

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

\$22,545,000*

**SCHERTZ-CIBOLO-UNIVERSAL CITY
INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX REFUNDING BONDS,
SERIES 2018**

**Bids Due
Thursday, November 15, 2018
at 10:00 A.M., Central Time**

* *Preliminary, subject to change. See "THE BONDS - Adjustment of Principal Amount and Maturity Schedule for the Bonds" herein.*

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

**OFFICIAL NOTICE OF SALE
AND
BIDDING INSTRUCTIONS**

\$22,545,000*

**SCHERTZ-CIBOLO-UNIVERSAL CITY INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Guadalupe and Bexar Counties, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2018**

Sealed Bids Due on Thursday, November 15, 2018 at 10:00 A.M. Central Time

THE SALE

BONDS OFFERED FOR SALE AT COMPETITIVE BIDDING. The Schertz-Cibolo-Universal City Independent School District (the "District") is offering for sale at competitive bid its \$22,545,000* Unlimited Tax Refunding Bonds, Series 2018 (the "Bonds").

PLACE AND TIME OF SALE. Bids for the purchase of the Bonds will be received until 10:00 A.M., Central Time, on Thursday, November 15, 2018 at the District's Administration Office, 1060 Elbel Road, Schertz, Texas 78154. All bids received will be publicly opened and read at such time and place, and the results will be considered by an Authorized Official (as defined in the Preliminary Official Statement) designated in the Order (defined herein), who shall evidence selection of the winning bidder by executing an Approval Certificate (defined in the Preliminary Official Statement) on Friday, November 16, 2018.

BIDDING PROCEDURES. No later than 10:00 A.M., Central Time, on Thursday, November 15, 2018, bidders who wish to submit their bids electronically or by facsimile must provide two signed copies of the "Official Bid Form," and two signed copies of the "Issue Price Certificate," together with an envelope addressed to the President, Board of Trustees, Schertz-Cibolo-Universal City Independent School District, 1060 Elbel Road, Schertz, Texas 78154, and plainly marked "Bid for Bonds," to Duane Westerman, SAMCO Capital Markets, Inc., 1020 N.E. Loop 410, Suite 640, San Antonio, Texas 78209.

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

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

Bids Delivered Directly to the District . . . Bids delivered directly to the District, which must be submitted in duplicate on the Official Bid Form and plainly marked "Bid for Bonds," are to be addressed to "President, Board of Trustees," Schertz-Cibolo-Universal City Independent School District, 1060 Elbel Road, Schertz, Texas 78154. All such bids must be delivered at the above address no later than 10:00 A.M., Central Time, on Thursday, November 15, 2018.

Electronic Bidding Procedure . . . Interested bidders may, at their option, submit their bid by electronic media, as described below, by 10:00 A.M., Central Time, on Thursday, November 15, 2018.

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

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

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

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

Mr. Westerman will accept bids by facsimile until 10:00 A.M., Central Time, on Thursday, November 15, 2018 at (210) 832-9794. Each bid received by facsimile will be attached to the corresponding signed Official Bid Form as mentioned above, after which Mr. Westerman will, on behalf of the bidders, submit such bids on the bid forms to the District in the manner provided above. Mr. Westerman will not be responsible for submitting bids received after the Thursday, November 15, 2018 10:00 A.M., Central Time deadline.

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

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

THE BONDS

DESCRIPTION. The Bonds will be dated December 1, 2018 (the “Dated Date”) with interest to accrue from the Dated Date and to be payable initially on February 1, 2019 and semiannually on August 1 and February 1 thereafter until stated maturity or prior redemption. The definitive Bonds will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository (the “Securities Depository”). Book-entry interests in the Bonds will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Bonds (“Beneficial Owners”) will not receive physical delivery of Bonds representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by Zions Bancorporation, National Association, Houston, Texas, as Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. (See “BOOK-ENTRY-ONLY SYSTEM” in the Preliminary Official Statement.) The Bonds will be stated to mature on February 1 in each of the following years in the following amounts:

Stated Maturity February 1	Principal* Amount (\$)
2020	1,100,000
2021	4,035,000
2022	4,020,000
2023	4,225,000
2024	4,445,000
2025	4,720,000

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

ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS. After final computation of the bids, the District reserves the right in its sole discretion either to decrease or increase the principal amount of any stated maturity of the Bonds. The aggregate principal amount of the Bonds may be adjusted by no more than 10% of the proposed par amount by an Authorized Official. Such adjustment(s), if any, shall be made within four (4) hours of the initial award of the Bonds. The price at which such adjusted principal amount of Bonds will be sold will be the same price per \$1,000 of Bonds as the price per \$1,000 for the original par amount of Bonds bid. In order to calculate the yield on the Bonds for federal tax law purposes and as a condition precedent to the award of the Bonds, bidders must disclose to the District in connection with their respective bids the price (or yield to stated maturity) at which each stated maturity of the Bonds will be reoffered and sold for (or expected to be sold) to the public.

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

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

PURPOSE. Proceeds from the sale of the Bonds will be used to (i) refund a portion of the District's currently outstanding unlimited ad valorem, tax-supported obligations, as identified in Schedule I attached hereto (the "Refunded Obligations"), for debt service savings, and (ii) to pay for professional services associated with the costs of issuance of the Bonds. See "PLAN OF FINANCING - Purpose" in the Preliminary Official Statement.

REDEMPTION. The District reserves the right to redeem the Bonds maturing on and after February 1, 2024 in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 1, 2023 or any date thereafter, at the redemption price of par plus accrued interest. If two or more serial Bonds of consecutive maturity are combined into one or more "term" Bonds (the "Term Bonds") by the Purchaser, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order. (See "THE BONDS - Redemption Provisions of the Bonds" herein.)

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

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

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

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

PERMANENT SCHOOL FUND GUARANTEE. The District has applied for and received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" in the Preliminary Official Statement.

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

CONDITIONS OF THE SALE

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

TYPES OF BIDS AND INTEREST RATES. The Bonds will be sold in one block on an "All or None" basis, and at a price of not less than 104.40% of their principal amount plus accrued interest from the Dated Date to the date of initial delivery of the Bonds to the Initial Purchaser (defined herein); provided, however, that any bid is subject to adjustment as described under the caption "THE BONDS - Adjustment of Principal Amount and Maturity Schedule for the Bonds," which adjustment could result in the price of the Bonds of the bidders premium to exceed the parameters provided above. Bidders are invited to name the rate or rates of interest the Bonds shall bear, provided that each rate bid must be stated in multiples of 1/8th of 1% or 1/20th of 1%, and the maximum rate bid must not exceed 5.00%. The highest rate bid may not exceed the lowest rate bid by more than 3.00% in rate. No limitation is imposed upon bidders as to the number of rates or changes that may be used, provided that all Bonds of one maturity must bear one and the same rate.

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

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

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

GOOD FAITH DEPOSIT. A Good Faith Deposit, in the form of a Cashier's Check payable to "Schertz-Cibolo-Universal City Independent School District," in the amount of \$450,900.00* is required. The Good Faith Deposit of the Purchaser will be retained uncashed by the District until the Bonds are delivered. At that time, it will be returned to the Purchaser uncashed; however, should the Purchaser fail or refuse to take up and pay for the Bonds, said check is to be cashed by the District and the proceeds accepted as full and complete liquidated damages. The above-mentioned Good Faith Deposit may accompany the bid or it may be submitted separately. However, if submitted separately, it shall be made available to the District prior to the opening of the bids. It shall be accompanied by instructions from the bank on which it is drawn which will authorize its use as a Good Faith Deposit by the Purchaser who shall be named in such instructions. No interest will be paid or allowed on any Good Faith Deposit. Checks accompanying the bids of unsuccessful bidders will be returned immediately after the bids are opened and the award of the sale of the Bonds has been made.

ADDITIONAL CONDITION OF AWARD - DISCLOSURE OF INTERESTED PARTY FORM:

New obligation of the District to receive information from winning bidder if bidder is not a publicly traded business entity (a "Privately Held Bidder"). Effective January 1, 2018, pursuant to Texas Government Code Section 2252.908 (the "Interested Party Disclosure Act"), the District may not award the Bonds to a winning bidder which is a Privately Held Bidder unless such party submits a Certificate of Interested Parties Form 1295 (the "Disclosure Form") to the District as prescribed by the Texas Ethics Commission ("TEC"). In the event that a Privately Held Bidder's bid for the Bonds is the best bid received, the District, acting through its financial advisor, will promptly notify the winning Privately Held Bidder. That notification will serve as the District's conditional verbal acceptance of the bid and will obligate the winning Privately Held Bidder to establish (unless such winning Privately Held Bidder has previously so established) an account with the TEC, and promptly file a completed Disclosure Form, as described below, in order to allow the District to complete the award.

Process for completing the Disclosure Form. For purposes of illustration, the Disclosure Form is attached hereto, and reference should be made to such form for the following information needed to complete it: (a) item 2 - name of the governmental entity (Schertz-Cibolo-Universal City Independent School District) and (b) item 3 - the identification number assigned to this contract by the District (SCUCISD Ser2018-Bid Form) and description of the goods or services (Purchase of the Schertz-Cibolo-Universal City Independent School District Unlimited Tax Refunding Bonds, Series 2018). The Interested Party Disclosure Act and the rules adopted by the TEC with respect thereto (the "Disclosure Rules") require a non-publicly traded business entity contracting with the District to complete the Disclosure Form electronically at <https://www.ethics.state.tx.us/main/file.htm>, print, sign, and deliver, in physical form, the certified Disclosure Form that is generated by the TEC's "electronic portal" to the District. The executed Disclosure Form must be sent by email, to the District's financial advisor at dwesterman@samcocapital.com, as soon as possible following the notification of conditional verbal acceptance and prior to the final written award. Upon receipt of the final written award, the Disclosure Form with original signatures must be submitted by mail to Clay Binford, c/o Norton Rose Fulbright US LLP, 300 Convent Street, Suite 2100, San Antonio, Texas 78205, along with a PDF executed version sent to clayton.binford@nortonrosefulbright.com.

Preparations for completion, and the significance of, the reported information. In accordance with the Interested Party Disclosure Act, the information reported by the winning Privately Held Bidder MUST BE DECLARED BY AN AUTHORIZED AGENT OF THE WINNING PRIVATELY HELD BIDDER. No exceptions may be made to that requirement. The Interested Party Disclosure Act and the Disclosure Form provides that such acknowledgment is made "under penalty of perjury." Consequently, a winning Privately Held Bidder should take appropriate steps prior to completion of the Disclosure Form to familiarize itself with the Interested Party

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

Disclosure Act, the Disclosure Rules and the Disclosure Form. Time will be of the essence in submitting the form to the District, and no final award will be made by the District regarding the sale of the Bonds until a completed Disclosure Form is received. If applicable, the District reserves the right to reject any bid that does not satisfy the requirement of a completed Disclosure Form, as described herein. Neither the District nor its consultants have the ability to verify the information included in a Disclosure Form, and neither party has an obligation nor undertakes responsibility for advising any bidder with respect to (1) the bidder's obligation to submit the Disclosure Form or (2) the proper completion of the Disclosure Form. Consequently, an entity intending to bid on the Bonds should consult its own advisors to the extent it deems necessary and be prepared to submit the completed form, if required, promptly upon notification from the District that its bid is the conditional winning bid. Instructional videos on logging in and creating a certificate are provided on the TEC's website at https://www.ethics.state.tx.us/whatsnew/elf_info_form_1295.htm.

ADDITIONAL CONDITION OF AWARD - COMPLIANCE WITH H.B. 89 AND S.B. 252, 85TH TEXAS LEGISLATURE: Each Bidder, through submittal of an executed Official Bid Form, hereby represents that neither it nor any of its parent company, wholly- or majority-owned subsidiaries, and other affiliates is a company identified on a list prepared and maintained by the Texas Comptroller of Public Accounts under Section 2252.153 or Section 2270.0201, Texas Government Code, and posted on any of the following pages of such officer's internet website: <https://comptroller.texas.gov/purchasing/docs/sudan-list.pdf>, <https://comptroller.texas.gov/purchasing/docs/iran-list.pdf>, or <https://comptroller.texas.gov/purchasing/docs/fto-list.pdf>. The foregoing representation is made solely to comply with Section 2252.152, Texas Government Code, and to the extent such Section does not contravene applicable Federal law and excludes the Bidder and each of its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, that the United States government has affirmatively declared to be excluded from its federal sanctions regime relating to Sudan or Iran or any federal sanctions regime relating to a foreign terrorist organization. Each Bidder, through submittal of an executed Official Bid Form, understands "affiliate" to mean any entity that controls, is controlled by, or is under common control with the Bidder and exists to make a profit.

Each Bidder, through submittal of an executed Official Bid Form, hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not boycott Israel and, to the extent this Notice of Sale and Official Bid Form is a contract for goods or services, will not boycott Israel during the term of this agreement. The foregoing verification is made solely to comply with Section 2270.002, Texas Government Code, and to the extent such Section does not contravene applicable Federal law. As used in the foregoing verification, 'boycott Israel' means refusing to deal with, terminating business activities with, or otherwise taking any action that is intended to penalize, inflict economic harm on, or limit commercial relations specifically with Israel, or with a person or entity doing business in Israel or in an Israeli-controlled territory, but does not include an action made for ordinary business purposes. Each Bidder, through submittal of an executed Official Bid Form, understands 'affiliate' to mean an entity that controls, is controlled by, or is under common control with the Bidder and exists to make a profit.

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

DELIVERY OF THE BONDS AND ACCOMPANYING DOCUMENTS

INITIAL DELIVERY OF INITIAL BOND. Initial delivery of the Bonds to the Purchaser (the "Initial Delivery") will be accomplished by the issuance of one Initial Bond (also called the "Bonds"), either in typed or printed form, in the aggregate principal amount of \$22,545,000.00,* payable in stated installments to the Purchaser, signed by manual or facsimile signature by the President and Secretary of the Board of the Schertz-Cibolo-Universal City Independent School District, approved by the Texas Attorney General, and registered and manually signed by the Comptroller of Public Accounts. Initial Delivery of the Bonds will be at the designated office of the Paying Agent/Registrar. Upon delivery of the Initial Bonds, they shall be immediately canceled and one definitive Bond for each maturity payable to Cede & Co. will be exchanged therefore and delivered to DTC in connection with DTC's Book-Entry-Only System. Payment for the Bonds must be made in immediately available funds for unconditional credit to the District, or as otherwise directed by the District. The Purchaser will be given seven (7) business days' notice of the time fixed for delivery of the Bonds. It is anticipated that delivery of the Initial Bond can be made on or about December 18, 2018. If for any reason the District is unable to make delivery by December 18, 2018, then the District shall immediately contact the Purchaser and offer to allow the Purchaser to extend for an additional up to thirty (30) days its obligation to take up and pay for the Bonds. If the Purchaser does not so elect within six (6) days thereafter, then its Good Faith Deposit will be returned, and both the District and the Purchaser shall be relieved of further obligation. In no event shall the District be liable for any damages by reason of its failure to deliver the Bonds, provided such failure is due to circumstances beyond the District's reasonable control.

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

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

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

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

In order to provide the District with information required to enable it to comply with certain conditions of the Internal Revenue Code of 1986, as amended (the "Code") relating to the exclusion of interest on the Bonds from the gross income of their owners, the Purchaser will be required to complete, execute, and deliver to the District (on or before the date of Initial Delivery of the Bonds) a certification as to their "issue price" (the "Issue Price Certificate") in the form and to the effect attached hereto or accompanying this Official Notice of Sale, subject to the conditions set forth in "ESTABLISHMENT OF ISSUE PRICE" below.

ESTABLISHMENT OF ISSUE PRICE:

(a) The winning bidder shall assist the District in establishing the issue price of the Bonds and shall execute and deliver to the District by the date of Initial Delivery an "issue price" or similar certificate setting forth the reasonably expected initial offering price to the public, together with the supporting pricing wires or equivalent communications, such issue price certificate substantially in the form attached hereto, with such modifications as may be appropriate or necessary, in the reasonable judgment of the winning bidder, the District, and Norton Rose Fulbright US LLP, the District's Bond Counsel (but not to the extent that would preclude the establishment of issue price of the Bonds under applicable federal regulations). All actions to be taken by the District under this Official Notice of Sale to establish the issue price of the Bonds may be taken on behalf of the District by the District's Financial Advisor and any notice or report to be provided to the District may be provided to the District's Financial Advisor.

(b) The District intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Bonds) will apply to the initial sale of the Bonds (the "competitive sale requirements") because:

- (1) the District shall disseminate this Official Notice of Sale to potential underwriters (defined below) in a manner that is reasonably designed to reach potential underwriters;
- (2) all bidders shall have an equal opportunity to bid;
- (3) the District may receive bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (4) the District anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the highest price (or lowest interest cost), as set forth in this Official Notice of Sale.

Any bid submitted pursuant to this Official Notice of Sale shall be considered a firm offer for the purchase of the Bonds, as specified in the bid.

(c) In the event that the competitive sale requirements are not satisfied, the District shall so advise the winning bidder. In such event, the District intends to treat the initial offering price to the public (defined below) as of the sale date (defined below) of each maturity of the Bonds as the issue price of that maturity (the "hold-the-offering-price rule"). The District shall promptly advise the winning bidder, at or before the time of award of the Bonds, if the competitive sale requirements were not satisfied, in which case the hold-the-offering-price rule shall apply to the Bonds. **Bids will not be subject to cancellation in the event that the competitive sale requirements are not satisfied and the hold-the-offering-price rule applies.** In the event that the competitive sale requirements

are not satisfied, resulting in the application of the hold-the-offering price rule, the issue price certificate shall be modified as necessary in the reasonable judgment of Bond Counsel and the District.

(d) By submitting a bid, the winning bidder shall (i) confirm that the underwriters have offered or will offer the Bonds to the public on or before the date of award at the offering price or prices (the "initial offering price"), or at the corresponding yield or yields, set forth in the bid submitted by the winning bidder and (ii) agree, on behalf of the underwriters participating in the purchase of the Bonds, that the underwriters will neither offer nor sell unsold Bonds of any maturity to which the hold-the-offering-price rule applies to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

- (1) the close of the fifth (5th) business day after the sale date; or
- (2) the date on which the underwriters have sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The winning bidder shall promptly advise the District when the underwriters have sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth (5th) business day after the sale date.

(e) If the competitive sale requirements are not satisfied, then until the 10% test has been satisfied as to each maturity of the Bonds, the winning bidder agrees to promptly report to the District the prices at which the unsold Bonds of that maturity have been sold to the public. That reporting obligation shall continue, whether or not the date of Initial Delivery has occurred, until the 10% test has been satisfied as to the Bonds of that maturity or until all Bonds of that maturity have been sold. The 10% test shall be considered satisfied with respect to a maturity when at least 10% of the Bonds of that maturity have been sold to the public at a particular price.

(f) The District acknowledges that, in making the representation set forth above, the winning bidder will rely on (i) the agreement of each underwriter to comply with the hold-the-offering-price rule, as set forth in an agreement among underwriters and the related pricing wires, (ii) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the hold-the-offering-price rule, as set forth in a selling group agreement and the related pricing wires, and (iii) in the event that an underwriter is a party to a retail distribution agreement that was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the hold-the-offering-price rule, as set forth in the retail distribution agreement and the related pricing wires. The District further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the hold-the-offering-price rule and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a retail distribution agreement to comply with its corresponding agreement regarding the hold-the-offering-price rule as applicable to the Bonds.

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

(h) Sales of any Bonds to any person that is a related party (defined below) to an underwriter shall not constitute sales to the public for purposes of this Official Notice of Sale. Further, for purposes of this section of the Official Notice of Sale entitled "ESTABLISHMENT OF ISSUE PRICE":

- (1) "public" means any person other than an underwriter or a related party;

- (2) “underwriter” means (A) any person that agrees pursuant to a written contract with the District (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the public);
- (3) a purchaser of any of the Bonds is a “related party” to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other); and
- (4) “sale date” means the date that the Bonds are awarded by the District to the winning bidder.

LEGAL OPINIONS. The District will furnish to the representative of the Purchaser a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the approving legal opinion of the Attorney General of the State of Texas, that the Bonds are valid and legally binding obligations of the District and, based upon examination of such transcript of proceedings, the legal opinion of Norton Rose Fulbright US LLP, San Antonio, Texas (“Bond Counsel”). In addition, the District will receive an opinion from Bond Counsel to the effect that the interest on the Bonds, assuming continued compliance with the provisions of the Order, (1) is excludable from the gross income of the owners thereof for federal income tax purposes under the law existing on the date of Initial Delivery of the Bonds, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as described under “TAX MATTERS” in the Preliminary Official Statement, corporations. The opinion of Bond Counsel will be attached to the Bonds delivered to DTC. (See “TAX MATTERS” in the Preliminary Official Statement.)

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

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

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

GENERAL CONSIDERATIONS

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

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

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE. The sale of the Bonds has not been registered under the federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction in

which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

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

MUNICIPAL BOND RATING. The District has made application to Fitch Ratings, Inc. ("Fitch") and Moody's Investors Service, Inc. ("Moody's") for contract ratings on the Bonds. Fitch and Moody's generally rate all bonds guaranteed by the Texas Permanent School Fund "AAA" and "Aaa," respectively. The results will be made available as soon as possible. The current unenhanced rating of the District's outstanding indebtedness is "Aa3" by Moody's and "AA" by Fitch. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "OTHER PERTINENT INFORMATION - Municipal Bond Ratings" in the Preliminary Official Statement.

OFFICIAL STATEMENT

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

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

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

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

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

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

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

The Board of Trustees authorized certain District officials to approve the form and content of the Official Notice of Sale, the Official Bid Form, and the Preliminary Official Statement and also authorized the use thereof in its initial offering of the Bonds.

SCHERTZ-CIBOLO-UNIVERSAL CITY
INDEPENDENT SCHOOL DISTRICT

/s/ _____
President, Board of Trustees

ATTEST:

/s/ _____
Secretary, Board of Trustees

November 15, 2018

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CERTIFICATE OF INTERESTED PARTIES

FORM 1295

Complete Nos. 1 - 4 and 6 if there are interested parties.
 Complete Nos. 1, 2, 3, 5, and 6 if there are no interested parties.

OFFICE USE ONLY

1 Name of business entity filing form, and the city, state and country of the business entity's place of business.

2 Name of governmental entity or state agency that is a party to the contract for which the form is being filed.

Schertz-Cibolo-Universal City Independent School District

3 Provide the identification number used by the governmental entity or state agency to track or identify the contract, and provide a description of the services, goods, or other property to be provided under the contract.

SCUCISD Ser2018-Bid Form

Purchase of the Schertz-Cibolo-Universal City Independent School District Unlimited Tax School Building Bonds, Series 2018

4 Name of Interested Party	City, State, Country (place of business)	Nature of Interest (check applicable)	
		Controlling	Intermediary

5 Check only if there is NO Interested Party.

6 UNSWORN DECLARATION

My name is _____, and my date of birth is _____.

My address _____, _____, _____, _____, _____.
 (street) (city) (state) (zip code) (country)

I declare under penalty of perjury that the foregoing is true and correct.

Executed in _____ County, State of _____, on the _____ day of _____, 20____.
 (month) (year)

 Signature of authorized agent of contracting business entity
 (Declarant)

ADD ADDITIONAL PAGES AS NECESSARY

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OFFICIAL BID FORM

November 15, 2018

The Honorable President and
 Members of the Board of Trustees
 Schertz-Cibolo-Universal City
 Independent School District
 1060 Elbel Road
 Schertz, Texas 78154

Members of the Board of Trustees:

Reference is made to your "Official Notice of Sale" and "Preliminary Official Statement" dated November 7, 2018, concerning \$22,545,000* SCHERTZ-CIBOLO-UNIVERSAL CITY INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018 (the "Bonds"), which are made a part hereof (the terms of which are hereto agreed as evidenced by our submission of this bid).

For your legally issued Bonds, as described in said "Official Notice of Sale" and "Preliminary Official Statement," we will pay a price of \$_____ (not less than 104.40% of the par value thereof), plus accrued interest, for Bonds maturing on February 1 in the year and in the amount and interest rate shown below:

<u>Principal Amount(\$)</u>	<u>Stated Maturity</u>	<u>Interest Rate(%)</u>	<u>Yield(%)</u>
1,100,000	2020	_____	_____
4,035,000	2021	_____	_____
4,020,000	2022	_____	_____
4,225,000	2023	_____	_____
4,445,000	2024	_____	_____
4,720,000	2025	_____	_____

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

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

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

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

A Cashier's Check of Frost Bank, in the amount \$450,900.00, which represents our Good Faith Deposit (is attached hereto/has been made available to you prior to the opening of this bid) and is submitted in accordance with the terms as set forth in the Official Notice of Sale. Upon delivery of the Bonds, said check is to be applied to the purchase price of the Bonds, or is to be returned as directed by us.

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

We agree to accept delivery of and make payment for the Bonds utilizing the book-entry-only system through DTC and make payment for the Initial Bonds in immediately available funds in the Corporate Trust Division, Zions Bancorporation, National Association, Houston, Texas, not later than 10:00 A.M., Central Time, on December 18, 2018, or thereafter on the date the Bonds are tendered for delivery, pursuant to the terms set forth in the Official Notice of Sale.

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

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

Through submittal of this executed Official Bid Form, the undersigned verifies that, except to the extent otherwise required by applicable Federal law, it does not and will not "boycott Israel" and is not on the Texas Comptroller's list concerning "foreign terrorist organizations" prepared and maintained thereby under applicable Texas law, all as more fully provided in the Official Notice of Sale under the heading "ADDITIONAL CONDITION OF AWARD - COMPLIANCE WITH H.B. 89 AND S.B. 252, 85TH TEXAS LEGISLATURE".

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

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

Upon notification of conditional verbal acceptance, if required, the undersigned will submit an electronic form of the Certificate of Interested Parties Form 1295 (the "Disclosure Form") through the Texas Ethics Commission's (the "TEC") electronic portal and the resulting certified Disclosure Form that is generated by the TEC's electronic portal will be printed, signed, and sent by email to the District's financial advisor at dwesterman@samcocapital.com and Bond Counsel at clayton.binford@nortonrosefulbright.com. The undersigned understands that the failure to provide the certified Disclosure Form, if required, will prohibit the District from providing final written award of the enclosed bid.

Respectfully submitted,

(Purchaser)

(Purchaser's Signature)

(Signature - Title)

(Telephone)

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ACCEPTANCE CLAUSE

ACCEPTED this ____ day of November 2018 by an Authorized Official of the Schertz-Cibolo-Universal City Independent School District subject to and in accordance with the Official Notice of Sale and the Official Statement.

Title: _____

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PRELIMINARY OFFICIAL STATEMENT
Dated November 7, 2018

NEW ISSUE - BOOK-ENTRY-ONLY

ENHANCED/UNENHANCED RATINGS: Fitch - Applied For
Moody's - Applied For
PSF Guarantee - Applied For

(See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and
"OTHER PERTINENT INFORMATION - Municipal Bond Ratings" herein)

In the opinion of Bond Counsel (defined below), assuming continuing compliance by the District (defined below) after the date of initial delivery of the Bonds (defined below) with certain covenants contained in the Order (defined below) and subject to the matters set forth under "TAX MATTERS" herein, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. See "TAX MATTERS" herein.

\$22,545,000*

SCHERTZ-CIBOLO-UNIVERSAL CITY INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Guadalupe and Bexar Counties, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2018

Dated Date: December 1, 2018

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

The "Schertz-Cibolo-Universal City Independent School District Unlimited Tax Refunding Bonds, Series 2018" (the "Bonds"), as shown on page -ii- of this Official Statement, are direct obligations of the Schertz-Cibolo-Universal City Independent School District (the "District") and are payable from an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Chapter 1207, Texas Government Code, as amended (the "Act"), and an order authorizing the issuance of the Bonds (the "Order") adopted by the Board of Trustees (the "Board") of the District on October 16, 2018. See "THE BONDS - Authority for Issuance" herein. As permitted by the provisions of the Act, the Board, in the Order, delegated the authority to certain District officials (each an "Authorized Official") to execute an approval certificate (the "Approval Certificate") establishing the final pricing terms for the Bonds.

The District has applied for and received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.

Interest on the Bonds will accrue from December 1, 2018 (the "Dated Date"), will be payable until stated maturity or prior redemption on February 1 and August 1 of each year, commencing February 1, 2019, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued as fully registered obligations in principal denominations of \$5,000, or integral multiple thereof within a stated maturity. The Bonds will be issued in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Bonds will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, principal and interest on the Bonds will be payable by the Paying Agent/Registrar, initially Zions Bancorporation, National Association, Houston, Texas, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Proceeds from the sale of the Bonds will be used to (i) refund a portion of the District's currently outstanding unlimited ad valorem, tax-supported obligations, as identified in Schedule I attached hereto (the "Refunded Obligations"), for debt service savings and (ii) pay for professional services related to the costs of issuance of the Bonds. See "PLAN OF FINANCING - Purpose" herein.

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

The Bonds are offered for delivery when, as and if issued and received by the initial purchasers (the "Purchasers") and are subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Austin, Texas, Bond Counsel. See "LEGAL MATTERS" herein for a discussion of Bond Counsel's opinion. It is expected that the Bonds will be available for delivery through the services of DTC, New York, New York, on or about December 18, 2018.

* Preliminary, subject to change.

BIDS DUE THURSDAY, NOVEMBER 15, 2018 AT 10:00 A.M., CENTRAL TIME

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. These securities may not be sold, nor may offers to buy them be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration, qualification or filing under the securities laws of any such jurisdiction.

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

\$22,545,000⁽¹⁾

SCHERTZ-CIBOLO-UNIVERSAL CITY INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Guadalupe and Bexar Counties, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2018

CUSIP No. Prefix 806640⁽²⁾

Stated Maturity February 1	Principal Amount (\$)	Interest Rate (%)	Initial Yield (%)	CUSIP No. Suffix⁽²⁾
2020	1,100,000.00			
2021	4,035,000.00			
2022	4,020,000.00			
2023	4,225,000.00			
2024	4,445,000.00			
2025	4,720,000.00			

(Accrued Interest to be added from the Dated Date)

Redemption Provisions

The District reserves the right to redeem the Bonds maturing on and after February 1, 2024 in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 1, 2023 or any date thereafter, at the redemption price of par plus accrued interest. If two or more serial Bonds of consecutive maturity are combined into one or more "term" Bonds (the "Term Bonds") by the Purchaser, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order. (See "THE BONDS - Redemption Provisions of the Bonds" herein.)

⁽¹⁾ Preliminary, subject to change.

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

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SCHERTZ-CIBOLO-UNIVERSAL CITY INDEPENDENT SCHOOL DISTRICT
1060 Elbel Road
Schertz, Texas 78154-2099

BOARD OF TRUSTEES

<u>Name</u>	<u>Position</u>	<u>Total Years Served</u>	<u>Term Expires May</u>	<u>Occupation</u>
Robert M. Westbrook	President	6	2019	San Antonio Fire Department Captain
Amy Driesbach	Vice President	1	2020	Educational Math Consultant
Gerald "Jerry" Perkins	Secretary	1	2019	Retired Military/Business Coach
Letticia Sever	Trustee	*	2019	Teacher/Stakeholder
David Pevoto	Trustee	9	2021	Retired Educator/Administrator
Gary W. Inmon	Trustee	16	2020	Attorney
Edward Finley	Trustee	1	2020	Information Technology

Letitia Sever was appointed to complete the term vacated by John Correu.

ADMINISTRATION - FINANCE CONNECTED

<u>Name</u>	<u>Title</u>	<u>Total Years Experience</u>	<u>Total Years With District</u>
Dr. Greg Gibson	Superintendent of Schools	26	8
Paige Meloni	Executive Director of Finance	26	7
Angela Moczygemba	Finance Manager	11	11

CONSULTANTS AND ADVISORS

Pattillo, Brown & Hill, L.L.P. Waco, Texas	Certified Public Accountants
Norton Rose Fulbright US LLP San Antonio, Texas	Bond Counsel
SAMCO Capital Markets, Inc. San Antonio, Texas	Financial Advisor

For Additional Information Contact:

Duane L. Westerman, Senior Managing Director Allen R. Westerman, Managing Director SAMCO Capital Markets, Inc. 1020 N.E. Loop 410, Suite 640 San Antonio, Texas 78209 Phone: (210) 832-9760 Fax: (210) 832-9794 Email: dwesterman@samcocapital.com	or	Paige Meloni, Executive Director of Finance Schertz-Cibolo-Universal City Independent School District 1060 Elbel Road Schertz, Texas 78154-2099 Phone: (210) 945-6260 Fax: (210) 945-6292 Email: pmeloni@scuc.txed.net
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USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

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

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

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

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

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

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

None of the District, the Financial Advisor, or the Purchasers make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company ("DTC") or its book-entry-only system described under the caption "BOOK-ENTRY-ONLY SYSTEM" or the affairs of the TEA described under the caption "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM," as such information has been provided by DTC.

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

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

OFFICIAL STATEMENT SUMMARY INFORMATION

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

THE DISTRICT	The Schertz-Cibolo-Universal City Independent School District (the "District") is located primarily in Guadalupe County, Texas. The District is approximately 73.65 square miles in area and serves a population of approximately 84,545. The District was created under State statute and is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.
THE BONDS	The Bonds mature on February 1 in each of the years 2020 through 2025, inclusive.* Interest on the Bonds shall accrue from the Dated Date (identified below) and is payable initially on February 1, 2019 and semiannually thereafter on August 1 and February 1 until stated maturity or prior redemption.
DATED DATE	December 1, 2018.
REDEMPTION	The District reserves the right to redeem the Bonds maturing on and after February 1, 2024 in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 1, 2023 or any date thereafter, at the redemption price of par plus accrued interest. If two or more serial Bonds of consecutive maturity are combined into one or more "term" Bonds (the "Term Bonds") by the Purchaser, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order. (See "THE BONDS - Redemption Provisions of the Bonds" herein.)
SECURITY FOR THE BONDS	The Bonds constitute direct obligations of the District payable from an annual ad valorem tax levied against all taxable property located therein, without legal limitation as to rate or amount. Additionally, the payment of the principal of and interest on the Bonds is expected to be guaranteed by the Permanent School Fund of the State of Texas. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.
PERMANENT SCHOOL FUND GUARANTEE	The District has applied for and received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.
TAX MATTERS	In the opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein. See "TAX MATTERS" and "APPENDIX D - Form of Opinion of Bond Counsel."
PAYING AGENT/REGISTRAR	The initial Paying Agent/Registrar is Zions Bancorporation, National Association, Houston, Texas.
BOOK-ENTRY-ONLY SYSTEM	The District intends to use the Book-Entry-Only System of The Depository Trust Company. See "BOOK-ENTRY-ONLY SYSTEM" herein.
MUNICIPAL BOND RATINGS	The District has made application to Fitch Ratings, Inc. and Moody's Investors Service, Inc. ("Moody's") for contract ratings on the Bonds based on the guarantee thereof by the Texas Permanent School Fund. Fitch and Moody's generally rate unlimited tax bonds guaranteed by the Permanent School Fund "AAA" and "Aaa," respectively. The results will be made available as soon as possible. The current unenhanced rating of the District's outstanding indebtedness is "Aa3" by Moody's and "AA" by Fitch. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "OTHER PERTINENT INFORMATION - Municipal Bond Ratings" herein.
FUTURE BOND ISSUES	The District does not anticipate the issuance of additional tax-supported debt in the next twelve months except for potentially issuing refunding obligations for debt service savings. See "THE BONDS - Future Issues" herein.
PAYMENT RECORD	The District has never defaulted on the payment of its bonded indebtedness.
DELIVERY	When issued, anticipated on or about December 18, 2018.
LEGALITY	The Bonds are subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. See "APPENDIX D - Form of Opinion of Bond Counsel" herein.

* Preliminary, subject to change.

OFFICIAL STATEMENT

relating to

\$22,545,000*

SCHERTZ-CIBOLO-UNIVERSAL CITY INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Guadalupe and Bexar Counties, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2018

INTRODUCTION

This Official Statement of Schertz-Cibolo-Universal City Independent School District (the "District") is provided to furnish certain information in connection with the sale of the District's \$22,545,000* Unlimited Tax Refunding 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.

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

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

PLAN OF FINANCING

Purpose

The Bonds are being issued to: (i) refund a portion of the District's currently outstanding debt, identified in Schedule I attached hereto (the "Refunded Obligations"), and (ii) pay professional services related to the costs of issuance of the Bonds. See Schedule I for a detailed listing of the Refunded Obligations and their call date at par. The refunding is being undertaken to reduce the annual debt service requirements and will result in debt service savings for the District.

Refunded Obligations

The Refunded Obligations, and interest due thereon, are to be paid on their scheduled redemption date from cash and investments to be deposited with Zions Bancorporation, National Association, Houston, Texas, a national banking association (the "Escrow Agent") pursuant to an Escrow Deposit Letter dated as of October 16, 2018 (the "Escrow Agreement") between the District and the Escrow Agent.

The Order provides that the District will deposit certain proceeds of the sale of the Bonds, along with other lawfully available funds of the District (if any), with the Escrow Agent in the amount necessary and sufficient to accomplish the discharge and final payment of the Refunded Obligations at their scheduled redemption date (the "Redemption Date"). Such funds shall be held by the Escrow Agent in an escrow fund (the "Escrow Fund") irrevocably pledged to the payment of principal of and interest on the Refunded Obligations. SAMCO Capital Markets, Inc., in its capacity as Financial Advisor to the District, will certify as to the sufficiency of the amount initially deposited to the Escrow Fund, without regard to investment (if any), to pay the principal of and interest on the Refunded Obligations, when due, on the Redemption Date (the "Sufficiency Certificate"). Amounts on deposit in the Escrow Fund shall, until such time as needed for their intended purpose, be (i) held uninvested in cash and/or (ii) invested in certain direct, noncallable obligations of the United States of America (including obligations unconditionally guaranteed by the United States of America) that were, on the date the Order was adopted, rated as to investment quality by a nationally recognized rating firm of not less than "AAA" (the "Escrowed Securities"). Cash and investments (if any) held in the Escrow Fund shall not be available to pay debt service requirements on the Bonds.

* Preliminary, subject to change.

Prior to, or simultaneously with, the issuance of the Bonds, the District will give irrevocable instructions to provide notice to the owners of the Refunded Obligations that the Refunded Obligations will be redeemed prior to stated maturity on which date money will be made available to redeem the Refunded Obligations from money held under the Escrow Agreement.

By the deposit of the cash and Escrowed Securities, if any, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of all of the Refunded Obligations in accordance with the law. It is the opinion of Bond Counsel, in reliance upon the Sufficiency Certificate of SAMCO Capital Markets, Inc. that as a result of such defeasance the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Escrow Fund held for such purpose by the Escrow Agent and such Refunded Obligations will not be deemed as being outstanding obligations of the District payable from taxes nor for the purpose of applying any limitation on the issuance of debt.

The District has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Obligations, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund be insufficient to make such payment. Defeasance of the Refunded Obligations will cancel the Permanent School Fund Guarantee relating thereto.

SOURCES AND USES OF FUNDS

The proceeds from the sale of the Bonds and the District’s cash contribution, if any, will be applied approximately as follows:

<u>Sources of Funds</u>	
Par Amount of the Bonds	\$ _____
Plus [Net] Original Issue Reoffering Premium on the Bonds	
Accrued Interest on the Bonds	
District Cash Contribution	
Total Sources	\$ _____
<u>Uses of Funds</u>	
Deposit to Escrow Fund	\$ _____
Purchasers' Discount	
Cost of Issuance	
Contingency	
Total Uses	\$ _____

THE BONDS

General Description

The Bonds will be dated December 1, 2018 (the “Dated Date”) and will accrue interest from the Dated Date, and such interest shall be payable on February 1, 2019 and thereafter on August 1 and February 1 in each year until stated maturity or upon redemption prior to maturity. The Bonds will mature on the dates and in the principal amounts and will bear interest at the rates set forth on page -ii- of this Official Statement.

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

Initially the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Notwithstanding the foregoing, as long as the Bonds are held in the Book-Entry-Only System, principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners (defined herein) of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM” herein.

Authority for Issuance

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the “State”), particularly Chapter 1207, Texas Government Code, as amended (the “Act”), and an order authorizing the issuance of the Bonds (together, the “Order”) adopted by the Board of Trustees (the “Board”) of the District on October 16, 2018. As permitted

by the provisions of the Act, the Board, in the Order, delegated the authority to certain District officials (each an "Authorized Official") to execute an approval certificate (the "Approval Certificate") establishing the final pricing terms for the Bonds.

Security for Payment

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

Permanent School Fund Guarantee

The District has applied for and received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.

Payment Record

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

Legality

The Bonds are subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, as Bond Counsel. The legal opinion of Bond Counsel will accompany the certificates deposited with DTC or be printed on the Bonds. The form of the legal opinion of Bond Counsel appears in APPENDIX D attached hereto.

Delivery

When issued; anticipated to occur on or about December 18, 2018.

Future Issues

The District does not anticipate the issuance of additional tax-supported debt in the next twelve months except for potentially issuing refunding obligations for debt service savings.

Redemption Provisions of the Bonds

The District reserves the right to redeem the Bonds maturing on and after February 1, 2024 in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 1, 2023 or any date thereafter, at the redemption price of par plus accrued interest. If two or more serial Bonds of consecutive maturity are combined into one or more "term" Bonds (the "Term Bonds") by the Purchaser, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order.

Defeasance

Any Bond will be deemed paid and shall no longer be considered to be outstanding within the meaning of the Order when payment of the principal of and interest on such Bond to its stated maturity or redemption date will have been made or will have been provided by depositing with an authorized escrow agent (1) cash in an amount sufficient to make such payment, (2) Government Obligations certified, in the case of a net defeasance, by an independent public accounting firm of national reputation to be of such maturities and interest payment dates and bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make such payment, or (3) a combination of money and Government Obligations together so certified sufficient to make such payment; provided, however, that no certification by an independent accounting firm of the sufficiency of deposits shall be required in connection with a gross defeasance of Bonds.

The Order provides that "Government Obligations" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the District adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, or (d) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. Each Authorized Official is authorized to limit these eligible securities as deemed necessary, in connection with the sale of the Bonds. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Bonds, or those for any other Government Obligations,

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

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

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

Amendments

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

Default and Remedies

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

that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity which permit the exercise of judicial discretion.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is Zions Bancorporation, National Association, Houston, Texas. The Bonds will be issued in fully registered form in multiples of \$5,000 or integral multiple thereof for any one stated maturity, and principal and interest will be paid by the Paying Agent/Registrar.

Successor Paying Agent/Registrar

The District covenants that until the Bonds are paid it will at all times maintain and provide a paying agent/registrar. In the Order, the District retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar must accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District must be a bank, trust company, financial institution or other entity duly qualified and legally authorized to serve and perform the duties of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District will promptly cause a notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall give the address of the new Paying Agent/Registrar.

Record Date

The record date ("Record Date") for determining the registered owner entitled to receive a payment of interest on a Bond is the fifteenth day of the month next preceding each interest payment date. If the date for the payment of the principal or interest on the Bonds is a Saturday, Sunday, legal holiday, or a day on which banking institutions in the city where the corporate trust office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment is the next succeeding day which is not such a day and payment on such date will have the same force and effect as if made on the original date payment was due.

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

Registration, Transferability and Exchange

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

Limitation on Transfer of Bonds

Neither the District nor the Paying Agent/Registrar shall be required to make any such transfer, conversion or exchange (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date; provided, however, that such limitation shall not apply to uncalled portions of a Bond redeemed in part.

Replacement Bonds

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

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

History and Purpose

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

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

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

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

September 2013, and the establishment of regulations to govern the program, which regulations became effective on March 3, 2014. See “The Charter District Bond Guarantee Program.”

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

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

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

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

The Total Return Constitutional Amendment

The Total Return Constitutional Amendment approved a fundamental change in the way that distributions are made to the ASF from the PSF. The Total Return Constitutional Amendment requires that PSF distributions to the ASF be determined using a total-return-based formula instead of the current-income-based formula, which was used from 1964 to the end of the 2003 fiscal year. The Total Return Constitutional Amendment provides that the total amount distributed from the Fund to the ASF: (1) in each year of a State fiscal biennium must be an amount that is not more than 6% of the average of the market value of the Fund, excluding real property (the “Distribution Rate”), on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium (the “Distribution Measurement Period”), in accordance with the rate adopted by: (a) a vote of two-thirds of the total membership of the State Board of Education (“SBOE”), taken before the Regular Session of the Legislature convenes or (b) the Legislature by general law or appropriation, if the SBOE does not adopt a rate as provided by clause (a); and (2) over the ten-year period consisting of the current State fiscal year and the nine preceding state fiscal years may not exceed the total return on all investment assets of the Fund over the same ten-year period (the “Ten Year Total Return”). In April 2009, the Attorney General issued a legal opinion, Op. Tex. Att’y Gen. No. GA-0707 (2009) (“GA-0707”), at the request of the Chairman of the SBOE with regard to certain matters pertaining to the Distribution Rate and the determination of the Ten Year Total Return. In GA-0707 the Attorney General opined, among other advice, that (i)

the Ten Year Total Return should be calculated on an annual basis, (ii) a contingency plan adopted by the SBOE, to permit monthly transfers equal in aggregate to the annual Distribution Rate to be halted and subsequently made up if such transfers temporarily exceed the Ten Year Total Return, is not prohibited by State law, provided that such contingency plan applies only within a fiscal year time basis, not on a biennium basis, and (iii) that the amount distributed from the Fund in a fiscal year may not exceed 6% of the average of the market value of the Fund or the Ten Year Total Return. In accordance with GA-0707, in the event that the Ten Year Total Return is exceeded during a fiscal year, transfers to the ASF will be halted. However, if the Ten Year Total Return subsequently increases during that biennium, transfers may be resumed, if the SBOE has provided for that contingency, and made in full during the remaining period of the biennium, subject to the limit of 6% in any one fiscal year. Any shortfall in the transfer that results from such events from one biennium may not be paid over to the ASF in a subsequent biennium as the SBOE would make a separate payout determination for that subsequent biennium.

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

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

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

With respect to the management of the Fund's financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE generally reviews the asset allocations during its summer meeting in even numbered years. The first asset allocation policy adopted by the SBOE following the Total Return Constitutional Amendment was in February 2004, and the policy was reviewed and modified or reaffirmed in the summers of each even-numbered year, most recently in 2018. The Fund's investment policy provides for minimum and maximum ranges among the components of each of the asset classifications: equities, fixed income and alternative asset investments. The 2004 asset allocation policy decreased the fixed income target from 45% to 25% of Fund investment assets and increased the allocation for equities from 55% to 75% of investment assets. Subsequent asset allocation policies have continued to diversify Fund assets, and have added an alternative asset allocation to the fixed income and equity allocations. The alternative asset allocation category includes real estate, real return, absolute return and private equity components. Alternative asset classes diversify the SBOE-managed assets and are not as correlated to traditional asset classes, which is intended to increase investment returns over the long run while reducing risk and return volatility of the portfolio. The most recent asset allocation, from 2016, which was reviewed and reaffirmed in June 2018, is as follows: (i) an equity allocation of 35% (consisting of U.S. large cap equities targeted at 13%, international equities at 14% and emerging international equities at 3%) and U.S. small/mid cap equities at 5%), (ii) a fixed income allocation of 19% (consisting of a 12% allocation for core bonds and a 7% allocation for emerging market debt in local currency) and (iii) an alternative asset allocation of 46% (consisting of a private equity allocation of 13%, a real estate allocation of 10%, an absolute return allocation of 10%, a risk parity allocation of 7% and a real return allocation of 6%). The 2016 asset allocation decreased U.S. large cap equities and international equities by 3% and 2%, respectively, and increased the allocations for private equity and real estate by 3% and 2%, respectively.

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

Following on previous decisions to create strategic relationships with investment managers in certain asset classes, in September 2015 and January 2016, the SBOE approved the implementation of direct investment programs in private equity and absolute return assets, respectively, which has continued to reduce administrative costs with respect to those portfolios. The Attorney General has advised the SBOE in Op. Tex. Att'y Gen. No. GA-0998 (2013) ("GA-0998"), that the PSF is not subject to requirements of certain State competitive bidding laws with respect to the selection of investments. In GA-0998, the Attorney General also advised that the SBOE generally must use competitive bidding for the selection of investment managers and other third-party providers of investment services, such as record keeping and insurance, but excluding certain professional services, such as accounting services, as State law prohibits the use of competitive

bidding for specified professional services. GA-0998 provides guidance to the SBOE in connection with the direct management of alternative investments through investment vehicles to be created by the SBOE, in lieu of contracting with external managers for such services, as has been the recent practice of the PSF. The PSF staff and the Fund's investment advisor are tasked with advising the SBOE with respect to the implementation of the Fund's asset allocation policy, including the timing and manner of the selection of any external managers and other consultants.

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

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

Management and Administration of the Fund

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

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

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

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

additional compensation for investment personnel, depending upon the criteria relating to the investment performance of the Fund.

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

Capacity Limits for the Guarantee Program

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

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

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

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

At its September 2015 meeting, the SBOE voted to modify the SDBGP Rules and the CDBGP Rules to increase the State Law Capacity from 3 times the cost value multiplier to 3.25 times. At that meeting, the SBOE also approved a new 5% capacity reserve for the Charter District Bond Guarantee Program. The change to the State Law Capacity became effective on February 1, 2016. At its November 2016 meeting, the SBOE again voted to increase the State Law Capacity and, in accordance with applicable requirements for the modification of SDBGP and CDBGP Rules, a second and final

vote to approve the increase in the State Law Capacity occurred on February 3, 2017. As a result, the State Law Capacity increased from 3.25 times the cost value multiplier to 3.50 times effective March 1, 2017 and increased again to 3.75 times effective September 1, 2017; however, as described under “2017 Legislative Changes to the Charter District Bond Guarantee Program,” the SBOE took action at its Winter 2018 meeting to rollback of a portion of the multiplier increase, which became effective in late March 2018. Based upon the cost basis of the Fund at August 31, 2017, the State Law Capacity increased from \$97,933,360,905 on August 31, 2016 to \$111,568,711,072 on August 31, 2017.

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

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

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

The School District Bond Guarantee Program

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

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

If a school district fails to pay principal or interest on a bond as it is stated to mature, other amounts not due and payable are not accelerated and do not become due and payable by virtue of the district’s default. The School District Bond Guarantee Program does not apply to the payment of principal and interest upon redemption of bonds, except upon mandatory sinking fund redemption, and does not apply to the obligation, if any, of a school district to pay a redemption premium on its guaranteed bonds. The guarantee applies to all matured interest on guaranteed school district bonds, whether the bonds were issued with a fixed or variable interest rate and whether the interest rate changes as a result of

an interest reset provision or other bond order provision requiring an interest rate change. The guarantee does not extend to any obligation of a school district under any agreement with a third party relating to guaranteed bonds that is defined or described in State law as a "bond enhancement agreement" or a "credit agreement," unless the right to payment of such third party is directly as a result of such third party being a bondholder.

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

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

The Charter District Bond Guarantee Program

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

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

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

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

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

The Act provides that immediately following receipt of notice that a charter district will be or is unable to pay maturing or matured principal or interest on a guaranteed bond, the Commissioner is required to instruct the Comptroller to transfer from the Charter District Reserve Fund to the district's paying agent an amount necessary to pay the maturing or matured principal or interest. If money in the Charter District Reserve Fund is insufficient to pay the amount due on a bond for which a notice of default has been received, the Commissioner is required to instruct the Comptroller to transfer from the PSF to the district's paying agent the amount necessary to pay the balance of the unpaid maturing or matured principal or interest. If a total of two or more payments are made under the Charter District Bond Guarantee Program on

charter district bonds and the Commissioner determines that the charter district is acting in bad faith under the program, the Commissioner may request the Attorney General to institute appropriate legal action to compel the charter district and its officers, agents, and employees to comply with the duties required of them by law in regard to the guaranteed bonds. As is the case with the School District Bond Guarantee Program, the Act provides a funding “intercept” feature that obligates the Commissioner to instruct the Comptroller to withhold the amount paid with respect to the Charter District Bond Guarantee Program, plus interest, from the first State money payable to a charter district that fails to make a guaranteed payment on its bonds. The amount withheld will be deposited, first, to the credit of the PSF, and then to restore any amount drawn from the Charter District Reserve Fund as a result of the non-payment.

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

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

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

2017 Legislative Changes to the Charter District Bond Guarantee Program

The CDBGP Capacity is established by the Act. During the 85th Texas Legislature, which concluded on May 29, 2017, Senate Bill 1480 (“SB 1480”) was enacted. The complete text of SB 1480 can be found at <http://www.capitol.state.tx.us/tlodocs/85R/billtext/pdf/SB01480F.pdf#navpanes=0>. SB 1480 modified how the CDBGP Capacity will be established under the Act effective as of September 1, 2017 and made other substantive changes to the Act that affects the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the CDBGP Capacity was calculated as the State Capacity Limit less the amount of outstanding bond guarantees under the Guarantee Program multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population. As of August 31, 2017, the amount of outstanding bond guarantees represented 66.57% of the State

Capacity Limit for the Guarantee Program. SB 1480 amended the CDBGP Capacity calculation so that the State Capacity Limit is multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population prior to the subtraction of the outstanding bond guarantees, thereby potentially substantially increasing the CDBGP Capacity. However, certain provisions of SB 1480, described below, and other additional factors described herein, could result in less than the maximum amount of the potential increase provided by SB 1480 being implemented by the SBOE or otherwise used by charter districts. Still other factors used in determining the CDBGP Capacity, such as the percentage of the charter district scholastic population to the overall public school scholastic population, could, in and of itself, increase the CDBGP Capacity, as that percentage has grown from 3.53% in September, 2012 to 5.5% in February 2018, representing a cumulative growth during that period of 56%. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

SB 1480 provides that the implementation of the new method of calculating the CDBGP Capacity will begin with the State fiscal year that commences September 1, 2021 (the State's fiscal year 2022). However, for the intervening four fiscal years, beginning with fiscal year 2018, SB 1480 provides that the SBOE may establish a CDBGP Capacity that increases the amount of charter district bonds that may be guaranteed by up to a cumulative 20% in each fiscal year (for a total maximum increase of 80% in fiscal year 2021) as compared to the capacity figure calculated under the Act as of January 1, 2017. However, SB 1480 provides that in making its annual determination of the magnitude of an increase for any year, the SBOE may establish a lower (or no) increase if the SBOE determines that an increase in the CDBGP Capacity would likely result in a negative impact on the bond ratings for the Bond Guarantee Program (see "Ratings of Bonds Guaranteed Under the Guarantee Program") or if one or more charter districts default on payment of principal or interest on a guaranteed bond, resulting in a negative impact on the bond ratings of the Bond Guarantee Program. The provisions of SB 1480 that provide for discretionary, incremental increases in the CDBGP expire September 1, 2022. If the SBOE makes a determination for any year based upon the potential ratings impact on the Bond Guarantee Program and modifies the increase that would otherwise be implemented under SB 1480 for that year, the SBOE may also make appropriate adjustments to the schedule for subsequent years to reflect the modification, provided that the CDBGP Capacity for any year may not exceed the limit provided in the schedule set forth in SB 1480. In September 2017 and June 2018, the SBOE authorized the full 20% increase in the amount of charter district bonds that may be guaranteed for fiscal years 2018 and 2019, respectively, which increases the relative capacity of the Charter District Bond Guarantee Program to the School District Bond Guarantee Program for those fiscal years.

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

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

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

Charter District Risk Factors

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

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

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

As described above, the Act includes a funding "intercept" function that applies to both the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. However, school districts are viewed as the "educator of last resort" for students residing in the geographical territory of the district, which makes it unlikely that State funding for those school districts would be discontinued, although the TEA can require the dissolution and merger into another school district if necessary to ensure sound education and financial management of a school district. That is not the case with a charter district, however, and open-enrollment charter schools in the State have been dissolved by TEA from time to time. If a charter district that has bonds outstanding that are guaranteed by the Charter District Bond Guarantee Program should be dissolved, debt service on guaranteed bonds of the district would continue to be paid to bondholders in accordance with the Charter District Bond Guarantee Program, but there would be no funding available for reimbursement of the PSF by the Comptroller for such payments. As described under "The Charter District Bond Guarantee Program," the Act establishes a Charter District Reserve Fund, which could in the future be a significant reimbursement resource for the PSF. At May 31, 2018, the Charter District Reserve Fund contained \$5,104,222.

Potential Impact of Hurricane Harvey on the PSF

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

The TEA, members of the Legislature and the Governor, among others, have stated that they are developing programs to provide financial assistance to affected school districts and charter districts, particularly with regard to funding assistance for facility repairs and construction and to offset tax base and/or revenue loss to affected districts. The composition of any final programs that may be implemented cannot be predicted and are likely to be subject to future State legislative and administrative actions, available amounts of federal and private disaster relief for affected schools, and other factors. TEA has initiated programs designed to hold school districts and charter districts harmless for the loss of State funding associated with declines in average daily attendance for fiscal year 2018. In the past, storm damage has caused multiple year impacts to affected schools with respect to both attendance figures and tax base (for school districts). In June 2018 TEA received results of a survey of tax appraisal districts in the area affected by the hurricane

with respect to the impact of the hurricane on the tax rolls of affected school districts. In aggregate, the tax rolls of affected districts appear to have increased slightly for fiscal 2018 over 2017, but the increases were at a lower rate than had been anticipated in the State's general appropriation act for the biennium. TEA notes that as of June 2018 the negative effect of the hurricane on the average daily attendance of districts in the affected area appears to have been less than TEA had initially anticipated.

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

Ratings of Bonds Guaranteed Under the Guarantee Program

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

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

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

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

⁽²⁾ At August 31, 2017, mineral assets, sovereign and other lands and internally managed discretionary real estate, external discretionary real estate investments, domestic equities, and cash managed by the SLB had book values of approximately \$13.43 million, \$247.64 million, \$2,797.05 million, \$4.71 million, and \$3,399.05 million, respectively, and market values of approximately \$1,870.22 million, \$651.40 million, \$2,788.02 million, \$2.09 million, and \$3,399.05 million, respectively. At May 31, 2018, the PSF had a book value of \$33,178,779,673 and a market value of \$43,191,172,031. May 31, 2018 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds

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

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

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

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2011 Constitutional Amendment

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

The amendments approved at the referendum included an increase to the base used to calculate the Distribution Rate by adding to the calculation base certain discretionary real assets and cash in the Fund that is managed by entities other than the SBOE (at present, by the SLB). The value of those assets was 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_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 15c2-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to

such undertakings. Under the TEA agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

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

Annual Reports

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

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

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

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

Material Event Notices

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

BOOK-ENTRY-ONLY SYSTEM

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

The District cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption, or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption, or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this 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 Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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

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

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

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

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

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

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

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

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

Use of Certain Terms in Other Sections of This Official Statement

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

Effect of Termination of Book-Entry-Only System

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

AD VALOREM TAX PROCEDURES

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

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

Taxable Property, Exemptions and Agricultural Exclusions

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

Property exempt from taxation includes: (1) property owned and used for public purposes by the State of Texas or its political subdivisions; (2) property exempt by federal law; (3) family supplies, household goods and personal effects not held or used in the production of income; (4) certain property owned by charitable organizations, youth development associations, and religious organizations; (5) certain properties used for school purposes; (6) solar and wind-powered energy devices; (7) farm products, livestock, and poultry in the hands of the producer, and family supplies for home and farm use; (8) implements of husbandry used in the production of farm and ranch products; (9) personally owned automobiles (unless affirmatively provided to be taxed by taxing entity); and (10) property owned by disabled veterans or by the surviving spouse and surviving minor children of disabled veterans is exempt from taxation in amounts ranging from \$5,000 to \$12,000 depending on the disability rating of the veteran.

The Texas Tax Code provides that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Furthermore, the surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries. 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, the surviving spouse of a member of the armed forces who is killed in action is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

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

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

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

With respect to school district taxation, \$25,000 of the market value of the residence homestead of an adult is exempt from taxation; and for persons 65 years of age or older and certain disabled persons, an additional exemption is granted not to exceed \$10,000 of the market value of the residence homestead of such persons. Furthermore, the total amount of taxes imposed on the residence homestead of persons 65 years of age or older (and receiving the additional \$10,000 exemption mentioned above) may not be increased while it remains the residence homestead of the person or that person's spouse who received the exemption, unless improvements (other than to comply with government requirements) are made to such homestead, and such freeze on ad valorem taxes on the homesteads of persons 65 years of age or older

for general elementary and secondary public school purposes is also transferable to a different residence homestead. Also, the surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as (i) the taxpayer died in a year he or she qualified for the exemption, (ii) the surviving spouse is at least 55 years of age when the taxpayer died, and (iii) the property was the residence homestead of the surviving spouse when the taxpayer died and the property remains the residence homestead of the surviving spouse. A constitutional amendment was approved by the voters on May 12, 2007, and implementation legislation subsequently enacted to apply to the 2007 and subsequent tax years, that reduces the school property tax limitation (commonly referred to as a "freeze" on ad valorem taxes) on residence homesteads of persons 65 years of age or over or of disabled persons to correspond to reductions in local school district tax rates from the 2005 tax year to the 2006 tax year and from the 2006 tax year to the 2007 tax year.

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

Levy and Collection of Taxes

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

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

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

Public Hearing and Rollback Tax Rate

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

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

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

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

The District's Rights in the Event of Tax Delinquencies

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

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

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

The Texas Tax Code as Applied to the District

The District grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$25,000 and the disabled are also granted an exemption of \$10,000.

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

The District does not tax non-business personal property.

The District does not permit split payments.

The District does not permit early payment discounts, except as otherwise required by law.

The District has exempted freeport property and, therefore, does not tax freeport property. In addition, the District adopted a resolution on December 15, 2011 to continue taxation of "goods-in-transit" for the 2012 tax year and beyond.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

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

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

Possible Effects of Litigation and Changes in Law on District Bonds

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview

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

Funding for school districts in the State is provided primarily from State and local sources. State funding for all school districts is provided through a set of funding formulas comprising the "Foundation School Program", as well as two facilities funding programs. Generally, the Finance System is designed to promote wealth equalization among school districts by balancing State and local sources of funds available to school districts. In particular, because districts with relatively high levels of property wealth per student can raise more local funding, such districts receive less State aid, and in some cases, are required to disburse local funds to equalize their overall funding relative to other school districts. Conversely, because districts with relatively low levels of property wealth per student have limited access to local funding, the Finance System is designed to provide more State funding to such districts. Thus, as a school district's property wealth per student increases, State funding to the school district is reduced. As a school district's property wealth per student declines, the Finance System is designed to increase that district's State funding. The Finance

System provides a similar equalization system for facilities funding wherein districts with the same tax rate for debt service raise the same amount of combined State and local funding. Facilities funding for debt incurred in prior years is expected to continue in future years; however, State funding for new school facilities has not been consistently appropriated by the Texas Legislature, as further described below.

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

Local Funding for School Districts

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

State Funding for School Districts

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

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

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

As described above, the cost of the basic program is based on an allotment per student known as the "Basic Allotment". For the 2018-19 State fiscal biennium, the Basic Allotment is \$5,140 for each student in average daily attendance. The Basic Allotment is then adjusted for all districts by several different weights to account for inherent differences between

school districts. These weights consist of (i) a cost adjustment factor intended to address varying economic conditions that affect teacher hiring known as the “cost of education index”, (ii) district-size adjustments for small and mid-size districts, and (iii) an adjustment for the sparsity of the district’s student population. The cost of education index, district-size and population sparsity adjustments, as applied to the Basic Allotment, create what is referred to as the “Adjusted Allotment”. The Adjusted Allotment is used to compute a “regular program allotment”, as well as various other allotments associated with educating students with other specified educational needs.

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

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

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

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

2006 Legislation

Since the enactment of the Reform Legislation in 2006, most school districts in the State have operated with a “target” funding level per student (“Target Revenue”) that is based upon the “hold harmless” principles embodied in the Reform Legislation. This system of Target Revenue was superimposed on the Foundation School Program and made existing

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

2017 Legislation

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

Wealth Transfer Provisions

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

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

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

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

The District's wealth per student for the 2018-19 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.

TAX RATE LIMITATIONS

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters under Section 45.003(d) of the Texas Education Code, as amended. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the succeeding paragraphs. The maximum voted M&O Tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on November 17, 1966, pursuant to Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended ("Article 2784e-1").

Article 2784e-1 limits the District's annual M&O Tax rate based upon a comparison between the District's outstanding bonded indebtedness and the District's taxable assessed value per \$100 of assessed valuation. Article 2784e-1 provides for a reduction of \$0.10 for each one percent (1%) or major fraction thereof increase in bonded indebtedness beyond seven percent (7%) of assessed valuation of property in the District. This limitation is capped when the District's bonded indebtedness is ten percent (10%) (or greater) of the District's assessed valuation which would result in an annual M&O Tax rate not to exceed \$1.20. Lastly, the Texas Attorney General in reviewing the District's transcript of proceedings will allow the District to reduce the amount of its outstanding bonded indebtedness by the amount of funds (on a percentage basis) that the District receives in State assistance for the repayment of this bonded indebtedness (For example, if the District anticipates that it will pay 75% of its bonded indebtedness from State assistance, for the purposes of Article 2784e-1, the Texas Attorney General will assume that only 25% of the District's bonded indebtedness is outstanding and payable from local ad valorem taxes). The bonded indebtedness of the District after the issuance of the Bonds will be approximately 7.47% of the District's current taxable assessed valuation of property. See "VALUATION AND DEBT DATA" in APPENDIX A.

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

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

Section 45.0031, Texas Education Code, as amended ("Section 45.0031"), requires a district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by district voters at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, "exempt bonds"), from a tax levied at a rate of \$0.50 per \$100 of assessed valuation before bonds may be issued. In demonstrating the ability to pay debt service at a rate of \$0.50, a district may take into account EDA and IFA allotments to the district, which effectively reduce the district's local share of debt service and may also take into account Tier One funds allotted to the district. The District is required to deposit any State allotments provided solely for payment of debt service into the District's interest and sinking fund upon receipt of such amounts. In addition, the District must, prior to levying an interest and sinking fund tax rate that exceeds \$0.50 per \$100 of assessed valuation, credit to the interest and sinking fund other State assistance, including Tier One funds that may be used for either operating purposes or for payment of debt service, in an amount equal to the amount needed to demonstrate compliance with the threshold tax rate test and which is received or to be

received in that year. Once the prospective ability to pay such tax has been shown and the bonds are issued, a district may levy an unlimited tax to pay debt service. Taxes levied to pay refunding bonds issued pursuant to Chapter 1207, as amended, Texas Government Code (“Chapter 1207”), 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 refunding bonds pursuant to Chapter 1207 and are, therefore, not subject to the \$0.50 threshold tax rate test; however, taxes levied to pay debt service on the Bonds are included in the calculation of the \$0.50 tax rate test as applied to subsequent issues of “new debt.” Under current law, a district may demonstrate its ability to comply with the \$0.50 threshold tax rate test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a district uses projected future taxable values to meet the \$0.50 threshold tax rate test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the \$0.50 threshold tax rate test from a tax rate of \$0.45 per \$100 of valuation. The District has not used State assistance other than EDA or IFA allotment funding or projected property values to satisfy this threshold test.

DEBT LIMITATIONS

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

EMPLOYEE RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS

The District’s employees participate in a retirement plan with the State of Texas (the “Plan”). The Plan is administered by the Teacher Retirement System of Texas (“TRS”). The TRS is a cost-sharing, multiple-employer defined benefit pension plan. See “Note II. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS - H. Pension Plan” in the audited financial statements of the District for the year ended August 31, 2017 as set forth in APPENDIX C hereto.

The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRSCare), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. See “Note II. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS - J. Retiree Health Plan” in the audited financial statements of the District for the year ended August 31, 2017 as set forth in APPENDIX C hereto.

Other than the District’s contribution to the TRS, it 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.

In June 2012, Government Accounting Standards Board (GASB) Statement No. 68 (Accounting and Financial Reporting for Pensions) was issued to improve accounting and financial reporting by state and local governments regarding pensions. GASB Statement No. 68 requires reporting entities, such as the District, to recognize their proportionate share of the net pension liability and operating statement activity related to changes in collective pension liability. This means that reporting entities, such as the District, that contribute to the TRS pension plan will report a liability on the face of their government-wide financial statements. Such reporting began with the District’s fiscal year ending August 31, 2015. See “Note I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES” in the audited financial statements of the District for the year ended August 31, 2017. GASB Statement No. 68 applies only to pension benefits and does not apply to Other Post-Employment Benefits (OPEB) or TRS-Care related liabilities.

INVESTMENT POLICIES

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

Legal Investments

Under State law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4)

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

The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution. The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

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

Investment Policies

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

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

Additional Provisions

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

Current Investments*

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

<u>Category of Investment</u>	<u>Amount</u>	<u>Percentage</u>	<u>Term of Investment</u>
Certificates of Deposit	\$13,122,852	11.70%	3mos. - 2 yrs.
Money Markets and Investment Pools	<u>99,080,136</u>	<u>88.30%</u>	Daily liquidity
	\$112,202,988	100.00%	

* *Unaudited.*

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

LEGAL MATTERS

Legal Opinions and No-Litigation Certificate

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

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

Litigation

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

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

TAX MATTERS

Opinion

The delivery of the Bonds is subject to the opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel, to the effect that interest on the Bonds for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Bond Counsel's opinion appears in APPENDIX D hereto.

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

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

Tax Changes

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

Ancillary Tax Consequences

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

Tax Accounting Treatment of Discount Bonds

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

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

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

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

Tax Accounting Treatment of Premium Bonds

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

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

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

CONTINUING DISCLOSURE

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

Annual Reports

The District will file certain updated financial information and operating data with the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type

included in this Official Statement in APPENDIX A, attached hereto, exclusive of the tables reflecting "Direct and Estimated Gross Overlapping Funded Debt Payable from Ad Valorem Taxes," "Estimated Interest & Sinking Fund Management Index 2017/18" and "2018/2019 Pro Forma Interest & Sinking Fund Management Index," respectively, and in APPENDIX C attached hereto. The District will update and provide this information to the MSRB within 6 months after the end of each fiscal year ending in or after 2018.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the United States Securities and Exchange Commission (the "SEC") Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX C or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

Notice of Certain Events

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

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

Availability of Information from MSRB

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

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

on guidance from the MAC, that making its continuing disclosure filings solely with the MSRB will satisfy its obligations to make filings with the SID pursuant to its continuing disclosure agreements entered into prior to the EMMA Effective Date.

Limitations and Amendments

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

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

Compliance with Prior Agreements

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

OTHER PERTINENT INFORMATION

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

Registration and Qualification of Bonds for Sale

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

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

Municipal Bond Ratings

The District has made application to Fitch Ratings, Inc. and Moody's Investors Service, Inc. ("Moody's") for contract ratings on the Bonds based on the guarantee thereof by the Texas Permanent School Fund. Fitch and Moody's generally rate unlimited tax bonds guaranteed by the Permanent School Fund a "AAA" and "Aaa," respectively. The results will be made available as soon as possible. The current unenhanced rating of the District's outstanding indebtedness is "Aa3" by Moody's and "AA" by Fitch. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.

The ratings reflect only the views of such organizations and the District makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if in the judgment of such companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

Financial Advisor

SAMCO Capital Markets, Inc. (the "Financial Advisor") is employed as the Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. SAMCO Capital Markets, Inc., in its capacity as Financial Advisor, has relied on the opinions of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the bond documentation with respect to the federal income tax status of the Bonds. In the normal course of business, the Financial Advisor may also from time to time sell investment securities to the District for the investment of bond proceeds or other funds of the District upon the request of the District.

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

Initial Purchaser

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

Certification of the Official Statement

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

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.

Information from External Sources

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

Authorization of the Official Statement

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

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

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

**SCHERTZ-CIBOLO-UNIVERSAL CITY
INDEPENDENT SCHOOL DISTRICT**

/s/

President, Board of Trustees

ATTEST:

/s/

Secretary, Board of Trustees

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SCHEDULE I
REFUNDED OBLIGATIONS*

Series	Principal Amount (\$)	Maturities	Interest Rates (%)	Redemption Date and Price
Schertz-Cibolo-Universal City Unlimited Tax Refunding Bonds, Series 2010	1,930,000	2/1/2019	3.250	02/01/2019@ 100.00%
	2,005,000	2/1/2020	5.000	02/01/2019@ 100.00%
	3,960,000	2/1/2021	5.000	02/01/2019@ 100.00%
	3,380,000	2/1/2022	5.000	02/01/2019@ 100.00%
	3,595,000	2/1/2023	5.000	02/01/2019@ 100.00%
	3,825,000	2/1/2024	5.000	02/01/2019@ 100.00%
	4,115,000	2/1/2025	5.000	02/01/2019@ 100.00%

* Preliminary, subject to change.

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APPENDIX A
Selected Financial Information
of the District

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VALUATION AND DEBT DATA

Valuation Information

Total 2018 Appraised Valuation of District	\$6,936,783,674
Less: Exemptions/Exclusions ⁽¹⁾⁽²⁾	<u>1,355,131,218</u>
Total 2018 Taxable Assessed Valuation	\$5,581,652,456

Source: *Guadalupe Appraisal District and Bexar Appraisal District.*

⁽¹⁾ For a detailed description of the Exemptions/Exclusions see "2018 Tax Exemptions/Exclusions Allowed" herein.

⁽²⁾ Includes valuations against which a freeze of tax levy has been granted for persons 65 years or older in 2018.

Direct Debt Information

Total Indebtedness Payable from Ad Valorem Taxes: (at 11-01-2018)

Maintenance and Operations Tax Debt	\$	-0-
Unlimited Tax Bond Debt		417,191,092*
Total All Bonded Indebtedness Payable from Taxes		<u>417,191,092*</u>
Less Estimated Interest & Sinking Fund Consolidated Balance (at 10-1-2018)		<u>14,959,900</u>
NET BONDED INDEBTEDNESS PAYABLE FROM AD VALOREM TAXES		\$402,231,192*

* Preliminary, subject to change. Includes the Bonds and excludes the Refunded Obligations.

Direct Debt Ratios

Ratio of Total Bonded Debt (\$417,191,092*) to 2018 Taxable Assessed Valuation (\$5,581,652,456)	7.47%
Ratio of Total Bonded Debt (\$417,191,092*) to 2018 Total Appraised Valuation (\$6,936,783,674)	6.01%
Ratio of Net Bonded Debt (\$402,231,192*) to 2018 Taxable Assessed Valuation (\$5,581,652,456)	7.21%
Ratio of Net Bonded Debt (\$402,231,192*) to 2018 Total Appraised Valuation (\$6,936,783,674)	5.80%
Ratio of Total Bonded Debt Net of State Assistance (\$357,616,204) to the 2018 Taxable Assessed Value	6.41%

* Preliminary, subject to change. Includes the Bonds and excludes the Refunded Obligations.

Non-Funded Debt

As of August 31, 2018 the District had no non-funded debt.

Authorized But Unissued General Obligation Bonds

The District has no voted but unissued ad valorem tax-supported bonds; however, the District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

Anticipated Issuance of Additional Bonds

The District may potentially issue refunding bonds for debt service savings in the next twelve months.

Population and Per Capita Indebtedness

2019 District Population Estimate	87,813
2018/19 Per Capita Taxable Assessed Valuation (\$5,581,652,456)	\$63,562.94
Per Capita Direct Debt (\$417,191,092*)	\$4,750.90

* Preliminary, subject to change. Includes the Bonds and excludes the Refunded Obligations.

Enrollment and Average Daily Attendance Data

2018/19 Enrollment (at 10-1-2018)	15,713
2018/19 Estimated Average Daily Attendance (at 10-1-2018)	14,760
2018 Taxable Assessed Valuation (\$5,581,652,456) Per Enrollment	\$355,225.13

Valuation and Bonded Debt Data

Area of District in Square Miles	73.65
Area of District in Acres	47,136
Total Direct Bonded Debt (\$417,191,092*) Per Acre	\$8,850.08
2016 Taxable Assessed Valuation (\$5,581,652,456) Per Acre	\$118,415.91

* Preliminary, subject to change. Includes the Bonds and excludes the Refunded Obligations.

Outstanding Debt By Issues

Unlimited Tax Bonds	Original Amount	Amount Outstanding at 11-01-2018 ⁽¹⁾
Series 2001A - dated 08/01/2001	\$ 20,000,000	\$ 10,510,000
Series 2002 - dated 11/15/2002	31,089,583	1,929,583
Series 2010 - dated 06/01/2010	39,330,000	-0- *
Series 2013 - dated 07/15/2013	42,395,000	39,350,000
Series 2014 - dated 01/01/2014	26,090,000	18,910,000
Series 2014 - Qualified School Construction Bonds - dated 09/01/2014	10,500,000	7,700,000
Series 2014A - dated 09/01/2014	91,444,595	84,895,435
Series 2016 - dated 1/15/2016	103,921,074	99,361,074
Series 2017 - dated 1/01/2017	83,495,000	82,745,000
Series 2017A - dated 9/01/2017	49,245,000	49,245,000
Series 2018 - dated 11/01/2018 (the "Bonds")	22,545,000 *	<u>22,545,000 *</u>
Total Debt		\$417,191,092 *
Less State Assistance from EDA and IFA (14.28%)		<u>(59,574,888)</u>
Total Debt Net of State Assistance		\$357,616,204

* Preliminary, subject to change; includes the Bonds and excludes the Refunded Obligations.
⁽¹⁾ Unaudited.

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**Consolidated Schedule of Bonded Issue Principal Requirements
(Year Ending August 31 In Each Of The Years 2019 - 2046 Inclusive)**

2019	\$ 10,480,000	
2020	8,941,397	
2021	11,199,320	
2022	12,286,615	
2023	12,625,483	13.31%
	-	
2024	13,157,621	
2025	16,155,000	
2026	11,602,102	
2027	12,132,155	
2028	12,530,326	29.03%
	-	
2029	9,957,931	
2030	9,298,955	
2031	9,310,075	
2032	9,324,113	
2033	17,960,000	42.42%
	-	
2034	18,685,000	
2035	19,500,000	
2036	20,355,000	
2037	20,155,000	
2038	18,485,000	65.71%
	-	
2039	18,495,000	
2040	18,635,000	
2041	17,870,000	
2042	18,015,000	
2043	17,850,000	87.49%
	-	
2044	17,700,000	
2045	16,965,000	
2046	<u>17,520,000</u>	100.00%
	\$417,191,092	

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

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

Political Subdivision	Gross Debt		Percent Overlapping	Amount Overlapping
	Amount	As Of		
Alamo Community College District	\$ 479,445,000	11-01-18	0.49%	\$ 2,349,281
Bexar County	1,700,305,000	11-01-18	0.49%	8,331,495
Bexar County Hospital District	891,565,000	11-01-18	0.49%	4,368,669
Cibolo, City of	43,495,000	11-01-18	100.00%	43,495,000
Guadalupe County	13,655,000	11-01-18	35.81%	4,889,856
San Antonio, City of	1,879,155,000	11-01-18	0.01%	187,916
Schertz, City of	81,070,000	11-01-18	72.94%	59,132,458
Selma, City of	17,515,000	11-01-18	24.46%	4,284,169
Universal City, City of	22,469,000	11-01-18	18.99%	<u>4,266,863</u>
Estimated Overlapping Funded Debt	.....			\$131,305,707
Schertz-Cibolo-Universal City ISD	417,191,092 *	11-01-18	100.00%	<u>417,191,092 *</u>
Total Direct and Estimated Overlapping Funded Debt	.....			\$548,496,799 *
Ratio to 2018 Taxable Assessed Valuation (\$5,581,652,456)	.....			9.83%
Ratio to 2018 Taxable Assessed Valuation Net of State Assistance	.....			8.76%
Per Capita (87,813) Direct and Estimated Overlapping Debt	.....			\$6,246.19

* Preliminary, subject to change. Includes the Bonds and excludes the Refunded Obligations.

TAXATION DATA

Historical Valuations, Tax Rates, and Collection Data

Tax Year	Assessed Valuation	Tax Rate	% Collections		Year Ending
			Current	Total	
2007	\$2,813,933,010	\$1.3150	98.76%	99.75%	8-31-08
2008	3,196,305,415	1.3850	98.53%	99.49%	8-31-09
2009	3,297,068,803	1.4200	99.02%	100.02%	8-31-10
2010	3,429,603,136	1.4350	98.81%	99.74%	8-31-11
2011	3,515,023,345	1.4350	99.21%	100.09%	8-31-12
2012	3,729,824,795	1.4600	99.07%	99.66%	8-31-13
2013	3,886,322,349	1.4900	99.32%	99.89%	8-31-14
2014	4,306,221,477	1.4900	99.47%	99.93%	8-31-15
2015	4,550,568,389	1.4900	99.38%	99.72%	8-31-16
2016	4,930,769,864	1.4700	99.27%	99.68%	8-31-17
2017	5,389,344,061	1.4900	99.96%	100.12%	8-31-18
2018	5,581,652,456	1.4900	(in process of collection)		8-31-19

Source: 2007 through 2017 taken from the District's Annual Financial Reports. 2018 taken from Guadalupe Appraisal District and Bexar Appraisal District and represents only the approved certified values at the time of the report.

Ad Valorem Tax Rate Distribution

<u>Tax Year</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Local Maintenance & Operations	\$1.040	\$1.040	\$1.040	\$1.040	\$1.040
Interest & Sinking Fund	<u>.450</u>	<u>.450</u>	<u>.430</u>	<u>.450</u>	<u>.450</u>
Total	\$1.490	\$1.490	\$1.470	\$1.490	\$1.490

2018 Tax Deductions Allowed

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

Homestead - State-mandated General \$25,000	\$ 437,029,742
Homestead - State-mandated Over-65 or Disabled \$10,000	45,471,578
Homestead - 100% Disabled or Unemployable Veterans	457,321,947
Homestead - Disabled or Deceased Veterans	45,112,556
Homestead - 10% Appraisal Cap Loss	31,967,648
Productivity Loss	224,225,369
Freeport	91,295,539
Other	<u>22,706,839</u>
Total Exemptions and Exclusions	\$1,355,131,218

Source: *Guadalupe Appraisal District and Bexar Appraisal District.*

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

<u>Last Ten Years Ended August 31</u>	<u>Ending Balance</u>
2008 and prior	\$ 181,475
2009	39,853
2010	28,031
2011	64,195
2012	60,637
2013	60,111
2014	78,516
2015	98,972
2016	163,315
2017	<u>531,480</u>
Total	<u>\$1,306,585</u>

Source: *District's Annual Financial Report.*

Ten Largest Taxpayers

<u>Name</u>	<u>Type of Property</u>	<u>2018 Net Taxable Assessed Valuation</u>	<u>% of Total 2018 Assessed Valuation</u>
Amazon.Com.KYDC LLC	Retailer	\$ 66,422,573	1.23%
US Real Estate LP	Investment Services	59,667,065	1.11%
Sanfilippo, John B. & Son, Inc.	Nut Production	24,294,887	0.45%
Retreat at Chelsea LP	Apartments	23,800,000	0.44%
SC Schertz LLC	Financial Services	23,650,000	0.44%
Guadalupe Valley Electric Coop	Utility	22,594,219	0.42%
H E Butt Grocery Co	Grocery Store	20,133,839	0.37%
Dallas MTA LP	Commercial	17,729,290	0.33%
EM Limited Partnership	Commercial	16,111,104	0.30%
Curtis C Gunn Ltd	Real Estate	<u>15,020,000</u>	<u>0.28%</u>
Total		\$289,422,977	5.37%

Source: Guadalupe Appraisal District.

Taxpayers by Classification

<u>Classification</u>	<u>2018 Assessed Valuation</u>	<u>Percent Of Total</u>	<u>2017 Assessed Valuation</u>	<u>Percent Of Total</u>	<u>2016 Assessed Valuation</u>	<u>Percent Of Total</u>
Single Family Residential	\$5,140,645,192	74.11%	\$4,806,784,559	72.36%	\$4,438,015,967	71.11%
Multi-Family Residential	85,630,915	1.23%	104,969,630	1.58%	104,253,956	1.67%
Vacant-Platted Lots	74,724,000	1.07%	66,238,752	1.00%	70,552,146	1.13%
Agricultural/Open Space	229,180,976	3.30%	231,746,092	3.49%	279,211,805	4.47%
Rural Land/Non-qualified	106,501,909	1.54%	104,006,773	1.57%	-	-
Commercial	540,194,221	7.79%	567,317,228	8.54%	538,533,290	8.63%
Industrial	119,372,585	1.72%	116,962,262	1.76%	107,639,093	1.72%
Oil, Gas, Minerals	-0-	0.00%	-0-	0.00%	-0-	0.00%
Utilities	35,287,768	0.51%	39,943,500	0.60%	36,741,168	0.59%
Commercial Personal	255,369,084	3.68%	264,322,387	3.98%	270,463,464	4.33%
Industrial Personal	235,102,915	3.39%	231,102,821	3.48%	287,185,393	4.60%
Mobile Homes	17,144,674	0.25%	17,410,536	0.26%	16,304,123	0.26%
Residential Inventory	66,631,024	0.96%	59,898,997	0.90%	61,053,117	0.98%
Special Inventory	<u>30,998,361</u>	<u>0.45%</u>	<u>32,404,917</u>	<u>0.49%</u>	<u>31,507,473</u>	<u>0.51%</u>
Total Valuation	\$6,936,783,674	100.00%	\$6,643,108,454	100.00%	\$6,241,460,995	100.00%
Less Exemptions & Exclusions	<u>1,355,131,218</u>		<u>1,253,764,393</u>		<u>1,596,780,731</u>	
Net Taxable Assessed Valuation	<u>\$5,581,652,456</u>		<u>\$5,389,344,061</u>		<u>\$4,644,680,264</u>	

Source: Guadalupe Appraisal District and Bexar Appraisal District.

2017/2018 ESTIMATED INTEREST & SINKING FUND MANAGEMENT INDEX

Interest & Sinking Fund Balance at 8-31-2017	\$ 8,266,857
Estimated Income from \$0.45 I&S Tax Rate @ 97% Collected Using 2017 Taxable Assessed Valuation of \$5,389,344,061	23,524,486
Estimated Other Income (includes State assistance, capitalized interest, and interest earnings)	<u>4,950,000</u>
Estimated Total Funds Available	36,741,343
2017/18 Debt Service Requirement	<u>30,175,691</u>
Estimated Interest & Sinking Fund Balance at 8-31-2018	\$ 6,565,652

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

FISCAL YEAR 8-31	CURRENTLY OUTSTANDING DEBT SERVICE	LESS REFUNDED OBLIGATIONS DEBT SERVICE ⁽¹⁾	PLUS: THE BONDS AT ASSUMED RATES ⁽¹⁾				GRAND TOTAL ALL ALL DEBT SERVICE
			PRINCIPAL DUE 2/1	INTEREST DUE 2/1	INTEREST DUE 8/1	TOTAL	
2018	\$ 30,175,690.65						\$ 30,175,690.65
2019	30,162,012.52	\$ 3,005,362.50		\$ 150,300.00	\$ 450,900.00	\$ 601,200.00	27,757,850.02
2020	30,082,875.02	2,998,875.00	\$ 1,100,000.00	450,900.00	428,900.00	1,979,800.00	29,063,800.02
2021	30,431,200.02	4,804,750.00	4,035,000.00	428,900.00	348,200.00	4,812,100.00	30,438,550.02
2022	30,479,175.02	4,041,250.00	4,020,000.00	348,200.00	267,800.00	4,636,000.00	31,073,925.02
2023	30,290,250.00	4,081,875.00	4,225,000.00	267,800.00	183,300.00	4,676,100.00	30,884,475.00
2024	30,290,175.02	4,126,375.00	4,445,000.00	183,300.00	94,400.00	4,722,700.00	30,886,500.02
2025	30,166,796.89	4,217,875.00	4,720,000.00	94,400.00	-	4,814,400.00	30,763,321.89
2026	30,191,556.26						30,191,556.26
2027	30,140,418.76						30,140,418.76
2028	30,147,468.76						30,147,468.76
2029	30,136,618.76						30,136,618.76
2030	29,495,418.76						29,495,418.76
2031	29,483,656.26						29,483,656.26
2032	29,410,165.64						29,410,165.64
2033	29,344,509.39						29,344,509.39
2034	29,268,931.26						29,268,931.26
2035	29,249,181.26						29,249,181.26
2036	29,232,165.63						29,232,165.63
2037	28,084,175.00						28,084,175.00
2038	25,451,231.25						25,451,231.25
2039	24,539,646.88						24,539,646.88
2040	23,759,196.88						23,759,196.88
2041	22,094,646.88						22,094,646.88
2042	21,372,428.13						21,372,428.13
2043	20,397,625.00						20,397,625.00
2044	19,490,690.63						19,490,690.63
2045	18,023,628.13						18,023,628.13
2046	17,870,400.00						17,870,400.00
	<u>\$789,261,934.66</u>	<u>\$27,276,362.50</u>	<u>\$22,545,000.00</u>	<u>\$1,923,800.00</u>	<u>\$1,773,500.00</u>	<u>\$26,242,300.00</u>	<u>\$788,227,872.16</u>

⁽¹⁾ Preliminary, subject to change.

2018/2019 PRO FORMA INTEREST & SINKING FUND MANAGEMENT INDEX

Estimated Interest & Sinking Fund Balance at 8-31-2018	\$ 6,565,652
Estimated Income from \$0.45 I&S Tax Rate @ 97% Collected Using 2019 Estimated Taxable Assessed Valuation of \$5,581,652,456	24,363,912
Estimated Other Income (includes State assistance, capitalized interest, and interest earnings)	<u>1,700,000</u>
Total Estimated Funds Available	32,629,564
2018/19 Debt Service Requirement	<u>27,757,850</u>
Estimated Interest & Sinking Fund Balance at 8-31-2019	\$ 4,871,714

FIVE-YEAR RECORD OF FINANCIAL OPERATIONS

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

	Year Ended 8/31				
	2017	2016	2015	2014	2013
<u>REVENUES:</u>					
Local Sources	\$ 78,351,453	\$ 72,771,693	\$ 68,745,805	\$ 62,193,315	\$ 58,395,075
State Sources	65,826,610	64,713,500	63,167,018	58,925,405	52,867,906
Federal Sources	<u>7,661,032</u>	<u>6,524,748</u>	<u>6,036,798</u>	<u>5,707,170</u>	<u>5,901,804</u>
Total All Revenues	151,839,095	144,009,941	137,949,621	126,825,890	117,164,785
<u>EXPENDITURES:</u>					
Instruction	78,149,321	72,876,125	70,820,195	62,373,283	59,052,606
Instruction Related	8,470,952	7,721,668	7,192,730	9,466,235	6,217,145
Pupil Services	19,350,288	18,391,357	17,315,573	16,371,035	15,475,240
General Administration	3,679,073	3,251,775	2,882,988	2,838,402	2,737,695
Debt Service	25,449,462	156,232,621 ⁽⁵⁾	24,619,601	35,564,321	19,321,677
Plant Maintenance & Operation	16,050,899	14,649,024	15,131,818	12,463,348	10,698,455
Community Service	373,825	336,212	321,925	252,275	223,449
Construction ⁽¹⁾	30,295,887	13,060,747	46,838,179	16,692,444	551,582
Ancillary Services	<u>837,441</u>	<u>745,249</u>	<u>713,258</u>	<u>636,469</u>	<u>642,800</u>
Total all Expenditures	182,657,148	287,264,778	185,836,267	156,657,812	114,920,649
Total Other Resources and (Uses) ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁷⁾	<u>90,735,489</u>	<u>131,514,456</u>	<u>43,535,283</u>	<u>23,685,866</u>	<u>41,413,600</u>
Excess (Deficiency) of Revenues and Other Resources Over Expenditures and Other Uses	59,917,436	(11,740,381) ⁽⁶⁾	(4,351,363)	(6,146,056)	43,657,736
Fund Balance Beginning of Year	63,926,953	75,667,334	80,018,697	86,164,753	42,507,017
Fund Balance End of Year	<u>\$123,844,389</u>	<u>\$ 63,926,953</u>	<u>\$ 75,667,334</u>	<u>\$ 80,018,697</u>	<u>\$ 86,164,753</u>
General Fund Balance	\$43,674,270 *	\$ 43,766,929	\$ 41,025,840	\$ 43,610,329	\$ 42,844,316

* District staff confirms that the District's unaudited General Fund Balance for the fiscal year ended August 31, 2018 was \$41,959,624.

	Year Ended 8/31				
	2017	2016	2015	2014	2013
Assessed Valuation	\$4,930,769,864	\$4,550,568,389	\$4,306,221,477	\$3,886,322,349.	\$3,729,824,795
Total Tax Rate	\$1.470	\$1.490	\$1.490	\$1.490	\$1.460
Percent of Debt Service to Total	13.93%	54.38%	13.25%	22.70%	16.81%

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

⁽¹⁾ Includes expenditures made from bond proceeds.

⁽²⁾ Fiscal year 2013 includes bond proceeds in the amount of \$40,000,000 from the sale of the Series 2013 bond issue.

⁽³⁾ Fiscal year 2014 includes bond proceeds in the amount of \$10,000,000 from the sale of the Series 2014 bond issue.

⁽⁴⁾ Fiscal year 2015 includes bond proceeds in the amount of \$42,000,000 from the sale of the Series 2014 bond issue and the Series 2014 QSCB bond issue that were authorized by separate bond orders adopted on July 29, 2014 and closed on November 4, 2014, respectively; so while each bond deal was approved in 2014, both closed in fiscal year 2015.

⁽⁵⁾ Fiscal year 2016 includes refunding bond proceeds in the amount of \$135,015,000 and the deposit a portion of those proceeds to the escrow account for the redemption of the bonds refunded thereby.

⁽⁶⁾ Increased amount attributable to implementation of GASB Statement No. 68 (see "EMPLOYEE RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS" herein).

⁽⁷⁾ Fiscal year 2017 includes bond proceeds in the amount of \$87,000,000 from the sale of the Series 2017 bond issue.

APPENDIX B

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

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THE DISTRICT

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

The consolidated school districts of Schertz and Cibolo were merged in March 1940 to form the Schertz-Cibolo Consolidated Common School District. Pursuant to an election on April 1, 1961, the status of the District was changed to the Schertz-Cibolo Independent School District. Subsequently, on September 1, 1967, the name was changed to Schertz-Cibolo-Universal City Independent School District.

The District, with a 2018 population estimated at 84,545, is a primarily agricultural area located in south central Texas in Guadalupe and Bexar Counties. Boundaries of the District are within five miles of the city limits of San Antonio and within fifteen miles of downtown San Antonio. With excellent streets and expressways to San Antonio, this area is a prime location for residential development. Because the District is located adjacent to Randolph Air Force Base, the area has long been a desirable location for retired military personnel.

Administration

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

Education System

<u>School Facility</u>	<u>Grade Span</u>	<u>Capacity</u>	<u>2017/18 Enrollment (At 10/1/2018)</u>
Maxine & Lutrell Watts Elementary	PreK - 4	786	615
Samuel Clemens High School	9 - 12	2,230	2,622
Ray D. Corbett Junior High School	7 - 8	1,200	1,155
J. Frank Dobie Junior High School	7 - 8	1,058	1,249
Laura Ingalls Wilder Intermediate School	5 - 6	629	802
O. G. Wiederstein Elementary School	K - 4	750	661
Rose Garden Elementary School	PreK - 4	1,200	629
Schertz Elementary School	PreK - 4	750	736
Norma J. Paschal Elementary School	PreK - 4	748	682
Barbara C. Jordan Intermediate School	5 - 6	940	735
Allison L. Steele Enhanced Learning Center	9 - 12	75	80
Green Valley Elementary School District	Pre-K - 4	748	705
Byron P. Steele II High School	9 - 12	1,500	2,488
John A. Sippel Elementary School	PreK - 4	750	768
Elaine S. Schlather Intermediate School	5 - 6	900	802
Cibolo Valley Elementary School	PreK - 4	990	<u>984</u>
Total			15,713

Source: *The District*

Student Performance

The State of Texas Assessments of Academic Readiness (STAAR) is an annual assessment of student achievement. Students are tested for reading, writing and mathematics in grades four and eight. They are tested for reading, writing, and mathematics at the exit level. They are tested in mathematics and reading only in grades three, five, and seven. Science and social studies are tested at grade eight. Students tested in the District have ranked competitively with their peer group and above the state average in most areas.

Accreditation

Every campus is fully accredited by the Texas Education Agency and Samuel Clemens High School is accredited by the Southern Association of Colleges and Schools.

Curriculum

Curricular offerings in the District comply with and extend beyond the requirements of HB246. The District not only offers a wide variety of opportunities in every subject area but provides for the needs of special populations as well.

Budget and Personnel

The budget for the 2018-19 year is \$158,334,350* The District employs approximately 1,901 people, including professional and other, and has a payroll of approximately \$110,411,479.**

* *Budgeted amount is General Operating, Lunchroom, and Debt Service expenditures only. No special or federal programs are included in this amount.*

** *Payroll amounts include all benefits and TRS amounts (all funds).*

Average Daily Attendance and Percentage Change

<u>School Year</u>	<u>Average Daily Attendance</u>	<u>% ADA Change</u>
2005-06	8,111	10.91
2006-07	9,080	11.94
2007-08	9,861	8.60
2008-09	10,610	7.60
2009-10	11,111	4.72
2010-11	11,793	6.14
2011-12	12,392	5.08
2012-13	12,842	3.63
2013-14	13,371	4.12
2014-15	13,817	3.34
2015-16	14,307	3.55
2016-17	14,612	2.11
2017-18*	14,728	1.98

* *As of 10-01-2018.*

THE AREA

Incorporated Cities

Located within the boundaries of the District are the cities of Schertz, Cibolo and Universal City. Approximately seventy-five percent of the area of the District is located in Guadalupe County (Seguin, county seat) - 2018 population estimate 159,659, and twenty-five percent is located in Bexar County (San Antonio, county seat) - 2018 population estimate 1,958,578. The District adjoins Comal County (New Braunfels, county seat). New Braunfels is on the District's north side, San Antonio is on the District's southwest side, and Seguin is fifteen miles to the northeast.

Economy

The area economy includes agriculture, manufacturing, mineral production, and education. Partially surrounding Randolph Air Force Base, one of the nation's largest and oldest permanent military bases, the area receives great economic benefit from this establishment, which employs over 7,500 persons. The Amazon.com fulfillment center, located in the District and in the City of Schertz, has over 1.26 million square feet of space and is one of its largest centers. There are numerous manufacturing plants, with six employing over 100 persons. Sunshine Nut Company, a nut processing plant, employs over 200 persons. One manufacturer of electronic controls employs over 1,000 persons. Principal manufacturers produce such goods as fabricated metals, wooden structural items, fish care products, and pre-cast concrete. Also manufactured in the area are such items as fiberglass products, dressed poultry, limestone brick, acrylic paints, and commercial ice dispensers. Many residents commute to jobs in San Antonio. The *Texas Almanac* designates cattle, hogs, sorghum, corn, wheat, oats, cotton, peanuts and pecans as principal sources of agricultural income.

Demographics

Year	Population				Location	
	Guadalupe County	City of Schertz	City of Cibolo	City of Universal City	(Distance in miles from Schertz Cibolo-Universal City ISD)	
1980	46,708	7,262	549	10,720	Austin	65
1990	64,873	10,525	1,757	13,057	Dallas	265
2000	89,023	18,694	3,035	14,849	Houston	180
2010	131,933	31,465	15,349	18,530	San Antonio	20
2018 est.	159,659	40,092	29,249	20,532		

Major Area Employers

Name	Product	Number of Employees
HEB Grocery	Food Manufacturing	2,780
Schertz-Cibolo-Universal City ISD	Education	1,378
West Telemarketing	Telemarketing	1,300
Brylane	Catalog Call Center	1,300
United Parcel Service	Mail Service	1,210
Amazon.com	Retail	1,073
Friedrich Air Conditioning	Refrigeration	600
Frito-Lay, Inc.	Food Manufacturing	388
Wal-Mart Discount City	Retail Store	370
Sysco Food Services	Food Products Distribution	320
Fleming Foods	Wholesale Grocery Distribution	287

Employment and Wages by Industry - Guadalupe County

	Number of Employees			
	Fourth Quarter 2017	Fourth Quarter 2016	Fourth Quarter 2015	Fourth Quarter 2014
Natural Resources and Mining	236	234	345	479
Construction	2,556	2,319	2,236	1,990
Manufacturing	7,644	7,209	7,104	6,819
Trade, Transportation & Utilities	12,379	10,904	6,635	6,837
Information	181	211	226	209
Financial Activities	1,113	1,127	1,119	1,044
Professional and Business Services	3,546	2,695	2,483	1,981
Education and Health Services	3,544	3,346	3,242	3,244
Leisure and Hospitality	4,129	4,363	4,187	3,742
Other Services	1,103	1,031	1,063	1,132
Unclassified	69	23	12	7
Federal Government	226	225	211	200
State Government	161	169	159	174
Local Government	<u>6,182</u>	<u>6,123</u>	<u>5,981</u>	<u>5,878</u>
Total Employment	43,069	39,976	35,002	33,735
Total Wages	\$466,903,278	\$416,486,332	\$377,856,263	\$355,359,375

Source: Texas Workforce Commission - Texas Labor Market Information.

Labor Force Statistics - Guadalupe County

Annual Average	Annual Average					
	2017	2016	2015	2014	2013	2012
Civilian Labor Force	77,510	74,988	72,288	71,566	69,580	68,312
Total Employed	<u>74,946</u>	<u>72,296</u>	<u>69,720</u>	<u>68,501</u>	<u>65,654</u>	<u>64,294</u>
Total Unemployed	2,564	2,692	2,568	3,065	3,926	4,018
% Unemployed	3.3%	3.6%	3.6%	4.3%	5.6%	5.9%
% Unemployed (Texas)	4.2%	4.6%	4.5%	5.1%	6.4%	6.8%
% Unemployed (United States)	4.4%	4.9%	5.3%	6.2%	7.4%	8.1%

Source: Texas Workforce Commission - Economic Research and Analysis Department, and United States Department of Labor.

Transportation and Rail Facilities

All areas of the District are easily accessible. Major highways and thoroughfares include Interstate Highway 35 (U.S. 81), a four-lane divided highway from San Antonio to Austin; Interstate Highway 10 (U.S. 90), a four-lane divided highway from San Antonio to Houston; State Highway 78; Farm-to-Market Road 1518; and many other paved and all-weather county roads.

Railroad facilities: Southern Pacific Railroad.

Commercial air service: San Antonio International Airport.

Bus service: Greyhound Bus Lines

Freight carriers: Four local motor freight carriers serve the area from terminals in nearby San Antonio.

Communications

The District has access to the San Antonio daily newspaper, several weekly newspapers, and area radio and television stations.

Community Services

All community services are readily available within a short drive. Hotel and motel facilities are located within the District and in adjacent San Antonio. San Antonio hospitals are among the finest medical facilities in the Southwest. In addition, Guadalupe Valley Hospital is located in nearby Seguin. The San Antonio and Bexar County library facilities are accessible to the District, as are recreational facilities including public swimming pools, parks, golf courses, the famous Brackenridge Park and Zoo, the Convention Center and the Alamodome.

Higher Educational Facilities

Some of the numerous facilities available in nearby San Antonio include University of Texas at San Antonio, University of Texas Health Science Center composed of schools of Dentistry, Nursing, Allied Health Sciences and graduate school of Biomedical Sciences, St. Mary's University, Trinity University, University of the Incarnate College, Our Lady of the Lake University and San Antonio Junior College. Also located nearby are Texas State University at San Marcos and Texas Lutheran University in Seguin.

APPENDIX C

Audited Financial Statements

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

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

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**SCHERTZ-CIBOLO-UNIVERSAL CITY
INDEPENDENT SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
AUGUST 31, 2017**

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SCHERTZ-CIBOLO-UNIVERSAL CITY
INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2017

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INDEPENDENT SCHOOL DISTRICT
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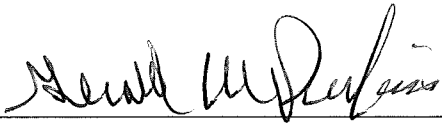
CERTIFICATE OF BOARD

Schertz-Cibolo-Universal City Independent School District
Name of School District


Guadalupe
County

094-902
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 19th of December 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)

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P A T T I L L O , B R O W N & H I L L , L . L . P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Schertz-Cibolo-Universal City
Independent School District
Schertz, Texas

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison and pension information on pages 5–12 and 47–50 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 District's basic financial statements. The combining and required TEA schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Guidance Administrative Requirements, Cost, Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the basic financial statements.

The combining statements, required TEA schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements, required TEA schedules, except for J-3, and the schedule of expenditures of federal awards are fairly stated in all material respects, in relation to the basic financial statements as a whole. Exhibit J-3 had 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 December 15, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
December 15, 2017

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SCHERTZ-CIBOLO-UNIVERSAL CITY INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2017

As Management of Schertz-Cibolo-Universal City Independent School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2017. This information is not intended to be a complete statement of the District's financial condition. We recommend and encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- At August 31, 2017, the District's deficit net position was (\$20,473,960).
- For the year ended August 31, 2017, the District recorded total revenues of \$152,768,407 and total expenses of \$158,130,266. The District's revenues are derived from ad valorem tax collections, State Foundation Program entitlements and other grants, sale of food to students and employees, and other miscellaneous sources.
- The General Fund reported a decrease in fund balance of \$92,659, from \$43,766,929 at August 31, 2016, to \$43,674,270 at August 31, 2017.
- The Capital Projects Fund reported an increase in fund balance of \$57,450,730, from \$12,254,434 at August 31, 2016, to \$69,705,164 at August 31, 2017. This increase is primarily a result of \$83,495,000 of capital related bonds issued in the current year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The statement of net position includes all of the District's assets, deferred outflows (inflows) of resources and liabilities. All of the current period's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the District's net position and how they have changed. Net position is the difference between the District's assets, deferred outflows (inflows) of resources and liabilities and are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating. To assess overall health of the District, one needs to consider additional nonfinancial factors such as changes in the District's tax base, staffing patterns, enrollment and attendance.

The government-wide financial statements of the District include the governmental activities. Most of the District's basic services such as instruction, extracurricular activities, curriculum and staff development, health services, general administration and plant operation and maintenance are included in governmental activities. Local assessed property taxes, together with State Foundation Program entitlements, which are based upon student enrollment and attendance, finance most of the governmental activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are simply accounting devices that are used to keep track of specific sources of funding and spending for particular purposes.

Some funds are required by state law and other funds are mandated by bond agreements or bond covenants. The Board of Trustees establishes other funds to control and manage money set aside for particular purposes or to show that the District is properly using certain taxes and grants. Other funds are used to account for assets held by the District in a custodial capacity – these assets do not belong to the District but the District is responsible to properly account for them.

The District reports the following types of 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.

Fiduciary Funds – The District serves as the trustee, or *fiduciary*, for certain funds such as scholarship and student activity funds. 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 position and a statement of changes in fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its governmental operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's net position was (\$20,473,960) at August 31, 2017. Table 1 focuses on the net position while Table 2 shows the revenues and expenses that changed the net position balance during the year ended August 31, 2017.

TABLE 1
SCHERTZ-CIBOLO-UNIVERSAL CITY
INDEPENDENT SCHOOL DISTRICT
NET POSITION

	Governmental Activities		Change	Percentage
	2017	2016		Change	2017-2016
Current and other assets	\$ 142,983,293	\$ 75,360,836	\$ 67,622,457	89.73%
Capital assets	<u>320,187,150</u>	<u>300,618,404</u>	<u>19,568,746</u>	<u>6.51%</u>
Total assets	<u>463,170,443</u>	<u>375,979,240</u>	<u>87,191,203</u>	<u>23.19%</u>
Total deferred outflows	<u>14,445,971</u>	<u>15,094,010</u>	(648,039)	(4.29%)
Other liabilities	18,705,302	10,814,384	7,890,918	72.97%
Long-term liabilities	<u>468,612,626</u>	<u>384,262,418</u>	<u>84,350,208</u>	<u>21.95%</u>
Total liabilities	<u>487,317,928</u>	<u>395,076,802</u>	<u>92,241,126</u>	<u>23.35%</u>
Total deferred inflows	<u>10,772,446</u>	<u>11,108,549</u>	(336,103)	(3.03%)
Net position:				
Net investment in				
capital assets	8,726,336	18,544,289	(9,817,953)	(52.94%)
Restricted	9,470,119	7,055,781	2,414,338	34.22%
Unrestricted	(38,670,415)	(40,712,171)	<u>2,041,756</u>	<u>(5.02%)</u>
Total net position	<u>\$ (20,473,960)</u>	<u>\$ (15,112,101)</u>	<u>\$ (5,361,859)</u>	<u>35.48%</u>

TABLE 2
SCHERTZ-CIBOLO-UNIVERSAL CITY
INDEPENDENT SCHOOL DISTRICT

CHANGES IN NET POSITION

	Governmental Activities		Change	Percentage
	2017	2016		Change	2017-2016
REVENUES				
Program revenues:				
Charges for services	\$ 4,255,011	\$ 4,130,862	\$ 124,149	3.01%
Operating grants and contributions	18,639,197	17,954,392	684,805	3.81%
General revenues:				
Property taxes	72,809,415	68,018,299	4,791,116	7.04%
Grants and contributions not restricted	55,708,442	55,737,097	(28,655)	(0.05%)
Investment earnings	915,716	270,112	645,604	239.01%
Other revenues	440,626	415,477	25,149	6.05%
Total revenues	<u>152,768,407</u>	<u>146,526,239</u>	<u>6,242,168</u>	<u>4.26%</u>
EXPENSES				
Instruction	82,905,200	78,049,732	4,855,468	6.22%
Instructional resources and media services	1,795,612	1,853,387	(57,775)	(3.12%)
Curriculum and staff development	2,247,834	2,205,452	42,382	1.92%
Instructional leadership	1,644,121	1,299,628	344,493	26.51%
School leadership	7,251,312	6,959,506	291,806	4.19%
Guidance and counseling	4,303,728	3,977,787	325,941	8.19%
Social work services	148,310	148,187	123	0.08%
Health services	1,517,383	1,594,901	(77,518)	(4.86%)
Student transportation	5,030,770	4,941,792	88,978	1.80%
Food services	5,974,621	6,100,161	(125,540)	(2.06%)
Extracurricular activities	5,141,512	4,796,257	345,255	7.20%
General administration	3,765,318	3,387,132	378,186	11.17%
Plant maintenance and operations	15,082,564	14,032,611	1,049,953	7.48%
Security and monitoring services	777,166	474,681	302,485	63.72%
Data processing services	2,729,311	3,102,179	(372,868)	(12.02%)
Community services	373,825	336,212	37,613	11.19%
Interest, issuance costs and fees on debt	16,604,238	13,841,924	2,762,314	19.96%
Other governmental charges	837,441	745,249	92,192	12.37%
Total expenses	<u>158,130,266</u>	<u>147,846,778</u>	<u>10,283,488</u>	<u>6.96%</u>
DECREASE IN NET POSITION	<u>(5,361,859)</u>	<u>(1,320,539)</u>	<u>(4,041,320)</u>	<u>(306.04%)</u>
NET POSITION, BEGINNING	<u>(15,112,101)</u>	<u>(13,791,562)</u>	<u>(1,320,539)</u>	<u>9.57%</u>
NET POSITION, ENDING	<u>\$(20,473,960)</u>	<u>\$(15,112,101)</u>	<u>\$(5,361,859)</u>	<u>35.48%</u>

Governmental Activities

Total revenues for the District increased \$6.2 million, or 4.26%, as well as expenses increased \$10.3 million, or 6.96%.

Significant factors affecting the change in net position included:

- The District’s tax rate decreased to \$1.47 for every \$100 of assessed valuation. At the same time, the total taxable valuation increased by a total of \$380 million. The result of the increase in property tax collections resulted in an increase in property tax revenue of \$4.8 million.
- Expenses increased \$10.3 million from the prior period. The most significant functional change was the increase in instructional costs of \$4,855,468, due primarily to a 3% salary increase on the mid-point for all employees and for the hiring of approximately 30 additional teachers and 21 other positions.
- The District was required to report a liability for its proportionate share of TRS’s net pension liability at year end in the amount of \$29.0 million.

The District records its expenses in various cost centers or “functions” in accordance with the requirements of the Texas Education Agency. Table 3 presents the cost of each of the functions with the largest expense totals together with that function’s net cost (total cost less fees and grants that are directly attributable to that function). The net cost of each function reflects what was funded primarily from State Foundation Program and tax revenues.

TABLE 3

**SCHERTZ-CIBOLO-UNIVERSAL CITY
INDEPENDENT SCHOOL DISTRICT’S**

TOTAL AND NET COST OF SELECTED EXPENSE FUNCTIONS

Description	Total Cost of Services		Net Cost of Services		Percent Change
	2017	2016	2017	2016	
Instruction	\$ 82,905,200	\$ 78,049,732	\$ 73,289,365	\$ 69,335,977	5.70%
Plant maintenance and operations	15,082,564	14,032,611	14,558,530	13,388,325	8.74%
School leadership	7,251,312	6,959,506	6,845,363	6,475,270	5.72%
Extracurricular activities	5,141,512	4,796,257	3,537,480	3,323,532	6.44%
Guidance and counseling	4,303,728	3,977,787	3,749,139	3,706,616	1.15%
Student transportation	5,030,770	4,941,792	4,744,362	4,611,855	2.87%
General administration	3,765,318	3,387,132	3,563,406	3,145,966	13.27%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At the close of the reporting period, August 31, 2017, the District's combined governmental funds (as presented in the balance sheet on Exhibit C-1) reported a combined fund balance of \$123,844,389. This compares to a combined fund balance of \$63,926,953 at August 31, 2016. The General Fund decreased its fund balance a total of \$92,659. The Debt Service Fund increased its fund balance a total of \$2,637,599. The Capital Projects Fund increased its ending fund balance \$57,450,730.

General Fund Budgetary Highlights

In accordance with state law and generally accepted accounting standards, the District prepares an annual budget for the General Fund, the Food Service Special Revenue Fund, and for the Debt Service Fund. The District budgets the Capital Projects Fund for each project, which normally covers multiple years. Special Revenue Funds have budgets approved by the funding agency and are amended throughout the year as required.

During the period ended August 31, 2017, the District prepared and amended its budget as required by state law prudent operating procedures. The District strives diligently to adjust its budget to reflect current levels of both revenues and expenditures. District officials have adopted a conservative approach to budgeting anticipated revenues and expenditures and make a good faith effort to amend the budget as changes occur.

The District's Board of Trustees is required by state law to formally adopt budgets for the General Fund, the Debt Service Fund and the Food Service (Special Revenue) Fund, and to amend those budgets as needed to avoid over expending any functional expenditure category. The District was in compliance with this requirement and, at the close of the fiscal year; all functional expenditure categories had positive budgetary variances. The General Fund had an overall positive budget variance of \$1,130,877, the Food Service Fund had a positive variance of \$154,294, and the Debt Service Fund had a positive variance of \$999.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Capital assets are generally defined as those items that have useful lives of one year or more and have an initial cost or value (if donated) of \$5,000, an amount determined by the Board. The cost or acquisition value, less accumulated depreciation, of the District's capital assets is recorded and displayed in the government-wide financial statements but not in the fund financial statements. Depreciation is calculated using the straight-line method with estimated useful lives as recommended by the Comptroller of Public Accounts of the State of Texas.

At August 31, 2017, the District had a total of \$446,128,335 invested in capital assets (land, buildings, vehicles and equipment). Of this amount, the District invested a total of \$32,272,088 in the year ended August 31, 2017. For fiscal year 2017, a total of \$12,180,904 was charged as depreciation, and at August 31, 2017, the total accumulated depreciation in the District's depreciable assets totaled \$125,941,185.

Significant capital asset purchases during the current year include the following.

- \$8.5 million for Clemens High School renovations,
- \$13.5 million for the replacement of Rose Garden Elementary, and
- \$3.7 million replacement of HVAC units.

Table 4 summarizes the District’s capital assets at August 31, 2017. More detailed information regarding the District’s capital assets is presented in the Notes to the Financial Statements.

TABLE 4

**SCHERTZ-CIBOLO-UNIVERSAL CITY
INDEPENDENT SCHOOL DISTRICT’S**

CAPITAL ASSETS AND DEPRECIATION AT YEAR-END

	Governmental Activities		Changes	Percentage
	2017	2016		Change
				2017-2016
Land	\$ 27,264,394	\$ 27,030,615	\$ 233,779	0.86%
Construction in progress	28,813,327	2,539,310	26,274,017	1,034.69%
Buildings and improvements	367,795,256	364,582,883	3,212,373	0.88%
Equipment	8,079,768	7,489,997	589,771	7.87%
Vehicles	12,701,104	11,407,627	1,293,477	11.34%
Infrastructure	1,474,486	1,474,486	-	- %
Total historical cost	<u>446,128,335</u>	<u>414,524,918</u>	<u>31,603,417</u>	<u>20.09%</u>
Accumulated depreciation	<u>125,941,185</u>	<u>113,906,514</u>	<u>12,034,671</u>	<u>10.57%</u>
Total capital assets	<u>\$ 320,187,150</u>	<u>\$ 300,618,404</u>	<u>\$ 19,568,746</u>	<u>6.51%</u>

Long-term Debt

At August 31, 2017, the District had bond issues outstanding of which the unpaid principal totaled \$380,386,092. Of this total, \$70,025,000 represents the original principal amount capital appreciation bonds, upon which no interest is paid until the maturity of the bond. At August 31, 2017, a total of \$35,770,573 interest had been “accreted” and is included in the accompanying government-wide financial statements as a long-term payable.

Interest on the outstanding bonds is payable semi-annually. Interest earned but not paid at the end of the year is “accrued” and is included in the government-wide statements as a payable and as an expense. This interest accrual was \$1,334,911 at August 31, 2017, and \$1,053,907 at August 31, 2016. Since this will be due and payable in February of the following fiscal year, the accrued interest on bonds is included as a “current liability” in the accompanying government-wide statements.

During the year the District issued \$83,495,000 of unlimited tax school building bonds, for the purpose of designing, constructing, equipping and acquiring school facilities.

Table 5 summarizes the District’s outstanding debt at August 31, 2017. More detailed information regarding the District’s debt obligations is presented in the notes to the financial statements.

TABLE 5

**SCHERTZ-CIBOLO-UNIVERSAL CITY
INDEPENDENT SCHOOL DISTRICT’S ANALYSIS OF DEBT AT YEAR-END**

Description of Debt Outstanding	Governmental Activities			Percentage Change
	2017	2016	Changes	2017-2016
Bonds payable	\$ 380,386,092	\$ 307,071,092	\$ 73,315,000	23.88%
Accreted interest on bonds	35,770,573	34,174,605	1,595,968	4.67%
Premium/discount on bonds	20,969,998	14,655,653	6,314,345	43.08%
Net pension liability	29,054,268	27,027,133	2,027,135	7.50%
Compensated absences	<u>1,282,589</u>	<u>897,303</u>	<u>385,286</u>	<u>42.94%</u>
Total long-term debt	<u>\$ 467,463,520</u>	<u>\$ 383,825,786</u>	<u>\$ 83,637,734</u>	<u>21.79%</u>

ECONOMIC FACTORS AND THE NEXT YEAR’S BUDGETS

The following factors were considered in establishing the District’s budget for 2017-2018:

- Student enrollment and attendance for 2017-2018 is projected to increase by 0.8%. The budget is based on an enrollment projection of 15,804 students. Average daily attendance is estimated to increase from 15,053 to 15,172 in 2017-2018.
- Property values for ad valorem tax purposes are projected to increase by \$304 million or 6.1% for 2017-2018 as compared to the taxable values for 2016-2017. The District’s maintenance and operations tax rate remained at \$1.04 and the interest and sinking tax rate increased to \$0.45 from \$0.43.
- Appropriations for the 2017-2018 General Fund budget increased over the appropriations for 2016-2017 General Fund budget by \$3.4 million. The increase is attributable to increases in personnel costs, including a salary increase for all employees and approximately 27 new positions.

CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT

This financial report is designed to provide our clients, taxpayers, students and creditors with a general overview of the District’s finances and to demonstrate the District’s commitment to accountability for the resources it receives. If you have any questions about this report or need additional financial information, contact Paige Meloni, Executive Director of Finance at (210) 945-6260.

BASIC FINANCIAL STATEMENTS

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SCHERTZ-CIBOLO-UNIVERSAL CITY INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION

AUGUST 31, 2017

1

Data Control Codes	Primary Government <u>Governmental Activities</u>
ASSETS	
1110 Cash and cash equivalents	\$ 4,590,247
1120 Current investments	135,981,161
1220 Delinquent property taxes receivables	1,306,585
1230 Allowance for uncollectible taxes (credit)	(183,017)
1240 Due from other governments	1,020,420
1250 Accrued interest	79,684
1290 Other receivables (net)	18,284
1300 Inventories	169,929
Capital assets:	
1510 Land	27,264,394
1520 Buildings and improvements, net	255,541,042
1530 Furniture and equipment, net	7,511,673
1580 Construction in progress	28,813,327
1590 Infrastructure, net	<u>1,056,714</u>
1000 Total assets	<u>463,170,443</u>
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred loss on bond refunding	2,168,340
1705 Deferred outflow related to TRS	<u>12,277,631</u>
1700 Total deferred outflows of resources	<u>14,445,971</u>
LIABILITIES	
2110 Accounts payable	7,755,512
2140 Interest payable	1,334,911
2150 Payroll deductions and withholdings	1,438,988
2160 Accrued wages	4,112,705
2180 Due to other governments	3,768,385
2300 Unearned revenue	294,801
Noncurrent liabilities:	
2501 Due within one year	13,057,314
2502 Due in more than one year	426,501,044
2540 Net pension liability	<u>29,054,268</u>
2000 Total liabilities	<u>487,317,928</u>
DEFERRED INFLOWS OF RESOURCES	
2601 Deferred gain on bond refunding	9,097,166
2605 Deferred inflow related to TRS	<u>1,675,280</u>
2600 Total deferred inflows of resources	<u>10,772,446</u>
NET POSITION	
3200 Net investment in capital assets	8,726,336
Restricted for:	
3820 Federal and state programs	1,661,621
3850 Debt service	7,708,498
3890 Health care	100,000
3900 Unrestricted	<u>(38,670,415)</u>
3000 Total net position	<u><u>\$ (20,473,960)</u></u>

The accompanying notes are an integral part of this financial statement.

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SCHERTZ-CIBOLO-UNIVERSAL CITY INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	Functions/Programs	1 Expenses	Program Revenues		Net (Expenses)
			3 Charges for Services	4 Operating Grants and Contributions	6 Revenue Changes in Net Position Primary Governmental Activities
Primary government:					
Governmental activities:					
11	Instruction	\$ 82,905,200	\$ 145,220	\$ 9,470,615	\$(73,289,365)
12	Instructional resources and media services	1,795,612	-	72,389	(1,723,223)
13	Curriculum and staff development	2,247,834	-	221,913	(2,025,921)
21	Instructional leadership	1,644,121	-	577,198	(1,066,923)
23	School leadership	7,251,312	-	405,949	(6,845,363)
31	Guidance, counseling, and evaluation services	4,303,728	-	554,589	(3,749,139)
32	Social work services	148,310	-	10,100	(138,210)
33	Health services	1,517,383	-	319,732	(1,197,651)
34	Student transportation	5,030,770	-	286,408	(4,744,362)
35	Food service	5,974,621	2,622,109	2,671,401	(681,111)
36	Extracurricular activities	5,141,512	1,487,682	116,350	(3,537,480)
41	General administration	3,765,318	-	201,912	(3,563,406)
51	Facilities maintenance and operations	15,082,564	-	524,034	(14,558,530)
52	Security and monitoring services	777,166	-	-	(777,166)
53	Data processing services	2,729,311	-	91,702	(2,637,609)
61	Community services	373,825	-	76,141	(297,684)
72	Interest on long-term debt	15,778,504	-	3,038,764	(12,739,740)
73	Bond issuance costs and fees	825,734	-	-	(825,734)
99	Other governmental changes	837,441	-	-	(837,441)
TG	Total governmental activities	\$ 158,130,266	\$ 4,255,011	\$ 18,639,197	(135,236,058)
Data Control Codes					
General revenues:					
Taxes:					
MT	Property taxes, levied for general purposes				51,514,526
DT	Property taxes, levied for debt service				21,294,889
GC	Grants and contributions not restricted to specific programs				55,708,442
IE	Investment earnings				915,716
MI	Miscellaneous				440,626
TR	Total general revenues				129,874,199
CN	Change in net position				(5,361,859)
NB	Net position, beginning				(15,112,101)
NE	Net position, ending				\$(20,473,960)

The accompanying notes are an integral part of this financial statement.

SCHERTZ-CIBOLO-UNIVERSAL CITY INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

AUGUST 31, 2017

Data Control Codes	10	50	60		98	
	General	Debt Service	Capital Projects	Other Governmental	Total Governmental Funds	
ASSETS						
1110	Cash and cash equivalents	\$ 3,342,875	\$ 674	\$ 218,241	\$ 1,022,643	\$ 4,584,433
1120	Current investments	49,892,793	8,258,596	75,618,908	1,821,851	135,592,148
1220	Property taxes - delinquent	948,944	357,641	-	-	1,306,585
1230	Allowance for uncollectible taxes	(133,164)	(49,853)	-	-	(183,017)
1240	Due from other governments	450,531	-	-	569,889	1,020,420
1250	Accrued interest	79,684	-	-	-	79,684
1260	Due from other funds	496,146	-	3,475	-	499,621
1290	Other receivables	1,771	-	-	16,513	18,284
1300	Inventories	169,929	-	-	-	169,929
1000	Total assets	<u>55,249,509</u>	<u>8,567,058</u>	<u>75,840,624</u>	<u>3,430,896</u>	<u>143,088,087</u>
LIABILITIES						
2110	Accounts payable	956,697	-	6,131,662	397,121	7,485,480
2150	Payroll deductions and withholdings	1,438,988	-	-	-	1,438,988
2160	Accrued wages	4,046,721	-	-	65,984	4,112,705
2170	Due to other funds	505,594	-	3,798	536,321	1,045,713
2180	Due to other governments	3,768,385	-	-	-	3,768,385
2300	Unearned revenue	61,429	-	-	233,372	294,801
2000	Total liabilities	<u>10,777,814</u>	<u>-</u>	<u>6,135,460</u>	<u>1,232,798</u>	<u>18,146,072</u>
DEFERRED INFLOWS OF RESOURCES						
2600	Unavailable revenue - property taxes	797,425	300,201	-	-	1,097,626
	Total deferred inflows of resources	<u>797,425</u>	<u>300,201</u>	<u>-</u>	<u>-</u>	<u>1,097,626</u>
FUND BALANCES						
Nonspendable:						
3410	Inventories	169,929	-	-	-	169,929
Restricted for:						
3450	Federal and state programs	-	-	-	1,661,621	1,661,621
3470	Capital acquisitions and contractual obligations	-	-	69,705,164	-	69,705,164
3480	Debt service	-	8,266,857	-	-	8,266,857
3490	Health care	100,000	-	-	-	100,000
Committed for:						
3510	Construction	234,647	-	-	-	234,647
3545	Campus activities	-	-	-	536,477	536,477
Assigned for:						
3550	Construction	3,780,155	-	-	-	3,780,155
3570	Capital expenditures	1,623,783	-	-	-	1,623,783
3600	Unassigned	37,765,756	-	-	-	37,765,756
		<u>43,674,270</u>	<u>8,266,857</u>	<u>69,705,164</u>	<u>2,198,098</u>	<u>123,844,389</u>
4000	Total liabilities, deferred inflows of resources and fund balances	<u>\$ 55,249,509</u>	<u>\$ 8,567,058</u>	<u>\$ 75,840,624</u>	<u>\$ 3,430,896</u>	<u>\$ 143,088,087</u>

The accompanying notes are an integral part of this financial statement.

SCHERTZ-CIBOLO-UNIVERSAL CITY INDEPENDENT SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION**

AUGUST 31, 2017

Total fund balances - governmental funds	\$ 123,844,389
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	319,038,044
Uncollected property taxes are reported as unavailable resources in the governmental funds balance sheet, but are recognized as a revenue in the statement of activities.	1,097,626
Long-term liabilities, including bonds and loans payable, are not due and payable in the current period and therefore are not reported in the funds. Also, the loss on refunding of bonds and the premium on issuance of bonds payable are not reported in the funds.	(445,338,078)
Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(1,334,911)
Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability in the amount of \$29,054,268, a deferred resource inflow related to TRS in the amount of \$1,675,280, and a deferred resource outflow related to TRS in the amount of \$12,277,631.	(18,451,917)
Internal Service Funds are used by management to charge the costs of certain activities, such as workers' compensation insurance to individual funds. The net revenue (expense) of the Internal Service Funds is reported with governmental activities.	<u>670,887</u>
Net position of governmental activities	\$ <u>(20,473,960)</u>

SCHERTZ-CIBOLO-UNIVERSAL CITY 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	50 Debt Service	60 Capital Projects	Other Governmental	98 Total Governmental Funds
REVENUES					
5700 Local and intermediate sources	\$ 52,808,910	\$ 21,356,638	\$ 600,724	\$ 3,585,181	\$ 78,351,453
5800 State programs	60,982,376	3,038,764	-	1,805,470	65,826,610
5900 Federal programs	<u>1,305,016</u>	<u>-</u>	<u>-</u>	<u>6,356,016</u>	<u>7,661,032</u>
5020 Total revenues	<u>115,096,302</u>	<u>24,395,402</u>	<u>600,724</u>	<u>11,746,667</u>	<u>151,839,095</u>
EXPENDITURES					
Current:					
0011 Instruction	70,249,875	-	5,042	4,413,364	74,668,281
0012 Instructional resources and media services	1,301,126	-	-	27	1,301,153
0013 Curriculum and staff development	2,051,345	-	-	128,542	2,179,887
0021 Instructional leadership	1,084,818	-	-	515,503	1,600,321
0023 School leadership	6,807,959	-	62,672	-	6,870,631
0031 Guidance, counseling, and evaluation service	3,729,289	-	-	369,386	4,098,675
0032 Social work services	144,834	-	-	-	144,834
0033 Health services	1,394,925	-	-	12,485	1,407,410
0034 Student transportation	4,121,768	-	-	2,937	4,124,705
0035 Food service	-	-	-	5,365,455	5,365,455
0036 Extracurricular activities	3,303,173	-	-	906,036	4,209,209
0041 General administration	3,654,258	-	24,815	-	3,679,073
0051 Facilities maintenance and operations	12,330,554	-	645,646	37,150	13,013,350
0052 Security and monitoring services	765,731	-	-	-	765,731
0053 Data processing services	2,195,088	-	76,730	-	2,271,818
0061 Community services	297,684	-	-	76,141	373,825
Debt service:					
0071 Principal on long-term debt	-	10,180,000	-	-	10,180,000
0072 Interest on long-term debt	-	14,443,728	-	-	14,443,728
0073 Bond issuance costs and fees	-	4,888	820,846	-	825,734
0081 Capital outlay	960,798	-	29,335,089	-	30,295,887
Intergovernmental:					
0099 Other intergovernmental charges	<u>837,441</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>837,441</u>
6030 Total expenditures	<u>115,230,666</u>	<u>24,628,616</u>	<u>30,970,840</u>	<u>11,827,026</u>	<u>182,657,148</u>
1100 EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(134,364)</u>	<u>(233,214)</u>	<u>(30,370,116)</u>	<u>(80,359)</u>	<u>(30,818,053)</u>
OTHER FINANCING SOURCES (USES)					
7911 Capital-related debt issued	-	-	83,495,000	-	83,495,000
7912 Sale of real or personal property	41,705	-	-	2,125	43,830
7916 Premium on issuance of bonds	<u>-</u>	<u>2,870,813</u>	<u>4,325,846</u>	<u>-</u>	<u>7,196,659</u>
7080 Total other financing sources (uses)	<u>41,705</u>	<u>2,870,813</u>	<u>87,820,846</u>	<u>2,125</u>	<u>90,735,489</u>
1200 NET CHANGE IN FUND BALANCES	<u>(92,659)</u>	<u>2,637,599</u>	<u>57,450,730</u>	<u>(78,234)</u>	<u>59,917,436</u>
0100 FUND BALANCES, BEGINNING	<u>43,766,929</u>	<u>5,629,258</u>	<u>12,254,434</u>	<u>2,276,332</u>	<u>63,926,953</u>
3000 FUND BALANCES, ENDING	<u>\$ 43,674,270</u>	<u>\$ 8,266,857</u>	<u>\$ 69,705,164</u>	<u>\$ 2,198,098</u>	<u>\$ 123,844,389</u>

The accompanying notes are an integral part of this financial statement.

SCHERTZ-CIBOLO-UNIVERSAL CITY 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	\$ 59,917,436
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	18,459,051
In the statement of activities, only the gain on the sale of the assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the capital assets sold.	(39,411)
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	88,972
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which proceeds exceeded repayments.	(80,511,659)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Amortization of deferred loss on refunding	(340,118)
Amortization of bond premium	882,314
Interest expense	(281,004)
Accretion of interest on capital appreciation bonds	(1,595,968)
Retainage payable	436,632
Compensated absences	<u>(385,286)</u>
	(1,283,430)
Certain expenditures are de-expended and recorded as deferred resource outflows in the government-wide financial statements. These expenditures were contributions made after the measurement date of August 31, 2016, which caused the change in the ending net position to increase in the amount of \$2,670,211. Contributions made before the measurement date and during the previous fiscal year were expended and recorded as a reduction in net pension liability for the District. This caused a decrease in the change in net position totaling \$2,443,719. The District's proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$2,225,445.	(1,998,953)
Internal Service Funds are used by management to charge the costs of certain activities, such as workers' compensation insurance to individual funds. The net revenue (expense) of the Internal Service Funds is reported with governmental activities.	<u>6,135</u>
Change in net position of governmental activities	<u><u>\$(5,361,859)</u></u>

The accompanying notes are an integral part of this financial statement.

SCHERTZ-CIBOLO-UNIVERSAL CITY INDEPENDENT SCHOOL DISTRICT

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS**

AUGUST 31, 2017

	Governmental Activities
	<u>Workers' Compensation Insurance</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 5,814
Investments	389,013
Due from other funds	<u>546,092</u>
Total current assets	<u>940,919</u>
LIABILITIES	
Current liabilities:	
Accounts payable	185
Short term debt payable	<u>269,847</u>
Total current liabilities	<u>270,032</u>
NET POSITION	
Unrestricted	<u>670,887</u>
Total net position	\$ <u><u>670,887</u></u>

SCHERTZ-CIBOLO-UNIVERSAL CITY INDEPENDENT SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUNDS**

FOR THE YEAR ENDED AUGUST 31, 2017

	Governmental Activities
	<u>Workers' Compensation Insurance</u>
OPERATING REVENUES	
Charges for services	\$ 546,092
Total operating revenues	<u>546,092</u>
OPERATING EXPENSES	
Payroll costs	99,100
Professional and contracted services	68,886
Supplies and materials	647
Other operating costs	<u>377,459</u>
Total operating expenses	<u>546,092</u>
OPERATING INCOME	-
NONOPERATING REVENUES	
Earnings from temporary deposits and investments	<u>6,135</u>
Total nonoperating revenues	<u>6,135</u>
CHANGE IN NET POSITION	6,135
NET POSITION, BEGINNING	<u>664,752</u>
NET POSITION, ENDING	<u>\$ 670,887</u>

The accompanying notes are an integral part of this financial statement.

SCHERTZ-CIBOLO-UNIVERSAL CITY INDEPENDENT SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED AUGUST 31, 2017

	<u>Governmental Activities</u> <u>Workers'</u> <u>Compensation</u> <u>Insurance</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash payments for insurance claims	\$ (377,274)
Cash payments for other operating expenses	(168,633)
Net cash used by operating activities	<u>(545,907)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>6,135</u>
Net cash provided by investing activities	<u>6,135</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(539,772)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>934,599</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>394,827</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES	
Operating income	<u>-</u>
Effects of increases and decreases in assets and liabilities:	
Decrease (increase) in due from other funds	(546,092)
Increase (decrease) in accounts payable and short term debt	<u>185</u>
Net cash used by operating activities	<u>\$ (545,907)</u>

SCHERTZ-CIBOLO-UNIVERSAL CITY INDEPENDENT SCHOOL DISTRICT

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS**

AUGUST 31, 2017

	Private Purpose Trusts	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ -	\$ 353,348
Investments - current	-	50,844
Restricted assets	<u>16,007</u>	<u>-</u>
Total assets	<u>16,007</u>	<u>404,192</u>
LIABILITIES		
Due to student groups	<u>-</u>	<u>404,192</u>
Total liabilities	<u>-</u>	<u>\$ 404,192</u>
NET POSITION		
Unrestricted net position	<u>16,007</u>	
Total net position	<u>\$ 16,007</u>	

The accompanying notes are an integral part of this financial statement.

SCHERTZ-CIBOLO-UNIVERSAL CITY INDEPENDENT SCHOOL DISTRICT

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS**

FOR THE YEAR ENDED AUGUST 31, 2017

	<u>Private Purpose Trusts</u>
ADDITIONS	
Earnings from temporary deposits and investments	\$ <u>116</u>
Total additions	<u>116</u>
DEDUCTIONS	<u>-</u>
CHANGE IN NET POSITION	116
NET POSITION, BEGINNING	<u>15,891</u>
NET POSITION, ENDING	\$ <u><u>16,007</u></u>

**SCHERTZ-CIBOLO-UNIVERSAL CITY
INDEPENDENT SCHOOL DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Schertz-Cibolo-Universal City 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 properties.

A. Reporting Entity

The Board of School Trustees (the “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” as defined by the GASB and there are no component units included within the reporting entity.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the primary government. The effect of interfund activity has been removed from these statements. *Governmental activities* include programs supported primarily by taxes, state foundation funds, grants and intergovernmental revenue.

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 1) fees, fines, and charges paid by the recipients of goods or services offered by the programs and 2) 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.

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:

The ***General Fund*** 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.

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

The ***Capital Projects Fund*** is used for activities funded by the issuance of long-term debt and local resources. Expenditures are generally restricted to the acquisition and/or construction of capital assets. This fund normally operates pursuant to a project length budget that is established without constraints of an annual operating budget.

In addition, the District reports the following fund types:

Internal Service Fund is used to account for revenues and expenses related to services provided to parties inside the District. This fund facilitates distribution of workers' compensation self-insurance costs to the users of support services on a cost-reimbursement basis. Because the principal user of the internal service is 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 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 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.

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

Government-wide, proprietary, and private-purpose trust fund financial statements are reported using the economic resources measurement focus. The Agency Fund is custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The government-wide, proprietary, and fiduciary 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 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 considers all revenue available if it is collectible within 30 days after year-end. 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.

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

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.

Investments

Investments for the District are reported at fair value, except for the position in investment pools. The District's investments in Pools are 2a7-like pools and are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. 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.

Property Taxes

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

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

Inventories

The District values inventory at cost, and records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory.

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date. 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:

Asset Class	Estimated Useful Lives
Buildings	30-40
Portable buildings	20-30
Building improvements	10-30
Vehicles	2-10
District equipment	3-20
Infrastructure	30

Compensated Absences

Terminating employees who meet the criteria as set forth in official District policy are paid a lump sum payment of any accrued local or state leave. Leave time is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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.

Long-term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statements element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. It is deferred charge on refunding and deferred outflow related to TRS reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The item related to TRS represents the District's share of the unrecognized plan deferred outflow of resources which TRS uses in calculating the ending net pension liability.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statements element, deferred inflows or resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two types of inflows, which arise only under a modified accrual basis of accounting that qualifies for reporting in this category. The governmental funds report unavailable revenues from one source: property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District also recognizes their share of the unrecognized TRS plan deferred inflows of resources which TRS uses in calculating the ending net pension liability.

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's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position

Net position represents the difference between assets, deferred outflows (inflows) of resources and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

A deficit unrestricted net position of \$38.6 million exists in governmental activities as of August 31, 2017. This deficit is primarily the result of the District issuing bonds to finance certain noncapital items of school building construction and the District's proportionate share of the TRS net pension liability. Another contributing factor is accreted interest on capital appreciation bonds. These items were \$27.6 million, \$29.0 million and \$35.7 million, respectively, as of August 31, 2017. The bonds and accreted interest will be paid with future property tax revenues restricted for debt service, and the net pension liability will be funded through local, state, and federal revenues.

Net Position Flow Assumption

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

Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by ordinance of the School Board, the District's highest level of decision making authority. These amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the School Board, Superintendent, or Chief Financial Officer.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

Fund Balance Policy

In order to preserve financial stability, the District must be prepared to respond to cash flow shortages, large or unexpected one-time expenditures, changes in the economy, and changes in state funding. The District targets a yearly unassigned General Fund balance of 25 percent (90 days) of total operating expenditures. The District also targets a minimum restricted debt service fund balance of 25 percent of annual debt service requirements on all outstanding debt issuance.

Fund Balance Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (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.

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 estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The amount of state foundation revenue a school district earns for a year can and does vary until the time when final values for each of the factors in the formula become available.

Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that the foundation revenue estimates as of August 31, 2017 will change.

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 insure accuracy in building a statewide database for policy development and funding plans.

II. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. 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.

Cash Deposits

Cash deposits of the District include all amounts deposited at the District's depository bank, including demand deposits and certificates of deposit. The District's cash deposits at 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.

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 an establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

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

The following are investments the District held as of year-end:

<u>Investment Type</u>	<u>Reported Value</u>	<u>Weighted Average Maturity (Days)</u>	<u>Rating</u>	<u>Rating Agency</u>
TexPool	\$ 23,331,649	30	AAAm	S & P
Lone Star	13,278,932	22	AAAm	S & P
Logic	5,315,251	34	AAAm	S & P
TexStar	7,332,144	28	AAAm	S & P
Texas Daily	<u>82,636,966</u>	40.8	AAAm	S & P
Total portfolio that is exposed to interest rate and credit risk	<u>131,894,942</u>	31		
Certificates of deposit	<u>5,078,519</u>			
Total investments	<u>\$ 136,973,461</u>			

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-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one-half of one percent of the value of its shares.

B. Due From Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. Amounts due from federal, state, and local governments as of August 31, 2017, are summarized below:

	<u>Federal Programs</u>	<u>State Programs</u>
Nonmajor governmental funds	\$ 504,644	\$ 515,776

C. Capital Assets

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

	<u>Beginning Balance 08/31/16</u>	<u>Increases</u>	<u>Decreases and Reclassifications</u>	<u>Ending Balance 08/31/17</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 27,030,615	\$ 233,779	\$ -	\$ 27,264,394
Construction in progress	<u>2,539,310</u>	<u>27,640,562</u>	<u>(1,366,545)</u>	<u>28,813,327</u>
Total capital assets, not being depreciated	<u>29,569,925</u>	<u>27,874,341</u>	<u>(1,366,545)</u>	<u>56,077,721</u>
Capital assets, being depreciated:				
Buildings and improvements	364,582,883	2,282,460	929,913	367,795,256
Equipment	7,489,997	696,707	(106,936)	8,079,768
Vehicles	11,407,627	1,418,580	(125,103)	12,701,104
Infrastructure	<u>1,474,486</u>	<u>-</u>	<u>-</u>	<u>1,474,486</u>
Total capital assets, being depreciated	<u>384,954,993</u>	<u>4,397,747</u>	<u>697,874</u>	<u>390,050,614</u>
Less accumulated depreciation for:				
Buildings and improvements	(101,433,245)	(10,774,627)	(46,342)	(112,254,214)
Equipment	(4,897,300)	(440,635)	67,521	(5,270,414)
Vehicles	(7,207,345)	(916,492)	125,052	(7,998,785)
Infrastructure	<u>(368,624)</u>	<u>(49,150)</u>	<u>2</u>	<u>(417,772)</u>
Total accumulated depreciation	<u>(113,906,514)</u>	<u>(12,180,904)</u>	<u>146,233</u>	<u>(125,941,185)</u>
Total capital assets, being depreciated, net	<u>271,048,479</u>	<u>(7,783,157)</u>	<u>844,107</u>	<u>264,109,429</u>
Governmental activities capital assets, net	<u>\$ 300,618,404</u>	<u>\$ 20,091,184</u>	<u>\$ (522,438)</u>	<u>\$ 320,187,150</u>

Depreciation was charged to functions as follows:

Instruction	\$ 6,064,036
Instructional resources and media services	463,517
Curriculum and staff development	24,972
School leadership	203,053
Guidance, counseling and evaluation services	88,794
Health services	75,078
Student transportation	874,151
Food service	743,845
Co-curricular/extracurricular activities	888,020
General administration	22,771
Plant maintenance and operations	2,287,761
Security and monitoring services	11,435
Data processing	<u>433,471</u>
 Total depreciation expense - governmental activities	 \$ <u><u>12,180,904</u></u>

D. Interfund Balances

Due to and from Other Funds

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

<u>Due to</u>	<u>Due from</u>	<u>Amount</u>
General	Nonmajor governmental	\$ 495,823
Capital projects	Capital projects	3,475
Internal service	General	505,594
General	Capital Projects	323
Internal service	Nonmajor governmental	<u>40,498</u>
 Total		 \$ <u><u>1,045,713</u></u>

Balances resulted from the time lag between the dates that 1) interfund goods and services are provided on reimbursable expenditures occur, and 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

E. Unearned Revenue

Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *unearned revenue* reported in the governmental funds were as follows:

Extracurricular activities	\$ 61,429
Student lunch	204,297
Grants drawn down prior to meeting all eligibility requirements	<u>29,075</u>
 Total unearned revenue for governmental funds	 \$ <u><u>294,801</u></u>

F. Long-term Obligations

The District has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

Long-term Obligation Activity

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

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
General obligation bonds	\$ 307,071,092	\$ 83,495,000	\$ 10,180,000	\$ 380,386,092	\$ 12,175,000
Accreted interest on CAB	34,174,605	1,595,968	-	35,770,573	-
Discount on bonds	(337,319)	-	(34,219)	(303,100)	(34,219)
Premium on bonds	14,992,972	7,196,659	916,533	21,273,098	916,533
Net pension liability	27,027,133	4,470,014	2,442,879	29,054,268	-
Compensated absences	897,303	385,286	-	1,282,589	-
Retainage payable	436,632	1,149,106	436,632	1,149,106	-
Total governmental activities	<u>\$ 384,262,418</u>	<u>\$ 98,292,033</u>	<u>\$ 13,941,825</u>	<u>\$ 468,612,626</u>	<u>\$ 13,057,314</u>

The General Fund typically liquidates other long-term liabilities. The District's interest rates for bonds range from 2.00% to 5.00%.

Accretion on Premium Capital Appreciation Bonds

A portion of the bonds sold in the Unlimited Tax Refunding and School Building Bonds Series 2002, 2014A, and 2016 was premium capital appreciation bonds. These obligations have par values of \$12,421,092 and maturity values of \$70,025,000. The interest on these obligations will be paid upon maturity in the fiscal years ending August 31, 2020-2032. The accreted values of these bonds at August 31, 2017, are approximately \$35,770,573, which has been allocated to the governmental activities.

Debt Service Requirements

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

Year Ending August 31,	Governmental Activities		
	Principal	Interest	Total
2018	\$ 12,175,000	\$ 16,018,938	\$ 28,193,938
2019	12,310,000	15,591,100	27,901,100
2020	12,705,000	15,118,963	27,823,963
2021	13,515,000	14,659,288	28,174,288
2022	14,010,000	14,164,763	28,174,763
2023-2027	75,775,000	62,592,609	138,367,609
2028-2032	83,380,000	52,553,841	135,933,841
2033-2037	86,105,000	39,159,400	125,264,400
2038-2042	68,180,000	19,804,319	87,984,319
2043-2046	59,835,000	4,266,944	64,101,944
Totals	437,990,000	\$ 253,930,165	\$ 691,920,165
Less: Accretion of CABs	57,603,908		
Par Value of Bonds Outstanding	\$ 380,386,092		

Debt

The District issued \$83,495,000 of unlimited tax school building bonds, series 2017, for the purposes of designing, constructing, equipping and acquiring school facilities.

G. Risk Management

During the year ended August 31, 2017, Schertz-Cibolo-Universal City Independent School District participated in the Texas Association of Public Schools Property and Liability Fund (the Fund) with coverage in Auto Liability, Auto Physical Damage, Crime, Equipment Breakdown, General Liability, Manuscript Special, Property, Sexual Misconduct Endorsement, and Special Legal Liability. The Fund was created and is operated under the provision of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for the Property Casualty Program. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2017, it is unknown if the District has an additional liability beyond the contractual obligations for payment of contributions to the Fund. On October 18, 2017, the Texas Association of Public Schools Property and Liability Fund filed a voluntary Chapter 9 bankruptcy case. As of August 31, 2017, the District had two claims pending with the Fund, and it is unknown if the District will receive a payment for these claims. These claims are estimated to be less than \$150,000.

Effective September 1, 2017, the District participates in the Property Casualty Alliance of Texas (PCAT) risk pool for property and casualty insurance coverage.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund’s Board of Trustees in February of the following year. The Fund’s audited financial statements as of August 31, 2016, are available at the TAPS offices and have been filed with the Texas Department of Insurance in Austin.

During the year ended August 31, 2017, employees of the District were covered by a self-insured workers’ compensation pool. All claims were processed and paid by the third party administrator (Sedgwick Claims Management Services, Inc.) acting on behalf of the self-funded pool. The contract between the District and the third party administrator is renewable annually and terms of coverage and costs to the District are included in the contractual provisions. In accordance with state statutes, the District was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage carried through Midwest Employer Casualty Company, a commercial insurance carrier licensed or otherwise eligible to do business in the State of Texas in accordance with the Texas Insurance Code. Stop-loss coverage was in effect for individual claims exceeding \$425,000.

The claims liability of \$269,847 reported in the Self-insurance Workers’ Compensation Fund at August 31, 2017, is based on the requirements of GASB Statement Nos. 10 and 30, which require that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. Claim liabilities, including incurred but not reported (IBNR) claims, are based on the estimated ultimate cost of settling the claims. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors.

Changes in the workers’ compensation claims liability in fiscal years 2016 and 2017 are as follows:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Change in Estimates</u>	<u>Claim Payments</u>	<u>Ending of Fiscal Year Liability</u>
2016	\$ 269,847	\$ 274,034	\$ 274,034	\$ 269,847
2017	269,847	282,820	282,820	269,847

H. Pension Plan

Plan Description. The Schertz-Cibolo-Universal City Independent School Districts participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). It is a defined benefit pension plan established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

Pension Plan Fiduciary Net Position. Detailed information about the 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.

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 (A) above.

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

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

	Contribution Rates	
	2016	2017
Member	7.2%	7.7%
Non-employer contributing entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Current fiscal year employer contributions		\$ 2,670,211
Current fiscal year member contributions		6,656,975
2016 measurement year NECE on-behalf contributions		4,090,480

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

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

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

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

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

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

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

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

Discount Rate. The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2016 are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and 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.*

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 (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability	\$ 44,966,219	\$ 29,054,268	\$ 15,557,716

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 \$29,054,268 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 29,054,268
State's proportionate share that is associated with the District	<u>48,553,361</u>
Total	<u><u>\$ 77,607,629</u></u>

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

At August 31, 2016 the employer's proportion of the collective net pension liability was 0.0768865% which was an increase of 0.0004278% from its proportion measured as of August 31, 2015.

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

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

For the year ended August 31, 2017, Schertz-Cibolo-Universal City recognized pension expense of \$5,038,681 and revenue of \$5,038,681 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 455,565	\$ 867,544
Changes in actuarial assumptions	885,522	805,346
Difference between projected and actual investment earnings	2,460,255	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	5,806,078	2,390
Contributions paid to TRS subsequent to the measurement date	<u>2,670,211</u>	<u>-</u>
Total	<u>\$ 12,277,631</u>	<u>\$ 1,675,280</u>

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

Year Ended August 31,	Pension Expense Amount
2018	\$ 1,379,124
2019	1,379,124
2020	2,948,395
2021	1,258,549
2022	791,973
Thereafter	174,975

I. Health Care Coverage

During the period ended August 31, 2017, employees of the District were covered by a health insurance plan (the “Plan”). The District paid premiums of \$310 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 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 licensed insurer is renewable September 1, 2017, and terms of coverage and premium costs are included in the contractual provisions.

J. Retiree Health Plan

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

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2015-2017.

Year	Active Member		State		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2015	0.65%	\$ 493,279	1.0%	\$ 758,890	0.55%	\$ 417,397
2016	0.65%	528,340	1.0%	812,847	0.55%	447,071
2017	0.65%	554,791	1.0%	864,543	0.55%	475,499

Medicare Part D – On-behalf Payments. 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. These on-behalf payments of \$397,161, \$312,036, and \$309,473 were recognized for the years ended August 31, 2017, 2016, and 2015, respectively, as equal revenues and expenditures.

K. Commitments and Contingencies

Contingencies

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

Construction Commitments

The District has construction contracts totaling \$111,276,458 of which \$34,986,956 has been completed.

L. Shared Services Arrangements

The District participates in a shared services arrangement (“SSA”) for which ESC Region 20 is the fiscal agent. The District does account for revenues or expenditures in this program and does disclose them in these financial statements. The District neither has a joint ownership interest in capital assets purchased by the fiscal agent, Region 20, 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.

The following SSA is with ESC 20:

<u>Fund</u>	<u>Description</u>
385	State Supplemental Visually Impaired Program (Region 20)

The District participates in a shared services arrangement for adult education services with other school districts. 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 capital assets purchased by the fiscal agent, Comal 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. Subsequent Event

On September 20, 2017, the District issued \$49,245,000 of unlimited tax school building bonds, series 2017A, to provide school facilities, purchase necessary sites, and purchase new school buses.

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APPENDIX D

Form of Opinion of Bond Counsel

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DRAFT 10/25/18

IN REGARD to the authorization and issuance of the “Schertz-Cibolo-Universal City Independent School District Unlimited Tax Refunding Bonds, Series 2018” (the *Bonds*), dated December 1, 2018, in the aggregate original principal amount of \$_____ we have reviewed the legality and validity of the issuance thereof by the Schertz-Cibolo-Universal City Independent School District (the *Issuer*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Bonds have Stated Maturities of February 1 in each of the years 20__ through 20__, unless redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the order (the *Order*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Order.

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

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the Board of Trustees of the Issuer in connection with the issuance of the Bonds, including the Order, the Escrow Deposit Letter (the *Escrow Agreement*) between the Issuer and Zions Bancorporation, National Association, Houston, Texas (the *Escrow Agent*), and the certification (the *Sufficiency Certificate*) by SAMCO Capital Markets, Inc., as Financial Advisor to the Issuer, concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Bonds and certain other funds of the Issuer, and to certain other facts solely within the knowledge and control of the Issuer; and (4) such other documentation, including an examination of the Bonds executed and delivered initially by the Issuer, and such matters of law as we deem relevant to the matters discussed below. In such examination, we

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Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of SCHERTZ-CIBOLO-UNIVERSAL CITY INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX REFUNDING BONDS, SERIES 2018

have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Escrow Agreement has been duly authorized, executed, and delivered by the Issuer and, assuming due authorization, execution, and delivery thereof by the Escrow Agent, is a valid and binding obligation, enforceable in accordance with its terms (except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity), and that the outstanding obligations refunded, discharged, paid, and retired with certain proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in trust with the Escrow Agent, pursuant to the Escrow Agreement and the order authorizing their issuance, and in accordance with the provisions of Chapter 1207, as amended, Texas Government Code. In rendering this opinion, we have relied upon the Sufficiency Certificate concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

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

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that, assuming continuing compliance after the date hereof by the Issuer with the provisions of the Order and in reliance upon the Sufficiency Certificate concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement and upon the representations and certifications of the Issuer made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Bonds will not be included in computing the alternative minimum taxable income of the owners thereof.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign

Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of SCHERTZ-CIBOLO-UNIVERSAL CITY INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX REFUNDING BONDS, SERIES 2018

corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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

Norton Rose Fulbright US LLP

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