (as defined herein) or by such other customary banking arrangement acceptable to the Paying Agent/Registrar and the registered owner to whom interest is to be paid, provided, however, that such person shall bear all risk and expense of such other arrangements. Principal of the Bonds will be payable only upon presentation of such Bonds at the corporate trust office of the Paying Agent/Registrar at stated maturity or prior redemption. So long as the Bonds are registered in the name of CEDE & CO. or other nominee for The Depository Trust Company ("DTC"), payments of principal of and interest on the Bonds will be made as described in "BOOK-ENTRY-ONLY SYSTEM" herein.

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

Optional Redemption

The Bonds maturing on and after February 15, 2033 are subject to redemption at the option of the District in whole or in part in principal amounts of \$5,000 or any multiple thereof, on August 15, 2028 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District shall determine the amounts and maturities thereof to be redeemed and shall direct the Paying Agent/Registrar to select by lot the Bonds, or portions thereof, to be redeemed.

Mandatory Sinking Fund Redemption

The Bonds maturing on February 15 in each of the years 2033, 2038, 2043 and 2047 (the "Term Bonds") are subject to mandatory sinking fund redemption prior to their stated maturity, and will be redeemed by the District, at a redemption price equal to the principal amount thereof plus interest accrued thereon to the redemption date, on the dates and in the principal amounts shown in the following schedule:

<u>Term Bonds</u> <u>February 15, 2033</u>		<u>Term Bonds</u> <u>February 15, 2038</u>		<u>Term Bonds</u> <u>February 15, 2043</u>		<u>Term Bonds</u> <u>February 15, 2047</u>	
<u>Date</u> <u>(2/15)</u>	<u>Amount</u>	<u>Date</u> <u>(2/15)</u>	<u>Amount</u>	<u>Date</u> <u>(2/15)</u>	<u>Amount</u>	<u>Date</u> <u>(2/15)</u>	<u>Amount</u>
2029	\$70,000	2034	\$85,000	2041	\$490,000	2044	\$555,000
2030	75,000	2035	85,000	2042	510,000	2045	570,000
2031	80,000	2036	95,000	2043*	530,000	2046	595,000
2032	80,000	2037	90,000			2047*	615,000
2033*	80,000	2038*	100,000				

*Stated Maturity

Approximately forty-five (45) days prior to each mandatory redemption date for any Term Bond, the Paying Agent/Registrar shall randomly select by lot or other customary method the numbers of the Term Bonds within the applicable Stated Maturity to be redeemed on the next following February 15 from moneys set aside for that purpose in the Interest and Sinking Fund (as defined in the Bond Order). Any Term Bonds not selected for prior redemption shall be paid on the date of their Stated Maturity.

The principal amount of a Term Bond 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 Term Bonds of such Stated Maturity which, at least fifty (50) days prior to the mandatory redemption date (i) shall have been defeased or acquired by the District and delivered to the Paying Agent/Registrar for cancellation, or (ii) shall have been redeemed pursuant to the optional redemption provisions set forth above and not theretofore credited against a mandatory redemption requirement.

Notice of Redemption and DTC Notices

Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered owner of a Bond to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE 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, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

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

The Paying Agent/Registrar and the District, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Order or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall 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 DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the beneficial owners. Any such selection of Bonds to be redeemed will not be governed by the Order and will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds for redemption. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Security

The Bonds are direct obligations of the District and are payable as to 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 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. 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" 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, Dallas, 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 or (2) Government Securities (defined below) to 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. The District has additionally reserved the right in the Order, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities for the Government Securities 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 Securities" 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 Securities, will be maintained at any particular rating category. Further, there is no assurance that current Texas law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the District has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Order does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the District to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under Texas law as permissible defeasance securities.

Upon such deposit as described above, such Bonds shall no longer be regarded as 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 of the Bonds cancels the Permanent School Fund guarantee with respect to such 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	\$ 6,400,000.00
Net Original Issue Reoffering Premium	125,459.90
Accrued Interest on Bonds	11,152.71
Total Sources of Funds	\$ 6,536,612.61
Uses	
Deposit to Construction Fund	\$ 6,400,000.00
Costs of Issuance	84,366.21
Underwriter's Discount	41,093.69
Deposit to Interest and Sinking Fund	11,152.71
Total Uses of Funds	\$ 6,536,612.61

REGISTERED OWNERS' REMEDIES

The Order does not establish events of default with respect to the Bonds. 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. 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.

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. Initially, the only registered owner of the Bonds will be Cede & Co., as DTC's nominee. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the duties of DTC with regard to ownership of Bonds.

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 Official Statement. The District, the Financial Advisor and the Underwriter believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The District and the Underwriter 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 Official Statement. 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 DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 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-Only System for the Bonds is discontinued.

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

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

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

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

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 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 Bonds depository). In that event, physical Bond certificates will be printed and delivered.

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

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Direct 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.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Bonds is BOKF, NA, Dallas, Texas. In the Bond 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 Bond 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 to transfer or exchange any Bonds selected for redemption when such redemption is scheduled to occur within 45 calendar days of the redemption date; 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 Navarro Central Appraisal District (the "Appraisal District") is 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 Appraisal Review Board (the "Appraisal Review Board") which is appointed by the Appraisal District's Board of Directors. Such appraisal rolls, as approved by the 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 from \$5,000 up to a maximum of \$12,000 for real or personal property of disabled veterans or the surviving spouse (so long as the surviving spouse remains unmarried) or children (under 18 years of age) of a deceased veteran; a State mandated \$25,000 in market value exemption for all residential homesteads (see "Residential Homestead Exemptions" below); and certain classes of intangible property. If an individual dies while on active duty as a member of the armed services of the US, the surviving spouse and surviving children (under 18 years of age) are entitled to an exemption from taxation of \$5,000 of the assessed value of certain designated property owned by the spouse or children. 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 unemployment is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Furthermore, effective January 1, 2016, the surviving spouse of a deceased veteran who had received a disability rating of 100% when the disabled veteran died, or the surviving spouse of a disabled veteran who would have qualified for such exemption if such exemption had been in effect on the date the disabled veteran died, 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-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 after October 1 of the prior year but prior to January 1 of the first tax year in which the governing body proposes to tax good-in-transit to continue its taxation of good-in-transit in the 2012 tax year and beyond. 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. Oil and gas reserves are assessed on the basis of pricing information contained in the most recently published Early Release Overview of the Annual Energy Outlook published by the United States Energy Information Administration, as well as appraisal formulas developed by the State Comptroller of Public Accounts. Effective January 1, 2016, the valuation of assessment of oil and gas reserves will depend upon pricing information in either the standard edition of the Annual Energy Outlook or, if the most recently published edition of the Annual Energy Outlook was published before December 1 of the preceding calendar year, the Short-Term Energy Outlook report published in January of the current calendar year. 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 VII 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.

Effective January 1, 2018, a partially disabled veteran or the surviving spouse of a partially disabled veteran, if such spouse has not remarried since the death of the disabled veteran and the property was the residence homestead of the surviving spouse when the disabled veteran died and remains the residence homestead of the surviving spouse, 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, effective January 1, 2018, the surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the first responder's death and said property was the first responder's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

Approved by the November 5, 2013 election was a constitutional amendment providing that the surviving spouse of a member of the armed forces who is killed in action is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

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. Effective until December 31, 2019, the governing body of a political subdivision that adopted such exemption for the 2014 tax year (fiscal year 2015) may not reduce the amount of or repeal such exemption.

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.

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 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 County. Each Appraisal District is governed by a board of directors appointed by members of the governing bodies of various political subdivisions within the 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 does not collect 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 Navarro Central Appraisal District.

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.

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 grants a State mandated \$25,000 general residence homestead exemption.

The District grants a State mandated \$10,000 residence homestead exemption for persons 65 years of age or older and the disabled.

The District grants a State mandated residence homestead exemption for disabled veterans.

The District has not granted a local option, additional exemption for persons who are 65 years of age or older and disabled persons above the amount of the State mandated exemption.

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

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:

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview

The following language constitutes only a summary of the Finance System as it is currently structured. For a more complete description of school finance and fiscal management in the State, reference is made to 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 measures in order to reduce their wealth level to equalized wealth levels of funding, as determined by formulas set forth in the Reform Legislation. For most Chapter 41 districts, this equalization process entails paying the portion of the district's local taxes collected in excess of the equalized wealth levels of funding to the State (for redistribution to other school districts) or directly to other school districts with a wealth per student that does not generate local funds sufficient to meet the statutory level of funding, a process known as "recapture".

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

A district may not adopt a tax rate until its effective wealth per student is at or below the equalized wealth level. If a district fails to exercise a permitted option, the Commissioner must reduce the district's property wealth per student to the equalized wealth level by detaching certain types of property from the district and annexing the property to a property-poor district or, if necessary, consolidate the district with a property-poor district. Provisions governing detachment and annexation of taxable property by the

Commissioner do not provide for assumption of any of the transferring district's existing debt. The Commissioner has not been required to detach property in the absence of a district failing to select another wealth-equalization option.

Possible Effects of Wealth Transfer Provisions on the District's Financial Condition

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 Underwriter).

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

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

History and Purpose

The PSF was created with a \$2,000,000 appropriation by the Texas Legislature (the "Legislature") in 1854 expressly for the benefit of the public schools of Texas. The Constitution of 1876 stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the state, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U.S. Supreme Court on May 31, 1960, affirmed Texas' historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund is established and administered, which occurred on September 13, 2003 (the "Total Return Constitutional Amendment"), and which is further described below, the PSF had as its main sources of revenues capital gains from securities transactions and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF. The State School Land Board ("SLB") maintains the land endowment of the Fund on behalf of the Fund and is authorized to manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a three member board, the membership of which consists of the Commissioner of the Texas General Land Office (the "Land Commissioner") and two citizen members, one appointed by the Governor and one by the Texas Attorney General (the "Attorney General"). As of August 31, 2017, the General Land Office (the "GLO") managed approximately 21% of the PSF, as reflected in the fund balance of the PSF at that date.

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

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

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

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

While the School District Bond Guarantee Program and the Charter District Bond Guarantee Program relate to different types of bonds issued for different types of Texas public schools, and have different program regulations and requirements, a bond guaranteed under either part of the Guarantee Program has the same effect with respect to the guarantee obligation of the Fund thereto, and all guaranteed bonds are aggregated for purposes of determining the capacity of the Guarantee Program (see "Capacity Limits for the Guarantee Program"). The Charter District Bond Guarantee Program as enacted by State law has

not been reviewed by any court, nor has the Texas Attorney General been requested to issue an opinion, with respect to its constitutional validity.

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

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

The Total Return Constitutional Amendment

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

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

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

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

With respect to the management of the Fund's financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE generally reviews the asset allocations during its summer meeting in even numbered years. The first asset allocation policy

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

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

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

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

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

Management and Administration of the Fund

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

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

Texas law assigns control of the Fund's land and mineral rights to the three-member SLB, which consists of the elected Commissioner of the GLO, an appointee of the Governor, and an appointee of the Attorney General. Administrative duties related to the land and mineral rights reside with the GLO, which is under the guidance of the Commissioner of the GLO. In 2007, the Legislature established the real estate special fund account of the PSF (the "Real Estate Account") consisting of proceeds and revenue from land, mineral or royalty interest, real estate investment, or other interest, including revenue received from those sources, that is set apart to the PSF under the Texas Constitution and laws, together with the mineral estate in

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

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

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

Capacity Limits for the Guarantee Program

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

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

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

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

At its September 2015 meeting, the SBOE voted to modify the SDBGP Rules and the CDBGP Rules to increase the State Law Capacity from 3 times the cost value multiplier to 3.25 times. At that meeting, the SBOE also approved a new 5% capacity reserve for the Charter District Bond Guarantee Program. The change to the State Law Capacity became effective on February 1, 2016. At its November 2016 meeting, the SBOE again voted to increase the State Law Capacity and, in accordance with applicable requirements for the modification of SDBGP and CDBGP Rules, a second and final vote to approve the increase in the State Law Capacity occurred on February 3, 2017. As a result, the State Law Capacity increased from 3.25 times the cost value multiplier to 3.50 times effective March 1, 2017 and increased again to 3.75 times effective September 1, 2017; however, as described under "2017 Legislative Changes to the Charter District Bond Guarantee Program," the SBOE took action at its Winter 2018 meeting to rollback of a portion of the multiplier increase. The regulatory change effecting the rollback will be effective 20 days after filing as adopted with the Texas Register, which is expected to make the change effective in late-March 2018. Based upon the cost basis of the Fund at August 31, 2017, the State Law Capacity increased from \$97,933,360,905 on August 31, 2016 to \$111,568,711,072 on August 31, 2017.

Since July 1991, when the SBOE amended the Guarantee Program Rules to broaden the range of bonds that are eligible for guarantee under the Guarantee Program to encompass most Texas school district bonds, the principal amount of bonds

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

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

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

The School District Bond Guarantee Program

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

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

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

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

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

The Charter District Bond Guarantee Program

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

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

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

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

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

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

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

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

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

Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBGP Capacity, as described below, growth in the relative percentage of students enrolled in open-enrollment charter schools to the total State scholastic census, legislative and administrative changes in funding for charter districts, changes in level of school district or charter district participation in the Program, or a combination of such circumstances.

2017 Legislative Changes to the Charter District Bond Guarantee Program

The 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 Capacity expire September 1, 2022. If the SBOE makes a determination for any year based upon the potential ratings impact on the Bond Guarantee Program and modifies the increase that would otherwise be implemented under SB 1480 for that year, the SBOE may also make appropriate adjustments to the schedule for subsequent years to reflect the modification, provided that the CDBGP Capacity for any year may not exceed the limit provided in the schedule set forth in SB 1480. In September 2017, the SBOE voted to authorize the full 20% increase in the amount of charter district bonds that may be guaranteed for fiscal year 2018, which increases the relative capacity of the Charter District Bond Guarantee Program to the School District Bond Guarantee Program for that fiscal year.

Taking into account the enactment of SB 1480 and the increase in the CDBGP Capacity effected thereby, at 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 (to ensure compliance with State administrative law requirements, the rollback is expected to be effective in late March 2018).

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

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10 percent of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20 percent of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to three percent (3.00%) of the total amount of outstanding guaranteed bonds issued by charter districts. As of August 31, 2017, the Charter District Reserve Fund represented approximately 0.23% of the guaranteed charter district bonds. SB 1480 also authorized the SBOE to manage the Charter District Reserve Fund in the same manner as it manages the PSF. Previously, the Charter District Reserve Fund was held by the Comptroller, but in September 2017, the SBOE authorized the PSF staff to begin the process of transferring the management of the Reserve Fund to the PSF, where it is expected to be held and invested as a non-commingled fund under the administration of the PSF staff. A target date in Spring 2018 has been established for that change in management of the Reserve Fund to become effective.

Charter District Risk Factors

Open-enrollment charter schools in the State may not charge tuition and, unlike school districts, charter districts have no taxing power. Funding for charter district operations is largely from amounts appropriated by the Legislature. The amount of such State payments a charter district receives is based on a variety of factors, including the enrollment at the schools operated by a

charter district. The overall amount of education aid provided by the State for charter schools in any year is also subject to appropriation by the Legislature. The Legislature may base its decisions about appropriations for charter schools on many factors, including the State's economic performance. Further, because some public officials, their constituents, commentators and others have viewed charter schools as controversial, political factors may also come to bear on charter school funding, and such factors are subject to change.

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

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

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

Potential Impact of Hurricane Harvey on the PSF

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

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

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

Ratings of Bonds Guaranteed Under the Guarantee Program

Moody's Investors Service, S&P Global Ratings and Fitch Ratings rate bonds guaranteed by the PSF "Aaa," "AAA" and "AAA," respectively. Not all districts apply for multiple ratings on their bonds, however. See "RATING" herein.

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

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

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

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

Permanent School Fund Guaranteed Bonds

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

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

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

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

Fiscal Year Ended 8/31	School District Bonds		Charter District Bonds		Totals	
	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
2014 ⁽²⁾	2,869	\$58,061,805,783	10	\$302,545,000	2,879	\$58,364,350,783
2015	3,089	63,197,514,047	28	757,935,000	3,117	63,955,449,047
2016	3,244	67,342,303,445	35	961,025,000	3,279	68,303,328,445
2017 ⁽³⁾	3,253	72,884,480,023	40	1,381,610,000	3,293	74,266,090,023

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

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

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

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

The following discussion is derived from the Annual Report for the year ended August 31, 2017, including the Message of the Executive Administrator of the Fund and the Management's Discussion and Analysis contained therein. Reference is made to the Annual Report, when filed, for the complete Message and MD&A. Investment assets managed by the fifteen member SBOE

are referred to throughout this MD&A as the PSF(SBOE) assets. As of August 31, 2017, the Fund's land, mineral rights and certain real assets are managed by the three-member SLB and these assets are referred to throughout as the PSF(SLB) assets. The current PSF asset allocation policy includes an allocation for real estate investments, and as such investments are made, and become a part of the PSF investment portfolio, those investments will be managed by the SBOE and not the SLB.

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

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

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

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

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

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

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

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

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

2011 Constitutional Amendment

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

The amendments approved at the referendum included an increase to the base used to calculate the Distribution Rate by adding to the calculation base certain discretionary real assets and cash in the Fund that is managed by entities other than the SBOE (at present, by the SLB). The value of those assets were already included in the value of the Fund for purposes of the Guarantee Program, but prior to the amendment had not been included in the calculation base for purposes of making transfers from the Fund to the ASF. While the amendment provided for an increase in the base for the calculation of approximately \$2

billion, no new resources were provided for deposit to the Fund. As described under "The Total Return Constitutional Amendment" the SBOE is prevented from approving a Distribution Rate or making a pay out from the Fund if the amount distributed would exceed 6% of the average of the market value of the Fund, excluding real property in the Fund, but including discretionary real asset investments on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium or if such pay out would exceed the Ten Year Total Return.

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

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

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

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

Other Events and Disclosures

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

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

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

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

PSF Continuing Disclosure Undertaking

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

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

Annual Reports

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

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

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

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

Material Event Notices

The TEA will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA will provide timely notice of any failure by the TEA to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information

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

Limitations and Amendments

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

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

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

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 paragraph. The maximum voted M&O tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on August 28, 1971 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").

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 "Notes to the Financial Statement – H. 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 "Plan"). The District paid premiums of \$341 per month per employee to the Plan. Employees, at their option, authorize payroll withholdings to pay premiums for dependents. See "Notes to the Financial Statement – J – Employee 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 "Notes to the Financial Statement I. Retiree Health Care 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.

RATING

The Bonds are rated "AAA" by S&P Global Ratings ("S&P") 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 rating, including the Bonds, is "A+" by S&P.

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

The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating may be subject to revision or withdrawal at any time by the rating agency. Any downward revision or withdrawal of the rating 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, Dallas, 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 Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas. The legal fee to be paid to counsel to the Underwriter 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 Underwriter 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 Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under the captions or subcaptions "THE BONDS" (except for the information included in the third paragraph under the subcaption "Notice of Redemption and DTC Notices" and under the subcaptions "Permanent School Fund Guarantee", "Payment Record," and "Sources and Uses of Funds" 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 Official Statement under the captions and sub-captions "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" (except for the information under the subcaption "Possible Effects of Wealth Transfer Provisions on the District's Financial Condition", "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.

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 ("FASIT"). 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 the representations and certifications of the District made in a certificate dated the date of delivery of the Bonds 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. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

Ancillary Tax Consequences

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

Tax Accounting Treatment of Discount Bonds

The initial public offering price to be paid for certain Bonds (the "Discount Bonds") may be less than the amount payable on such Bonds at maturity. 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 the taxable year.

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

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

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning and disposition 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 (the "Premium Bonds") may be greater than the amount payable on such Bonds at maturity. 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 the amount payable 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.

Qualified Tax-Exempt Obligations

Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code generally disallows 100% of any deduction for interest expense which is incurred by "financial institutions" described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exemption to this interest disallowance rule for financial institutions stating that such disallowance does not apply to interest expense allocable to certain tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) bonds) which are properly designated by an issuer as "qualified tax-exempt obligations." An issuer may designate obligations as "qualified tax-exempt obligations" only if the amount of the issue of which they are a part, when added to the amount of certain other tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) obligations other than certain current refunding bonds) issued or reasonably anticipated to be issued by the issuer and certain related entities during the same calendar year, does not exceed \$10,000,000.

The District has designated the Bonds as "qualified tax-exempt obligations" and certified its expectation that the above described \$10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions which purchase the Bonds will not be subject to the 100% disallowance of interest expense allocable to interest on the Bonds under section 265(b) of the Code. However, the deduction for interest expense incurred by a financial institution which is allocable to the interest on the Bonds will be reduced by 20% pursuant to section 291 of the Code.

INVESTMENT POLICIES

Investments

The District invests its funds in investments authorized by Texas law in accordance with investment policies approved by the Board of the District. 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 including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State 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 or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor, interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this state that the investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in this state that the investing entity selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the investing entity appoints as the entity's custodian of the banking deposits issued for the entity's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3; (9) certificates of deposit and share certificates (i) issued by or through an institution that either has its main office or a branch office in the State of Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Insurance Fund, or are secured as to principal by obligations described in the clauses (1) through (8) or in any other manner and amount provided by law for District deposits, or (ii) where (a) the funds are invested by the District through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the District, held in the District's name, and

deposited at the time the investment is made with the District or with a third party selected and approved by the District and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) 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 (8) 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 (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less, (12) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (13) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (14) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that comply with federal Securities and Exchange Commission Rule 2a-7 and (15) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, and have a duration of one year or more and are invested exclusively in obligations described in this paragraph or have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities and invest exclusively in obligations described in this paragraph. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

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

Under State law, the District may 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 of 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 has not contracted with, and has no present intention of contracting with, any such investment management firm or the State Securities Board to provide such services.

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 includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment owned by the District, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. 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.

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

Additional Provisions

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

annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

Current Investments

As of April 30, 2018, the District had \$8,750,112 (unaudited) invested in TexPool, a government investment pool that generally has the characteristics of a money-market mutual fund, \$785,190 (unaudited) invested in a money market account at a local bank and \$2,560,726 (unaudited) invested in Certificates of Deposit at 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 Official Statement. 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.

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 "RATING" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. The 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 Official Statement. 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 Official Statement. 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 Official Statement. The Financial Advisor has reviewed the information in this Official Statement 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 Official Statement 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 12 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 Underwriter with a certificate to the effect that except as disclosed in the Official Statement, 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 Official Statement, and in any other information provided by the District, that are not purely historical, are forward-looking statements, including statements regarding the District's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements. It is important to note that the District's actual results could differ materially from those in such forward-looking statements.

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

UNDERWRITING

The Underwriter has 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 Underwriter's discount of \$41,093.69, plus accrued interest on the Bonds from the Dated Date to the date of initial delivery of the Bonds. The Underwriter's obligations are subject to certain conditions precedent, and the Underwriter 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 Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to their responsibilities to investors under the federal securities laws but the Underwriter does not guarantee the accuracy or completeness of such information.

CONCLUDING STATEMENT

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the District. This Official Statement 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 Bond Order contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and the Bond 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 Official Statement for purposes of, and as that term is defined in, SEC Rule 15c2-12.

The Order approved the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorized its further use in the re-offering of the Bonds by the Underwriter.

Greg Barlow
President, Board of Trustees

ATTEST:

Shanna Lopez
Secretary, Board of Trustees

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APPENDIX A

FINANCIAL INFORMATION OF THE DISTRICT

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RICE INDEPENDENT SCHOOL DISTRICT

Financial Information

ASSESSED VALUATION ⁽¹⁾

2017/18 Total Valuation.....		\$ 223,849,377
Less Exemptions & Deductions ⁽²⁾ :		
State Homestead Exemption	\$ 13,264,551	
State Over-65 Exemption	1,615,586	
Disabled Homestead Exemption Loss	714,659	
Veterans Exemption Loss	162,220	
Productivity Loss	72,137,969	
Homestead Cap Loss	3,892,041	
	<u>\$ 91,787,026</u>	
2017/18 Net Taxable Valuation		\$ 132,062,351
2018/19 Preliminary Net Taxable Valuation ⁽³⁾		\$ 136,921,000

(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 \$4,472,979 in 2017/18.
 (3) Preliminary Certified Values from the Navarro Central Appraisal District as of April 2018.

VOTED GENERAL OBLIGATION DEBT

Unlimited Tax Bonds Outstanding ⁽¹⁾		\$ 18,419,592
Plus: The Bonds		6,400,000
Total Unlimited Tax Bonds ⁽¹⁾		<u>24,819,592</u>
Less: Interest & Sinking Fund Balance (As of August 31, 2017) ⁽²⁾		<u>(846,919)</u>
Net General Obligation Debt		\$ 23,972,673
Ratio of Net G.O. Debt to Net Taxable Valuation ⁽³⁾	17.51%	
2018 Population Estimate ⁽⁴⁾	3,474	
Per Capita Net Taxable Valuation	\$39,413	
Per Capita Net G.O. Debt	\$6,901	

(1) Excludes interest accreted on outstanding capital appreciation bonds.
 (2) Source: Rice 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 30% 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		% Collections ⁽⁴⁾	
	Taxable Valuation	Tax Rate	Current ⁽⁵⁾	Total ⁽⁵⁾
2006/07	\$ 64,729,707 ⁽¹⁾	\$ 1.4882 ⁽⁶⁾	93.91%	100.16%
2007/08	73,786,487 ⁽¹⁾	1.1809 ⁽⁶⁾	92.38%	99.47%
2008/09	79,138,640 ⁽¹⁾	1.4200	89.43%	95.13%
2009/10	83,530,970 ⁽¹⁾	1.4200	95.42%	105.61%
2010/11	100,453,850 ⁽¹⁾	1.4200	95.63%	97.49%
2011/12	109,922,253 ⁽¹⁾	1.4200	95.07%	98.83%
2012/13	110,416,969 ⁽¹⁾	1.4200	96.33%	102.09%
2013/14	110,389,793 ⁽¹⁾	1.4200	96.94%	103.17%
2014/15	113,470,767 ⁽¹⁾	1.3800	96.63%	100.52%
2015/16	113,130,335 ⁽¹⁾⁽²⁾	1.3365	97.06%	99.71%
2016/17	116,886,446 ⁽¹⁾⁽²⁾	1.3365	96.76%	99.86%
2017/18	132,062,351 ⁽¹⁾⁽²⁾	1.6265	97.00% ⁽⁷⁾	100.00% ⁽⁷⁾
2018/19	136,921,000 ⁽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 Navarro Central Appraisal District as of April 2018.
 (4) Source: Rice 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	2014/15	2015/16	2016/17	2017/18 ⁽¹⁾
Maintenance & Operations	\$1.0400	\$1.0400	\$1.0400	\$1.0400	\$1.1700
Debt Service	\$0.3800	\$0.3400	\$0.2965	\$0.2965	\$0.4565
Total Tax Rate	\$1.4200	\$1.3800	\$1.3365	\$1.3365	\$1.6265

(1) On May 13, 2017, 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) (2)}	Ratio Debt to A.V. ⁽³⁾
2006/07	\$ 64,729,707	\$ 3,415,000	5.28%
2007/08	73,786,487	3,325,931	4.51%
2008/09	79,138,640	12,730,000	16.09%
2009/10	83,530,970	12,959,592	15.51%
2010/11	100,453,850	12,634,592	12.58%
2011/12	109,922,253	12,294,592	11.18%
2012/13	110,416,969	11,944,592	10.82%
2013/14	110,389,793	11,584,592	10.49%
2014/15	113,470,767	11,169,592	9.84%
2015/16	113,130,335	10,774,592	9.52%
2016/17	116,886,446	19,359,592	16.56%
2017/18	132,062,351	24,819,592 ⁽⁵⁾	18.79%
2018/19	136,921,000 ⁽⁴⁾	24,184,592 ⁽⁵⁾	17.66%

(1) At Fiscal Year End.

(2) Excludes interest accreted on outstanding capital appreciation bonds.

(3) 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.

(4) Preliminary Certified Value from the Navarro Central Appraisal District as of April 2018.

(5) Includes the Bonds.

ESTIMATED OVERLAPPING DEBT STATEMENT

Taxing Body	Amount	Percent Overlapping	Amount Overlapping
Navarro County	\$ 6,680,000	4.17%	\$ 278,556
Total Overlapping Debt ⁽¹⁾			\$ -
Rice Independent School District ⁽²⁾			23,972,673
Total Direct & Overlapping Debt			\$ 23,972,673
Ratio of Net Direct & Overlapping Debt to Net Taxable Valuation		20.51%	
Per Capita Direct & Overlapping Debt		\$6,901	

(1) Equals gross-debt less self-supporting debt.

(2) Includes the Bonds. 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 ⁽²⁾**

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Energy Transfer Fuel LP	Oil & Gas	\$ 11,322,800	8.57%
Union Pacific Railroad Co	Railroad	4,126,060	3.12%
Oncor Electric Delivery Co LLC	Electric Utility	2,916,660	2.21%
Prairie Petfood Ingredients LLC	Pet Food	2,408,330	1.82%
Atmos Energy/Mid-Tex Pipeline	Pipeline	1,144,480	0.87%
Casita Enterprises Inc	Trailer Mfg.	1,096,590	0.83%
United States Invention Corporation	Trucking & Shipping	1,062,010	0.80%
Mashonaland Holdings Ltd.	Development	1,054,100	0.80%
I-45 RV Company Inc	RV Manufacturing	1,029,470	0.78%
Rice Realty LLC	Real Estate	987,640	0.75%
		<u>\$ 27,148,140</u>	<u>20.56%</u>

2016/17 Top Ten Taxpayers

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Energy Transfer Fuel LP	Oil & Gas	\$ 13,418,660	11.48%
Union Pacific Railroad Co	Railroad	3,878,250	3.32%
Oncor Electric Delivery Co LLC	Electric Utility	2,425,110	2.07%
Atmos Energy/Mid-Tex Pipeline	Pipeline	1,373,600	1.18%
Prairie Petfood Ingredients LLC	Pet Food	1,340,280	1.15%
I-45 RV Company Inc	RV Manufacturing	1,035,960	0.89%
Roundhouse Companies Inc	Trucking	950,750	0.81%
Rice Realty LLC	Real Estate	929,600	0.80%
United States Invention Corporation	Trucking & Shipping	868,120	0.74%
JDET Investments LP	Investment	776,480	0.66%
		<u>\$ 26,996,810</u>	<u>23.10%</u>

2015/16 Top Ten Taxpayers

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Energy Transfer Fuel LP	Oil & Gas	\$ 15,732,410	13.91%
Union Pacific Railroad Co	Railroad	3,643,730	3.22%
SJ Louis Construction of TX	Construction	2,412,710	2.13%
Oncor Electric Delivery Co LLC	Electric Utility	2,332,780	2.06%
Atmos Energy/Mid-Tex Pipeline	Pipeline	1,473,380	1.30%
I-45 RV Company Inc	RV Manufacturing	992,320	0.88%
Rice Realty LLC	Real Estate	929,600	0.82%
United States Invention Corporation	Trucking & Shipping	893,880	0.79%
JDET Investments LP	Investment	800,980	0.71%
Casita Enterprises Inc	Trailer Mfg.	640,640	0.57%
		<u>\$ 29,852,430</u>	<u>26.39%</u>

(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 20% 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⁾

<u>Category</u>	<u>2017/18</u>	<u>% of Total</u>	<u>2016/17</u>	<u>% of Total</u>	<u>2015/16</u>	<u>% of Total</u>
Real, Residential, Single-Family	\$ 36,817,970	16.45%	\$ 30,607,140	15.49%	\$ 22,414,370	12.21%
Real, Residential, Multi-Family	93,070	0.04%	80,490	0.04%	75,100	0.04%
Real, Vacant Lots/Tracts	5,386,913	2.41%	3,841,673	1.94%	3,469,533	1.89%
Real, Acreage	76,970,549	34.38%	68,685,956	34.77%	59,362,839	32.34%
Real, Farm & Ranch Improvements	58,343,132	26.06%	50,474,894	25.55%	52,042,012	28.36%
Real, Commercial & Industrial	12,612,800	5.63%	9,327,454	4.72%	7,616,040	4.15%
Oil & Gas	6,683	0.00%	5,373	0.00%	-	0.00%
Utilities	21,452,460	9.58%	23,120,700	11.70%	25,342,720	13.81%
Tangible Personal, Commercial & Industrial	4,214,620	1.88%	4,212,970	2.13%	5,733,270	3.12%
Tangible Personal, Mobile Homes & Other	6,643,630	2.97%	5,524,710	2.80%	5,691,890	3.10%
Tangible Personal, Residential Inventory	-	0.00%	121,060	0.06%	233,330	0.13%
Tangible Personal, Special Inventory	<u>1,307,550</u>	<u>0.58%</u>	<u>1,563,350</u>	<u>0.79%</u>	<u>1,549,630</u>	<u>0.84%</u>
Total Appraised Value	\$ 223,849,377	100.00%	\$ 197,565,770	100.00%	\$ 183,530,734	100.00%
Less:						
Homestead Cap Adjustment	\$ 3,892,041		\$ 1,259,935		\$ 363,031	
Productivity Loss	72,137,969		63,984,286		54,758,277	
Exemptions	<u>15,757,016</u> ⁽²⁾		<u>15,435,103</u> ⁽²⁾		<u>15,279,091</u> ⁽²⁾	
Total Exemptions/Deductions ⁽³⁾	<u>\$ 91,787,026</u>		<u>\$ 80,679,324</u>		<u>\$ 70,400,399</u>	
Net Taxable Assessed Valuation	\$ 132,062,351		\$ 116,886,446		\$ 113,130,335	

<u>Category</u>	<u>2014/15</u>	<u>% of Total</u>	<u>2013/14</u>	<u>% of Total</u>	<u>2012/13</u>	<u>% of Total</u>
Real, Residential, Single-Family	\$ 21,463,930	12.55%	\$ 20,743,930	12.05%	\$ 19,949,820	11.57%
Real, Residential, Multi-Family	75,100	0.04%	75,100	0.04%	75,100	0.04%
Real, Vacant Lots/Tracts	3,246,513	1.90%	3,279,433	1.91%	3,394,583	1.97%
Real, Acreage	50,120,290	29.31%	54,472,692	31.64%	66,895,452	38.81%
Real, Farm & Ranch Improvements	54,872,562	32.09%	51,255,270	29.77%	38,618,770	22.40%
Real, Commercial & Industrial	7,548,260	4.41%	6,220,170	3.61%	5,875,540	3.41%
Oil & Gas	-	0.00%	-	0.00%	-	0.00%
Utilities	23,427,650	13.70%	25,776,440	14.97%	27,067,910	15.70%
Tangible Personal, Commercial & Industrial	2,277,740	1.33%	2,588,760	1.50%	2,792,360	1.62%
Tangible Personal, Mobile Homes & Other	6,032,550	3.53%	6,057,410	3.52%	6,359,110	3.69%
Tangible Personal, Residential Inventory	413,400	0.24%	400,650	0.23%	249,040	0.14%
Tangible Personal, Special Inventory	<u>1,503,620</u>	<u>0.88%</u>	<u>1,277,560</u>	<u>0.74%</u>	<u>1,092,990</u>	<u>0.63%</u>
Total Appraised Value	\$ 170,981,615	100.00%	\$ 172,147,415	100.00%	\$ 172,370,675	100.00%
Less:						
Homestead Cap Adjustment	\$ 390,989		\$ 528,355		\$ 683,627	
Productivity Loss	46,599,700		51,048,383		51,201,582	
Exemptions	<u>10,520,159</u>		<u>10,180,884</u>		<u>10,068,497</u>	
Total Exemptions/Deductions ⁽³⁾	<u>\$ 57,510,848</u>		<u>\$ 61,757,622</u>		<u>\$ 61,953,706</u>	
Net Taxable Assessed Valuation	\$ 113,470,767		\$ 110,389,793		\$ 110,416,969	

(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	Total ⁽¹⁾	Bonds Unpaid At Year End	Percent of Principal Retired
2018	\$ 940,000.00	\$ -	\$ 940,000.00	\$ 24,819,592.30	3.65%
2019	580,000.00	55,000.00	635,000.00	24,184,592.30	6.11%
2020	675,000.00	105,000.00	780,000.00	23,404,592.30	9.14%
2021	690,000.00	110,000.00	800,000.00	22,604,592.30	12.25%
2022	710,000.00	110,000.00	820,000.00	21,784,592.30	15.43%
2023	132,640.00	55,000.00	187,640.00	21,596,952.30	16.16%
2024	129,510.00	55,000.00	184,510.00	21,412,442.30	16.88%
2025	122,442.30	65,000.00	187,442.30	21,225,000.00	17.60%
2026	575,000.00	70,000.00	645,000.00	20,580,000.00	20.11%
2027	600,000.00	70,000.00	670,000.00	19,910,000.00	22.71%
2028	620,000.00	75,000.00	695,000.00	19,215,000.00	25.41%
2029	650,000.00	70,000.00	720,000.00	18,495,000.00	28.20%
2030	675,000.00	75,000.00	750,000.00	17,745,000.00	31.11%
2031	700,000.00	80,000.00	780,000.00	16,965,000.00	34.14%
2032	730,000.00	80,000.00	810,000.00	16,155,000.00	37.29%
2033	765,000.00	80,000.00	845,000.00	15,310,000.00	40.57%
2034	795,000.00	85,000.00	880,000.00	14,430,000.00	43.98%
2035	830,000.00	85,000.00	915,000.00	13,515,000.00	47.53%
2036	860,000.00	95,000.00	955,000.00	12,560,000.00	51.24%
2037	905,000.00	90,000.00	995,000.00	11,565,000.00	55.10%
2038	940,000.00	100,000.00	1,040,000.00	10,525,000.00	59.14%
2039	540,000.00	450,000.00	990,000.00	9,535,000.00	62.98%
2040	555,000.00	475,000.00	1,030,000.00	8,505,000.00	66.98%
2041	585,000.00	490,000.00	1,075,000.00	7,430,000.00	71.16%
2042	610,000.00	510,000.00	1,120,000.00	6,310,000.00	75.50%
2043	635,000.00	530,000.00	1,165,000.00	5,145,000.00	80.03%
2044	660,000.00	555,000.00	1,215,000.00	3,930,000.00	84.74%
2045	690,000.00	570,000.00	1,260,000.00	2,670,000.00	89.63%
2046	715,000.00	595,000.00	1,310,000.00	1,360,000.00	94.72%
2047	745,000.00	615,000.00	1,360,000.00	-	100.00%
Total	<u>\$ 19,359,592.30</u>	<u>\$ 6,400,000.00</u>	<u>\$ 25,759,592.30</u>		

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

DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 8/31	Outstanding Debt Service ⁽¹⁾	Plus:			Combined Total ^{(1) (2) (3)}
		Principal	Interest	Total	
2018	\$ 1,657,852.50	\$ -	\$ -	\$ -	\$ 1,657,852.50
2019	1,279,765.00	55,000.00	264,215.83	319,215.83	1,598,980.83
2020	1,359,252.50	105,000.00	232,950.00	337,950.00	1,697,202.50
2021	1,357,455.00	110,000.00	229,725.00	339,725.00	1,697,180.00
2022	1,358,782.50	110,000.00	226,425.00	336,425.00	1,695,207.50
2023	1,222,382.50	55,000.00	223,950.00	278,950.00	1,501,332.50
2024	1,224,757.50	55,000.00	222,300.00	277,300.00	1,502,057.50
2025	1,217,057.50	65,000.00	220,500.00	285,500.00	1,502,557.50
2026	1,194,682.50	70,000.00	218,475.00	288,475.00	1,483,157.50
2027	1,196,657.50	70,000.00	216,375.00	286,375.00	1,483,032.50
2028	1,192,257.50	75,000.00	214,200.00	289,200.00	1,481,457.50
2029	1,196,857.50	70,000.00	211,981.25	281,981.25	1,478,838.75
2030	1,195,357.50	75,000.00	209,715.63	284,715.63	1,480,073.13
2031	1,192,857.50	80,000.00	207,293.76	287,293.76	1,480,151.26
2032	1,194,257.50	80,000.00	204,793.76	284,793.76	1,479,051.26
2033	1,198,722.50	80,000.00	202,293.76	282,293.76	1,481,016.26
2034	1,196,227.50	85,000.00	199,343.76	284,343.76	1,480,571.26
2035	1,197,377.50	85,000.00	195,943.76	280,943.76	1,478,321.26
2036	1,191,812.50	95,000.00	192,343.76	287,343.76	1,479,156.26
2037	1,199,306.25	90,000.00	188,643.76	278,643.76	1,477,950.01
2038	1,195,100.00	100,000.00	184,843.76	284,843.76	1,479,943.76
2039	763,650.00	450,000.00	173,843.76	623,843.76	1,387,493.76
2040	755,381.25	475,000.00	155,343.76	630,343.76	1,385,725.01
2041	761,156.25	490,000.00	136,043.76	626,043.76	1,387,200.01
2042	760,762.50	510,000.00	116,043.76	626,043.76	1,386,806.26
2043	760,100.00	530,000.00	95,243.76	625,243.76	1,385,343.76
2044	759,200.00	555,000.00	74,584.38	629,584.38	1,388,784.38
2045	762,200.00	570,000.00	54,193.75	624,193.75	1,386,393.75
2046	759,100.00	595,000.00	33,078.13	628,078.13	1,387,178.13
2047	759,900.00	615,000.00	11,146.88	626,146.88	1,386,046.88
	<u>\$ 33,060,228.75</u>	<u>\$ 6,400,000.00</u>	<u>\$ 5,115,834.73</u>	<u>\$ 11,515,834.73</u>	<u>\$ 44,576,063.48</u>

(1) Includes the accreted value of outstanding capital appreciation bonds.
(2) Includes accrued interest in the amount of \$11,152.71.
(3) Based on its wealth per student, the District expects to receive approximately \$535,000 of state financial assistance for the payment of debt service for the fiscal year 2017/18. The amount of state financial assistance, 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⁾	\$ 1,697,202.50
Projected State Financial Assistance for Debt Service in 2017/18 ⁽²⁾	535,000.00
Projected Net Debt Service Requirement	<u>\$ 1,162,202.50</u>
 \$0.87507 Tax Rate @ 97% Collections Produces ⁽³⁾	 \$ 1,162,203.32
 2018/19 Preliminary Certified Net Taxable Assessed Valuation	 \$ 136,921,000

(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) Bonds issued for new construction purposes are subject to the 50 cent test, and if the District uses State tier one funds to pass the test, under current law it must credit State assistance payments (including any tier one State funding used to demonstrate the District's ability to pass the \$0.50 bond issuance test) to the District's interest and sinking fund each year in an amount equal to the amount used by the District to demonstrate its ability to comply with the \$0.50 test, and the District may not adopt its annual interest and sinking fund tax rate until such amount of State funding has been credited to the District's interest and sinking fund. 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 no authorized but unissued unlimited ad valorem tax bonds from the May 6, 2017 election or any other election. The District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES ⁽¹⁾

	Fiscal Year Ended August 31				
	2013	2014	2015	2016	2017
Beginning Fund Balance	\$ 4,331,178	\$ 4,328,511	\$ 4,768,031	\$ 4,525,669	\$ 4,141,108
Revenues:					
Local and Intermediate Sources	\$ 1,231,473	\$ 1,290,969	\$ 1,286,688	\$ 1,329,964	\$ 1,315,854
State Program Revenues	5,767,896	6,405,924	6,412,535	6,585,261	6,988,733
Total Revenues	\$ 6,999,369	\$ 7,696,893	\$ 7,699,223	\$ 7,915,225	\$ 8,304,587
Expenditures:					
Instruction	\$ 3,482,062	\$ 3,760,451	\$ 4,039,712	\$ 4,267,208	\$ 4,327,368
Instructional Resources & Media Services	115,103	113,793	131,483	133,158	147,525
Curriculum & Instructional Staff Development	16,359	16,821	24,186	87,435	64,495
Instructional Leadership	37,925	37,829	78,762	159,676	104,516
School Leadership	524,688	521,170	570,701	602,671	713,735
Guidance, Counseling & Evaluation Services	116,736	126,461	153,080	156,019	213,545
Social Work Services	16,497	1,098	13,368	13,588	13,714
Health Services	51,792	55,385	55,622	57,734	59,367
Student (Pupil) Transportation	437,301	286,068	262,478	224,451	391,430
Food Services	-	-	1,189	3,197	1,588
Cocurricular/Extracurricular Activities	339,347	363,631	390,697	394,389	408,573
General Administration	241,782	263,445	499,871	258,624	240,457
Plant Maintenance and Operations	935,583	1,015,041	1,085,499	922,520	1,066,577
Security and Monitoring Services	45,898	60,700	57,800	116,624	92,216
Data Processing Services	231,114	267,803	291,128	378,524	325,764
Debt Service - Principal on Long Term Debt	-	15,496	14,485	14,485	-
Debt Service - Interest on Long Term Debt	-	-	1,011	1,011	-
Facilities Acquisition and Construction	221,663	399,434	5,200	463,588	-
Payments to Fiscal Agent/Member Districts of SSA	185,953	191,419	201,766	204,128	221,824
Other Intergovernmental Charges	26,672	26,082	25,702	24,859	25,454
Total Expenditures	\$ 7,026,475	\$ 7,522,127	\$ 7,903,740	\$ 8,483,889	\$ 8,418,148
Excess (Deficiency) of Revenues					
over Expenditures	\$ (27,106)	\$ 174,766	\$ (204,517)	\$ (568,664)	\$ (113,561)
Other Resources and (Uses):					
Sale of Real and Personal Property	\$ 24,442	\$ 3,257	\$ -	\$ -	\$ -
Non-Current Loans	-	58,950	-	-	-
Operating Transfers In	-	-	1,162	-	-
Operating Transfers Out	-	-	(39,007)	(32,635)	(24,783)
Total Other Resources (Uses)	\$ 24,442	\$ 62,207	\$ (37,845)	\$ (32,635)	\$ (24,783)
Extraordinary Item	\$ -	\$ 202,547	\$ -	\$ -	\$ -
Excess (Deficiency) of					
Revenues and Other Sources					
over Expenditures and Other Uses	\$ (2,664)	\$ 439,520	\$ (242,362)	\$ (601,299)	\$ (138,344)
Prior Period Adjustment	\$ -	\$ -	\$ -	\$ 216,739	\$ -
Ending Fund Balance	\$ 4,328,514	\$ 4,768,031	\$ 4,525,669	\$ 4,141,109	\$ 4,002,764

(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 2016/17 budget and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Possible Effects of Wealth Transfer Provisions on the District's Financial Condition" in the Official Statement.

CHANGE IN NET ASSETS ⁽¹⁾

	Fiscal Year Ended August 31				
	2013	2014	2015	2016	2017
Revenues:					
Program Revenues:					
Charges for Services	\$ 481,017	\$ 535,223	\$ 529,618	\$ 483,022	\$ 480,721
Operating Grants and Contributions	953,045	979,972	1,007,794	1,652,124	1,731,583
General Revenues:					
Property Taxes Levied for General Purposes	1,106,811	1,140,103	1,147,517	1,169,135	1,202,983
Property Taxes Levied for Debt Service	404,429	380,034	382,506	330,805	343,818
Grants and Contributions Not Restricted	6,042,531	6,607,914	6,261,637	6,410,948	6,712,678
Investment Earnings	19,183	13,553	24,293	35,511	63,383
Miscellaneous	215,734	214,838	58,965	101,567	44,428
Extraordinary Item - Resource	-	202,547	-	-	-
Total Revenue	\$ 9,222,750	\$ 10,074,184	\$ 9,412,330	\$ 10,183,112	\$ 10,579,594
Expenses:					
Instruction	\$ 4,171,676	\$ 4,405,137	\$ 4,575,774	\$ 5,299,291	\$ 5,386,513
Instruction Resources & Media Services	119,826	137,153	151,583	181,222	187,801
Curriculum & Staff Development	22,194	30,900	36,472	110,278	80,432
Instructional Leadership	40,286	37,829	77,405	180,096	115,805
School Leadership	667,943	666,000	703,733	810,910	913,762
Guidance, Counseling & Evaluation Services	126,175	130,940	153,029	177,270	234,211
Social Work Services	16,500	1,098	13,368	15,294	14,990
Health Services	54,573	55,548	54,265	65,043	65,324
Student Transportation	302,362	301,337	314,767	246,591	320,743
Food Service	486,983	542,343	523,908	576,422	575,109
Cocurricular/Extracurricular Activities	428,393	469,659	488,156	437,465	443,858
General Administration	264,526	291,921	530,824	300,243	275,201
Plant Maintenance & Operations	998,655	1,050,687	1,172,941	1,040,162	1,147,914
Security and Monitoring Services	48,259	60,700	58,733	69,878	99,470
Data Processing Services	247,032	282,090	302,105	402,358	359,393
Community Services	-	-	(3,880)	-	-
Interest on Long-term Debt	847,413	902,379	415,739	445,972	506,409
Bond Issuance Costs and Fees	1,250	18,049	(30,506)	1,000	102,521
Capital Outlay	1,000	-	-	-	-
Payments to Fiscal Agent/Member Districts of SSA	185,953	191,419	201,766	204,128	221,824
Other Intergovernmental Charges	26,672	26,082	25,702	26,579	27,140
Total Expenditures	\$ 9,057,671	\$ 9,601,271	\$ 9,765,884	\$ 10,590,202	\$ 11,078,420
Change in Net Assets	\$ 165,079	\$ 472,913	\$ (353,554)	\$ (407,090)	\$ (498,826)
Beginning Net Assets	\$ 11,393,710	\$ 7,976,954	\$ 8,449,867	\$ 10,216,536	\$ 10,937,534
Prior Period Adjustment	\$ (3,581,835) ⁽²⁾	\$ -	\$ 2,120,223 ⁽³⁾	\$ 1,128,089 ⁽⁴⁾	\$ -
Ending Net Assets	\$ 7,976,954	\$ 8,449,867	\$ 10,216,536	\$ 10,937,535	\$ 10,438,708

(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) Prior Period Adjustment in FYE 2013 was from implementing GASB 65 and 68.

(3) Prior Period Adjustment in FYE 2015 was from GASB 68 and from the refinancing of the 2010 bond series.

(4) Prior Period Adjustment in FYE 2016 was from GASB 65 and from an adjustment in noncurrent liabilities.

APPENDIX B

**GENERAL INFORMATION REGARDING THE DISTRICT
AND ITS ECONOMY**

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General and Economic Information

Rice Independent School District is located ten miles north of Corsicana on Interstate 45. The District includes the City of Rice. The District's current estimated population is approximately 3,474.

Navarro County is a north central Texas county with an economy based on manufacturing, agriculture and mineral production. The county seat is Corsicana.

Source: Rice ISD and Navarro County Texas Municipal Reports.

Enrollment Statistics

<u>School Year</u>	<u>Enrollment</u>
2006/07	721
2007/08	762
2008/09	774
2009/10	764
2010/11	818
2011/12	852
2012/13	879
2013/14	897
2014/15	882
2015/16	865
2016/17	910
Current	908

District Staff

Teachers	73
Auxiliary Personnel	32
Teachers' Aides & Secretaries	27
Administrators	10
Other	12
Total	<u>154</u>

Facilities

<u>Campus</u>	<u>Grades</u>	<u>Current Enrollment</u>	<u>Capacity</u>	<u>Year Built</u>	<u>Year of Addition/ Renovation</u>
Rice Elementary	PK-2	205	300	1977	1988
Rice Intermediate	3-8	444	475	2010	NA
Rice High School	9-12	259	350	1998	2002

Principal Employers within the District

<u>Name of Company</u>	<u>Type of Business</u>	<u>Number of Employees</u>
Rice ISD	Public School	154
Generation Farms	Herb Producer	40
Jim Fortson Inc.	Construction	30
Rosewood Ranch	Ranch-Cattle	25
I-45 Sales	Boat and ATV Sales	25
Casita Enterprises	Manufacture Travel Trailers	20
First Bank of Rice	Bank	15

Unemployment Rates

	<u>April 2016</u>	<u>April 2017</u>	<u>April 2018</u>
Navarro County	3.8%	3.7%	3.7%
State of Texas	4.2%	4.1%	3.8%

Source: Texas Workforce Commission.

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APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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[Closing Date]

IN REGARD to the authorization and issuance of the "Rice Independent School District Unlimited Tax School Building Bonds, Series 2018", dated July 1, 2018, in the aggregate principal amount of \$6,400,000 (the "Bonds"), we have examined into their issuance by the Rice Independent School District (the "District") solely to express legal opinions as to the validity of the Bonds and the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the District, the disclosure of any financial or statistical information or data pertaining to the District and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds.

THE BONDS are issued in fully registered form only and in denominations of \$5,000 or any integral multiple thereof (within a maturity). The Bonds mature on February 15 in each of the years specified in the order adopted by the Board of Trustees of the District authorizing the issuance of the Bonds (the "Order"), unless redeemed prior to maturity in accordance with the terms stated on the Bonds. The Bonds accrue interest from the date, at the rates, and in the manner and interest is payable on the dates, all as provided in the Order.

IN RENDERING THE OPINIONS herein we have examined and rely upon (i) original or certified copies of the proceedings relating to the issuance of the Bonds, including the Order, and an examination of the initial Bond executed and delivered by the District (which we found to be in due form and properly executed), (ii) certifications of officers of the District relating to the expected use and investment of proceeds of the sale of the Bonds and certain other funds of the District and (iii) other documentation and such matters of law as we deem relevant. In the examination of the proceedings relating to the issuance of the Bonds, 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 contained in such documents and certifications.

BASED ON OUR EXAMINATION, we are of the opinion that, under applicable laws of the State of Texas in force and effect on the date hereof:

1. The Bonds have been duly authorized by the District and, when issued in compliance with the provisions of the Order, are valid, legally binding, and enforceable obligations of the District, payable from the proceeds of an ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District, except to the extent that

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Re: "Rice Independent School District Unlimited Tax School Building Bonds, Series 2018",
dated July 1, 2018

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.

2. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the District with the provisions of the Order relating to sections 141 through 150 of the Code, interest on the Bonds for federal income tax purposes (a) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof, and (b) will not be included in computing the alternative minimum taxable income of 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 ("FASIT"). The alternative minimum tax on corporations has been repealed for taxable years beginning on or after January 1, 2018.

WE EXPRESS NO 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 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.

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.

APPENDIX D

**AUDITED FINANCIAL REPORT
FISCAL YEAR ENDED AUGUST 31, 2017**

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RICE INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2017

Rice Independent School District
Annual Financial Report
For The Year Ended August 31, 2017

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Rice Independent School District
Annual Financial Report
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Introductory Section

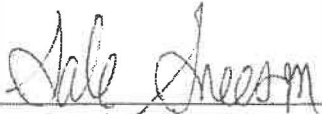
CERTIFICATE OF BOARD

Rice Independent School District
Name of School District

Navarro
County

175-911
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) approved disapproved for the year ended August 31, 2017, at a meeting of the board of trustees of such school district on the 15 day of November, 2017.



Signature of Board Secretary



Signature of Board President

If the board of trustees disapproved of the auditors' report, the reason(s) for disapproving it is (are):
(attach list as necessary)

Financial Section

ANDERSON, MARX & BOHL, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

**HUDSON ANDERSON, CPA
FRANK MARX, III, CPA
DORI BOHL, CPA & CFE**

Independent Auditors' Report

To the Board of Trustees
Rice Independent School District
1302 SW McKinney Street
Rice, Texas 75155

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Rice 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.

Auditors' 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Rice Independent School District as of August 31, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As described in Note A to the financial statements, in 2017, Rice Independent School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 78, *Pension Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. Our opinion is not modified with respect to this matter.

As described in Note A to the financial statements, in 2017, Rice Independent School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 82, *Pension Issues-An Amendment of GASB Statements No. 67, No. 68 and No. 73*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Rice Independent School District's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2017 on our consideration of Rice Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rice Independent School District's internal control over financial reporting and compliance.

Respectfully submitted,



Anderson, Marx & Bohl, P.C.

Corsicana, Texas
November 14, 2017

Rice Independent School District

Management's Discussion and Analysis

August 31, 2017

This section of Rice Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2017. Please read it in conjunction with the District's financial statements, which follow this section.

Overview of the Financial Statements

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

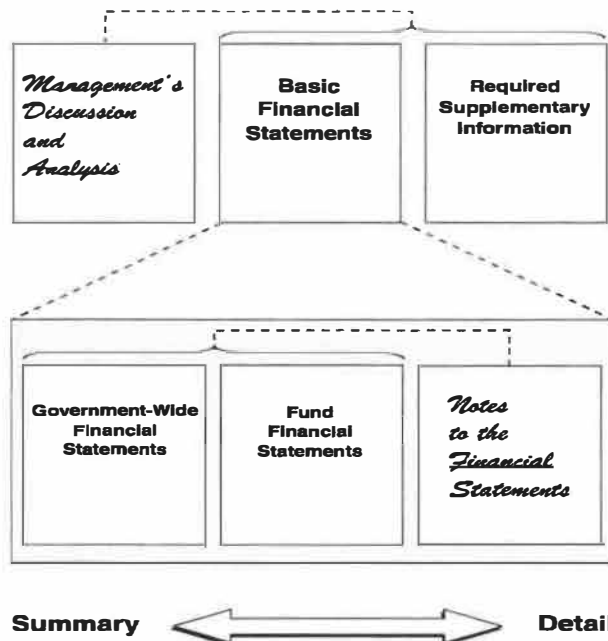


Figure A-1. Required Components of the District's Annual Financial Report

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in *more detail* than the government-wide statements.
 - The *governmental fund* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
 - *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*, such as food service.
 - *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.
- The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required*

supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. These statements include:

The Statement of Net Position: The Statement of Net Position focuses on resources available for future operations. In simple terms, this statement presents a snapshot view of what the District owns (assets), what it owes (liabilities), and the net difference (net position). Net position is further separated into amounts deferred for outflows and inflows of resources and amounts restricted for specific purposes and unrestricted amounts. Over time, increases or decreases in the District's net position may serve as a useful indicator of whether the financial health is improving or deteriorating.

The Statement of Activities: The Statement of Activities presents information showing how the net position of the District changed over the year by tracking revenues, expenses and other transactions that increase or reduce the district's net position. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing for when cash is received or paid. 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, and earned but unused vacation leave).

To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base, student enrollment, facility conditions, required educational programs for which little or no funding is provided, or other external factors

The government-wide financial statements of the District include the *Governmental activities*. Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services, and general administration.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds* – not the District as a whole. 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. Some funds are required by State law and by bond covenants, while many other funds are established by the District to help manage money for particular purposes and compliance with various grant provisions. The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using grants.

All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- *Governmental funds*—Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

- *Proprietary funds*—Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.
 - We use *internal service funds* to report activities that provide supplies and services for the District's other programs and activities—such as the District's Self Insurance Fund.
- *Fiduciary funds*—The District is the trustee, or *fiduciary*, for certain funds such as club and class funds and payroll withholding funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

Notes to the Financial Statements

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

Other Information

The combining statements referred to earlier in connection with non-major governmental funds is presented immediately following the proprietary fund statements. In addition, certain information required by the Texas Education Agency and the federal government regarding tax collection, food service, grant expenditures, and indirect cost calculation is also presented.

Financial Highlights

The District's total combined net position was \$10,438,708 on August 31, 2017. During the year, the District's net expenses were \$11,078,420 or \$498,826 more than the net \$10,579,594 generated in taxes and other revenues from governmental Funds. The total fund balance for all governmental funds of the District was \$14,194,550, an expected increase of \$9,045,233 over the prior year due to proceeds from the 2017 Construction Bonds.

Government-wide Financial Analysis

Net Position: The Statement of Net Position presents the assets, deferred outflow of resources, liabilities, deferred inflow of resources and net position of Rice I.S.D. as of the end of the fiscal year. The Statement of Net Position is a point of time financial statement. The purpose of the Statement of Net Position is to present to the readers of the financial statements a fiscal snapshot of Rice I.S.D. The Statement of Net Position presents end-of-year data concerning Assets (current and non-current), Deferred Outflows of Resources, Liabilities (current and non-current), Deferred Inflows of Resources, and Net Position. From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the District. They are also able to determine how much the District owes vendors and lending institutions. This is one way to measure the District's financial health or position.

The District's combined net position was approximately \$10,438,708 on August 31, 2017, representing a decrease of \$498,826 over last year. In compliance with GASB Statements No. 63 and No. 65, an adjustment of \$104,413 was made to the Statement of Net Position to report the adjustments related to the Teacher Retirement System pension plan liability. An adjustment of \$898,537 was also made to the Statement of Net Position to report the Deferred Outflow of Resources for the deferred charges related to the Teacher Retirement System pension liability (See Notes to the Financial Statements).

2016 - 2017 Changes in Net Position

	<u>Governmental Activities</u>		<u>Change</u>
	<u>2017</u>	<u>2016</u>	
Assets			
Current and Other Assets	15,099,117	5,699,874	9,399,243
Capital and Non-Current Assets	17,814,436	17,952,045	(137,609)
Total Assets	32,913,553	23,651,919	9,261,634
Deferred Outflows of Resources			
Deferred Charge Related to TRS	898,537	918,030	(19,493)
Total Deferred Outflows of Resources	898,537	918,030	(19,493)
Liabilities			
Current Liabilities	806,323	428,247	378,076
Long Term Liabilities	22,462,646	13,001,053	9,461,593
Total Liabilities	23,268,969	13,429,300	9,839,669
Deferred Inflows of Resources			
Deferred Revenue - Bond Premim	-	79,473	(79,473)
Deferred Resource Related to TRS	104,413	123,641	(19,228)
Total Deferred Inflows of Resources	104,413	203,114	(98,701)
Net Position			
Invested in Capital Assets			
Net of related debt	6,128,024	6,516,414	(388,390)
Restricted for Federal and State Programs	222,569	212,685	9,884
Restricted for Debt Service	871,480	820,100	51,380
Restricted for Capital Projects	127,298	-	127,298
Restricted for Other Purposes	-	-	-
Unrestricted	3,089,337	3,388,336	(298,999)
Total Net Position	10,438,708	10,937,535	(498,826)

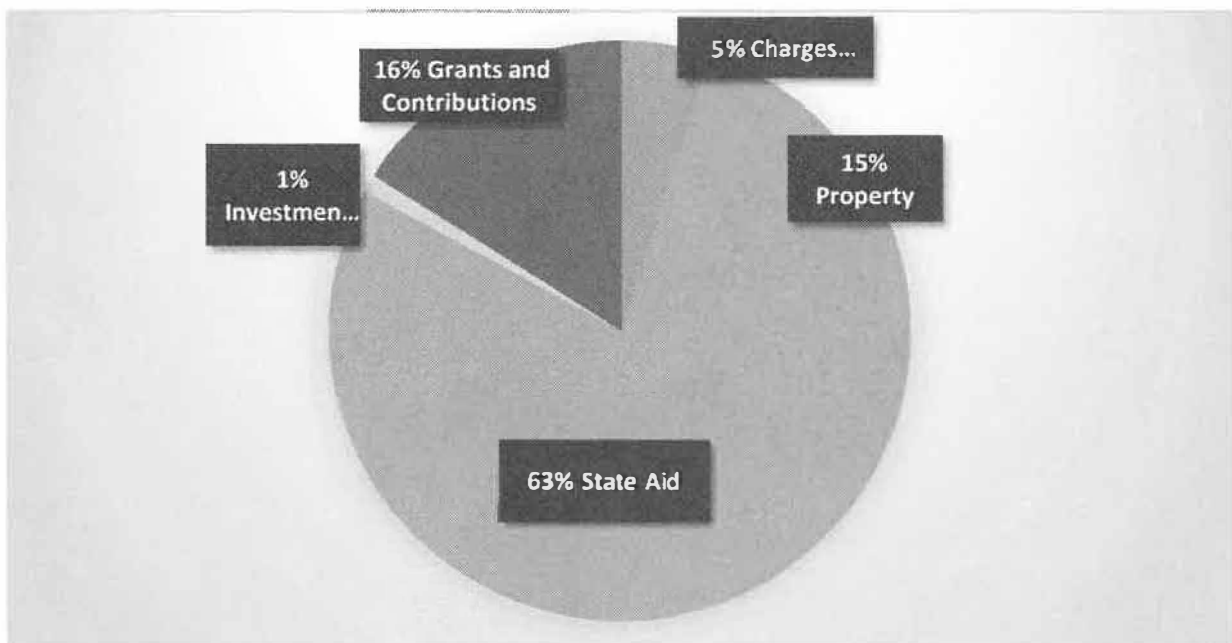
Changes in Net Position: Sources of Revenue

	<u>Governmental Activities</u>		
	<u>2017</u>	<u>2016</u>	<u>Change</u>
<u>Program Revenue</u>			
Charges for Services	480,721	483,022	(2,301)
Restricted Operating Grants/Contributions	1,731,583	1,652,124	79,459
<u>General Revenue</u>			
Property Taxes	1,546,801	1,499,940	46,861
State Aid & Grants	6,712,678	6,410,948	301,730
Investment Earnings	63,383	35,511	27,872
Other	44,428	101,567	(57,139)
Total Revenue	10,579,594	10,183,112	396,482

Changes in Revenue:

The District's total revenues for *all* activities were \$10,579,594 totaling \$396,482 more than the prior year. This increase is largely due to State Aid. Approximately 63 percent of the District's revenue came from state aid, while sixteen percent was generated by grants and contributions. Only fifteen percent came from property taxes. Five percent of revenue was related to charges for services, most of which came from member districts of the Navarro County AEP. Investment earnings and local revenue generated approximately one percent of the district's revenue.

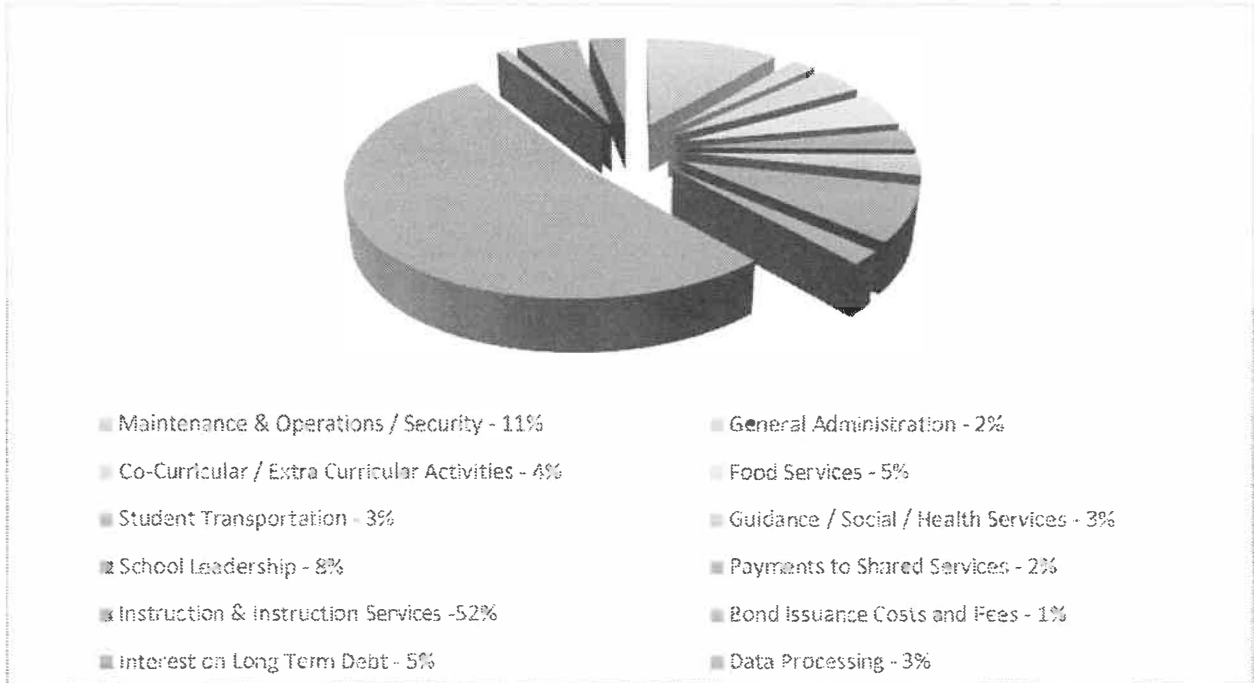
Rice ISD 2016 - 2017 Net Revenue



Changes in Net Expenses for all Government Funds:

The total net expenses of all programs and services, including depreciation, accruals, etc., were \$11,078,420 resulting increase of \$396,482 over 2015 - 2016. The increase is largely due to depreciation, increases in accruals, District-Wide Technology Infrastructure Upgrade and Bond issuance costs and fees. Percentages and changes for overall expenses are shown on the chart below:

Rice ISD 2016 – 2017 Net Expenses



Changes in Net Position:			
	Expenses by Major Functions		
	All Governmental Activities		
	2017	2016	Change
Expenses			
Instruction and Instructional Related Services	5,770,551	5,590,791	179,760
School Administration	913,762	991,006	(77,244)
Guidance, Social Work, Health	314,525	257,607	56,918
Transportation	320,743	246,591	74,152
Food Services	575,109	576,422	(1,313)
Extracurricular / Co-Curricular Activities	443,858	437,465	6,393
General Administration	275,201	300,243	(25,042)
Plant Maintenance and Security	1,247,384	1,110,040	137,344
Data Processing Services	359,393	402,358	(42,965)
Interest on Long-term Debt	506,409	446,972	59,437
Bond Issuance Costs and Fees	102,521	0	102,521
Pmts to Fiscal Agent/Member Districts-Shared Service	221,824	204,128	17,696
Other Intergovernmental Charges	27,140	26,579	561
Net Expenses	11,078,420	10,590,202	488,218

Financial Analysis of the District's Funds:

Revenues from governmental activities totaled \$10,579,594, an increase of \$396,482 over the previous year. Property taxes increased by \$46,861 while state aid revenue increased by \$301,730. Grant receipts increased by \$79,459.

Expenses totaled \$11,078,420, increasing by \$488,218 primarily as a result of the TRS pension liability depreciation calculations, bond issuance costs and payroll accruals.

General Fund Budgetary Highlights:

With the budget amendments in place, the district received \$242,272 more revenue in the General Fund than budgeted. Total expenditures were \$88,715 less than budgeted. Budget amendments made throughout the year were for the purchase and repair of buses, completion of the technology infrastructure upgrade, door security software, staffing needs and bond issuance costs.

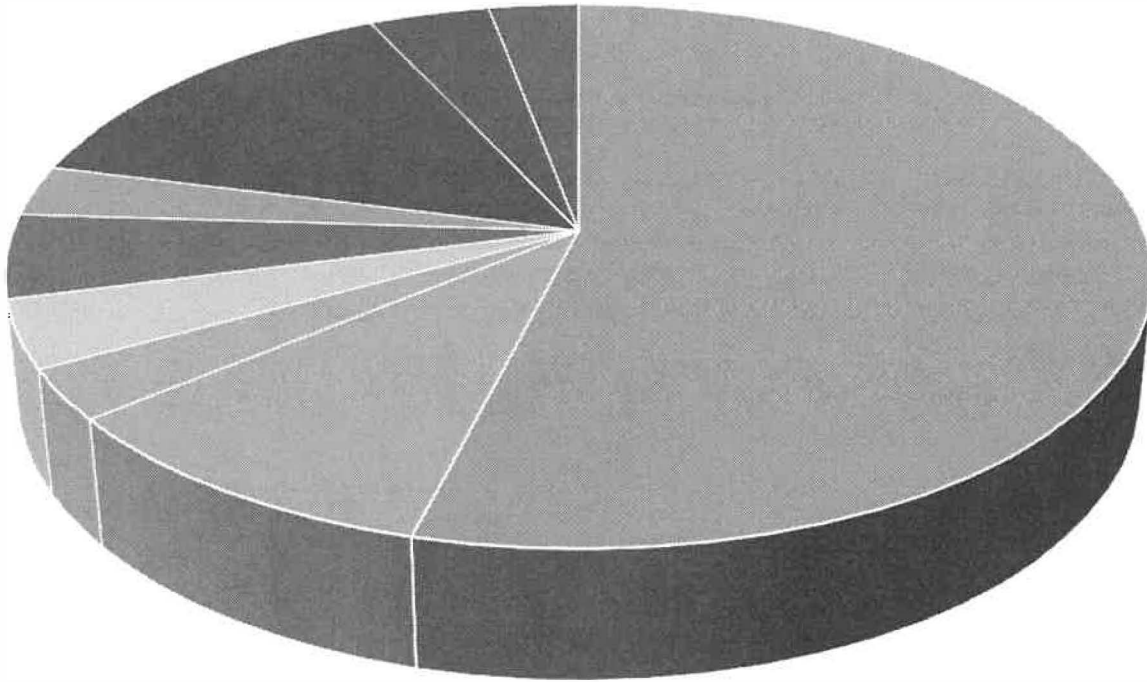
General Fund Revenues and Expenditures:

The district reported a total of \$8,304,587 in local and state revenue in the general fund for the 2016 - 2017 school year. This is an increase of \$389,362 over the prior year, mostly from state revenue. Expenditures in the general fund decreased by \$65,741 compared to the prior year, for a total of \$8,418,148. Even with a reduction in general fund expenditures, the district was able to complete a district-wide upgrade of its technology infrastructure, purchase a new bus and make other bus repairs, and replace door security at the IMS campus.

2016 - 2017 Changes in General Fund
(Actual Expenditures by Major Functions)

	General Fund Activities		Change
	<u>2017</u>	<u>2016</u>	
<i>Expenditures</i>			
Instruction and Instructional Related Services	4,539,388	4,487,801	51,587
Instructional and School Leadership	818,251	762,347	55,904
Guidance, Social Work, Health Services	286,626	227,341	59,285
Transportation	391,430	224,451	166,979
Food Service	1,588	3,197	(1,609)
Extracurricular Activities	408,573	394,389	14,184
General Administration	240,457	258,624	(18,167)
Plant Maintenance and Security	1,158,793	1,039,144	119,649
Data Processing Services	325,764	378,524	(52,760)
Long Term Debt	0	15,496	(15,496)
Facilities Acquisition and Construction	0	463,588	(463,588)
Pmts to Fiscal Agent/Member Districts-Shared Service	221,824	204,128	17,696
Other Intergovernmental Charges	25,454	24,859	595
<i>Total Expenditures</i>	<u>8,418,148</u>	<u>8,483,889</u>	<u>(65,741)</u>

Rice ISD 2016 – 2017 General Fund



- Instruction and Related Services - 54%
- Guidance, Social Work, Health Services - 3%
- Cocurricular / Extracurricular Activities - 5%
- Maintenance and Security - 14%
- Shared Services - 3%
- Instructional and School Leadership - 10%
- Student Transportation - 4%
- General Administration - 3%
- Data Processing Services - 4%

Capital Assets and Debt Administration:

Capital Assets

At the end of the 2016 - 2017 school year, the District had invested over \$ 17.4 million in capital assets, including land, equipment, buildings, and vehicles (see table below). With an accumulated depreciation of \$7.6 million, the district realized a decrease in capital assets of \$525,594.

Governmental Activities	2016	Increase	Decrease	2017
<i>Capital assets not being depreciated:</i>				
Land	1,202,985	0	-	1,202,985
Construction in progress		387,985		387,985
Total capital assets not being depreciated	1,202,985	387,985	-	1,590,970
<i>Capital assets being depreciated:</i>				
Buildings & Improvements	21,797,090	0		21,797,090
Equipment	1,094,480	28,500	(40,292)	1,082,688
Vehicles	914,736	93,931	-	1,008,667
Total capital assets being depreciated:	23,806,306	122,431	(40,292)	23,888,445
<i>Less accumulated depreciation for:</i>				
Buildings & Improvements	(5,553,802)	(489,324)	-	(6,043,126)
Equipment	(693,640)	(80,083)	13,886	(759,837)
Vehicles	(809,805)	(52,212)	-	(862,017)
Total accumulated depreciation	(7,057,247)	(621,619)	13,886	(7,664,980)
Capital Assets being depreciated, net	16,749,060	(499,188)	(26,406)	16,223,466
Governmental activities capital assets, net	17,952,044	(111,202)	(26,406)	17,814,436

Long Term Obligations

In May 2008 the District was successful in passing a \$10 million bond issue of which \$9.5 million were sold. The revenue from this was used to construct a much needed 72,000 square foot Intermediate / Middle School which accommodates students from grades three through eight. The construction of this building began in July 2009 and was completed in August of 2010. In July of 2010, the District refunded these 2008 bonds and the 2008 Capital Appreciation bonds, saving the district a total of approximately \$3.5 million over the life of the bonds.

In October of 2014, the District refunded \$1.95 million in existing Bonds, saving the district approximately \$160,000 over the life of the bonds. In May of that same year, Moody's Investors Service upgraded the bond rating for Rice ISD from Baa1 to A3.

In May of 2017 the taxpayers approved a \$15.9 million bond issue for the construction of an Elementary campus, which will house grades PK through 4. In July 2017, \$9.5 million of those bonds were sold.

As of August of 2017, the District had \$22.4 million in outstanding debt.

More detailed information about the District's debt is presented in the Notes to the Financial Statements.

LONG TERM OBLIGATIONS	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due within One Year
Governmental Activities:					
Building & Refunding Bonds	\$8,990,000	\$8,995,000	\$150,000	\$17,835,000	\$670,000
Unlimited Tax Refunding Bonds	\$1,665,000	--	\$260,000	\$1,405,000	\$270,000
Capital Leases	\$14,485	--	\$14,485	--	--
Capital appreciation bonds	\$119,592	--	--	\$119,592	--
Capital Apprec bond acc interest	\$550,164	\$91,694	--	\$641,858	--
Bond Premiums	\$79,473	\$606,521	\$36,112	\$649,882	--
Net Pension Liability*	\$1,661,812	\$301,797	\$152,295	\$1,811,314	--
Total governmental activities	\$13,080,526	\$9,995,012	\$612,892	\$22,462,646	\$940,000

ECONOMIC OUTLOOK

Rice ISD is located in Navarro County along Interstate 45, approximately 45 miles south of Dallas and ten miles north of the city of Corsicana. Rural in nature, the local economy is based upon farming and ranching, with almost one third of the district's land under agricultural exemption. The \$113 million assessed taxable value is comprised of approximately 55% farm/ranch land and 11% single-family homes with increasing values from utilities. The tax base has experienced favorable growth over the previous 20 years and there is no reason to believe that the tax base will not continue to grow in the future.

Several new businesses have moved into our district which increased our tax base. An underground pipeline through a portion of the district was completed in 2011 that increased the taxable value of the district by over \$9 million. Given the trend of expansion in taxable values and prospects for growth in the area, the district should continue to grow.

In May 2017, the voters in Rice ISD approved a tax increase which will generate more state and tax dollars for the students of our district. The voters also approved a \$15.9 million dollar bond package for the construction of a new elementary facility which will house grades Pre-K through 4.

Student enrollment has increased by approximately nine percent since 2010. The district served an average of 916 students during the course of the 2016 - 2017 school year, an increase of 39 students over the prior year.

Historically, the District's financial position has been maintained as a result of conservative budgeting and spending practices. As of August 31, 2017, the unassigned, uncommitted fund balance was \$1,752,764, with an additional \$2.25 million committed for future renovation/construction. Results for the fiscal year 2016 - 2017 reflect a decrease of \$138,344 in the general fund balance, mainly as a result of a bus purchase, staffing needs and the District-Wide technology infrastructure upgrade.

Debt Service reflected an increase in fund balance of \$22,528.

The net, combined fund balances for the district reflected an expected increase of \$9,045,232 as a result of the sale of the 2017 bonds.

The district is financially healthy as long as the state aid continues at or above the current levels and student enrollment continues to increase.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students and creditors with a general overview of the District's finances and to demonstrate the District's commitment to accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Rice Independent School District's business office at 1302 SW McKinney St., Rice, Texas 75155 or by calling (903) 326-4287.

Basic Financial Statements

RICE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2017

Data Control Codes	1	Governmental Activities
ASSETS:		
1110	<i>Cash and Cash Equivalents</i>	\$ 1,430,083
1120	<i>Current Investments</i>	12,993,824
1225	<i>Property Taxes Receivable (Net)</i>	115,728
1240	<i>Due from Other Governments</i>	550,208
1300	<i>Inventories</i>	9,274
Capital Assets:		
1510	<i>Land</i>	1,202,985
1520	<i>Buildings and Improvements, Net</i>	15,753,965
1530	<i>Furniture and Equipment, Net</i>	469,501
1580	<i>Construction in Progress</i>	387,985
1000	Total Assets	<u>32,913,553</u>
DEFERRED OUTFLOWS OF RESOURCES:		
1705	<i>Deferred Outflow Related to Pensions</i>	898,537
1700	Total Deferred Outflows of Resources	<u>898,537</u>
LIABILITIES:		
2110	<i>Accounts Payable</i>	334,106
2140	<i>Interest Payable</i>	30,080
2165	<i>Accrued Liabilities</i>	421,014
2180	<i>Due to Other Governments</i>	5,522
2300	<i>Unearned Revenue</i>	15,601
Noncurrent Liabilities:		
2501	<i>Due Within One Year</i>	940,000
2502	<i>Due in More Than One Year</i>	19,711,332
2540	<i>Net Pension Liability</i>	1,811,314
2000	Total Liabilities	<u>23,268,969</u>
DEFERRED INFLOWS OF RESOURCES:		
2605	<i>Deferred Inflow Related to Pensions</i>	104,413
2600	Total Deferred Inflows of Resources	<u>104,413</u>
NET POSITION:		
3200	Net Investment in Capital Assets	6,128,024
Restricted For:		
3820	Federal and State Programs	222,569
3850	Debt Service	871,480
3860	Capital Projects	127,298
3900	Unrestricted	3,089,337
3000	Total Net Position	<u>\$ 10,438,708</u>

The accompanying notes are an integral part of this statement.

RICE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues		4 Net (Expense) Revenue and Changes in Net Position
			Charges for Services	Operating Grants and Contributions	
					Governmental Activities
	Governmental Activities:				
11	Instruction	\$ 5,386,513	\$ 6,339	\$ 628,065	\$ (4,752,109)
12	Instructional Resources and Media Services	187,801	--	29,662	(158,139)
13	Curriculum and Staff Development	80,432	--	10,046	(70,386)
21	Instructional Leadership	115,805	--	2,664	(113,141)
23	School Leadership	913,762	--	39,707	(874,055)
31	Guidance, Counseling, & Evaluation Services	234,211	--	10,852	(223,359)
32	Social Work Services	14,990	--	893	(14,097)
33	Health Services	65,324	--	3,415	(61,909)
34	Student Transportation	320,743	--	7,023	(313,720)
35	Food Service	575,109	100,500	412,262	(62,347)
36	Cocurricular/Extracurricular Activities	443,858	27,197	12,573	(404,088)
41	General Administration	275,201	--	6,687	(268,514)
51	Facilities Maintenance and Operations	1,147,914	--	23,443	(1,124,471)
52	Security and Monitoring Services	99,470	--	2,787	(96,683)
53	Data Processing Services	359,393	--	13,577	(345,816)
72	Interest on Long-term Debt	506,409	--	527,927	21,518
73	Bond Issuance Costs and Fees	102,521	--	--	(102,521)
93	Payments Related to Shared Services Arrangements	221,824	346,685	--	124,861
99	Other Intergovernmental Charges	27,140	--	--	(27,140)
TG	Total Governmental Activities	11,078,420	480,721	1,731,583	(8,866,116)
TP	Total Primary Government	\$ 11,078,420	\$ 480,721	\$ 1,731,583	(8,866,116)
	General Revenues:				
MT	Property Taxes, Levied for General Purposes				1,202,983
DT	Property Taxes, Levied for Debt Service				343,818
IE	Investment Earnings				63,383
GC	Grants and Contributions Not Restricted to Specific Programs				6,712,678
MI	Miscellaneous				44,428
TR	Total General Revenues				8,367,290
CN	Change in Net Position				(498,826)
NB	Net Position - Beginning				10,937,534
NE	Net Position - Ending				\$ 10,438,708

The accompanying notes are an integral part of this statement.

RICE INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
AUGUST 31, 2017

Data Control Codes	10 General Fund	60 Capital Projects Fund	Other Governmental Funds	98 Total Governmental Funds
ASSETS:				
1110	\$ 260,517	\$ 54,652	\$ 1,075,541	\$ 1,390,710
1120	3,634,541	9,359,283	--	12,993,824
1225	91,167	--	24,561	115,728
1240	494,765	--	55,443	550,208
1260	7,421	--	--	7,421
1300	--	--	9,274	9,274
1000	<u>\$ 4,488,411</u>	<u>\$ 9,413,935</u>	<u>\$ 1,164,819</u>	<u>\$ 15,067,165</u>
LIABILITIES:				
Current Liabilities:				
2110	\$ 40,081	\$ 291,637	\$ 2,388	\$ 334,106
2150	(1,326)	--	--	(1,326)
2160	341,201	--	44,544	385,745
2170	7,421	--	--	7,421
2180	--	--	5,522	5,522
2200	7,103	--	2,715	9,818
2300	--	--	15,601	15,601
2000	<u>394,480</u>	<u>291,637</u>	<u>70,770</u>	<u>756,887</u>
DEFERRED INFLOWS OF RESOURCES:				
	91,167	--	24,561	115,728
2600	<u>91,167</u>	<u>--</u>	<u>24,561</u>	<u>115,728</u>
FUND BALANCES:				
Restricted Fund Balances:				
3450	--	--	222,569	222,569
3480	--	--	846,919	846,919
3490	--	9,122,298	--	9,122,298
Committed Fund Balances:				
3510	2,250,000	--	--	2,250,000
3600	1,752,764	--	--	1,752,764
3000	<u>4,002,764</u>	<u>9,122,298</u>	<u>1,069,488</u>	<u>14,194,550</u>
4000	<u>\$ 4,488,411</u>	<u>\$ 9,413,935</u>	<u>\$ 1,164,819</u>	<u>\$ 15,067,165</u>

The accompanying notes are an integral part of this statement.

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

Total fund balances - governmental funds balance sheet	\$ 14,194,550
Amounts reported for governmental activities in the Statement of Net Position ("SNP") are different because:	
Capital assets used in governmental activities are not reported in the funds.	17,814,436
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	115,728
The assets and liabilities of internal service funds are included in governmental activities in the SNP.	12,596
Payables for bond principal which are not due in the current period are not reported in the funds.	(19,359,592)
Payables for bond interest which are not due in the current period are not reported in the funds.	(30,080)
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(1,811,314)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(104,413)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	898,537
The accumulated accretion of interest on capital appreciation bonds is not reported in the funds.	(641,858)
Bond premiums are amortized in the SNA but not in the funds.	<u>(649,882)</u>
Net position of governmental activities - Statement of Net Position	<u>\$ 10,438,708</u>

The accompanying notes are an integral part of this statement.

RICE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	10 General Fund	60 Capital Projects Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES:				
5700 <i>Local and Intermediate Sources</i>	\$ 1,315,854	\$ 9,283	\$ 820,242	\$ 2,145,379
5800 <i>State Program Revenues</i>	6,988,733	--	629,763	7,618,496
5900 <i>Federal Program Revenues</i>	--	--	744,996	744,996
5020 <i>Total Revenues</i>	<u>8,304,587</u>	<u>9,283</u>	<u>2,195,001</u>	<u>10,508,871</u>
EXPENDITURES:				
Current:				
0011 <i>Instruction</i>	4,327,368	--	583,027	4,910,395
0012 <i>Instructional Resources and Media Services</i>	147,525	--	24,442	171,967
0013 <i>Curriculum and Staff Development</i>	64,495	--	9,146	73,641
0021 <i>Instructional Leadership</i>	104,516	--	--	104,516
0023 <i>School Leadership</i>	713,735	--	120,612	834,347
0031 <i>Guidance, Counseling, & Evaluation Services</i>	213,545	--	--	213,545
0032 <i>Social Work Services</i>	13,714	--	--	13,714
0033 <i>Health Services</i>	59,367	--	358	59,725
0034 <i>Student Transportation</i>	391,430	--	--	391,430
0035 <i>Food Service</i>	1,588	--	526,860	528,448
0036 <i>Cocurricular/Extracurricular Activities</i>	408,573	--	--	408,573
0041 <i>General Administration</i>	240,457	--	11,877	252,334
0051 <i>Facilities Maintenance and Operations</i>	1,066,577	--	26,463	1,093,040
0052 <i>Security and Monitoring Services</i>	92,216	--	--	92,216
0053 <i>Data Processing Services</i>	325,764	--	6,056	331,820
0071 <i>Principal on Long-term Debt</i>	--	--	410,000	410,000
0072 <i>Interest on Long-term Debt</i>	--	--	437,664	437,664
0073 <i>Bond Issuance Costs and Fees</i>	--	101,521	1,000	102,521
0081 <i>Capital Outlay</i>	--	387,985	--	387,985
0093 <i>Payments to Shared Service Arrangements</i>	221,824	--	--	221,824
0099 <i>Other Intergovernmental Charges</i>	25,454	--	--	25,454
6030 <i>Total Expenditures</i>	<u>8,418,148</u>	<u>489,506</u>	<u>2,157,505</u>	<u>11,065,159</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>				
1100 <i>Expenditures</i>	<u>(113,561)</u>	<u>(480,223)</u>	<u>37,496</u>	<u>(556,288)</u>
Other Financing Sources and (Uses):				
7911 <i>Capital-Related Debt Issued (Regular Bonds)</i>	--	8,995,000	--	8,995,000
7915 <i>Transfers In</i>	--	1,000	23,783	24,783
7916 <i>Premium or Discount on Issuance of Bonds</i>	--	606,521	--	606,521
8911 <i>Transfers Out</i>	(24,783)	--	--	(24,783)
7080 <i>Total Other Financing Sources and (Uses)</i>	<u>(24,783)</u>	<u>9,602,521</u>	<u>23,783</u>	<u>9,601,521</u>
1200 <i>Net Change in Fund Balances</i>	<u>(138,344)</u>	<u>9,122,298</u>	<u>61,279</u>	<u>9,045,233</u>
0100 <i>Fund Balances - Beginning</i>	4,141,108	--	1,008,209	5,149,317
3000 <i>Fund Balances - Ending</i>	<u>\$ 4,002,764</u>	<u>\$ 9,122,298</u>	<u>\$ 1,069,488</u>	<u>\$ 14,194,550</u>

The accompanying notes are an integral part of this statement.

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

Net change in fund balances - total governmental funds	\$ 9,045,233
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	510,416
The depreciation of capital assets used in governmental activities is not reported in the funds.	(621,618)
Trade-in or disposal of capital assets decrease net position in the SOA but not in the funds.	(11,921)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	1,877
Revenues in the SOA not providing current financial resources are not reported as revenues in the funds.	36,112
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	410,000
The accretion of interest on capital appreciation bonds is not reported in the funds.	(91,694)
(Increase) decrease in accrued interest from beginning of period to end of period.	(13,163)
The net revenue (expense) of internal service funds is reported with governmental activities.	(12,780)
Proceeds of bonds do not provide revenue in the SOA, but are reported as current resources in the funds.	(9,601,521)
Implementing GASB 68 required certain expenditures to be de-expended and recorded as deferred resource outflows.	<u>(149,767)</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ (498,826)</u>

The accompanying notes are an integral part of this statement.

RICE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AUGUST 31, 2017

Data Control Codes		Nonmajor Internal Service Fund
<u>ASSETS:</u>		<u>Insurance Fund</u>
	Current Assets:	
1110	<i>Cash and Cash Equivalents</i>	\$ 39,373
	Total Current Assets	<u>39,373</u>
1000	Total Assets	<u>39,373</u>
	 LIABILITIES:	
	Current Liabilities:	
2200	<i>Accrued Expenses</i>	26,777
	Total Current Liabilities	<u>26,777</u>
2000	Total Liabilities	<u>26,777</u>
	 NET POSITION:	
3900	<i>Unrestricted</i>	12,596
3000	Total Net Position	<u>\$ 12,596</u>

The accompanying notes are an integral part of this statement.

RICE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes		Nonmajor Internal Service Fund
		Insurance Fund
	OPERATING REVENUES:	
5700	<i>Local and Intermediate Sources</i>	\$ 21,430
5020	Total Revenues	<u>21,430</u>
	OPERATING EXPENSES:	
6100	<i>Payroll Costs</i>	34,210
6030	Total Expenses	<u>34,210</u>
1300	Change in Net Position	(12,780)
0100	Total Net Position - Beginning	25,376
3300	Total Net Position - Ending	<u>\$ 12,596</u>

The accompanying notes are an integral part of this statement.

RICE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

	Internal Service Funds
Cash Flows from Operating Activities:	
<i>Cash Received from Customers</i>	\$ 21,430
<i>Cash Payments to Employees for Services</i>	(34,210)
<i>Other Operating Cash Receipts (Payments)</i>	--
Net Cash Provided (Used) by Operating Activities	<u>(12,780)</u>
Cash Flows from Non-capital Financing Activities:	
<i>Transfers From (To) Other Funds</i>	--
Net Cash Provided (Used) by Non-capital Financing Activities	<u>--</u>
Cash Flows from Capital and Related Financing Activities:	
<i>Acquisition or Construction of Capital Assets</i>	--
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>--</u>
Cash Flows from Investing Activities:	
<i>Interest and Dividends on Investments</i>	--
Net Cash Provided (Used) for Investing Activities	<u>--</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(12,780)
Cash and Cash Equivalents at Beginning of Year	52,153
Cash and Cash Equivalents at End of Year	<u>\$ 39,373</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ (12,780)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
<i>Depreciation</i>	--
<i>Provision for Uncollectible Accounts</i>	--
Change in Assets and Liabilities:	
<i>Increase (Decrease) in Accrued Expenses</i>	--
Total Adjustments	--
Net Cash Provided (Used) by Operating Activities	<u>\$ (12,780)</u>

The accompanying notes are an integral part of this statement.

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

Data Control Codes	Private-purpose Trust Funds	Agency Funds Student Activity
ASSETS:		
1110 <i>Cash and Cash Equivalents</i>	\$ 22,656	\$ 57,675
1120 <i>Current Investments</i>	3,386	--
1000 Total Assets	<u>26,042</u>	<u>57,675</u>
LIABILITIES:		
Current Liabilities:		
2190 <i>Due to Student Groups</i>	\$ --	\$ 57,675
2000 Total Liabilities	<u>--</u>	<u>57,675</u>
NET POSITION:		
3800 <i>Held in Trust</i>	26,042	--
3000 Total Net Position	<u>\$ 26,042</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

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

	Private- Purpose Trusts
Additions:	
Investment Income	\$ 40
Gifts and Bequests	8,100
Total Additions	<u>8,140</u>
Deductions:	
Scholarship Awards	10,500
Total Deductions	<u>10,500</u>
Change in Net Position	(2,360)
Net Position-Beginning of the Year	28,402
Net Position-End of the Year	<u>\$ 26,042</u>

The accompanying notes are an integral part of this statement.

RICE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2017

A. Summary of Significant Accounting Policies

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

1. Reporting Entity

The Board of School Trustees ("Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental reporting entity and there are no component units included within the District's reporting entity.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

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

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

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

The District reports the following major governmental funds:

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

Capital Projects Fund: This fund is used to maintain funds restricted for capital projects of the District.

RICE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2017

In addition, the District reports the following fund types:

Internal Service Funds: These funds are used to account for revenues and expenses related to services provided to parties inside the District. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the District's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

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

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

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

b. Measurement Focus, Basis of Accounting

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

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

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

3. Financial Statement Amounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

RICE INDEPENDENT SCHOOL DISTRICT
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b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period. An allowance for uncollectible accounts in the amount of \$12,007 is reflected in the financial statements as of August 31, 2017.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

c. Inventories and Prepaid Items

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

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

d. Capital Assets

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

e. Deferred Outflows and Inflows of Resources

In addition to assets, the statements of financial position (the government-wide Statement of Net Position and governmental funds balance sheet) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

RICE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

f. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

g. Interfund Activity

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

h. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues, and expenditures, expenses, and other disclosures. Accordingly, actual results could differ from those estimates.

i. Data Control Codes

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

j. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

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

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

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

RICE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

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

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

k. 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 and proprietary 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 net position to have been depleted before unrestricted net position is applied.

l. 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.

4. Pensions

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' 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.

5. New Accounting Standards Adopted

In fiscal year 2017, the District adopted new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

-- Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*

-- Statement No. 82, *Pension Issues-An Amendment of GASB No. 67, No. 68 and No. 73*

- a. Statement No. 78 requires state and local governments through a cost-sharing multiple-employer defined benefit pension plan that is not a state or local government pension plan, is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local employers, and has no predominant state or local government employer to measure pension expense, expenditures and liabilities and note disclosures.

RICE INDEPENDENT SCHOOL DISTRICT
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- b. Statement No. 82 addresses issues regarding presentation of payroll-related measures, the selection of assumptions and treatment of deviations and classification of payments by employers to satisfy payments by employers to satisfy contribution requirements.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

C. Deposits and Investments

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities 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.

1. Cash Deposits:

At August 31, 2017, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$5,148,341 and the bank balance was \$5,262,716. The District's cash deposits at August 31, 2017 and during the year ended August 31, 2017, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

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

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

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

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

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Certificates of deposit included in cash above	various	\$ 2,556,384
Money Market account included in cash above	N/A	1,081,543
Texpool	N/A	9,359,283
Total Investments		<u>\$ 12,997,210</u>

3. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

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

b. Custodial Credit Risk

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

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

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

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

RICE INDEPENDENT SCHOOL DISTRICT
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Investment Accounting Policy

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA- or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

TexPool

The District invests in the Texas Local Government Investment Pool (TexPool), which is a local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The State Comptroller of Public Accounts oversees TexPool. Federated Investors, Inc. is the administrator and investment manager of TexPool under a contract with the State Comptroller. In accordance with the Public Funds Investment Act, the State Comptroller has appointed the TexPool Investment Advisory Board to advise with respect to TexPool. The board is composed equally of participants in TexPool Portfolios and other persons who do not have a business relationship with TexPool Portfolios and are qualified to advise in respect to TexPool Portfolios. The Advisory Board members review the investment policy and management fee structure. TexPool is rated AAAM by Standard & Poor's and operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. All investments are stated at amortized cost, which usually approximates the market value of the securities. The stated objective of TexPool is to maintain a stable average \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured. The financial statements can be obtained from the Texas Trust Safekeeping Trust Company website at www.ttstc.org.

RICE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

D. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,202,985	\$ --	\$ --	\$ 1,202,985
Construction in progress	--	387,985	--	387,985
Total capital assets not being depreciated	<u>1,202,985</u>	<u>387,985</u>	<u>--</u>	<u>1,590,970</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	21,797,090	--	--	21,797,090
Equipment	1,094,480	28,500	40,292	1,082,688
Vehicles	914,736	93,931	--	1,008,667
Total capital assets being depreciated	<u>23,806,306</u>	<u>122,431</u>	<u>40,292</u>	<u>23,888,445</u>
Less accumulated depreciation for:				
Buildings and improvements	(5,553,802)	(489,323)	--	(6,043,125)
Equipment	(693,640)	(80,083)	(13,886)	(759,837)
Vehicles	(809,805)	(52,212)	--	(862,017)
Total accumulated depreciation	<u>(7,057,247)</u>	<u>(621,618)</u>	<u>(13,886)</u>	<u>(7,664,979)</u>
Total capital assets being depreciated, net	<u>16,749,059</u>	<u>(499,187)</u>	<u>26,406</u>	<u>16,223,466</u>
Governmental activities capital assets, net	<u>\$ 17,952,044</u>	<u>\$ (111,202)</u>	<u>\$ 26,406</u>	<u>\$ 17,814,436</u>

Depreciation was charged to functions as follows:

Instruction	\$ 325,319
Instructional Resources and Media Services	11,393
Curriculum and Staff Development	4,879
Instructional Leadership	6,924
School Leadership	55,277
Guidance, Counseling, & Evaluation Services	14,148
Social Work Services	909
Health Services	3,957
Student Transportation	19,710
Food Services	35,010
Extracurricular Activities	27,069
General Administration	16,717
Plant Maintenance and Operations	70,527
Security and Monitoring Services	6,109
Data Processing Services	21,984
Other Intergovernmental Charges	1,686
	<u>\$ 621,618</u>

RICE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

E. Interfund Balances and Activities

Transfers To and From Other Funds

Transfers to and from other funds at August 31, 2017, consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Other Governmental Funds	\$ 23,783	Supplement other funds sources
General Fund	Capital Projects Fund	1,000	Supplement other funds sources
	Total	<u>\$ 24,783</u>	

F. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2017, are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<u>Governmental activities:</u>					
Building & Refunding Bonds	\$ 8,990,000	\$ 8,995,000	\$ 150,000	\$ 17,835,000	\$ 670,000
Unlimited Tax Refunding Bds	1,665,000	--	260,000	1,405,000	270,000
Capital leases	14,485	--	14,485	--	--
Capital appreciation bonds	119,592	--	--	119,592	--
Capital apprec bd acc interest	550,164	91,694	--	641,858	--
Bond premiums	79,473	606,521	36,112	649,882	--
Net Pension Liability *	1,661,812	301,797	152,295	1,811,314	--
Total governmental activities	<u>\$ 13,080,526</u>	<u>\$ 9,995,012</u>	<u>\$ 612,892</u>	<u>\$ 22,462,646</u>	<u>\$ 940,000</u>

* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

<u>Liability</u>	<u>Activity Type</u>	<u>Fund</u>
Net Pension Liability *	Governmental	General Fund

Bonds

The District issued Series 2010 Tax school Building and Refunding Bonds during the fiscal year ended August 31, 2010, for the purpose of refunding Series 2008 Bonds and 2008 Capital Appreciation Bonds, and also for the new issuance of \$500,000 for the completion of buildings. The premium is being amortized over the remaining life of the refunded debt. Interest rates vary from 1% to 4.17%, with annual installments ranging from \$150,000 to \$785,000. The total balance on this issue at August 31, 2017 is \$8,959,592, with \$119,592 considered capital appreciation bonds.

The District issued \$1,950,000 of Series 2014 Unlimited Tax Refunding Bonds during the fiscal year ended August 31, 2015, for the purpose of refunding other bonds. The premium is being amortized over the remaining life of the refunded debt. Interest rates vary from 2.5% to 3%, with annual installments ranging from \$255,000 to \$315,000. The total balance on this issue at August 31, 2017 is \$1,405,000.

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The District issued \$8,995,000 of Series 2017 Unlimited Tax School Building Bonds during the fiscal year ended August 31, 2017, for the purpose of construction, renovation, acquisition and equipment of school buildings. The premium is being amortized over the remaining life of the refunded debt. Interest rates vary from 2.0% to 4.25%, with annual installments ranging from \$390,850 to \$852,600. The total balance on this issue at August 31, 2017 is \$8,995,000. The total approved authorized principal amount related to this issue was \$15,900,000. The board reserves the right to issue the balance of unissued bonds when funds are needed to accomplish the purposes for which the bonds were voted to finance.

Leases

The District executed a capital lease agreement during the fiscal year ended August 31, 2014 in the original amount of \$58,950, for the purchase of equipment. The lease is payable in three annual installments of \$15,496, with includes interest at a rate of 6.53%. The total balance at August 31, 2017 is \$0.

2. Debt Service Requirements

Debt service requirements on long-term bond debt at August 31, 2017, are as follows:

<u>Year Ending August 31,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 940,000	\$ 717,853	\$ 1,657,853
2019	580,000	699,765	1,279,765
2020	675,000	684,252	1,359,252
2021	690,000	667,455	1,357,455
2022	710,000	648,783	1,358,783
2023-2027	1,559,592	4,495,945	6,055,537
2028-2032	3,375,000	2,596,588	5,971,588
2033-2037	4,155,000	1,828,446	5,983,446
2038-2042	3,230,000	1,006,050	4,236,050
2043-2047	3,445,000	355,500	3,800,500
Totals	<u>\$ 19,359,592</u>	<u>\$ 13,700,637</u>	<u>\$ 33,060,229</u>

G. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2017, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

H. Pension Plan

1. 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.

RICE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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2. Pension Plan Fiduciary Net Position

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

3. Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. 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 in (1.) above.

4. Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 through 2017. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

	Contribution Rates	
	2016	2017
Member	7.2%	7.7%
Non-Employer Contributing Entity (NECE - State)	6.8%	6.8%
Employers	6.8%	6.8%
District's 2017 Employer Contributions	\$ 161,047	
District's 2017 Member Contributions	\$ 426,848	
NECE 2016 On-Behalf Contributions to District	\$ 302,953	

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).

RICE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2017

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 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.

5. Actuarial Assumptions

The total pension liability in the August 31, 2016 actuarial evaluation 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%
Long-term expected Investment Rate of Return	8%
Inflation	2.5%
Salary Increases including inflation	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

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

RICE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

6. Discount Rate

The discount rate used to measure the total pension liability was 8%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2016 are summarized below:

Teacher Retirement System of Texas			
Asset Allocation and Long-Term Expected Real Rate of Return			
As of August 31, 2016			
Asset Class	Target Allocation	Long-term Expected Geometric Real Rate of Return	Expected Contribution to Long-term Portfolio Returns *
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy & Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	100%		8.7%

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

RICE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

7. Discount Rate Sensitivity Analysis

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

	1% Decrease in Discount Rate 7%	Discount Rate 8%	1% Increase in Discount Rate 9%
District's proportionate share of the net pension liability	\$ 2,803,303	\$ 1,811,314	\$ 969,906

8. 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 \$1,811,314 for its proportionate share of the TRS' net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 1,811,314
State's proportionate share that is associated with District	<u>3,596,000</u>
Total	<u>\$ 5,407,314</u>

The net pension liability was measured as of August 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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 collective net pension liability was 0.00479333%. which was an increase (decrease) of 0.0000921% from its proportion measured as of August 31, 2015.

Changes Since the Prior Actuarial Valuation - There were no changes to the actuarial assumptions of other inputs that affected measurement of the total pension liability since the prior measurement period:

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

For the year ended August 31, 2017, the District recognized pension expense of \$373,179 and revenue of \$373,179 for support provided by the State.

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

RICE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 28,401	\$ 54,085
Changes in actuarial assumptions	55,206	50,207
Difference between projected and actual investment earnings	153,379	--
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	500,504	121
Contributions paid to TRS subsequent to the measurement date [to be calculated by employer]	<u>161,047</u>	<u>--</u>
Total	<u>\$ 898,537</u>	<u>\$ 104,413</u>

The net amounts of the District's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended August 31	Pension Expense Amount
2018	\$ 113,068
2019	\$ 113,068
2020	\$ 210,900
2021	\$ 105,552
2022	\$ 74,466
Thereafter	\$ 16,024

i. Retiree Health Care Plans

1. TRS-Care

a. Plan Description

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

RICE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2017

b. 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. The State of Texas contribution rate was 1% for fiscal years 2017, 2016 and 2015. The active public school employee contributions rates were 0.65% of public school payroll, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2017, 2016 and 2015. For the years ended August 31, 2017, 2016, and 2015, the State's contributions to TRS-Care were \$55,435, \$55,332, and \$52,129, respectively, the active member contributions were \$36,033, \$35,966, and \$33,884, respectively, and the District's contributions were \$30,489, \$30,433, and \$28,671, respectively, which equaled the required contributions each year.

2. Medicare Part D Subsidies

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2017, 2016, and 2015, the subsidy payments received by TRS-Care on behalf of the District were \$16,700, \$21,135, and \$21,765, respectively.

J. Employee Health Care Coverage

During the year ended August 31, 2017, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$341 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a third party administrator, acting on behalf of the licensed insurer. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

The contract between the District and the third party administrator is renewable September 1, 2017, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the TRS-Active Care are available for the year ended December 31, 2016, have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

K. Commitments and Contingencies

1. Contingencies

The District participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

2. Litigation

No reportable litigation was pending against the District at August 31, 2017.

RICE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2017

3. Long-term Construction Commitment

During the current year the District issued unlimited tax school building bonds for the purpose of the construction, renovation, acquisition and equipment of school buildings, and for the purchase of necessary sites for school buildings. As of August 31, 2017, the capital projects fund had incurred costs of \$489,506 related to this purpose, and funds of \$9,413,935 remained available to complete the project.

L. Shared Services Arrangements

Shared Services Arrangement - Fiscal Agent

The District is the fiscal agent for a Shared Services Arrangement ("SSA") which provides salaries for the credit recovery program and alternative education program to the member districts listed below. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent. According to guidance provided in TEA's Resource Guide, the District has accounted for the fiscal agent's activities of the SSA in Fund 458, a special revenue fund, and will be accounted for using Model 3 in the SSA section of the Resource Guide. Expenditures of the SSA are summarized below:

<u>Member Districts</u>	<u>Expenditures</u>
Dawson ISD	\$ 39,851
Frost ISD	35,686
Hubbard ISD	32,278
Kerens ISD	54,333
Mildred ISD	62,379
Rice ISD	78,660
Wortham ISD	44,110
Total	<u>\$ 347,297</u>

Shared Services Arrangement - Membership

The District participates in a shared services arrangement ("SSA") for IDEA B Formula Program with the following school districts:

Member Districts

Blooming Grove ISD
Dawson ISD
Frost ISD
Kerens ISD
Mildred ISD
Rice ISD

The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Fairfield Bi-County Co-op 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 manager is responsible for all financial activities of the SSA.

Shared Services Arrangement - Membership

The District participates in a shared services arrangement ("SSA") for IDEA B and Career Technology Education with the following school districts:

Member Districts

Blooming Grove ISD	Teague ISD
Dawson ISD	Dew ISD
Frost ISD	Fairfield ISD
Kerens ISD	Wortham ISD
Mildred ISD	Rice ISD

RICE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Fairfield ISD 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 manager is responsible for all financial activities of the SSA.

M. Self-Funded Workman's Compensation Insurance

The District maintains a self-funded workers compensation plan known as Texas Public Schools Workers' Compensation Project. The District pays an administrative fee based on total payroll costs multiplied by an experience modifier. The service agreement provides that the association will be self-sustaining through member premiums. Excess worker's compensation insurance is carried by Safety National Casualty Corporation. The specific retention is \$350,000, maximum limit per occurrence \$1,000,000. Liabilities are reported when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. The following reflects the change in liability reported during the Plan's fiscal year.

Statement of Change in Liability	2017	2016
Unpaid (overpayment) claims, beginning of fiscal year	\$ 23,653	\$ 21,170
Net claims incurred or (adjusted) during the year	6,369	7,215
Payments of claims during the year	(3,245)	(4,732)
Unpaid claims, fiscal year end	<u>\$ 26,777</u>	<u>\$ 23,653</u>

The above amount is included in liabilities on the financial statements as of August 31, 2017.

N. Accumulated Unpaid Vacation and Personal Leave Benefits

At August 31, 2017, the District had no liability for accrued sick leave or vacation leave.

District employees accumulate personal leave at the rate of 5 days per year with no accumulation limit.

The District has non vested sick and personal leave benefits at August 31, 2017 which are not recorded on the financial statements in the amount of \$768,600. These benefits are recorded as expenditures as used.

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Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

RICE INDEPENDENT SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2017

EXHIBIT G-1

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
REVENUES:					
5700	Local and Intermediate Sources	\$ 1,474,892	\$ 1,475,892	\$ 1,315,854	\$ (160,038)
5800	State Program Revenues	6,547,421	6,586,421	6,988,733	402,312
5020	Total Revenues	<u>8,022,313</u>	<u>8,062,313</u>	<u>8,304,587</u>	<u>242,274</u>
EXPENDITURES:					
Current:					
Instruction & Instructional Related Services:					
0011	Instruction	4,302,156	4,344,166	4,327,368	16,798
0012	Instructional Resources and Media Services	141,406	149,761	147,525	2,236
0013	Curriculum and Staff Development	63,467	66,467	64,495	1,972
	Total Instruction & Instr. Related Services	<u>4,507,029</u>	<u>4,560,394</u>	<u>4,539,388</u>	<u>21,006</u>
Instructional and School Leadership:					
0021	Instructional Leadership	94,429	105,164	104,516	648
0023	School Leadership	673,989	723,989	713,735	10,254
	Total Instructional & School Leadership	<u>768,418</u>	<u>829,153</u>	<u>818,251</u>	<u>10,902</u>
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	149,293	219,493	213,545	5,948
0032	Social Work Services	13,682	14,682	13,714	968
0033	Health Services	58,997	64,097	59,367	4,730
0034	Student (Pupil) Transportation	315,194	397,594	391,430	6,164
0035	Food Services	1,800	1,800	1,588	212
0036	Cocurricular/Extracurricular Activities	477,096	409,096	408,573	523
	Total Support Services - Student (Pupil)	<u>1,016,062</u>	<u>1,106,762</u>	<u>1,088,217</u>	<u>18,545</u>
Administrative Support Services:					
0041	General Administration	240,420	254,420	240,457	13,963
	Total Administrative Support Services	<u>240,420</u>	<u>254,420</u>	<u>240,457</u>	<u>13,963</u>
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	1,108,106	1,070,756	1,066,577	4,179
0052	Security and Monitoring Services	75,127	93,977	92,216	1,761
0053	Data Processing Services	358,122	340,822	325,764	15,058
	Total Support Services - Nonstudent Based	<u>1,541,355</u>	<u>1,505,555</u>	<u>1,484,557</u>	<u>20,998</u>
Debt Service:					
0071	Debt Service	15,500	--	--	--
	Total Debt Service	<u>15,500</u>	<u>--</u>	<u>--</u>	<u>--</u>
Intergovernmental Charges:					
0093	Payments to Fiscal Agent/Member Dist.-SSA	207,522	224,522	221,824	2,698
0099	Other Intergovernmental Charges	26,057	26,057	25,454	603
	Total Intergovernmental Charges	<u>233,579</u>	<u>250,579</u>	<u>247,278</u>	<u>3,301</u>
6030	Total Expenditures	<u>8,322,363</u>	<u>8,506,863</u>	<u>8,418,148</u>	<u>88,715</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(300,050)</u>	<u>(444,550)</u>	<u>(113,561)</u>	<u>330,989</u>
Other Financing Sources (Uses):					
8911	Transfers Out	(45,020)	(45,020)	(24,783)	20,237
7080	Total Other Financing Sources and (Uses)	<u>(45,020)</u>	<u>(45,020)</u>	<u>(24,783)</u>	<u>20,237</u>
1200	Net Change in Fund Balance	<u>(345,070)</u>	<u>(489,570)</u>	<u>(138,344)</u>	<u>351,226</u>
0100	Fund Balance - Beginning	4,141,108	4,141,108	4,141,108	--
3000	Fund Balance - Ending	<u>\$ 3,796,038</u>	<u>\$ 3,651,538</u>	<u>\$ 4,002,764</u>	<u>\$ 351,226</u>

RICE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
TEACHERS RETIREMENT SYSTEM OF TEXAS
LAST TEN FISCAL YEARS *

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
District's proportion of the net pension liability (asset)	0.005%	0.005%	0.003%	--	--	--	--	--	--	--
District's proportionate share of the net pension liability (asset)	\$ 1,811,314	\$ 1,661,812	\$ 698,102	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
State's proportionate share of the net pension liability (asset) associated with the District	3,596,000	3,430,525	2,795,783	--	--	--	--	--	--	--
Total	\$ 5,407,314	\$ 5,092,337	\$ 3,493,885	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
District's covered-employee payroll	\$ 5,533,193	\$ 5,212,782	\$ 4,794,763	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	32.74%	31.88%	14.56%	--	--	--	--	--	--	--
Plan fiduciary net position as a percentage of the total pension liability	78.00%	78.43%	83.25%	--	--	--	--	--	--	--

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

RICE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
TEACHERS RETIREMENT SYSTEM OF TEXAS
LAST TEN FISCAL YEARS *

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 161,047	\$ 144,984	\$ 258,465	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Contributions in relation to the contractually required contribution	(161,047)	(144,984)	(258,465)	--	--	--	--	--	--	--
Contribution deficiency (excess)	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
District's covered-employee payroll	\$ 5,543,477	\$ 5,533,193	\$ 5,212,782	--	--	--	--	--	--	--
Contributions as a percentage of covered-employee payroll	2.91%	2.62%	4.96%	--	--	--	--	--	--	--

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

RICE INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED AUGUST 31, 2017

Budget

The official budget was prepared for adoption for the General Fund, Capital Projects Fund, National School Breakfast and Lunch Program, and the Debt Service Fund. The budget was prepared in accordance with accounting practices generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data:

- a. Prior to August 21 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. 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.
- c. Prior to the beginning of the fiscal year, the budget is legally enacted through passage of a resolution by the Board.

Once a budget is approved, it can be amended at function and fund level only by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings.

Each amendment must have Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board and are not made after fiscal year end as required by law.

Each amendment is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget. There were no end-of-year outstanding encumbrances that were provided for in the subsequent year's budget.

Defined Benefit Pension Plan

Changes of benefit terms

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

Changes of assumptions

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

RICE INDEPENDENT SCHOOL DISTRICT
CAPITAL PROJECTS FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2017

EXHIBIT H-1

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 10,000	\$ 9,283	\$ (717)
5020 Total Revenues	<u>10,000</u>	<u>9,283</u>	<u>(717)</u>
EXPENDITURES:			
Debt Service:			
0073 <i>Bond Issuance Costs and Fees</i>	101,521	101,521	--
Total Debt Service	<u>101,521</u>	<u>101,521</u>	<u>--</u>
Capital Outlay:			
0081 <i>Capital Outlay</i>	9,500,000	387,985	9,112,015
Total Capital Outlay	<u>9,500,000</u>	<u>387,985</u>	<u>9,112,015</u>
6030 Total Expenditures	<u>9,601,521</u>	<u>489,506</u>	<u>9,112,015</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	<u>(9,591,521)</u>	<u>(480,223)</u>	<u>9,111,298</u>
Other Financing Sources (Uses):			
7911 <i>Capital-Related Debt Issued (Regular Bonds)</i>	8,995,000	8,995,000	--
7915 <i>Transfers In</i>	1,000	1,000	--
7916 <i>Premium or Discount on Issuance of Bonds</i>	606,521	606,521	--
7080 Total Other Financing Sources and (Uses)	<u>9,602,521</u>	<u>9,602,521</u>	<u>--</u>
1200 Net Change in Fund Balance	11,000	9,122,298	9,111,298
0100 Fund Balance - Beginning	--	--	--
3000 Fund Balance - Ending	<u>\$ 11,000</u>	<u>\$ 9,122,298</u>	<u>\$ 9,111,298</u>

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

RICE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2017

Year Ended August 31	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
	\$	Various	\$	Various	\$	Various
2008 and Prior Years						
2009		1.04		.38		77,184,358
2010		1.04		.38		83,044,848
2011		1.04		.38		100,450,620
2012		1.04		.38		109,922,253
2013		1.04		.38		110,416,969
2014		1.04		.34		109,615,250
2015		1.04		.34		112,844,365
2016		1.04		.2965		110,527,182
2017 (School Year Under Audit)		1.04		.2965		113,179,852
1000 Totals						

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
\$ 20,647	\$ --	\$ 578	\$ 49	\$ (1,207)	\$ 18,813
3,969	--	334	122	134	3,647
5,112	--	395	144	78	4,651
5,525	--	575	210	(84)	4,656
7,365	--	1,399	511	(665)	4,790
8,196	--	2,359	862	639	5,614
12,202	--	4,571	1,494	1,504	7,641
19,447	--	8,335	2,725	1,718	10,105
43,200	--	16,303	4,648	(3,547)	18,702
--	1,512,694	1,142,907	325,882	5,211	49,116
<u>\$ 125,663</u>	<u>\$ 1,512,694</u>	<u>\$ 1,177,756</u>	<u>\$ 336,647</u>	<u>\$ 3,781</u>	<u>\$ 127,735</u>

RICE INDEPENDENT SCHOOL DISTRICT
FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET (UNAUDITED)
GENERAL FUND
AS OF AUGUST 31, 2017

EXHIBIT J-2

Data Control Codes	Explanation	Amount
1	Total General Fund Fund Balance as of August 31, 2017 (Exhibit C-1 object 3000 for the General Fund only)	\$ 4,002,764
2	Total General Fund Nonspendable Fund Balance (from Exhibit C-1 - total of object 341X-344X for the General Fund only)	--
3	Total General Fund Restricted Fund Balance (from Exhibit C-1 - total of object 345X-349X for the General Fund only)	--
4	Total General Fund Committed Fund Balance (from Exhibit C-1 - total of object 351X-354X for the General Fund only)	2,250,000
5	Total General Fund Assigned Fund Balance (from Exhibit C-1 - total of object 355X-359X for the General Fund only)	--
6	Estimated amount needed to cover fall cash flow deficits in the General Fund (net of borrowed funds and funds representing deferred revenues)	--
7	Estimate of two months' average cash disbursements during the fiscal year	1,400,000
8	Estimate of delayed payments from state sources (58XX)	--
9	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	--
10	Estimate of delayed payments from federal sources (59XX)	--
11	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	--
12	General Fund Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9+10+11)	3,650,000
13	Excess (Deficit) Unassigned General Fund Fund Balance (1-12)	\$ 352,764

Above amount expected to be used for future capital expenditures.

RICE INDEPENDENT SCHOOL DISTRICT
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2017

EXHIBIT J-3

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 99,700	\$ 101,424	\$ 1,724
5800 <i>State Program Revenues</i>	13,690	14,061	371
5900 <i>Federal Program Revenues</i>	378,000	398,201	20,201
5020 Total Revenues	<u>491,390</u>	<u>513,686</u>	<u>22,296</u>
EXPENDITURES:			
Current:			
Support Services - Student (Pupil):			
0035 <i>Food Services</i>	536,410	526,860	9,550
Total Support Services - Student (Pupil)	<u>536,410</u>	<u>526,860</u>	<u>9,550</u>
6030 Total Expenditures	<u>536,410</u>	<u>526,860</u>	<u>9,550</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	<u>(45,020)</u>	<u>(13,174)</u>	<u>31,846</u>
Other Financing Sources (Uses):			
7915 <i>Transfers In</i>	45,020	23,783	(21,237)
7080 Total Other Financing Sources and (Uses)	<u>45,020</u>	<u>23,783</u>	<u>(21,237)</u>
1200 Net Change in Fund Balance	--	10,609	10,609
0100 Fund Balance - Beginning	13,521	13,521	--
3000 Fund Balance - Ending	<u>\$ 13,521</u>	<u>\$ 24,130</u>	<u>\$ 10,609</u>

RICE INDEPENDENT SCHOOL DISTRICT
DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2017

EXHIBIT J-4

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 379,628	\$ 372,132	\$ (7,496)
5800 <i>State Program Revenues</i>	497,904	527,927	30,023
5020 <i>Total Revenues</i>	<u>877,532</u>	<u>900,059</u>	<u>22,527</u>
EXPENDITURES:			
Debt Service:			
0071 <i>Principal on Long-Term Debt</i>	410,000	410,000	--
0072 <i>Interest on Long-Term Debt</i>	437,665	437,664	1
0073 <i>Bond Issuance Costs and Fees</i>	1,000	1,000	--
<i>Total Debt Service</i>	<u>848,665</u>	<u>848,664</u>	<u>1</u>
6030 <i>Total Expenditures</i>	<u>848,665</u>	<u>848,664</u>	<u>1</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>	28,867	51,395	22,528
1200 <i>Net Change in Fund Balance</i>	<u>28,867</u>	<u>51,395</u>	<u>22,528</u>
0100 <i>Fund Balance - Beginning</i>	795,524	795,524	--
3000 <i>Fund Balance - Ending</i>	<u>\$ 824,391</u>	<u>\$ 846,919</u>	<u>\$ 22,528</u>

ANDERSON, MARX & BOHL, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

**HUDSON ANDERSON, CPA
FRANK MARX, III, CPA
DORI BOHL, CPA & CFE**

**Independent Auditors' 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**

Board of Trustees
Rice Independent School District
1302 SW McKinney Street
Rice, Texas 75155

Members of the Board of Trustees:

We have audited, in accordance with the 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 Rice Independent School District, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise Rice Independent School District's basic financial statements, and have issued our report thereon dated November 14, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Rice Independent School 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 Rice Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rice Independent School 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 entity'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control 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 Rice Independent School 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*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

Anderson, Marx & Bohl, P.C.

Anderson, Marx & Bohl, P.C.

Corsicana, Texas
November 14, 2017

RICE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2017

A. Summary of Auditors' Results

1. Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

One or more material weaknesses identified?

 Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses?

 Yes X None Reported

Noncompliance material to financial statements noted?

 Yes X No

B. Financial Statement Findings

NONE

RICE INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2017

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
None reported.		

RICE INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2017

No findings reported, so none required.

RICE INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF 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?	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 governmental agencies?	Yes
SF8	Did the school district <u>not</u> 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	What was the total accumulated accretion on capital appreciation bonds (CABs) included in government-wide financial statements at fiscal year-end?	\$ 641,858
SF11	Net Pension Assets (object 1920) at fiscal year-end.	\$ --
SF12	Net Pension Liabilities (object 2540) at fiscal year-end.	\$ 1,811,314
SF13	Pension Expense (object 6147) at fiscal year-end.	\$

In correspondence to all school administrators dated November 1, 2017, the TEA's Director of Financial Compliance stated "For 2017, and until further notice, no data should be entered in the field for data feed Schedule L-1 question SF13. If the AFR and data feed has been submitted no additional steps need to be taken."

Financial Advisory Services
Provided By:

SAMCO CAPITAL MARKETS, INC.